

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

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Alaska Retirement Management Board

Report to the Legislature

April 18, 2006

Gail Schubert, Chair

Larry Semmens, Chair Report Committee

Gary Bader, Chief Investment Officer

Strategies Considered

- Large Dollar Strategies
- Incremental Strategies
- Investment Returns
- Extend Amortization Period

Eliminating Retirement Systems' Unfunded Liabilities

- Large Dollar Strategies

- Pension Obligation Bonds
- Natural Resource Assets

- Incremental Strategies

- Past Service Cost Offset Accounts (PERS only)
- Retirement Benefit Liability Account
- Under Funded Liability Relief Account

Large Dollar Strategies

- Pension Obligation Bonds (HB 278)
 - Authorizing the Alaska Municipal Bond Authority to consider issuing pension obligation bonds (POBs) at the request of the state or a municipal government employer. HB 278 does not authorize any debt instruments to be issued. The state or a municipality would need to take a separate action to utilize this new ability of the Municipal Bond Bank Authority.
- Natural Resource Assets (HB 492)
 - A proposal to transfer a high value natural gas asset (specifics not yet available) to the retirement systems. If issues related to valuation could be reasonably addressed, the systems could possibly be fully funded thereby obviating the need for paying down the past service liability.

Incremental Strategies

- Past Service Cost Offset Account (PSCOA) (HB238)
 - a long-term solution to assist communities with growing unfunded liability payments.
 - a mechanism that aids employers as new defined contribution hires enter the workforce.
 - a reduction in non-state and non-school district employer past service cost contributions by approximately 56% over the course of a 25-year amortization period

Incremental Strategies

- Retirement Benefit Liability Account (HB375)
 - Money would be used for payment of the employer contributions to past service liabilities of the public employees' retirement system and teachers' retirement system for employers. Any income earned on the money would be appropriated back into the account.
 - Appropriations to the account would be \$400,000,000 for TRS and \$38,000,000 for PERS (HB376).

Incremental Strategies

- Underfunded Liability Relief Account (SB247-CRA)
 - Provides funds for municipal PERS employers to bridge the gap between the employer contribution rate set by ARMB, and the actuarial rate calculated by the state actuary

Investment Performance

Fiscal Year	2002	2003	2004	2005	2006 ⁽¹⁾
PERS	-5.48%	3.67%	15.08%	8.95%	14.44%

Source: Based on quarterly performance results as calculated by Callan Associates through December 31, 2005.

(1) Estimated Return based on annualizing actual results from July 1, 2005 through December 31, 2005.

Extend Amortization Period

Public Employees' Retirement System
Employer Supplemental Contributions, as of June 30, 2005
(\$ in thousands)

Amortization Period (years)	Employer Contribution Rate	Normal Cost Rate	Average Member Contribution Rate	Past Service Rate	Supplemental Contribution Rate	Supplemental Contributions
25	16%	21.32%	6.84%	17.95%	16.43%	\$260,726
30	16%	21.32%	6.84%	15.98%	14.46%	\$229,464
35	16%	21.32%	6.84%	14.66%	13.14%	\$208,517
40	16%	21.32%	6.84%	13.73%	12.21%	\$193,759
25	21%	21.32%	6.84%	17.95%	11.43%	\$181,382
30	21%	21.32%	6.84%	15.98%	9.46%	\$150,120
35	21%	21.32%	6.84%	14.66%	8.14%	\$129,173
40	21%	21.32%	6.84%	13.73%	7.21%	\$114,415
25	26%	21.32%	6.84%	17.95%	6.43%	\$102,037
30	26%	21.32%	6.84%	15.98%	4.46%	\$70,775
35	26%	21.32%	6.84%	14.66%	3.14%	\$49,828
40	26%	21.32%	6.84%	13.73%	2.21%	\$35,070

Total Salaries: \$1,586,891

Source: Buck Consultants

Extend Amortization Period

Teachers' Retirement System

Employer Supplemental Contributions, as of June 30, 2005

(\$ in thousands)

Amortization Period (years)	Employer Contribution Rate	Normal Cost Rate	Average Member Contribution Rate	Past Service Rate	Supplemental Contribution Rate	Supplemental Contributions
25	16%	21.25%	8.69%	29.58%	26.14%	\$146,655
30	16%	21.25%	8.69%	26.27%	22.83%	\$128,085
35	16%	21.25%	8.69%	24.06%	20.62%	\$115,686
40	16%	21.25%	8.69%	22.51%	19.07%	\$106,990
25	21%	21.25%	8.69%	29.58%	21.14%	\$118,603
30	21%	21.25%	8.69%	26.27%	17.83%	\$100,033
35	21%	21.25%	8.69%	24.06%	15.62%	\$87,634
40	21%	21.25%	8.69%	22.51%	14.07%	\$78,938
25	26%	21.25%	8.69%	29.58%	16.14%	\$90,552
30	26%	21.25%	8.69%	26.27%	12.83%	\$71,981
35	26%	21.25%	8.69%	24.06%	10.62%	\$59,582
40	26%	21.25%	8.69%	22.51%	9.07%	\$50,886

Total Salaries: \$561,038

Source: Buck Consultants

Policies to Improve Financial Health of the Plan

- No Enhancements to PERS and TRS Benefits for at least Two Years
- Index Health Deductible in New Plan

Short-Term Recommendations

- New Retirement Health Plan for New Members
- Health Care Cost Containment Initiatives
 - Preferred Provider Programs
 - Negotiated Drug Prices
 - Eligibility Reviews

Solution Goals

- Full Funding within 30 years
- Not cause severe disruption in public service
- State should participate in solution
- Accelerated contributions from employers should be rewarded
- State support should be equitable
- Should minimize supplanting Federal and other non-general fund costs

ALASKA RETIREMENT MANAGEMENT BOARD

FINAL
REPORT TO LEGISLATURE

April 14, 2006

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I. Introduction

As required by Senate Bill 141, the Alaska Retirement Management Board submitted its Report to the Legislature on January 20, 2006. At that time, the board provided the legislature with preliminary assessments, but noted that without updated actuarial data, it did not have information on which to base long-term recommendations. The board received a draft valuation report from the state actuary at its March meeting, and now offers this report transmitting the board's updated assessments and short and long term recommendations.

Senate Bill 141 charged the board with responsibility to report its findings and recommendations on the following five items:

1. the board's preliminary assessment of the financial health of all public employees' retirement plans and all teachers' retirement plans;
2. an assessment of the actuarial services purchased by the board;
3. recommendations for additional legislative or administrative policy to improve the financial health of the retirement plans;
4. short-term and long-term recommendations for addressing the unfunded liability of the retirement plans; and
5. recommendations for legislative procedures regarding fiscal notes for new legislation affecting the retirement plans.

The board's goal is to identify cost saving and funding strategies to fully fund the retirement obligations to our public employees with a minimal impact on the services to the residents of Alaska. This report contains the assessments and recommendations to achieve that goal. Sections I, II, and III update the information and analysis provided on January 20th, and a new Section IV outlining the board's recommended legislative action completes this report.

II. Report

A. Senate Bill 141 Report Requirements

1. *Preliminary Assessment of the financial health of all public employees' retirement plans and all teachers' retirement plans*

The system's actuary (Buck Consultants) presented a report to the board at its March meeting that reviewed the previous actuary's 2004 actuarial valuation and provided the 2005 actuarial valuation results for the public employees' retirement system and the teachers' retirement system. The funding ratios and unfunded liabilities of each system are as follows:

(a) Public Employees Retirement System (PERS) as of June 30, 2005. The PERS defined benefit plan funding ratio (valuation assets to liabilities) declined to 65.7% from 70.2%, and the plan's unfunded liability increased from \$3.4 to \$4.4 billion.

The average actuarially determined contribution rate for the PERS defined benefit plan was 32.43%, up from 28.19%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2005 valuation data is used to set contribution rates for fiscal year 2008. The board will set the FY08 contribution rate at its September meeting. In October, the board set the fiscal year 2007 contribution rate at 21.77%, a 5 point increase in the rate for the prior fiscal year. This was communicated to employers prior to the formation of the board. The five point increase followed a previously adopted regulation to limit increases in the contribution rate from year to year to five percentage points.

(b) Teachers' Retirement System (TRS) as of June 30, 2005. The TRS defined benefit plan funding ratio declined to 60.9% from 62.8% and the plan's unfunded liability increased from \$2.3 billion to \$2.5 billion.

The actuarially determined contribution rate for the TRS defined benefit plan was 42.14%, up from 41.78%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2005 valuation data is used to set contribution rates for fiscal year 2008. The board will set the FY08 contribution rate at its September meeting. In October, the board set the fiscal year 2007 contribution rate at 26.00%, a 5 point increase in the rate for the prior fiscal year, as communicated to employers prior to the formation of the board.

(c) Judicial Retirement System (JRS) as of June 30, 2004. The JRS defined benefit plan funding ratio was 88.01% and the plan had an unfunded liability of \$9.6 million. This system was not updated in the 2005 Valuation Report from the actuary.

The actuarially determined contribution rate for the JRS defined benefit plan was 37.37%. Valuation data is used to set contribution rates in the future. Therefore, June 30, 2004 valuation data is used to set contribution rates for fiscal years 2007 and 2008

(valuations are done every other year for this plan). The Commissioner of Administration set the fiscal years 2007 and 2008 contribution rates at 37.37%.

(d) National Guard and Naval Militia System (NGNMRS) as of June 30, 2004. The NGNMRS defined benefit plan funding ratio was 67.8% and the plan had an unfunded liability of \$6.4 million. This system was not updated in the 2005 Valuation Report from the actuary.

The actuarially determined contribution amount for the NGNMRS defined benefit plan was \$1,737,406. Valuation data is used to set contribution amounts for future years. Therefore, June 30, 2004 valuation data is used to set contribution amounts for fiscal years 2007 and 2008 (valuations are done every other year for this plan). The board set the fiscal years 2007 and 2008 contribution amount at \$1,737,406 for each year.

2. Assessment of the actuarial services purchased by the board

In November 2005 the division, on behalf of the board, procured the services of Buck Consultants as the actuary for the State of Alaska Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), Judicial Retirement System (JRS) and the National Guard and Naval Militia Retirement System (NGNMRS). Buck replaces Mercer Human Resource Consulting, which had been the division's actuarial consultant for over 25 years.

Buck Consultants initially replicated the 2004 valuation prepared by Mercer in order to validate the assumptions used in preparing the 2004 Actuarial Report. The replication shows that Buck's results matched the Mercer results closely for TRS, but that Mercer understated the healthcare benefits in the PERS valuation. Other differences in both systems were a "wash." The employer contribution rate for TRS would have essentially been the same, but the PERS employer contribution rate would have been 30.37% instead of 28.19%.

