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Alaska State Legislature
HOUSE OF REPRESENTATIVES

Official Business

State Capitol
Juneau, AK 99801-1182

Representative John Harris **Representative Max Gruenberg**

SPONSOR STATEMENT

HB 493
Adoption of State Fiscal Plan

House Bill 493 would require the legislature to adopt and annually revise a fiscal plan to balance state revenues and expenditures for the succeeding five fiscal years. The state's current budgetary system encourages legislators and the governor to focus only on the fiscal year immediately ahead. This bill would mandate a more comprehensive approach to fiscal planning by requiring the legislature to project revenues and expenditures five years into the future. This would allow legislators to anticipate and plan for budgetary shortfalls before they reach crisis proportions.

The fiscal plan must include: (1) the means to foster a stable economy that encourages economic growth; (2) procedures to improve governmental efficiency and cost-savings; (3) policies that protect the permanent fund while using earnings to maintain a strong dividend program and legislative flexibility to determine the use of the remaining earnings; (4) means to raise revenues while maintaining a stable tax environment; and (5) provisions to maintain the integrity of the budget reserve fund.

This bill addresses a critical issue facing Alaska and will institutionalize appropriate long-range fiscal planning as part of the legislative process.

121 W. Fireweed Lane, Suite 250
Anchorage, Alaska 99503

October 29, 2003

Representative Michael Hawker
716 W 4th Ave
Anchorage, AK 99501-2133

Dear Representative Hawker:

The undersigned business, civic and trade associations, representing hundreds of Alaskan companies and organizations, and tens of thousands of Alaskan workers, urge the Legislature to work with the Administration during the upcoming session to develop a comprehensive, long-range fiscal plan for the state.

While the ultimate decisions regarding Alaska's revenues and expenditures rest with you and your colleagues in the Legislature, the undersigned associations commit to fully participate in the debate, and pledge to help resolve this issue in a manner that will do the most good for the greatest number of Alaskans over the long term.

Details of any prospective plan will no doubt be both practically and politically difficult to develop. Nonetheless, we believe the following general steps must be taken:

1) Budget Discipline
   Alaska must adjust to the reality of lower revenues just as a family or business would — by controlling spending. Reasonable spending controls should be incorporated into any long-term fiscal plan. However, our organizations do not believe it possible or wise to correct the entire fiscal imbalance through budget cuts alone.

2) New Uses of Permanent Fund Earnings
   We believe appropriating a portion of the earnings from the Permanent Fund to help support state services is a legitimate use of those funds. Furthermore, we strongly support the creation of a "percent of market value" structure for the Permanent Fund. Using some of the Permanent Fund earnings for state government should not preclude the Alaska Permanent Fund Dividend program from continuing and growing.

3) Institution of a Broad-Based Tax
   Spending controls and new uses of Permanent Fund earnings may not be enough to close the state's fiscal gap over time. In light of this fact, we believe it is appropriate for the Legislature to consider the implementation of a broad-based, statewide tax. Any discussion of statewide taxes should include a thorough, public analysis of an income tax, a sales tax and any other broad-based taxes.

The fiscal challenges facing Alaska are not new and the tools available to address the problem have been well defined. However, without a sound fiscal management plan there is a growing risk to the state's economic health with every passing year. In fact, uncertainty regarding Alaska's

fiscal regime has been mentioned as a primary disincentive to private investment in the state. Fortunately, at this time, Alaska has a wide array of potential options to address this challenge.

Each of the steps outlined above encompasses a multitude of variations. In creating a fiscal package, we encourage the Legislature to incorporate elements from all three general recommendations beginning with spending controls, moving to new uses of the Permanent Fund earnings and finishing with a new broad-based tax, if necessary.

We are eager to support you in a responsible, committed effort to address this issue during the next legislative session. With leadership and courage from the Legislature, a long-term fiscal plan for Alaska can become a reality. The challenge of addressing our state's fiscal imbalance is daunting, but the successful creation of a sound management plan will provide long-term economic benefits to Alaska. Failing to address this challenge now risks irreparable harm to future generations of Alaskans.