Buck Consultants will next conduct an experience analysis - a periodic study of assumptions in relation to past and expected future experience - to determine whether the assumptions continue to be valid or if changes should be made. The study will cover fiscal years 2002 to 2005. This study will be presented to the board at its September meeting. Assumption changes approved by the board will be incorporated into the next valuation (June 30, 2006).

Senate Bill 141 required the board to procure a second actuary to annually review health cost assumptions prepared by the state's actuary and, not less than every four years, review plan assumptions prepared by the state's actuary. The board has contracted with Gabriel Roeder Smith & Company (GRS) to review and certify the assumptions used by the state actuary. GRS is currently reviewing the assumptions underpinning the 2005 Actuarial Valuation prepared by Buck Consultants, and will also review the assumptions in the experience analysis when available in June.

Through this process, the board is confident that the statutory requirements for actuarial services are met and the best practices are established in carrying out the board's fiduciary obligations for the state's retirement systems.

3. *Recommendations for additional legislative or administrative policy to improve the financial health of the retirement plans*

The board reiterates and updates the two recommendations presented in the previous report as follows:

(a) No enhancements to benefits to the PERS or TRS defined benefit plans for at least two years. Previously, the board recommended a one-year moratorium on benefit enhancements until it received updated actuarial information. Given that the funding ratio for the systems has declined further, and the long-term recommendations in this report, if enacted, will take some time to impact the unfunded liability, this moratorium should be extended. An exception to this recommendation would be if there was convincing evidence that passage of proposed legislation will result in an improvement in the financial condition of the fund.

(b) Index the beneficiary health deductible in the new defined contribution plan to increase commensurate to increases in the cost of living. Health care costs represent a substantial component in the under funding of the defined benefit plans. Even though beneficiaries will be responsible for a larger proportion of their health care cost under the new plan, health costs will continue to be a significant cost item in the new plan. Given that the Alaska Constitution provides that retirement benefits cannot be diminished, it is important that the benefit that is available to a member at retirement is the same as what was intended when the member was hired. The board recommends that the administrator issue a health plan booklet for the new plans that indexes all relevant stipulated dollar amounts to the Anchorage CPI. The Division of Retirement & Benefits is working closely with the health plan consultant at Buck Consultants to accomplish this objective.

4. *Short-term and long-term recommendations for addressing the unfunded liability of the retirement plans*

The board deferred long term recommendations until updated actuarial assumptions were completed. The board heard a preliminary report from the state actuary in March, but the additional experience analysis report and certification by the second actuary will not be presented until the fall. The board will not receive detailed actuarial data for each employer until June, but believes that it is in the best interest of the retirement systems to address the under funding of the systems with a short-term recommendation for the FY07 budget process, and a long term plan formulated to be in place for the FY08 budget cycle. These recommendations are set forth in Section IV of this report. The board reiterates its support for the following short-term and long-term recommendations presented in its previous report:

(a) Short-Term Recommendations:

(1) Create new health plan for new hires after June 30, 2006. It is the board's recommendation that the Division of Retirement & Benefits work closely with Buck Consultants and its health specialists to create a new retiree health plan for new hires with benefits comparable to what retirees have today, but with benefits indexed appropriately to ensure that dollar defined coverage does not become too expensive for beneficiaries to sustain and that the plan liabilities do not increase at an unsustainable rate. While this will not impact the unfunded liability of the prior defined benefit plans, this is intended to avoid a future unfunded liability in the new defined contribution plan.

(2) Implement a preferred provider program in communities where possible. Preferred provider programs save money for the beneficiary and for the plan. It is the understanding of the board that the state active employee and retiree health plan have a preferred provider program, which is compulsory for active employees and voluntary for retirees. While the absence of multiple providers in many of our communities will limit widespread implementation, the board believes preferred provider programs should be implemented to the extent possible.

(3) Continue to aggressively promote the use of generic drugs. It is the understanding of the board that the administrator, prior boards, retiree groups and health plan administrators have promoted the use of generic drugs and that the program has been successful. Estimates are that for every one percent of generic drug use, the plan saves \$1 million. Given that medical cost represents a large component of the unfunded liability and that the use of prescription drugs is increasing, it is the view of the board that the administrator and the board explore additional ways to promote the use of generic drugs.

(4) Implement other cost containment initiatives. The board has established a number of committees to investigate how to make the retirement plans operate more efficiently. Among the items the committees are likely to consider are: hospital and doctor preferred provider organizations, enhanced member outreach, paying for hospice care reimbursement, substitution of over the counter drugs for prescription drugs, formulary programs, education of members, education of physicians, and negotiated drug prices. Because the committees are just beginning their work, the board will endeavor to implement other cost containment initiatives as they become known.

(5) Establish procedures for the periodic review of the eligibility of retiree dependents.

The Division of Retirement and Benefits completed the first eligibility verification project for all retirees covered under the AlaskaCare Plan. Dependents include spouses and children up to age 23 if they are enrolled full-time at an accredited

educational or technical institution. Retirees provided documentation that supports dependent eligibility. The estimated savings is approximately \$16 million annually.

The retiree health plan is a qualified plan in accordance with Section 401 (h) of the tax code. Medical benefits for retirees, spouses and dependents as defined by the Internal Revenue Code, are tax-free. Eligibility audits are conducted on health plans for two reasons: (1) ensure compliance with federal tax laws and (2) to reduce claims costs to the health plan. The board encourages the division to maintain plan compliance with the Internal Revenue Code through eligibility verification audits and in order to manage health care costs by establishing a review process to be conducted at regular intervals in the future.

(b) Long-Term Recommendations:

(1) Consider extending the pay-off period for the liabilities. Currently the calculations for employer contribution rates are based on a payment schedule of 25 years. A shorter payoff of the liability is desirable, but not mandatory. Given that projections indicate employer contribution rates as high as 50% of payroll, it may be in the best interest of the citizens of Alaska to assure that funds are available to meet the obligations to public employees, but also to pay for them at a sustainable level. A longer payback period may reduce the employer rate such that impacts on services are minimized. The board has requested the actuary to provide actuarial calculations of various amortization schedules.

(2) Request contributions to systems. Buck Consultants has reported to the board that the combined unfunded liability of the PERS and TRS has grown to \$6.9 billion. Since the state is expected to have a large budget surplus this year, the board recommends that the legislature make substantial contributions to the systems in order to increase the funded status and dampen the impact increased contribution rates will have on employers across the state in FY2007 and into the future. The board also recommends the legislature pass legislation that will promote annual budgeting of funds to address the past service liability.

(3) Adopt a funding strategy that will set a limit on the rate of employer contributions. This strategy will be linked to the first two strategies. It is recommended that full funding be provided annually. This recommendation is intended to be applied in combination with the strategy to extend the payoff period similar to a home mortgage. The board intends to explore combinations of employer contribution rates and payoff periods.

(4) Additional Actuarial Data. The board received the preliminary 2005 valuation data at its March meeting, and is expecting an additional report on the experience analysis that the consultant is currently undertaking. Evaluation of the assumptions and any recommendations for changes in assumptions will be reviewed by the board at its September meeting.

(5) Pension Obligation Bonds. The board received information on pension obligation bonds as a potential tool to assist employers in reducing exposure to unfunded accrued actuarial liabilities. The board will continue to assess the fiscal, practical and legal issues regarding issuance of such bonds by or for the benefit of public employers.

5. *Recommendations for legislative procedures regarding fiscal notes for new legislation affecting the retirement plans*

Alaska statutes provide guidance for preparation of fiscal notes for bills and resolutions introduced in the legislature. AS 24.08.035 relates to all bills and resolutions introduced in the legislature and has applicability to retirement legislation. AS 24.08.036 relates specifically to bills affecting the state retirement systems.

AS 24.08.036. *Fiscal notes on bills affecting state retirement systems.* Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035.

In many cases, the Division of Retirement and Benefits must use the division's actuary in order to provide fiscal notes on bills that would affect the retirement systems. The division's actuary requires time and resources in order to prepare a fiscal analysis on various bills. In order to comply with AS 24.08.036 and the time lines found in AS 24.08.035, the board recommends that bills affecting the retirement system be submitted as early in the legislative session as possible. This will allow the actuary the necessary time to prepare a comprehensive analysis, the Alaska Retirement Management Board the opportunity to review and make recommendations on proposals, the municipalities time to review the impact of proposals and the legislature more time to hold public hearings.

In addition, the board recommends that fiscal note legislation include the following:

- a) if a bill provides for enhanced benefits, cost estimates should include a high and low case scenario based upon the percentage of members electing to take advantage of the enhanced benefits;
- b) the dollar amount of the unfunded liability increase or decrease if the proposal was enacted, as well as the percent change in employer and/or employee contributions;
- c) identification of revenue sources to cover ongoing costs to the system;
- d) information on unfunded liability, and that any excess accrued liability over the assets of the plan constitutes annual payments for 25 years in order to amortize the unfunded liability;

e) certification that the costs and revenues have been developed in accordance with generally accepted actuarial principles; and

f) any fiscal impact to individual employers.

B. Other Senate Bill 141 Requirements

1. Defined Contribution Plan

The defined contribution plan becomes mandatory to all new entrants as of July 1, 2006. It is a plan in which employer and employee contributions are accumulated in individual accounts and invested by the members for the exclusive benefit of the members. Contribution provisions are established by State law and may be amended only by the State Legislature. The plan also includes some defined benefit features, such as occupational death and disability benefits. It also includes provisions for a retiree medical program and individual health reimbursement arrangement (HRA) accounts.

The Alaska Retirement Management Board is the fiduciary for the defined contribution plan and is responsible for selecting investment options and investment managers. The investment options for the defined contribution plan were selected to provide broad exposure to the risk/return spectrum and to allow for diversification across several asset classes. Generally, higher potential return investments have a higher degree of risk as measured by volatility of returns.

The investment managers went through a rigorous hiring process and are high quality firms with significant institutional business. All firms are either investment advisors registered with the Securities and Exchange Commission or bank/trust companies. All investment options and managers will be monitored on an ongoing basis by the board, investment staff, and consultants.

The following table provides information with respect to the investment options for the defined contribution plan and is arranged from highest potential risk and return to lowest.

	INVESTMENT OPTION	OBJECTIVE	① INVESTMENT TYPE ② MANAGEMENT STYLE ③ MANAGER
Higher Risk / Higher Return ↑	Brandes Institutional International Equity Fund	To provide long-term capital appreciation. The Fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.	① International Stocks ② Actively managed ③ Brandes Investment Partners, L.P.
	T. Rowe Price Small-Cap Stock Trust	To achieve long-term capital growth by investing primarily in stocks of companies in the Russell 2000 Index, a widely used benchmark for small-cap stock performance.	① Smaller company common stocks ② Actively managed ③ T. Rowe Price Associates, Inc.
	Citizens Core Growth Fund	To achieve long-term capital appreciation while investing in companies that are managed in a socially responsible manner.	① The fund invests in the companies that make up the Citizens Index, a proprietary index designed to serve as a benchmark for socially responsible investing. The Citizens Index TM consists of approximately 300 primarily large-cap companies. ② Actively managed ③ Citizens Advisers
	S&P 500 Stock Index Fund	To provide income and capital appreciation matching the total return of the Standard & Poor's 500 Composite Stock Price Index.	① All 500 of the equity securities in the S&P 500 Index, in proportion to the size of each as measured by its total market value ② Passively managed ③ State Street Global Advisors
	Alaska Target 2025	To provide a diversified mix of stocks, bonds, and cash for long-term investors with a higher tolerance for risk. The fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2025 approaches.	① Large- & Small-Cap stocks, international stocks, government & corporate bonds, mortgages, and money market instruments. ② Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios. ③ T. Rowe Price Associates, Inc.
	Global Balanced Fund	To achieve balanced long-term growth of capital, current income, and conservation of principal through investments in stocks and fixed-income securities.	① Stocks of large and small companies and corporate & government bonds based around the world ② Actively managed ③ Capital Guardian Trust Company
	Alaska Long-Term Balanced Fund	To provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.	① Stocks of large & small U.S. & established international companies, investment-grade U.S. bonds, federally guaranteed mortgages, and money market instruments ② Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios. ③ T. Rowe Price Associates, Inc.
	Alaska Balanced Fund	To provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.	① Stocks of large & small U.S. & established international companies, investment-grade U.S. bonds, federally guaranteed mortgages, and money market instruments ② Combination of Enhanced Index (Passive), Structured-Active, and Actively Managed Portfolios. ③ T. Rowe Price Associates, Inc.
	Government/Corporate Bond Fund	To meet or exceed the return of the Lehman Brothers Government/ Credit Bond Index.	① Investment-grade fixed income securities represented in the Lehman Brothers Government/ Credit Bond Index. ② Actively managed ③ State Street Global Advisors
Lower Risk / Lower Return ↓	Short-Term Interest Fund	To preserve principal, offer current income, and provide liquidity.	① Cash equivalent instruments with maturities less than one year including commercial paper, banker's acceptance, certificates of deposit, obligations of the United States Government and its agencies, and repurchase agreements collateralized by US Treasury instruments ② Actively managed ③ T. Rowe Price Associates, Inc.

2. Health Reimbursement Arrangement Plan

Senate Bill 141 establishes the Health Reimbursement Arrangement Plan to allow medical care reimbursement from individual savings accounts of eligible persons. Employers shall contribute an amount equal to three percent (3%) of the employer's average annual employee compensation to the plan.

AS 37.10.220(a)(6) provides in part that the board shall establish the rate to annually credit interest to each member's account in the health reimbursement arrangement plan under AS 39.30.300 – 39.30.495. It also provides that the rate shall be adopted on the basis of the probable effective rate of interest on a long-term basis, and the rate may be changed from time to time.

The interest rate will be credited annually. It is not imperative that the board establish the crediting rate for the health reimbursement arrangement until June of 2007. In order to ensure that assets in the health reimbursement arrangement plan are equal to or greater than the sum of the individual accounts, the board will have to take into consideration the fact that plan assets will start the year at zero and grow with each contribution over the course of a year. Accordingly, the first year crediting rate is likely to be one-half of what the board would consider to be a reasonable crediting rate once the fund is mature.

3. Office of Administrative Appeals

The Office of Administrative Appeals is charged with hearing appeals by members of PERS and TRS. Appeals were formerly heard by either the Public Employees' Retirement Board or the Teachers' Retirement Board.

III. Alaska Retirement Management Board

A. Trustee Appointment

Senate Bill 141 established the Alaska Retirement Management Board consisting of nine trustees: the commissioner of administration and commissioner of revenue; two trustees from the general public who are not members or beneficiaries of the retirement system; one trustee employed as a finance officer for a political subdivision in either the public employees' retirement system (PERS) or the teachers' retirement system (TRS); two trustees who are members of PERS; and two trustees who are members of TRS.

Trustees must meet eligibility requirements for an Alaska permanent fund dividend and be professionally credentialed or have recognized competence in investment management, finance, banking, economics, accounting, pension administration, or actuarial analysis.

In early October, Governor Murkowski made the following trustee appointments: Gail Schubert and Martin Pihl (public members), Lawrence Semmens (finance officer), Samuel Trivette and Michael Williams (PERS members), and Gayle Harbo and John (Bob) Roses (TRS members). Commissioner of Administration Scott Nordstrand and Commissioner of Revenue William Corbus are ex officio members. John (Bob) Roses resigned his seat in March; he is a candidate for statewide office, and statute prohibits holding a seat while seeking statewide elective office.

B. Board Organization and Structure

Policies and Contracts. At the initial meeting of the Alaska Retirement Management Board October 11, 2005, the trustees adopted Resolution 2005-01, accepting fiduciary responsibility for the funds of the retirement systems and, on an interim basis subject to further review, the securities lending, custody, asset allocation, investment policies and contracts for external money managers and consultants of the Alaska State Pension Investment Board.

Committees. Committees are established to monitor ongoing investment programs, and also provide governance, compliance and problem solving. Committees of the board, generally comprised of three to five trustees, provide an opportunity for in depth and detailed oversight in fulfilling the responsibilities assigned to the trustees as fiduciaries of the funds. Committees take no action on behalf of the board; the committee role is to advise and recommend. Ad Hoc or temporary committees are sometimes named to facilitate a manager search or to complete a time-sensitive project. Committee meetings are open to the public and board members may attend any committee meeting in person or by teleconference.

Investment Advisory Council. Senate Bill 141 provides that the board may appoint an Investment Advisory Council comprised of at least three but no more than five members. At the initial board meeting, the trustees approved by motion the staff recommendation that the Investment Advisory Council be maintained, and that the contracts with the three current members, Dr. Jerrold Mitchell, Timothy M. O'Brien, and Dr. William Jennings, be continued.

IV. Legislative Action

The board acknowledges that it is late in the legislative session for consideration of additional appropriation legislation, and appreciates the endeavors of legislators, committees and staff to address the unfunded liability. However, it is in the best interest of the retirement systems for the legislature to address the under funding of the systems in both the fiscal year 2007 and 2008 budget process, or the unfunded liability will very likely grow larger. The board offers the following recommendations, listed by priority for action by the legislature. These recommendations, both short- and long-term, address employer concerns with escalating contribution rates and the growing actuarial shortfall of the retirement systems.

A. Priority 1: Establish Past Service Retirement Liability Accounts

This funding plan is patterned after the school debt reimbursement program (AS14.11.100), with annual appropriations from FY2008 going forward for PERS and TRS employers. This proposed legislation for the PERS and TRS funds is the board's first priority and consideration during this legislative session is requested so that funding can be included in the FY08 budget cycle. The particulars for each fund are set forth below, with proposed legislation attached as appendices.

1. *The Public Employees' Retirement System Past Service Retirement Liability Account*
 - Establishes the Public Employees' Retirement System Past Service Retirement Liability Account in the Department of Revenue
 - Provides for a method to calculate a specific annual amount to be included in the Governor's budget.
 - Is applicable to political subdivision and school district employer members of PERS
 - Provides incentives for employers to pay down their unfunded liability
 - Anticipates that the ARMB would set the employer contribution rate at the actuarially required rate

The calculated amount to distribute shall be based on the total eligible payroll reported to the department of administration by the employer during the fiscal year three years earlier and either the average past service cost rate of all employers in the system during the fiscal year three years earlier, or the employer's past service cost rate during the fiscal year three years earlier, less 5%, whichever is lower.

In order to provide incentives to employers to pay down their unfunded liability the amount shall be increased by 50% of the amount an employer paid to the system during the fiscal year three years earlier that was in excess of what the employer was required to pay to the system.

See Appendix 1 – Proposed Legislation

Public Employees' Retirement System Past Service Retirement Liability Account

Alaska Retirement Management Board

Final Report to the Legislature – April 14, 2006

2. *The Teachers' Retirement System Past Service Retirement Liability Account*
 - Establishes the Teachers' Retirement System Past Service Retirement Liability Account in the Department of Revenue
 - Provides for a method to calculate a specific annual amount to be included in the Governor's budget.
 - Is applicable to TRS employers
 - Anticipates that the ARMB would set the employer contribution rate at the actuarially required rate

The calculated amount to distribute shall be based on 85% of the total eligible payroll reported to the department by the employer during the fiscal year three years earlier and the past service cost rate of the system during the fiscal year three years earlier of the teachers' retirement system.

See Appendix 2 – Proposed Legislation

Teachers' Retirement System Past Service Retirement Liability Account

B. Priority 2: Appropriation for Increased Political Subdivision Employer Costs

In 2005 the legislature, through Senate Bill 46, provided funding for the increase in fiscal year 2006 contribution rates that political subdivisions were required to pay. Although it is late in the current legislative session for proposing additional appropriation legislation, without state aid, most political subdivisions will absorb a 10% increase in rates. The board recommends that the state fund one-half of the approximate \$37.2 million increase, or \$18.6 million. This would have the state and municipalities sharing 50/50 of the increasing PERS costs. This recommendation does not impact the actuarial shortfall because total contributions are less than the actuarially required contributions.

See Appendix 3 – Proposed Legislation

Appropriation for Increased Municipal Employer Costs

C. Priority 3: Legislative Appropriation to Fund Actuarially Required Contribution

According to projections for FY07, to fully fund the retirement systems the actuarially required contribution is \$461 million for PERS, and \$261 million for TRS. The projected actual contribution for PERS using the adjusted employer rates is \$351 million, a difference of \$110 million. The projected actual contribution for TRS is \$163

million, a difference of \$98 million. Without funding the actuarially recommended rates, the unfunded liability will continue to grow.

See Appendix 4 – Proposed Legislation

Legislative Appropriation to Fund Actuarially Required Contribution - PERS

See Appendix 5 – Proposed Legislation

Legislative Appropriation to Fund Actuarially Required Contribution - TRS

APPENDIX 1

[Priority 1]

**The Public Employees' Retirement System
Past Service Retirement Liability Account**

Sec. ____ AS _____ is amended by adding a new section to read:

Sec _____. **State aid for past service retirement benefit liability costs.** (a) During each fiscal year, the state shall allocate to an employer that is a municipality or school district member of the Public Employees' Retirement System the following sum:

- (1) Payments to the retirement system anticipated to be made by the employer during the fiscal year for the retirement of past service liability of the employer to the Public Employees' Retirement System.