Sincerely,

Karen Casanovas, Executive Director
Alaska Air Carriers Association

Dave Tyler, President
Alaska Fire Chiefs Association

R.B. Stiles, President
Alaska Coal Association

Dean Baugh, President
Alaska Government Finance Officers Association

Mayor Kathie Wasserman, President
Alaska Conference of Mayors

Mike Tavella, Chairman
Alaska Hi-Tech Business Council

Mary Francis, Executive Director
Alaska Council of School Administrators

Steve Borell, Executive Director
Alaska Miners Association

Fay Von Gemmingen, President
Alaska Municipal League

Carl Rose, President
Association of Alaska School Boards

James A. Sampson, President
Alaska State AFL-CIO

Rich Heig, President
Council of Alaska Producers

Kelly Stephens, President
Alaska State Home Building Association

George Lochner, President
Eagle River and Chugiak Chamber of Commerce

Larry Houle, General Manager
Alaska Support Industry Alliance

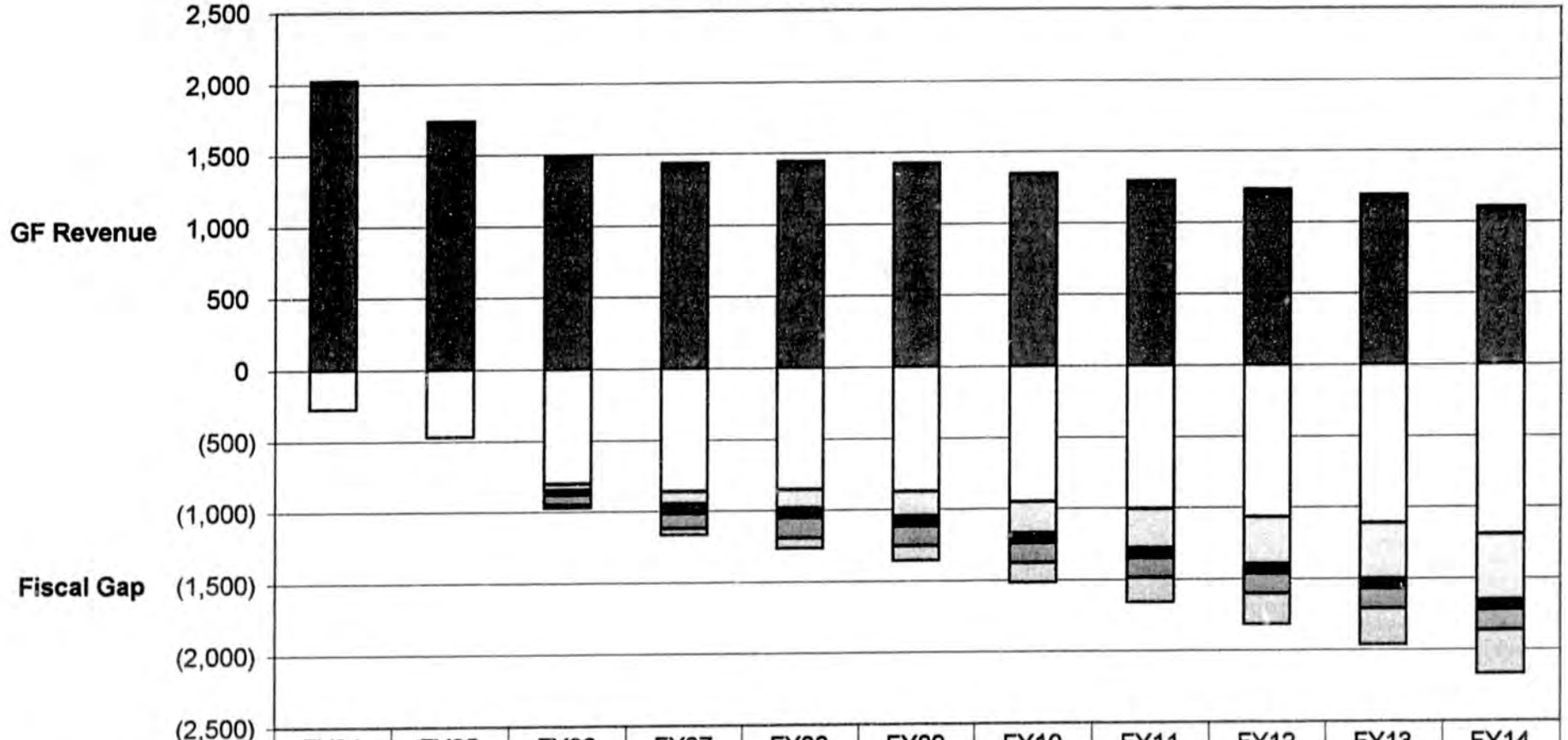
Lance Miller, Executive Director
Juneau Economic Development Corporation

Stacy Schubert, President
Anchorage Chamber of Commerce

John Shively, President
Resource Development Council for Alaska, Inc.

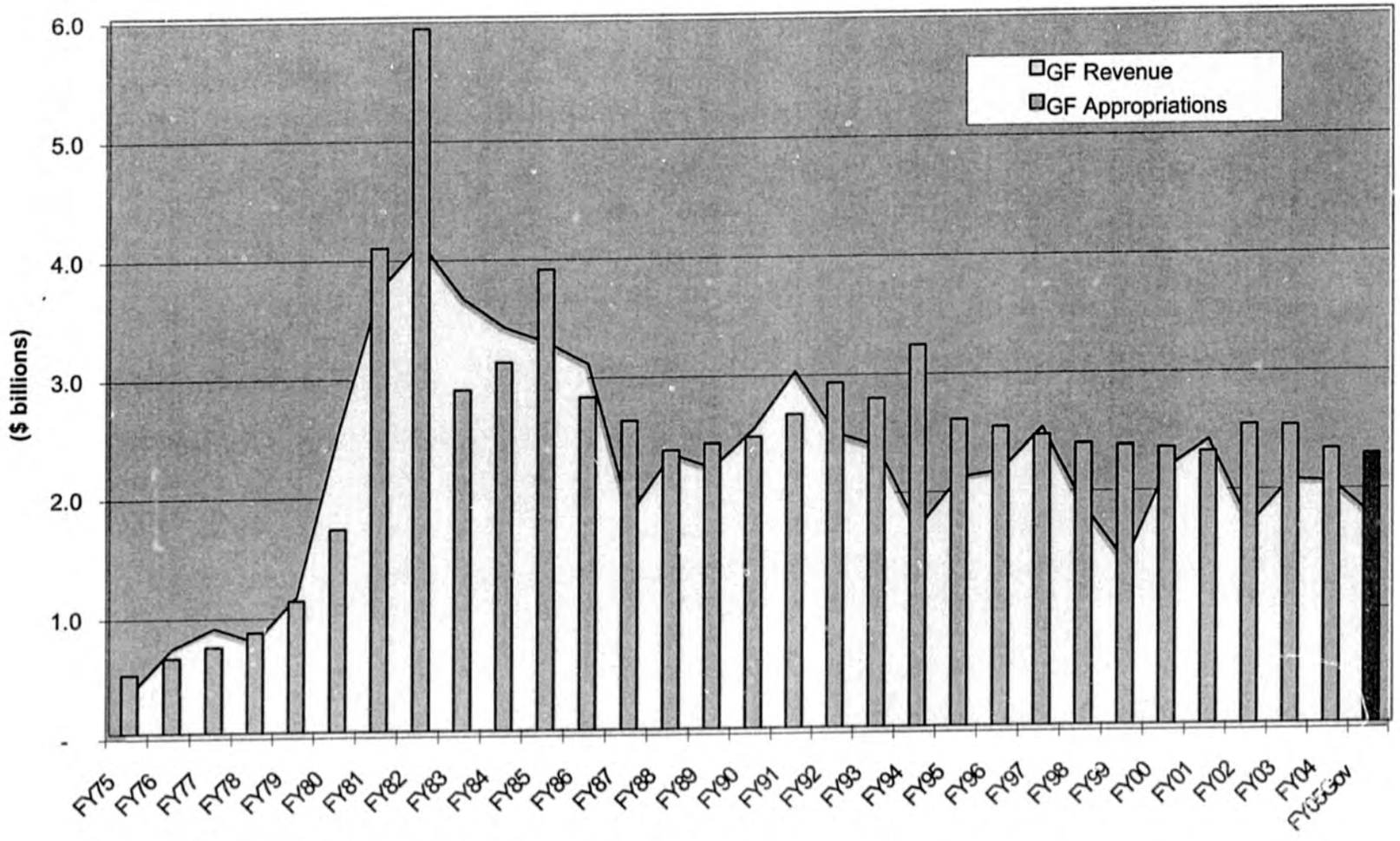
Richard Cattanach, Executive Director
Associated General Contractors of Alaska