(b) The commissioner of revenue shall administer the program of distribution authorized under this section and shall provide by regulation a procedure for calculating the amount of distribution to which an employer is due, and other regulations necessary to administer the program. The payment to the employer shall be based on the total eligible payroll reported to the department of administration by the employer during the fiscal year three years earlier and either the average past service cost rate of all employers in the system during the fiscal year three years earlier, or the employer's past service cost rate during the fiscal year three years earlier, less 5%, whichever is lower.

(c) The payment provided in (b) of this paragraph shall be increased by 50% of the amount an employer paid to the system during the fiscal year three years earlier that was in excess of what the employer was required to pay to the system.

(d) The Public Employees' Retirement System Past Service Retirement Liability Account is established. Funds to carry out the provisions of this section shall be included within the appropriation bill submitted by the governor under AS 37.07.020(a) (2) and may be appropriated annually by the legislature. If amounts in the account are insufficient for the purpose of providing the share to which an employer is entitled under this section, those funds that are available shall be distributed pro rata among the eligible employers.

(e) Funds in the Public Employees' Retirement System Past Service Retirement Liability account which exceed the amount required for the payments authorized in this section revert to the general fund at the end of the fiscal year for which the money is appropriated.

(f) If an employer receives more state aid than it is entitled to receive under this chapter, the employer shall immediately remit the amount of overpayment to the commissioner, to be returned to the Public Employees' Retirement System Past Service Retirement Liability account.

(g) If an employer receives state aid under this chapter in excess of the employer's past service liability, the employer shall immediately remit the amount of overpayment to

the commissioner, to be returned to the Public Employees' Retirement System Past Service Retirement Liability account.

Sec. _____. Definitions. In this chapter, unless the context requires otherwise,

- (1) "total eligible payroll" means the payroll reported to the department on which employer contributions are required.
- (2) "average past service cost rate" means the past service cost rate of all employers as reported by the actuary for the fiscal year three years earlier.
- (3) "commissioner" means the commissioner of the department of revenue.

Sec. _____. Effective Date. Effective for 2008 budget cycle.

APPENDIX 2

[Priority 1]

**The Teachers' Retirement System
Past Service Retirement Liability Account**

Sec ____ . AS _____ is amended by adding a new section to read:

AS _____ **State aid for past service retirement benefit liability costs.** (a) During each fiscal year, the state shall allocate to an employer, other than the state, that is a member of the Teachers' Retirement System the following sum:

(1) Payments to the retirement system anticipated to be made by the employer during the fiscal year for the retirement of past service liability of the employer to the Teachers' Retirement System.

(b) The commissioner of revenue shall administer the program of distribution authorized under this section and shall provide by regulation a procedure for calculating the amount of distribution to which an employer is due, and other regulations necessary to administer the program. The payment to the employer shall be based on 85% of the total eligible payroll reported to the department by the employer during the fiscal year three years earlier and the past service cost rate of the system during the fiscal year three years earlier of the teachers' retirement system.

(c) The Teachers' Retirement System Past Service Retirement Liability Account is established. Funds to carry out the provision of this section shall be included within the appropriation bill submitted by the governor under AS 37.07.020(a) (2) and may be appropriated annually by the legislature. If amounts in the account are insufficient for the purpose of providing the share to which an employer is entitled under this section, those funds that are available shall be distributed pro rata among the eligible employers.

(d) Funds in the Teachers' Retirement System Past Service Retirement Liability account which exceed the amount required for the payments authorized in this section revert to the general fund at the end of the fiscal year for which the money is appropriated,

(e) If an employer receives more state aid than it is entitled to receive under this chapter, the employer shall immediately remit the amount of overpayment to the commissioner, to be returned to the Teachers' Retirement System Past Service Retirement Liability account.

Sec. ____ . **Definitions.** In this chapter, unless the context requires otherwise,

- (1) "total eligible payroll" means the payroll reported to the department of administration on which employer contributions are required.
- (2) "average past service cost rate" means the past service cost rate of all employers that have a past service liability.
- (3) "commissioner" means the commissioner of the department of revenue.

Sec. ____ . **Effective Date.** Effective for 2008 budget.

APPENDIX 3

[Priority 2]

Appropriation for Increased Municipal Employer Costs

Sec. _____. Retirement system funding for increased employer costs for political subdivisions. (a) The sum of \$18,581,921 is appropriated from the general fund to the Department of Administration to reduce the liability to the public employees' retirement system of political subdivisions that are members of that system, in order to reduce the increased employer costs resulting from fiscal year 2007 employer contribution rate increases. The Department of Administration shall allocate the appropriation to the public employees' retirement system account of each political subdivision resulting from fiscal year 2007 employer contribution rate increases, as set out in this section. The appropriation made by this subsection is intended to reduce these increased employer costs.

For purposes of allocating the appropriation made by (a) of this section to the public employees' retirement system account of each member political subdivision, the allocation is as follows:

AKUTAN, CITY OF	16,941
ALEUTIANS EAST BOROUGH	33,915
ALLAKAKET, CITY OF	3,056
ANCHORAGE, MUNICIPALITY OF	6,913,262
ANDERSON, CITY OF	2,149
ATKA, CITY OF	4,628
BARROW, CITY OF	47,355
BETHEL, CITY OF	282,716
BRISTOL BAY BOROUGH	81,472
CORDOVA, CITY OF	112,553
CRAIG, CITY OF	74,603
DELTA JUNCTION, CITY OF	13,507
DENALI BOROUGH	7,889
DILLINGHAM, CITY OF	110,426
EGEGIK, CITY OF	2,830
FAIRBANKS NORTH STAR BOROUGH	929,023
FAIRBANKS, CITY OF	333,653
FORT YUKON, CITY OF	24,209
GALENA, CITY OF	95,984
HAINES BOROUGH	85,814
HOMER, CITY OF	248,456
HOONAH, CITY OF	35,299
HOOPER BAY, CITY OF	1,576
HUSLIA, CITY OF	5,215
JUNEAU, CITY AND BOROUGH OF	1,397,093
KACHEMAK, CITY OF	1,193
KALTAG, CITY OF	870
KENAI PENINSULA BOROUGH	702,515

KENAI, CITY OF	235,223
KETCHIKAN GATEWAY BOROUGH	214,696
KETCHIKAN, CITY OF	400,460
KING COVE, CITY OF	50,001
KLAWOCK, CITY OF	31,917
KODIAK ISLAND BOROUGH	118,047
KODIAK, CITY OF	314,368
KOTZEBUE, CITY OF	169,920
KOYUK, CITY OF	1,664
LAKE AND PENINSULA BOROUGH	19,656
MATANUSKA-SUSITNA BOROUGH	583,491
MEKORYUK, CITY OF	611
MOUNTAIN VILLAGE, CITY OF	1,786
NENANA, CITY OF	12,244
NOME, CITY OF	123,946
NOORVIK, CITY OF	12,352
NORTH POLE, CITY OF	80,525
NORTH SLOPE BOROUGH	2,006,956
NORTHWEST ARCTIC BOROUGH	44,779
PALMER, CITY OF	154,333
PELICAN, CITY OF	7,657
PETERSBURG, CITY OF	206,671
QUINHAGAK, CITY OF	1,920
SAINT PAUL, CITY OF	74,829
SAND POINT, CITY OF	38,396
SAXMAN, CITY OF	5,637
SELDOVIA, CITY OF	2,405
SEWARD, CITY OF	186,026
SITKA, CITY AND BOROUGH OF	439,010
SKAGWAY, CITY OF	89,301
SOLDOTNA, CITY OF	136,756
TANANA, CITY OF	7,302
THORNE BAY, CITY OF	10,435
TOKSOOK BAY, CITY OF	583
UNALAKLEET, CITY OF	11,157
UNALASKA, CITY OF	520,772
VALDEZ, CITY OF	250,819
WASILLA, CITY OF	228,380
WHITTIER, CITY OF	49,904
WRANGELL, CITY OF	132,606
YAKUTAT, CITY AND BOROUGH OF	36,178

APPENDIX 4

[Priority 3]

**Legislative Appropriation to Fund Actuarially
Required Contribution - PERS**

Section _____ Retirement system funding to bring fiscal year 2007 contributions closer to actuarial rate. (a) The sum of \$109,836,677 is appropriated from the general fund to the Department of Administration to reduce the contribution shortfall to the public employees' retirement system resulting from an employers anticipated fiscal year 2007 contribution being less than the fiscal year 2007 rate calculated by the actuary. The Department of Administration shall allocate the appropriation to the public employees' retirement system account of each employer as follows:

ALASKA, STATE OF	66,452,622
ALEUTIANS WEST CRSA	978
ALLAKAKET, CITY OF	4,883
ANCHORAGE PARKING AUTHORITY	21,070
ANCHORAGE SD	3,388,980
ANCHORAGE, MUNICIPALITY OF	14,116,880
BRISTOL BAY BOROUGH	69,577
BRISTOL BAY BOROUGH SD	30,321
CHATHAM SD	42,576
CHUGACH SD	25,258
COPPER RIVER SD	49,787
CORDOVA CITY SD	104,731
CORDOVA COMMUNITY MEDICAL CENTER	37,587
CORDOVA, CITY OF	262,023
CRAIG CITY SD	16,897
CRAIG, CITY OF	28,200
DELTA/GREELY SD	36,430
DENALI BOROUGH	19,581
DENALI BOROUGH SD	67,666
DILLINGHAM CITY SD	17,944
DILLINGHAM, CITY OF	35,336
EGEGIK, CITY OF	11
FAIRBANKS NORTH STAR BOROUGH	243,404
FAIRBANKS NORTH STAR BOROUGH SD	1,274,328
FAIRBANKS, CITY OF	5,938,351
HAINES BOROUGH	67,621
HOMER, CITY OF	444,736
HOONAH CITY SD	3,007
HOONAH, CITY OF	6,636
HUSLIA, CITY OF	5,820
HYDABURG CITY SD	12,806
JUNEAU BOROUGH SD	310,143
JUNEAU, CITY AND BOROUGH OF	2,294,026

KACHEMAK, CITY OF	5,705
KALTAG, CITY OF	5,135
KENAI PENINSULA BOROUGH	827,562
KENAI PENINSULA BOROUGH SD	1,181,731
KENAI, CITY OF	524,077
KETCHIKAN GATEWAY BOROUGH	210,402
KETCHIKAN GATEWAY BOROUGH SD	125,090
KETCHIKAN, CITY OF	377,233
KING COVE, CITY OF	800
KODIAK ISLAND BOROUGH	420,248
KODIAK ISLAND BOROUGH SD	312,519
KODIAK, CITY OF	733,106
KUSPUK SD	52,049
LAKE AND PENINSULA BOROUGH	7,862
LAKE AND PENINSULA BOROUGH SD	50,153
LOWER YUKON SD	366,532
MATANUSKA-SUSITNA BOROUGH	378,102
MATANUSKA-SUSITNA BOROUGH SD	704,008
NOME, CITY OF	206,246
NORTH PACIFIC FISHERY MGMT COUNCIL	4,038
NORTH POLE, CITY OF	103,877
NORTH SLOPE BOROUGH SD	39,506
NORTHWEST ARCTIC BOROUGH SD	10,554
PALMER, CITY OF	172,544
PELICAN, CITY OF	567
PETERSBURG CITY SD	30,787
PETERSBURG, CITY OF	43,814
SAINT PAUL, CITY OF	5,537
SAND POINT, CITY OF	36,707
SAXMAN, CITY OF	7,982
SEWARD, CITY OF	205,373
SITKA BOROUGH SD	219,700
SITKA COMMUNITY HOSPITAL	69,453
SITKA, CITY AND BOROUGH OF	509,252
SKAGWAY CITY SD	12,046
SOLDOTNA, CITY OF	166,295
SOUTHEAST ISLAND SD	123,765
SOUTHEAST REGIONAL RESOURCE CENTER	29,559
SOUTHWEST REGION SD	31,368
UNALAKLEET, CITY OF	3,325

UNIVERSITY OF ALASKA	4,904,632
VALDEZ CITY SD	300,052
VALDEZ, CITY OF	563,340
WHITTIER, CITY OF	5,489
WRANGELL PUBLIC SD	54,982
WRANGELL, CITY OF	263,355

APPENDIX 5

[Priority 3]

**Legislative Appropriation to Fund Actuarially
Required Contribution - TRS**

Sec. _____ . Retirement system funding to bring fiscal year 2007 contributions closer to actuarial rate. (a) The sum of \$ 98,670,780 is appropriated from the general fund to the Department of Administration to reduce the contribution shortfall to the teachers' retirement system resulting from an employers anticipated fiscal year 2007 contribution being less than the fiscal year 2007 rate calculated by the actuary. The Department of Administration shall allocate the appropriation to the teachers' retirement system account of each employer as follows:

ALASKA DEPARTMENT OF EDUCATION	755,610
ALASKA GATEWAY SD	403,338
ALEUTIAN REGION SD	53,610
ALEUTIANS EAST BOROUGH SD	434,978
ANCHORAGE SD	31,080,150
ANNETTE ISLAND SD	257,550
BERING STRAIT SD	1,764,485
BRISTOL BAY BOROUGH SD	123,319
CHATHAM SD	169,010
CHUGACH SD	161,607
COPPER RIVER SD	404,773
CORDOVA CITY SD	313,449
CRAIG CITY SD	376,667
DELTA/GREELY SD	600,749
DENALI BOROUGH SD	353,802
DILLINGHAM CITY SD	438,146
FAIRBANKS NORTH STAR BOROUGH SD	9,664,455
GALENA CITY SD	704,214
HAINES BOROUGH SD	238,315
HOONAH CITY SD	168,485
HYDABURG CITY SD	117,656
IDITAROD AREA SD	273,013
JUNEAU BOROUGH SD	3,676,927
KAKE CITY SD	119,663
KASHUNAMIUT SD	279,614
KENAI PENINSULA BOROUGH SD	6,136,593
KETCHIKAN GATEWAY BOROUGH SD	1,653,943
KLAWOCK CITY SD	172,363
KODIAK ISLAND BOROUGH SD	2,203,895
KUSPUK SD	422,303
LAKE AND PENINSULA BOROUGH SD	649,593
LOWER KUSKOKWIM SD	3,759,830
LOWER YUKON SD	1,911,109
MATANUSKA-SUSITNA BOROUGH SD	10,161,431

NENANA CITY SD	244,134
NOME CITY SD	514,346
NORTH SLOPE BOROUGH SD	2,331,648
NORTHWEST ARCTIC BOROUGH SD	2,101,730
PELICAN CITY SD	20,744
PETERSBURG CITY SD	450,716
PRIBILOF SD	134,814
SAINT MARY'S SD	126,607
SITKA BOROUGH SD	1,174,120
SKAGWAY CITY SD	117,102
SOUTHEAST ISLAND SD	253,734
SOUTHEAST REGIONAL RESOURCE CENTER	134,813
SOUTHWEST REGION SD	854,893
SPECIAL EDUCATION SERVICE AGENCY	154,318
TANANA SD	51,103
UNALASKA CITY SD	440,981
UNIVERSITY OF ALASKA	6,934,933
VALDEZ CITY SD	704,644
WRANGELL PUBLIC SD	284,908
YAKUTAT SD	123,263
YUKON / KOYUKUK SD	726,339
YUKON FLATS SD	328,945
YUPIIT SD	457,301

SCOMM

142:14

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: January 10, 2005

FURTHER REFERRALS: Finance

Date of Committee Action: March 18, 2005

The HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS considered:

HB 52

HOUSE BILL NO. 52

LONG-RANGE FISCAL PLAN

"An Act relating to adoption and revision of a comprehensive long-range fiscal plan for the State of Alaska."

Recommends it be replaced with ☐ HCS or ☒ CS for HB 52 (W.E.M.)
For Senate Bills with new title: ☐ Technical Title ☐ New Title: HCR _____ ☒ Same Title ☐ New Title

☐ attach amendments
☐ add new referral to _____Committee
☐ Letter of Intent_____Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
<i>Paul Releaton</i>	<i>Paul Releaton</i>	ROKSBAG		X		
<i>Carl E. Moses</i>	<i>Carl E. Moses</i>	SEATON				✓
<i>Max Greenberg</i>	<i>Max Greenberg</i>	MOSES	X			
		Greenberg	✓			
Chair: <i>BW Jhran</i>		Weyhoush				X
Chair:						

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 52

() Publish Date:

Revision Date/Time (Note if correction):

Title Long Range Fiscal Plan

Dept. Affected:

Revenue 04

RDU

Component Tax Division

Sponsor Rep Gruenberg

Requester House Ways and Means

Component No.

2476

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

House Bill 52 requires the Legislature to adopt a long-range fiscal plan subject to annual revision, which looks out a minimum of four years, and which considers the availability of revenues and the socio-economic effects of spending changes and revenue measures. This fiscal note assumes that the planning and economic analysis for the long range fiscal plan referred to in the bill will be done by the staff of the Legislative Affairs Agency and Legislative Finance. The Department of Revenue will continue to do short and long-term revenue forecasting and formally report revenue forecasts twice each year. House Bill 52 does not on its face create any new responsibilities or duties for the Department of Revenue.

Prepared by: Jerry Burnett

Division Special Assistant to the Commissioner

Approved by: Tomas Boutin

Agency Deputy Commissioner, Revenue

Phone 465-2302

Date/Time 2/23/05 11:58 AM

Date 2/23/2005

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK 99801-1182

Representative Max Gruenberg

Representative John Harris

SPONSOR STATEMENT

HB 52

Adoption of a State Fiscal Plan

House Bill 52 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) the 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.

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK 99801-1182

Representative Max Gruenberg

Representative John Harris

SECTIONAL ANALYSIS

HB 52

Adoption of a State Fiscal Plan

Section 1. Sets forth legislative findings that (1) the legislature and the governor are responsible for fulfilling constitutionally required state mandates and other responsibilities; (2) in order to carry out these responsibilities, the legislature must budget a reasonable level of expenditures to finance the operation of state government; (3) there is a significant disparity between the revenue sources currently being used and expenditures necessary to maintain a reasonable level of state services; (4) for several years the legislature has addressed the disparity between state revenue and expenditures by drawing against the budget reserve fund; (5) the budget reserve fund is rapidly declining to a level that requires a sound fiscal plan to address both current budgetary needs as well as future state revenues and expenditures; (6) there is no simple solution to the state's current fiscal dilemma; a combination of fiscal measures will be required to achieve a fair fiscal plan; (7) a comprehensive long-range fiscal plan will encourage the discipline to ensure a balanced budget; (8) the implementation of a comprehensive long-range fiscal plan will help stabilize the state's economy and level out its historical pattern of boom and bust cycles.

Section 2. This bill section adds a new section to the executive budget act that requires the legislature to adopt and annually revise a long-term fiscal plan for balancing state revenues and expenditures for the succeeding five fiscal years. The fiscal plan must include: (1) the means to foster a stable economy that encourages economic growth; (2) procedures to improve governmental efficiency; (3) policies that protect the permanent fund, while using the earnings to maintain a strong dividend program and the legislative flexibility to determine the use of the remaining earnings; (4) the means to raise revenues, while maintaining a stable tax environment; and (5) provisions to maintain the integrity of the budget reserve fund.

COMMITTEE:
House Special Committee on
Ways & Means
DATE: February 18, 2005

SUBJECT: HB 52-LONG-RANGE FISCAL
PLAN



PLEASE SIGN IN

PLEASE PRINT:
NAME & TITLE

ADDRESS

PHONE

REPRESENTING

(No acronyms unless for a state agency,
please)

DO YOU
WANT TO
TESTIFY ?

Kevin Ritchie	217 2nd St	5861325		yes
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				
E-mail address:				

Headquarters:
217 2nd Street, Suite 201
Juneau, Alaska 99801
(907) 586-2323 FAX 463-5515
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Anchorage, Alaska 99501
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February 18, 2005

Representative Bruce Weyhrauch
Chair, House Ways and Means Committee
State Capitol, Room 421
Juneau, AK 99801-1182

The Honorable Chair and Members of the Committee,

The State Chamber of Commerce would like to thank Rep. Max Gruenberg for introducing House Bill 52. House Bill 52 is a step towards a long-term fiscal plan and may incite future legislatures to work at leveling the state's budgetary roller coaster. The State Chamber supports HB 52, and the Chamber hopes the legislature seriously looks at adopting a fiscal plan in the future. Any fiscal plan should incorporate key measures that offset Alaska's declining oil production. However, without the important components that are part of any fiscal future, HB 52 ultimately falls short by merely directing the legislature towards a plan.

The State Chamber supports a plan that would include necessary measures to control state bureaucracy growth, preferably through austerity and other means. Although the State Chamber recognizes that to fully fund core functions of state government, alternative revenue measures may be necessary and should be implemented. The state chamber does not support targeted taxes, pitting one industry against other forms of revenue. Any long-term fiscal plan should be a combination of all available options, whereas the affects of new revenues would have minimal impacts on those providing the new revenues.