Alaska's
Growing Fiscal Gap
(millions)



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Medicaid @ 10%			(22)	(47)	(74)	(104)	(137)	(173)	(213)	(256)	(304)
PERS/TRS - Schools			(70)	(105)	(140)	(140)	(140)	(140)	(140)	(140)	(140)
PERS State			(35)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
Inflation @ 2%			(42)	(83)	(127)	(172)	(220)	(271)	(328)	(390)	(459)
Fis Gap @ $2.3	(278)	(476)	(808)	(865)	(858)	(876)	(953)	(1,009)	(1,069)	(1,114)	(1,197)
GF Revenue	2,023	1,736	1,492	1,435	1,442	1,424	1,347	1,291	1,231	1,187	1,103

General Fund Revenue vs. General Fund Appropriations



Note - Revenue projections are as of DOR's Fall 2003 Revenue Forcast.

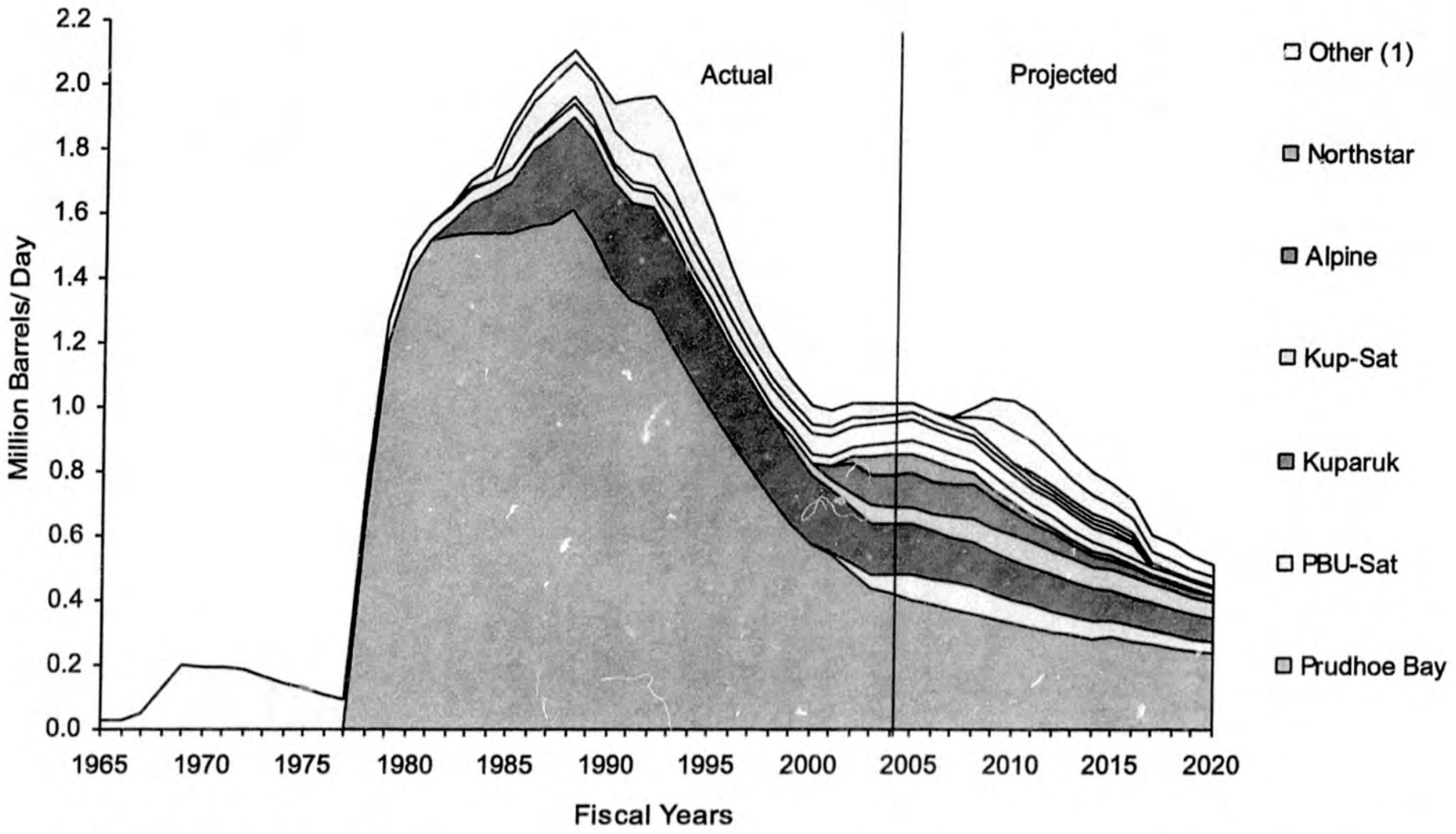
House Ways and Means Committee
Alaska House of Representatives