In conclusion, the state chamber lauds the efforts carried forth in HB 52 and urges the legislature to pass the bill; however, the chamber also feels that HB 52 falls short at achieving a sustainable state budgetary picture. For your reference, I have attached the position statement regarding our support for the development and implementation of a long term fiscal plan.

Your careful attention and thoughtful consideration of this matter is genuinely appreciated.

Yours in economic prosperity,


Wayne A. Stevens
President/CEO

**Alaska State Chamber of Commerce
2005 Priority
Fiscal Plan**

The Alaska State Chamber of Commerce urges the Legislature to adopt a comprehensive fiscal policy. It is the position of the State Chamber to encourage the legislature and the administration to focus spending decisions relative to the surplus based on the following:

- Treat this budget cycle as if there is still a fiscal crisis; and
- Exercise budget discipline and save more than spend.

As fiscal discussions continue, the Chamber supports a fiscal plan that incorporates the following principles:

- Reducing government size and spending;
- Rescinding unnecessary laws that add unnecessary costs and burdens;
- Appropriating a portion of the earnings of the Permanent Fund to support state services, and for investing in infrastructure necessary to generate economic activity;
- Using some of the Permanent Fund earnings for state government should not preclude the continuation of the Alaska Permanent Fund Dividend program;
- Establish in statute the percent-of-market (POMV) management tool for the Alaska Permanent Fund; and
- Forge a plan for implementation of a program to privatize state services that could be competitively provided by the private sector.

New Revenues:

As a last resort after fully addressing the above provisions, the State Chamber supports implementation of a broad-based, statewide tax. The State Chamber is concerned that new taxes would negatively impact the competitiveness of Alaskan business, especially if incrementally increased over time. Hence, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.



217 Second Street, Suite 200 • Juneau, Alaska 99801
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

To: Representative Max Gruenberg

From: Kevin Ritchie, Executive Director

Date: March 1, 2004

Re: Tying state "Mission and Measures" together with the long-range fiscal plan.

Other states integrate budget performance measures with the overall vision for the state and the long-range fiscal plan. **In essence, a state cannot logically have a long-range fiscal plan without knowing what it wants to accomplish for its citizens.**

In Oregon, the Oregon Progress Board and the "Oregon Benchmarks" program create a vision for Oregon. Every state program or service must explain how it helps achieve one or more of the elements of the vision. For example,

Each State program - Missions and Measures



Links to 1 or more elements of Oregon's Vision

The Alaska 2020 "State of the State Conference" was recently held in Anchorage. There was heavy participation by the Governor and Administration. The Alaska 2020 Board includes the Senate President and a member of the House. **I recommend that the Alaska 2020 Vision/goals be incorporated into bill HB 493 as part or all of AS 37.07.012 (b) that describes the goals of the long-range fiscal plan.** In the future, each of the State's Missions and Measures would necessarily link to achieving one or more of the overall goals.

Alaska 2020 Vision/Goals for Alaska (see www.ak2020.org.)

ECONOMY

Workers will have access to quality jobs at livable wages
Businesses will be encouraged to innovate and grow
Economic growth will be sustainable
Alaskans will have access to subsistence resources

EDUCATION

Children will enter school ready to learn
Students will graduate prepared for postsecondary opportunities
Postsecondary institutions will enable personal growth & professional development

COMMUNITIES

Communities will be safe.
Communities will be healthy
Communities will be livable

ENVIRONMENT

Biological diversity and wilderness areas will be preserved
High air, land and water quality will be maintained
Energy and natural resource conservation will be encouraged

GOVERNMENT

Government will be effective in meeting the needs of Alaskans
Government will efficiently deliver services
Government will be sustainable



OFFICE OF THE CITY CLERK

CITY OF WASILLA
290 E. HERNING AVE.
WASILLA, AK 99654-7091
PHONE: (907) 373-9090
FAX: (907) 373-9092

January 20, 2005

Dear State Legislator:

On December 13, 2004, the Wasilla City Council unanimously adopted the enclosed Resolution, sponsored by Wasilla City Council Member Ron Cox, urging the Alaska State Legislature to adopt a long range fiscal plan.

I invite you to contact me with any questions. I have also provided a contact list for members of our City Council.

Sincerely,
CITY OF WASILLA

KRISTIE L. SMITHERS, MMC
City Clerk

enclosure:

Resolution Serial No. 04-49; Contact List for Council Members

THE ALLIANCE

ALASKA SUPPORT INDUSTRY ALLIANCE

PRIORITY:

1

A STABLE BUSINESS CLIMATE

A stable business climate is driven by a predictable state fiscal system. It is essential that Alaska provide a stable and attractive fiscal framework that encourages continued oil investments and a healthy oil business.

It is in the best interest of the State that the legislature and administration adopt a long-term fiscal plan that deals with the issue of declining petroleum production, appropriate levels of broad based taxation, use of the permanent fund, and incentives to encourage new economic growth.

PRIORITY:

2

COMMERCIALIZATION OF ALASKA NORTH SLOPE GAS

The Alliance supports the development of a natural gas pipeline project that will provide an efficient, cost-effective means to commercialize Alaska's vast North Slope natural gas resources. We encourage the Administration to work in the best interests of the state by providing a competitive environment, treating all applicants equally.

We encourage the Legislature to act expeditiously in their approval of the Stranded Gas Development Act without the burden of additional terms and conditions that may cause delay or prevent a potentially successful project from moving ahead.

PRIORITY: OUR MEMBERS

- 3M Alaska
A.T. Publishing & Printing Inc.
Access Information Associates Inc.
AeroMap U.S.
AeroMed International
AES Electric Supply Inc.
Air Liquide America Corporation
Air Logistics of Alaska Inc.
AK Supply Inc. (Lubchem of Alaska)
Alaska Air Forwarding
Alaska AirGas
Alaska Airlines
Alaska Anvil Inc.
Alaska Association of Professional Landmen
Alaska Business Monthly
Alaska Clean Seas
Alaska Forest Association
Alaska Hovercraft Ventures
Alaska Hydraulics
Alaska Industrial Hardware Inc.
Alaska Instrument Company
Alaska Interstate Construction
Alaska Journal of Commerce
Alaska Miners Association Inc.
Alaska National Insurance Company
Alaska Pacific University
Alaska Process Industry Careers Consortium
Alaska Pump & Supply Inc.
Alaska Railroad Corporation
Alaska Sales & Service Inc.
Alaska Society of Professional Engineers
Alaska Society of Professional Land Surveyors
Alaska State Chamber of Commerce
Alaska Steel Company
Alaska Supply Chain Integrators
Alaska Telecom Inc.
Alaska Tent & Tarp
Alaska Textiles
Alaska Trucking Association
Alaska Valve & Fitting Company
Alaska West Express Inc.
Alaskan Energy Resources Inc.
AMC Engineers
American Marine Corporation
American Petroleum Institute
Anchorage Chamber of Commerce
Anchorage Marriott Downtown
Apen Hotels
Arctic Caribou Inn
Arctic Controls Inc.
Arctic Foundations
Arctic Power
Arctic Slope Regional Corp.
Arctic Slope Telephone Association Co-Op
Arctic Structures LLC
Arctic Wire Rope & Supply Inc.
Artem Ehm
Army Navy Store
ASRC Energy Services
Assets Inc.
Associated General Contractors of Alaska
AT&S Inc.
Atgun Incorporated
Atkinson Conway & Gagnon
Automated Laundry Systems & Supply Corp.
Baker Hughes INTEQ
Baker Oil Tools
Beacon Occupational Health & Safety Services
BJ Services Company U.S.A.
Becker, Chuck
Blue Cross Blue Shield of Alaska (Premier)
Boertz, Marielle
Bradley Reid & Partners
Breaux Leadership Solutions
Brice Incorporated
Bristol Environmental & Engineering Service Corp.
Britch, Robert
Britt, Bill
Brooks Range Supply Inc.
Cal Worthington Ford of Alaska
Callista Corporation
Capital Office Systems
Caribou Construction Inc.
Carlisle Transportation Systems
Carmichael, Robert
Case Thomas
Cason Rodney
CCI Inc.
CH2M Hill Inc.
Champion Technologies Inc.
Charter College
Chugach Alaska Corporation
Commonwealth North
CONAM Construction Company
Construction Machinery Industrial
Consulate of Canada
Cook, Jeff
Cook Inlet Pipe Line Company
Cook Inlet Spill Prevention & Response Inc.
Crowley Alaska Inc.
Cruz Construction Inc.
Cummins Northwest Inc.
CVS
David Green & Sons Inc.
Denali Alaska Insurance LLC
Denali Alaska Investment Services
Denali Alaskan Federal Credit Union
Denali Alaskan Mortgage Company
Denali Group Companies - Pacific Movers
DHL/Danzas Air & Ocean
Dowland-Bach Corporation
Doyon Drilling Inc.
Doyon Limited
Doyon Universal Services
du Alaska
Ecology and Environment Inc.
Engineered Equipment Company of Alaska
ENSR International
ENSTAR Natural Gas Company
ENTRIX Inc.
Environmental Management Inc.
Equipment Source Inc.
ESS Support Services Worldwide
Evans, Robert
Evergreen Helicopters of Alaska Inc.
F. Robert Bell & Associates Inc.
Fairbanks Economic Development Corporation
Fairweather E & P Services
Far North Supply
Fasteners & Fire Equipment Co.
First National Bank Alaska
Florcraft Inc.
Flowline Alaska Inc.
FMC Energy Systems
FNW/Alaska Pipe & Supply
Focus on Alaska
Food Services of America
Frontier Plumbing Supply Inc.
GCI
GeoNorth LC
GLM Corporation
Golder Associates Inc.
Graybar Electric Company
Great Northwest Inc.
Greater Fairbanks Chamber of Commerce
Greater Soldotna Chamber of Commerce
Greater Wasilla Chamber of Commerce
Green Curtis G. CLU
Green Star Inc.
H.C. Price Co.
Haines Dale
Halliburton Energy Services
Harbor Ent./Petro Marine Services/AK Oil Sales
Hartig Rhodes Hoge & Lekisch P.C.
Hawk Construction Consultants Inc.
Hayden Electric Motors Inc.
Hector's Welding Inc.
Heiler Ehrman White & McAuliffe
Hilton Anchorage Hotel
Hoefler Consulting Group
Holaday Parks Inc.
Holland America Tours
Horizon Lines of Alaska LLC
Humphrey, Lowell
Inlet Drilling Alaska Inc.
Inlet Petroleum Company
Integrated Systems Group Inc.
Int'l Union of Operating Engineers
Local 302
Jackovich Industrial & Construction Supply
Jade North LLC
Jadon Inc. dba Chilkoot Charlie's
Jaeger, Clare
Jesse Engineering
Judy Patrick Photography
Juneau Chamber of Commerce
Junior Achievement of Alaska
K & K Recycling Inc.
Kakivik Asset Management LLC
Kenai Chamber of Commerce
Kenai Chrysler Center Inc.
Kenai Peninsula Economic Development District
Kenworth Alaska
KeyBank N.A.
Klondike Advertising Inc.
Knik Construction
Koniag Inc.
KPMG LLP
Kuukpik Arctic Catering
Lane Powell Spears Lubersky LLP
Lappi David W.
LCMF LLC
Little Red Services Inc.
Lounsbury & Associates Inc.
Lynden Inc.
Lynden Transport Inc.
Machinery Technical Support
MACTEC Engineering and Consulting
Make It Alaskan Inc.
Mapmakers Alaska
Marketing Solutions
Marsh USA
McDowell Group Inc.
McLane Consulting
M-I SWACO
Mining & Petroleum Training Service/UAA
Mohammadi, Richard
Montana Creek Campground
Montgomery Watson (MWH)
Motorcycle Times Inc.
MRO Sales Inc.
Nabors Alaska Drilling Inc.
Nalco Energy Services
NANA Development Corporation
NANA Management Services
NANA Oilfield Services Inc.
NANA/Colt Engineering LLC
National Ocean Industries Association
NEI Fluid Technology
Nexus Northwest LLC
Nine Star Enterprises Inc.
NMS Employee Leasing
Nordic-Calista Services #1
Norgasco Inc.
North Coast Electric Company
North Peninsula Chamber of Commerce
North Star Terminal & Stevedore Company LLC
Northern Air Cargo Inc.
Northrim Bank
Northwest Strategies
Northwest Technical Services
O'Connell, Dan
Obermeyer, Ph.D. Theresa Nangle
Offshore Divers
Offshore Systems-Kenai
Olga, Carson
Pacific Alaska Forwarders Inc.
Pacific Legal Foundation
Pacific Power Products
Pacific Rim Leadership Development
Pacific Rim Logistics Inc.
Pacific Star Energy
Panalpina Inc.
Parish, David
Parker, Kyle W.
Parker Smith & Feek Inc
Parrish, David
Patton Boggs LLP
PCE Pacific
PDC Inc. Consulting Engineers
Peak Oilfield Service Company
Peninsula Sanitation Company
Perkins Cole LLP
Petro Star Inc.
Petroleum Club of Anchorage
Petroleum Equipment & Services
Petroleum News
Petrotechnical Resources of Alaska
PGS Onshore Inc.
PND Incorporated
Poe, Terzah Tipping
Polar Supply Company Inc.
Popp, Bill
Port of Tacoma
Potelcom Supply
Precision Power
ProComm Alaska
Production Testing Services Inc.
Prudhoe Bay Hotel/Ice Services
Prudhoe Bay Shops & Storage
PSC (Philip Services Corporation)
PSI Environmental & Instrumentation
Puget Sound Pipe & Supply Co.
Purcell Security / NANA Development
Quadco Inc.
Quadra Chemicals Western Inc.
R & K Industrial Inc.
RBMS LLC
Redi Electric Inc.
Resource Development Council for Alaska Inc.
REVL Communications
Ribelin Lowell Alaska USA
RIM Architects
Rise Alaska LLC
SAIC-Alaska Energy Office
Schlotfeldt, Denny
Schlumberger Oilfield Services
Sea Bright Insurance Company
Security Aviation Inc.
Shaw Environmental Inc.
Sheraton Anchorage Hotel
SKW/Eskimos Inc.
Society of Petroleum Engineers - Alaska Section
Software North LLC
Sourdough Express Inc.
STEELFAB
Stusser Electric Company
Suburban Propane
Sunshine Custom Promotions
Superior Electric Motor Service
Superior Machine & Welding Inc.
Swalling Construction Company
Taiga Ventures
Tankco Alaska Inc.
Terra Firma Inc.
Terra Surveys LLC
Testing Institute of Alaska Inc.
The Boeing Company
The Palmer Group
The Wilson Agency LLC
TIW Corporation
Toloff Crane Services
Totem Ocean Trailer Express Inc.
Trabits, George
Udelhoven Oilfield Systems Service Inc.
Unitech of Alaska Inc.
United Association (UA) Local 375
United Freight & Transport Inc.
UNIVAR
Usibelli Coal Mine Inc.
VECO Corporation
Wachovia Securities
Walker, R. Angus
Walsh Sheppard Flynn
Weaver Brothers Inc.
Weeks, James
Wells Fargo Bank Alaska
Weona Corporation
WESCO Distribution Inc.
Wilder Construction Company
Wood Group Gas Turbines (Alaska) Inc.
WorkSafe Inc.
WSI Total Safety Inc.