February 25, 2004

Dan E. Dickinson, Director
Alaska Department of Revenue, Tax Division

STATE OF ALASKA
DEPARTMENT OF
REVENUE

Alaska Oil Production, 1965 - 2020



Source: Fall 2003 Revenue Sources Book

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

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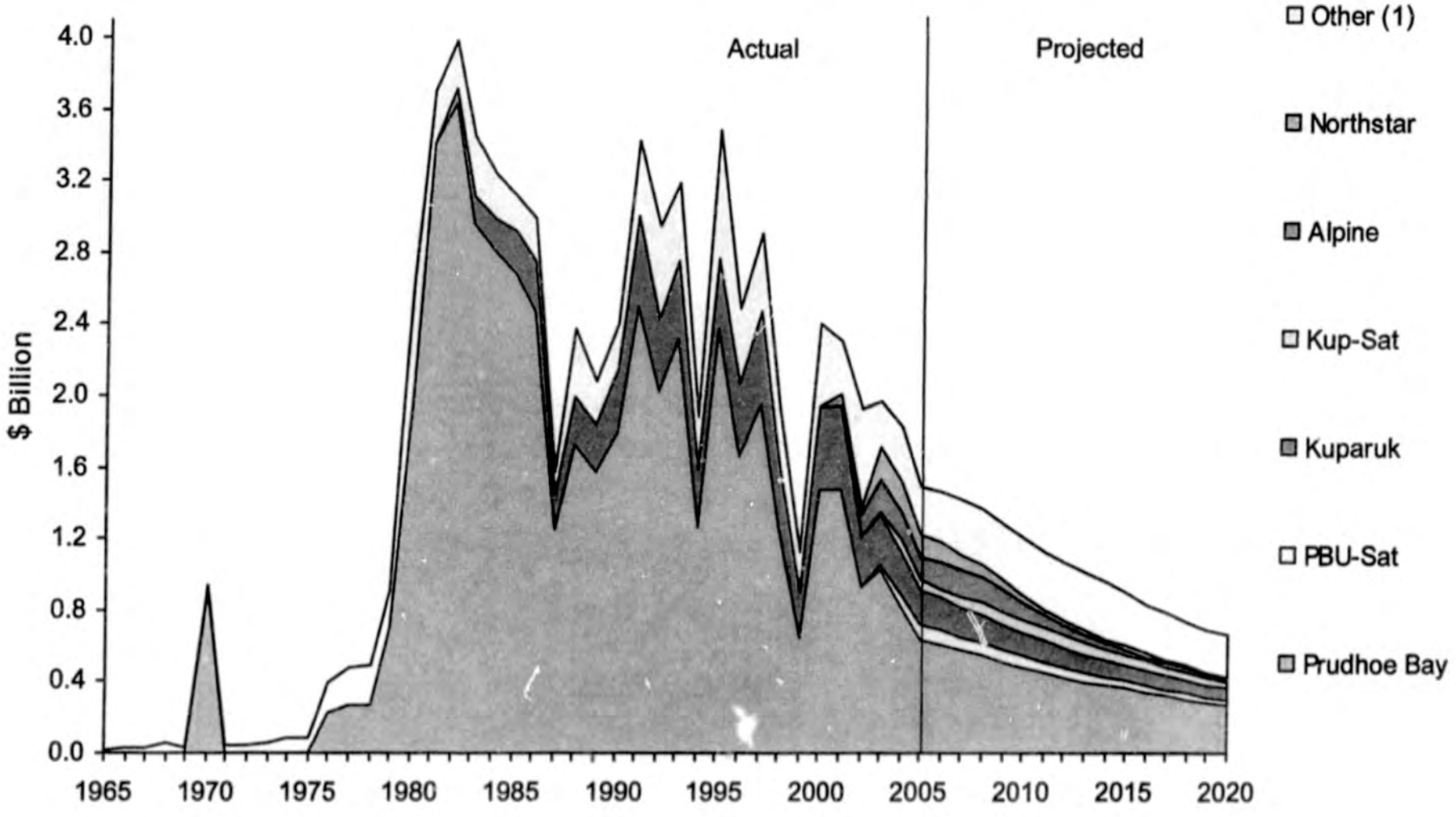
Alaska Oil Revenue, 1965 – 2020



Source: Fall 2003 Revenue Sources Book

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

(2) Actual and projected state petroleum revenue (General Fund, Permanent Fund, deposits to the CBRF, Public School Fund and NPRA) from all fields including lease bonuses and TAPS taxes.

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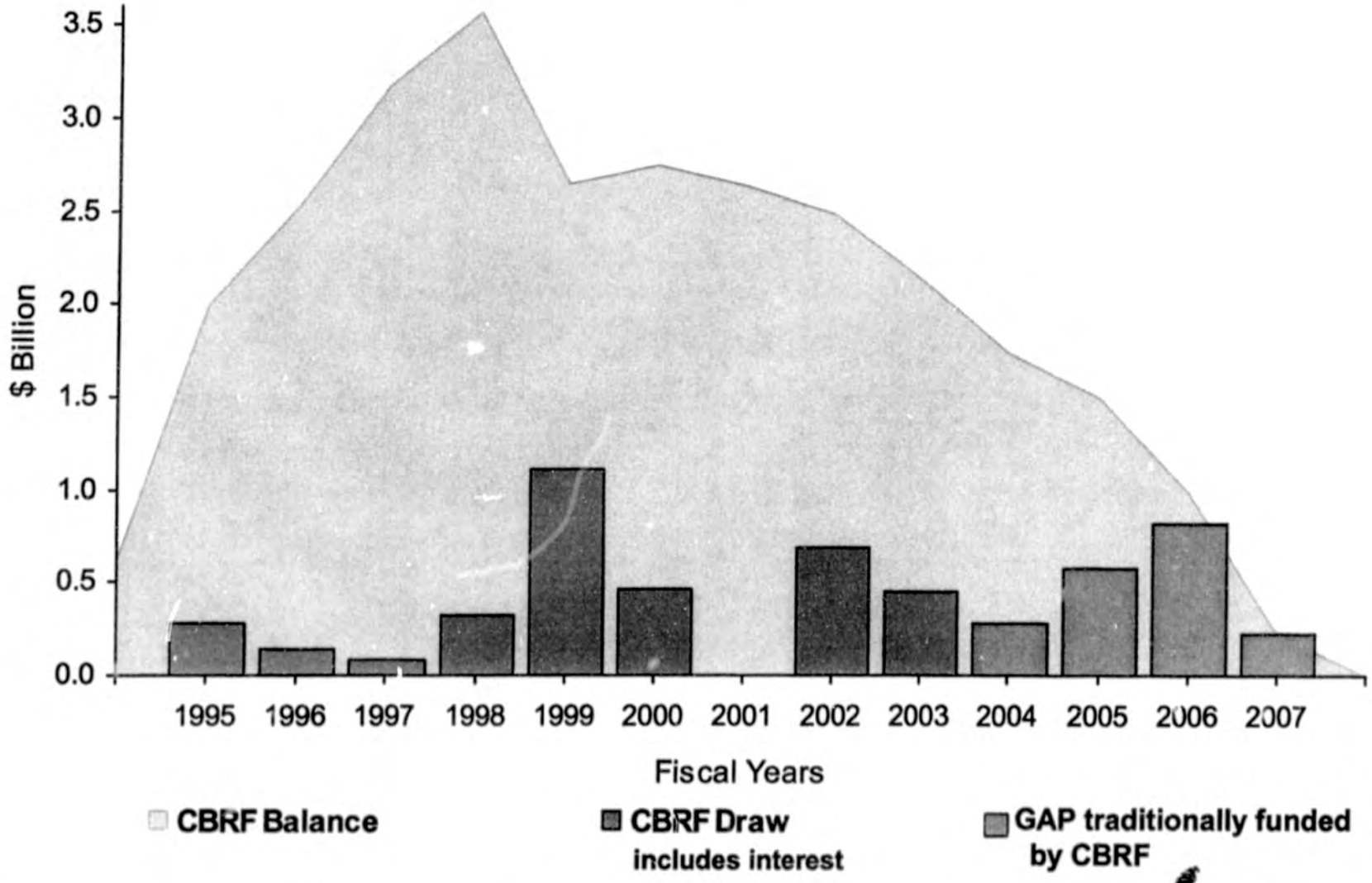
CBRF Balances and Draws, 1995 – 2007



Source: Actual, Department of Revenue, Treasury Division; Projected FY 2004: OMB, 11-21-03, FY 2005-2006: DOR Driver Model

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When Will the CBRF be Gone?

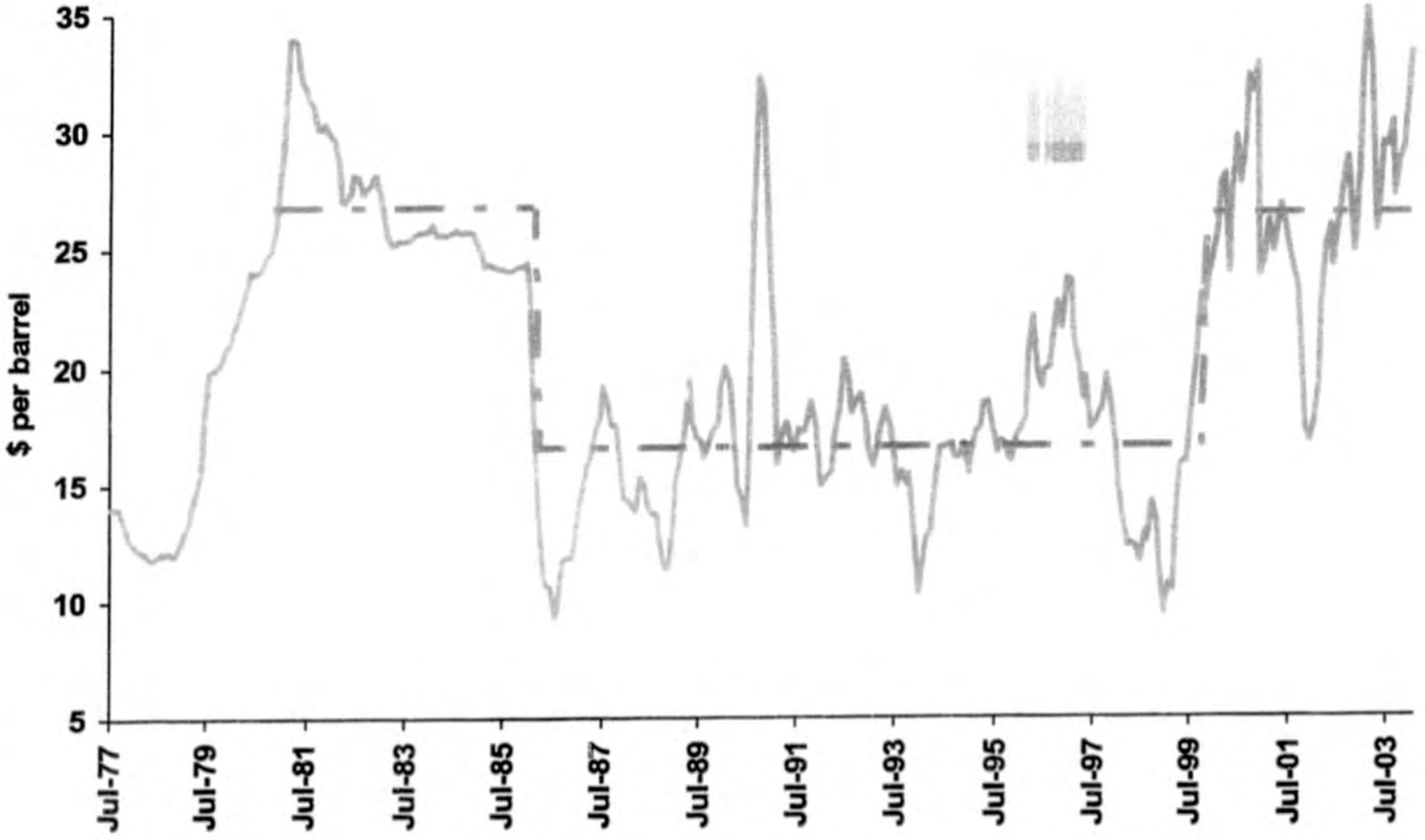
-based on Fall 2003 DOR Revenue Sources Book and Fiscal Driver Model for CBRF Performance-

State Spending and Oil Price Variables

Annual State Budget	$18/bbl	$22/bbl	Forecast	$25/bbl	$28/bbl	$30/bbl
$2.2 billion	Oct-06	Aug-07	Nov-07	Nov-08	Nov-10	May-12
$2.3 billion	Jun-06	Feb-07	**May-07**	Dec-07	Jun-09	Dec-10
$2.4 billion	Mar-06	Sep-06	Nov-06	Apr-07	May-08	Jul-09
$2.5 billion	Dec-05	May-06	Jul-06	Oct-06	Jul-07	May-08

(1) FY 2004 price for all scenarios is $27.70 per barrel. Oil price selected in table above is for FY 2005 and beyond.