Associated General Contractors of Alaska Legislative Priorities 2005

Long Term Fiscal Plan

It is in the best interests of the State that the legislature and administration adopt a long-term fiscal plan that deals with the issue of declining petroleum production, appropriate levels of taxation, utilization of the permanent fund, and incentives to encourage new economic growth. In addition the serious problems that currently exist in the State retirement programs demands a long term solution.

The long-term fiscal plan should also include an approach to the maintenance and enhancement of the capital assets of the state. Frequently capital budgets trumpet the addition of new facilities but fail to address the necessary maintenance and upkeep of existing facilities. Good stewardship requires that appropriate maintenance of existing facilities be incorporated within the operating budget while the expansion or enhancement of facilities can be accomplished in a capital budget.

The capital budget should also deal with the issue of utilizing the bonding capabilities of the state to address existing capital deficiencies. Repayment of general bonds however competes annually with operating funds so the quantity of bonded projects should not exceed the State's ability to fund the required annual payments. Undoubtedly a level exists at which the bonded debt optimizes the growth of the State without penalizing future operations or opportunities. The goal should be to use bonded debt up to that level but care should be exercised not to exceed the threshold.

State of Alaska Transportation System

During the November, 2002 election, voters approved general obligation bonds to fund a major road building for the State. This was possibly the first time that Alaskans have taken the initiative to develop a road program separate from the federal highway system. Currently Alaska is the only state that does not have a state-designed and funded highway program. Only Delaware, Hawaii, and Rhode Island have fewer road miles than Alaska. Alaska has a majority of the nations coastline but has no program to develop and maintain the State's docks and harbors. Alaska has world-class mineral deposits but no transportation corridors for access.

To realize its potential, Alaska needs a transportation system that considers all modes of transportation. As part of the mix to finance the construction of the system, the State should consider a combination of taxes and revenue bonds. The logical tax to support this development would be the gasoline tax. Alaska has the second lowest gasoline tax in the nation and at eight cents per gallon is sixty percent below the national average. An increase in the gasoline tax to pay for the increased transportation infrastructure and maintenance needs of the State would allow the citizens of the State to help contribute to the development of the State's resources. In addition, a tax based on resource development would help underwrite the costs of infrastructure

development that would allow the development of ports and harbors as well as roads and airports.

Further, the current transportation infrastructure of Alaska is inadequate and requires continued planning, upgrades, and expenditures to assure the citizens of Alaska are provided with essential services. There is little doubt that the economic benefit derived from the investment in Alaska's transportation infrastructure far exceeds the matching funds required to secure the federal matching funds. Accordingly the State is encouraged to continue providing full funding of the federal highway matching funds.

Privatization of work done by State

Each year, state workers undertake considerable work that could more efficiently be performed by the private sector. The governmental employees involved in these activities should be transferred to more traditional governmental roles and the work should be performed by the private sector.

From projects such as the reconstruction airport roads to major maintenance work on transportation projects, the State of Alaska is employing State workers to perform work normally undertaken by the private sector. The justification that the State can perform the work more cost effectively ignores cost accounting realities. Perhaps the most condemning aspect of this endeavor is that legitimate work is withdrawn from a myriad of small Alaskan businesses that depend on it. Without such work, the viability of these firms is threatened.

Funding for vocational/technical education

A majority of Alaska's high school graduates do not go to college yet the State's high school curriculum is oriented to college preparation. The State should adopt a more balanced funding approach to better prepare those students not pursuing post-secondary education for the world of work.

Currently the State of Alaska has one and one half positions in the Department of Education and Early Development devoted to the students not pursuing a post-secondary education. As a consequence, these students are ill prepared for the world of work, have little idea of the opportunities available to them, and are not prepared to contribute to the economic growth of Alaska. The educational system of the State of Alaska is failing these students, their future employers, and constraining the growth of the State by not focusing on the needs of this valuable group of Alaskans.

Workers Compensation

Workers compensation was conceived as a process to guarantee workers indemnity and medical payments for work place injuries. As part of that guarantee, workers compensation is the sole remedy for such injuries. From time to time the system gets out of balance causing costs to escalate, delays in benefits to injured workers, and a general level of frustration to all participants. The Alaska system is currently at that level of frustration and AGC supports the work of the Management/Labor Ad Hoc Committee to address the issues.

Headquarters:
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www.alaskachamber.com



Regional Office:
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Anchorage, Alaska 99501
(907) 278-2722 FAX 278-6643

February 18, 2005

Representative Max Gruenberg
State Capitol, Room 112
Juneau, AK 99801-1182

Dear Representative Gruenberg,

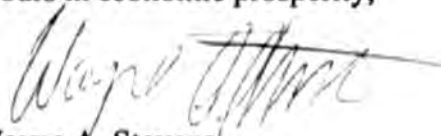
The Alaska State Chamber of Commerce wishes to say thank you for your efforts to begin a serious discussion on the development and adoption of a long term fiscal plan for Alaska. Your willingness to for introduce House Bill 52 brings us a step closer towards a long-term fiscal plan and may incite future legislatures to work at leveling the state's budgetary roller coaster. The State Chamber supports HB 52 and the Chamber hopes the legislature seriously looks at adopting a fiscal plan in the future. Any fiscal plan should incorporate key measures that offset Alaska's declining oil production. However, without the important components that are part of any fiscal future, HB 52 ultimately falls short by merely directing the legislature towards a plan.

The State Chamber supports a plan that would include necessary measures to control state bureaucracy growth, preferably through austerity and other means. Although the State Chamber recognizes that to fully fund core functions of state government, alternative revenue measures may be necessary and should be implemented. The state chamber does not support targeted taxes, pitting one industry against other forms of revenue. Any long-term fiscal plan should be a combination of all available options, whereas the affects of new revenues would have minimal impacts on those likely to provide new revenues.

In conclusion, the state chamber lauds the efforts carried forth in HB 52 and urges the legislature to pass the bill; however, the chamber also feels that HB 52 falls short at achieving a sustainable state budgetary picture. For your reference, I have attached the position statement regarding our support for the development and implementation of a long term fiscal plan.