ANS West Coast Price, July 1977 – January 2004



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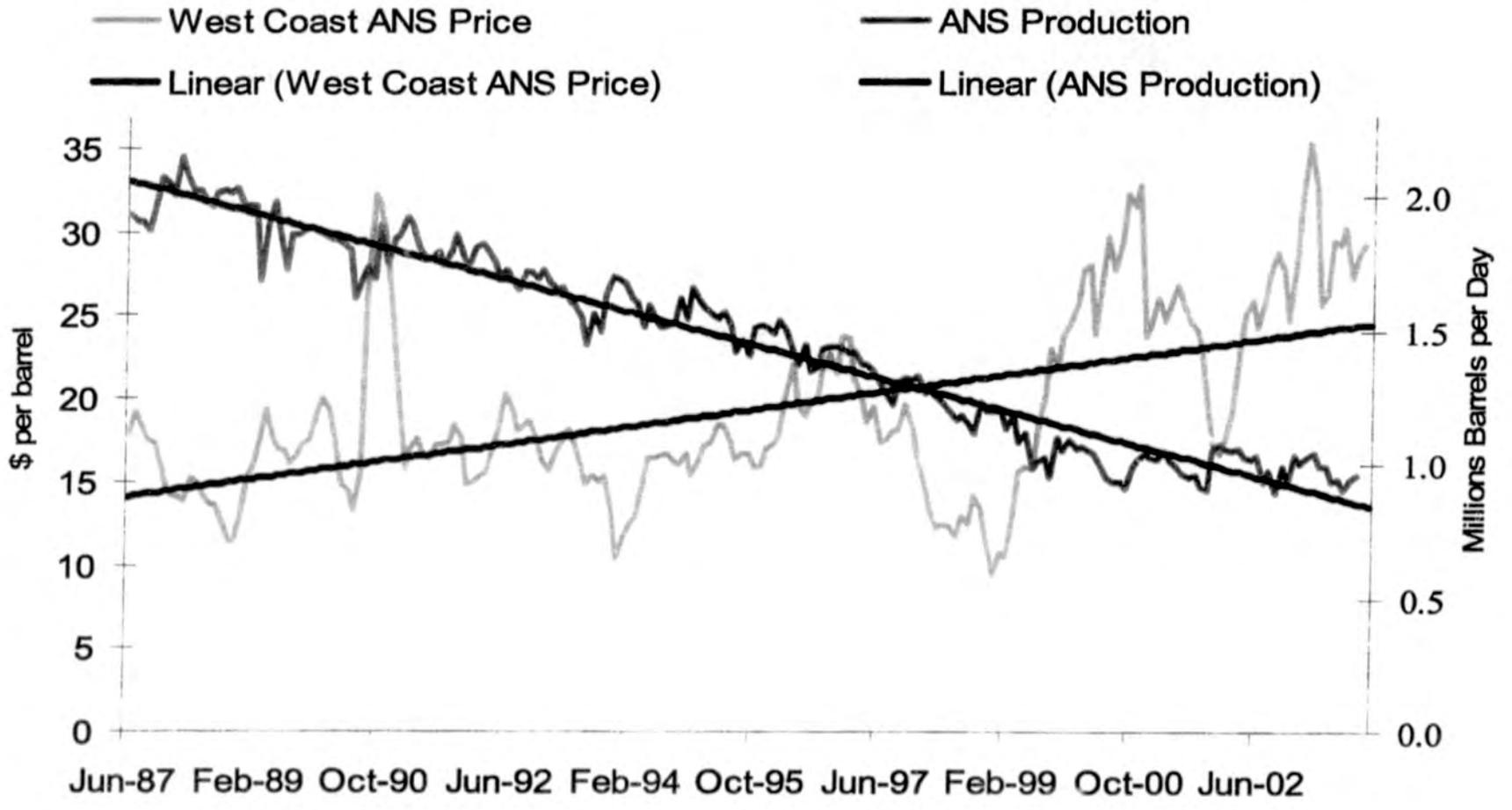
ANS West Coast Price and Oil Production



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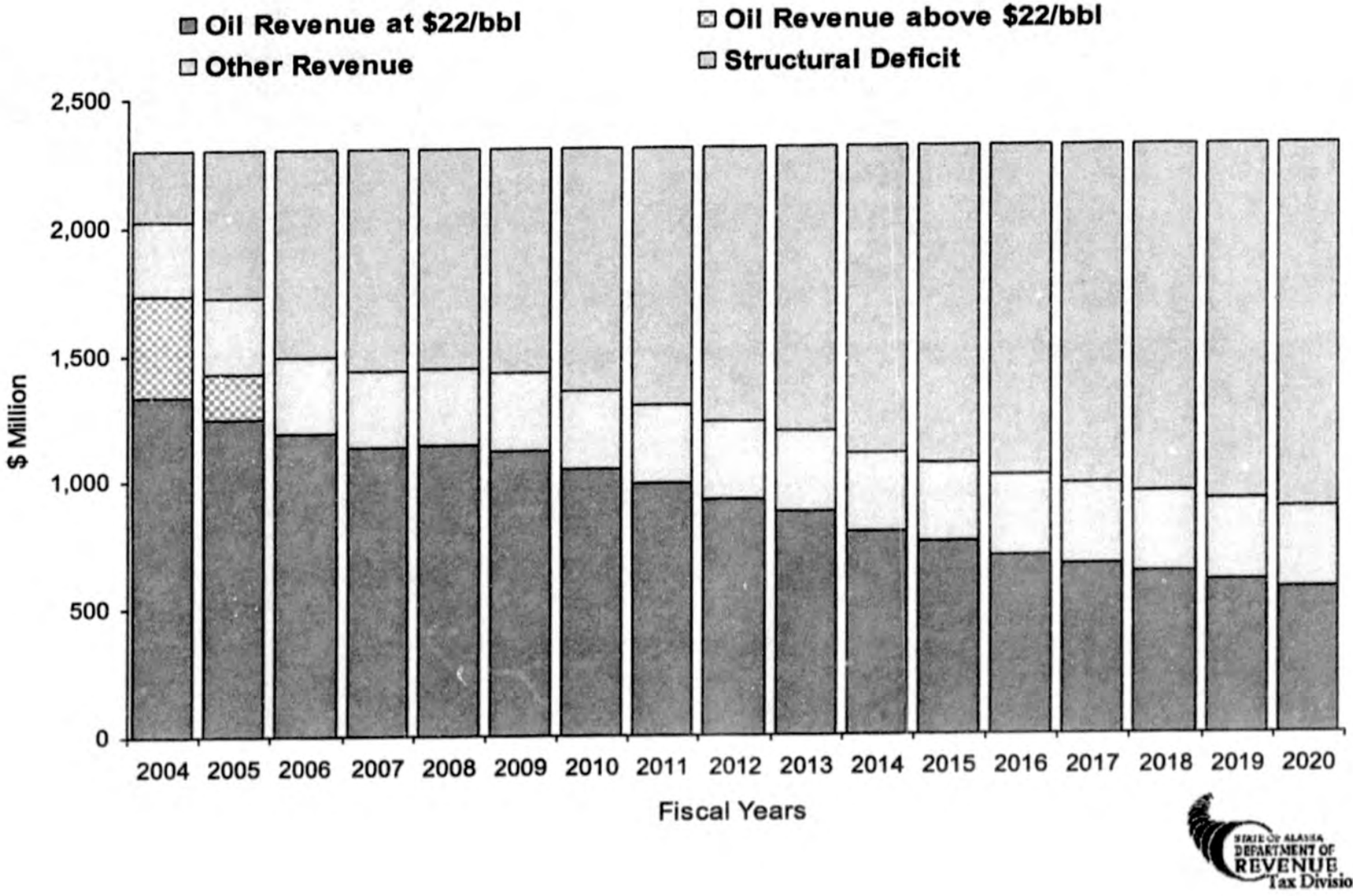
General Fund Budget Projections in Current Law ($ Million)

-based on flat $2.3 billion budget-



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Big Picture General Fund Finance: FY 2004 – 2020

@ $22/ barrel Oil
No Extraordinary Resource Developments

- **oil and gas royalties and taxes** = $1 billion/ year
- **non-oil and gas**
  - corporate taxes, sin taxes, user fees, licenses, permits = $300 million/ year
- **deficit (with constant spending at FY 2003 rate)** = $1 billion/ year

$1 Billion Revenue Scenario

- $200 million **Income Tax**
- $200 million **State Sales Tax**
- $200 million **Permanent Fund Earnings**
- $200 million **Corporate Tax**
- $200 million **Miscellaneous Revenue Enhancements (sin taxes, statewide property taxes, user fees, etc.)**

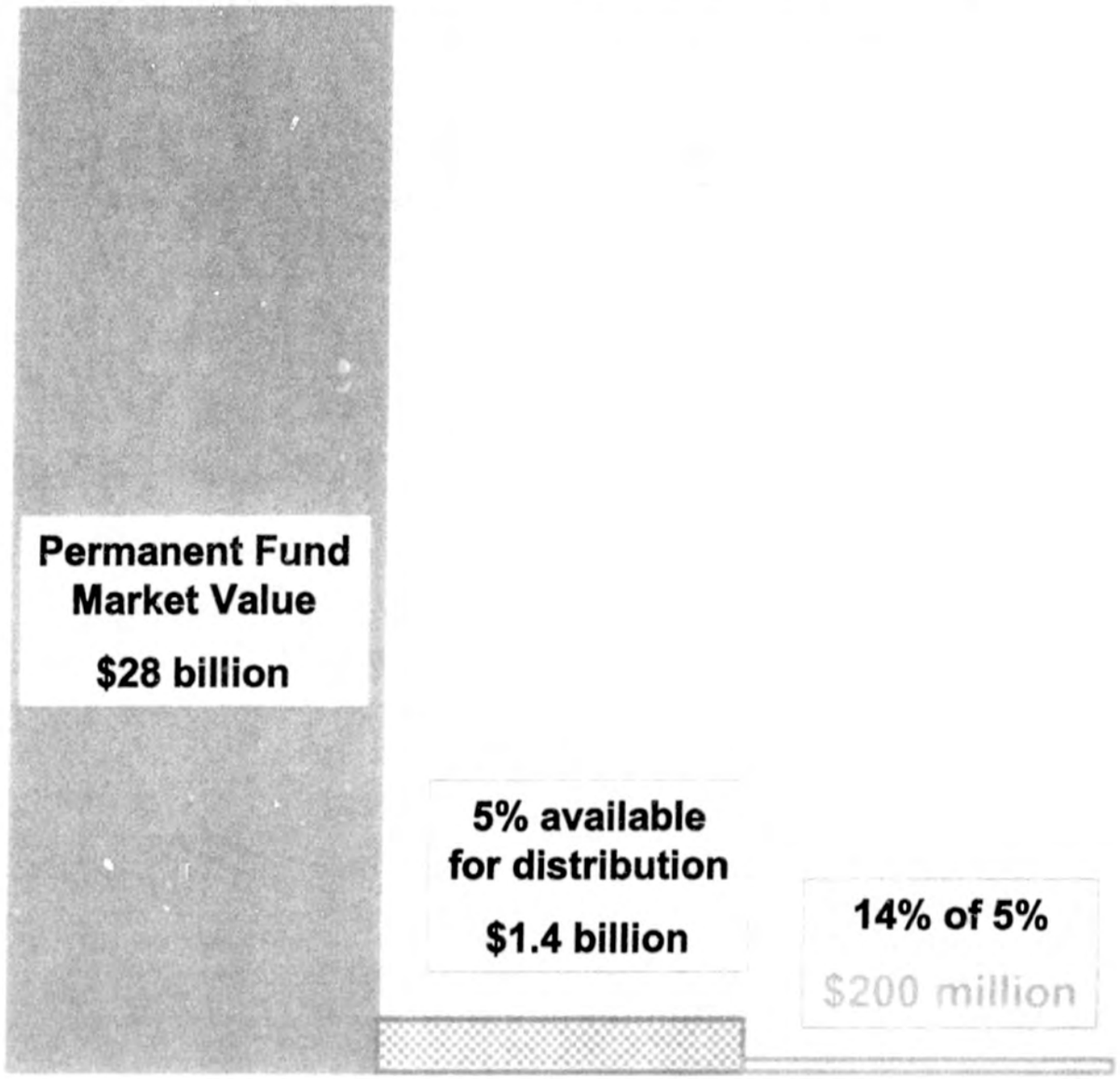
$200 Million Income Tax

- 1.5% flat tax of AGI
  - 3/4 from wages and salaries
  - 1/4 from subchapter S corporations, sole proprietorships, partnerships and unearned income
  - AGI > $100 thousand incurs 33% of tax
- 10% federal tax liability builds in progressivity
  - AGI > $100 thousand bears 50% of tax
- boost tax to 3% on AGI
  - and allow a $650 credit for property tax paid
    - AGI > $100 thousand incurs 55% of tax
  - and cap tax liability at amount of dividend
    - AGI > $100 thousand incurs 24% of tax

$200 Million State Sales Tax

- add on to local taxes where already exist
- 1.8% including food and most services
- 3% excluding food and most services
- SSTP – "single entity" could move towards collecting tax on internet and mail order sales for state and localities

$200 Million Permanent Fund Draw

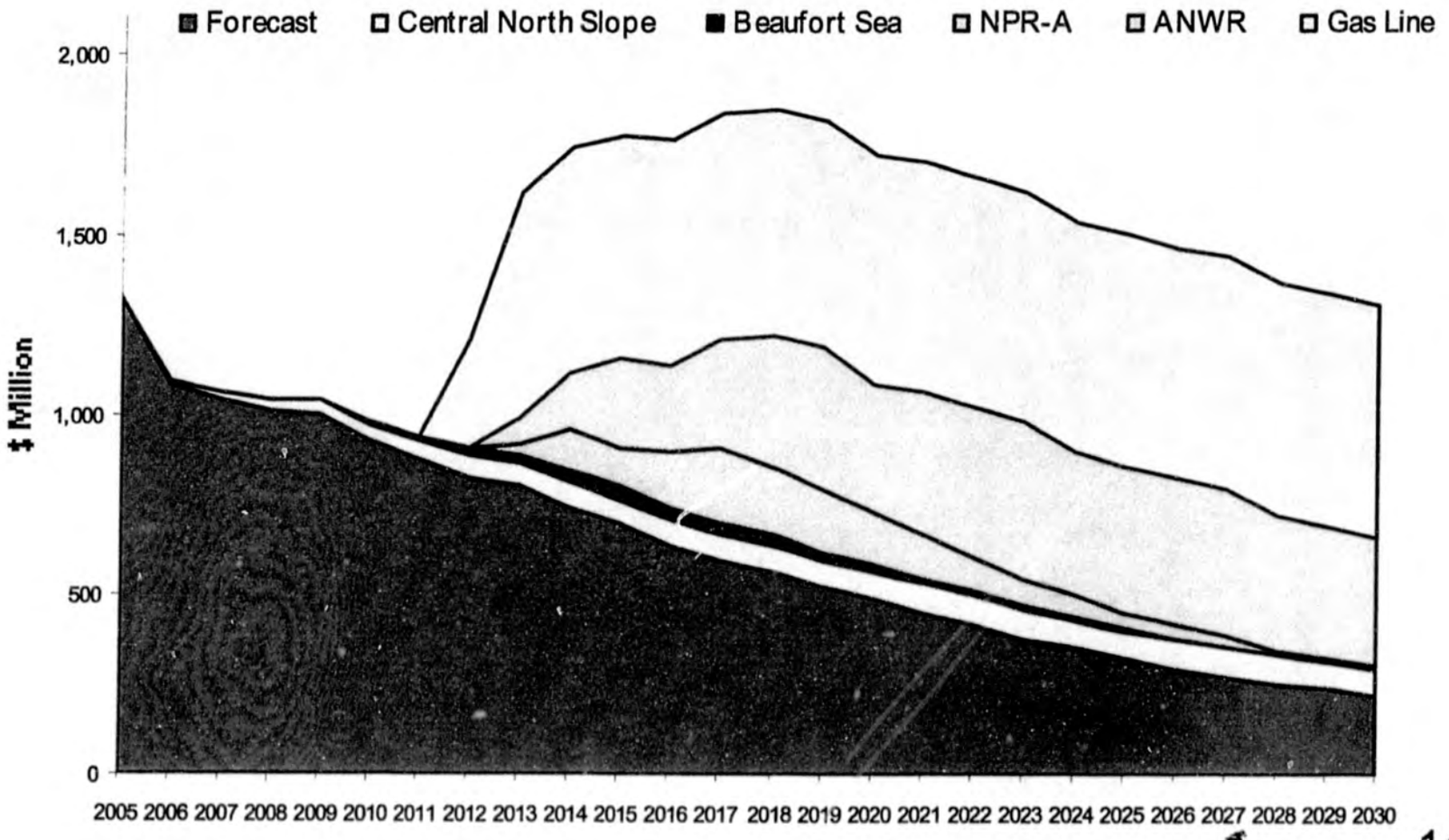


$200 Million Corporate Income Tax

- reforms to NOLs, capital gains, federal tax credits
- cruise ship head tax on all cruise ships instead of corporate income tax on foreign cruise ship companies
  (allow credit for income taxes paid by domestic firms)
- change oil and gas production tax to tax on expatriated profits
  - when prices are high and reinvestment low, high state take
  - when prices low and/or reinvestment high, taxes below current levels
- examine our corporate income tax structure including apportionment factors (few states retain three equal factors)
- 18 other states tax S-corps at corporate level and at individual-owner level

Possible Increases to State's Oil Revenue

-from future oil and gas exploration and gas line-



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