Your careful attention and thoughtful consideration of this matter is genuinely appreciated.

Yours in economic prosperity,



Wayne A. Stevens
President/CEO

**Alaska State Chamber of Commerce
2005 Priority
Fiscal Plan**

The Alaska State Chamber of Commerce urges the Legislature to adopt a comprehensive fiscal policy. It is the position of the State Chamber to encourage the legislature and the administration to focus spending decisions relative to the surplus based on the following:

- Treat this budget cycle as if there is still a fiscal crisis; and
- Exercise budget discipline and save more than spend.

As fiscal discussions continue, the Chamber supports a fiscal plan that incorporates the following principles:

- Reducing government size and spending;
- Rescinding unnecessary laws that add unnecessary costs and burdens;
- Appropriating a portion of the earnings of the Permanent Fund to support state services, and for investing in infrastructure necessary to generate economic activity;
- Using some of the Permanent Fund earnings for state government should not preclude the continuation of the Alaska Permanent Fund Dividend program;
- Establish in statute the percent-of-market (POMV) management tool for the Alaska Permanent Fund; and
- Forge a plan for implementation of a program to privatize state services that could be competitively provided by the private sector.

New Revenues:

As a last resort after fully addressing the above provisions, the State Chamber supports implementation of a broad-based, statewide tax. The State Chamber is concerned that new taxes would negatively impact the competitiveness of Alaskan business, especially if incrementally increased over time. Hence, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.

Requested by: Council Member Ron Cox
Adopted: December 13, 2004
Vote: Unanimous; Sande absent

**CITY OF WASILLA
RESOLUTION SERIAL NO. 04-49**

**A RESOLUTION OF THE WASILLA CITY COUNCIL URGING THE ALASKA STATE
LEGISLATURE TO ADOPT A LONG-RANGE FISCAL PLAN.**

WHEREAS, the State of Alaska has no long-range fiscal plan to balance revenues and expenditures; and

WHEREAS, State revenues over the past quarter century have relied on petroleum extraction revenues for over 80 percent of its total annual operating revenues; and

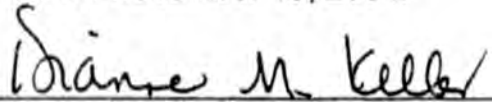
WHEREAS, diversified economic development requires a stable and predictable State-wide and local fiscal environment; and

WHEREAS, the continual decrease in overall State revenue sharing, including matching grants and educational funding, have led to severe stress on local municipal budgets resulting in decreased service delivery throughout the State; and

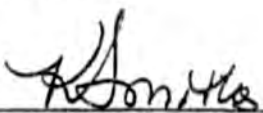
WHEREAS, the current price of oil has resulted in a temporary increase in State revenues which provides an additional short period of time for the Legislature to develop a long-term fiscal plan for the State.

NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council, urges the Alaska State Legislature to develop and adopt a Long-Range Fiscal Plan during its 2005 Legislative Session.

ADOPTED by the Wasilla City Council on December 13, 2004.


DIANNE M. KELLER, Mayor

ATTEST:


KRISTIE SMITHERS, MMC
City Clerk

[SEAL]

City of Wasilla - City Council Members
290 E Herning Ave. Wasilla, AK 99654
Phone: 373-9090 / Fax: 373-9092

<i>Seat Designation</i>	<i>Name/Mailing Address</i>	<i>Residence Phone</i>	<i>Term of Office</i>
A	Howard O'Neil, Deputy Mayor P.O. Box 871771 Wasilla, AK 99687	373-2808	10/00 10/06
B	Diana L. Straub 1452 Bertha Lane Wasilla, AK 99654	373-7230	10/02 10/06
C	Noel Lowe 2001 Bay View Drive Wasilla, AK 99654	357-0445	10/99 10/05
D	Rob Sande HC30-5553-P Wasilla, AK 99654	376-8976	10/02 10/05
E	Ron Cox P.O. Box 871963 Wasilla, AK 99687	373-5401	10/01 10/07
F	Mark Ewing P.O. Box 298305 Wasilla, AK 99629	373-2217	10/04 10/07
Mayor	Dianne M. Keller 290 E. Herning Ave. Wasilla, AK 99654	373-7158	10/02 10/05



ALASKA MINERS ASSOCIATION, INC.

3305 Arctic Blvd., #105, Anchorage, Alaska 99503 • (907) 563-9229 • FAX: (907) 563-9225 • www.alaskaminers.org

January 17, 2005

Honorable Max Gruenberg
House of Representatives
State Capitol
Juneau, AK 99801-1182

Dear Representative Gruenberg, *Max*

Enclosed for your consideration is the Alaska Miners Association position paper titled **Issues of Concern to the Mining Industry for 2005**. This paper outlines our concerns and views on several of topics that will likely come before the First Session of the 24th Alaska State Legislature.

Many past actions by the Legislature and Administration have provided a positive business climate that is now encouraging mineral exploration and development in the state. There is worldwide competition for mineral development dollars and Alaska must continue its efforts if we are to attract the attention and investments of these companies.

Even though there has been much in the press regarding mining projects, most of these are still in the exploration and permitting stage. One, Pogo is now in construction and another, Kensington, is ready to start construction if it is not blocked by legal action from non-governmental organizations. These two projects, and many others now being explored and evaluated will provide high-quality, year-around, skilled jobs in many diverse areas of the state.

We appreciate the Legislature's support for the State agencies that permit and regulate mining. Mining and exploration require numerous permits and the agencies that process these permits, inspect the operations, etc. need continued funding at levels that will allow them to do their jobs. Without these agencies it would be impossible for the mining industry to operate.

Thank you for helping provide a climate where the minerals industry can create new jobs and economic opportunities for Alaska.

Sincerely,

Steven C. Borell, P.E.
Executive Director

enclosure



Issues of Concern to the Alaska Mining Industry for 2005

It is the position of the Alaska Miners Association that:

January 2005

FISCAL ISSUES

1. **State Fiscal Policy** - The Governor and Legislature adopt a long range fiscal plan and a biannual budget cycle. And provide effective funding for the minerals and permitting functions in the Department of Natural Resources, the Department of Community & Economic Development, and the Department of Environmental Conservation.
2. **Annual Airborne Geophysical Mapping Program** - The Legislature and the Governor continue the extremely effective program of State investment in airborne geophysical mapping along with baseline water quality mapping.
3. **Baseline Water Data** - The Legislature renew funding for collection of baseline water information, focusing on areas where resource development is anticipated.
4. **Mineral Education** - The Legislature continue to support mining engineering and geological engineering at UAF, and geology programs throughout UA at levels that will ensure continued accreditation, as well as the Delta Mine Training Center (DMTC) and the Mining and Petroleum Training Service (MAPTS).
5. **AMEREF (Alaska Mineral & Energy Resources Education Fund)** - The Legislature reinstate funding of the State's share of this program in the public schools.
7. **Land Transfers** - Prior to any state land transfers to boroughs, land disposals/sales, or leases not required for resource development, require a detailed mineral evaluation, to include airborne geophysical surveys, be completed to help ensure that mineralized lands or key access routes are not transferred.
8. **Outdated Federal Withdrawals** - The State pursue removal of old federal land withdrawals (where purpose for withdrawal has expired) which are blocking land transfers to the State, *such as PLO 5150, the outer pipeline corridor*. Encourage BLM to remove such PLOs and open the lands through its land planning process.
9. **Evaluation of State Land Selections** - The Administration review and complete a new ranking of state-selected lands for transfer by the Bureau of Land Management. Special emphasis must be given to high value resource lands and lands required for access rights-of-way.
10. **New Federal Withdrawals** - The Governor and Legislature oppose all new federal land withdrawals, roadless initiatives, marine restricted areas, Antiquities Act designations, BLM wilderness studies, etc. and fight vigorously against additional buffers or other restrictions to multiple use of federal lands in Alaska. The Alaska National Interest Lands Conservation Act (ANILCA) provides that "no more" federal land will be withdrawn for parks, preserves, monuments, wilderness designations, wild & scenic river designations, etc.

LAND MANAGEMENT ISSUES

6. **State Lands** - The Governor and the Legislature support no net loss of multiple use lands and require that additions to any state parks, refuges, critical habitat areas, marine restricted areas, or any other restricted-use areas, or transfer of state land to federal ownership, be made **only if** an equal acreage of other lands already having the same designation is released and the new area being designated is **first evaluated for mineral potential**.
11. **International Heritage & Biosphere Designations** - The Governor vigorously oppose establishment of international parks, biosphere reserves, and world heritage sites, such as the so-called Beringia (over the Seward Peninsula & Bering Sea), NPRA, or ANWR. International designations would - 1) surrender partial sovereignty to the United Nations, and 2) forever eliminate access across the affected lands and waters.

Headquarters:
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Anchorage, Alaska 99501
(907)278-2722 FAX (907)278-6643



January 21, 2005

Dear Alaska State Chamber Member:

Your copy of the Alaska State Chamber of Commerce 2005 Membership Directory is enclosed. Your listing in the directory is just one of the benefits of State Chamber membership. Please support your fellow members and share this directory with your business associates and friends.

The Alaska State Chamber of Commerce works hard to be on the forefront promoting commerce and business development while important issues are addressed in the legislature. Our priorities for this legislative session are:

- Implement a State Fiscal Plan,
- Build the Alaska Gas Pipeline,
- Open ANWR,
- Resolve the Worker's Compensation Crisis,
- Support a Superior Education System.

More details on our priorities are on the enclosed 2005 Legislative Priorities Flyer. Please join us in bringing these priorities directly to our legislators during our Legislative Forum in Juneau on February 23rd and 24th. For more information about the Legislative Forum and to register online go to www.alaskachamber.com.

Thank you for helping us to ensure that the voice of Alaska business is heard through your continued membership and by actively lobbying for positive and productive business legislation.

Sincerely,

Lisa K. Reinhart
Membership Director

Alaska Council of School Administrators

Resolution 04-9

COMPREHENSIVE FISCAL PLAN

WHEREAS, the Alaska Council of School Administrators (ACSA) includes the educational and financial leadership of public education in Alaska; and

WHEREAS, public education is a significant economic force throughout the State educating in excess of 134,000 students and employing more than 10,000 teachers, administrators and support personnel, and responsible for more than one billion dollars; and

WHEREAS, the economic vitality of the State impacts education's ability to conduct the business of operating Alaska's schools and school districts; and

WHEREAS, ACSA is eager to support a responsible and committed effort to address the fiscal challenges Alaska currently faces; and

WHEREAS, ACSA believes Alaska needs a comprehensive fiscal plan to address the priorities of the State in relation to the available resources and desired services; now

THEREFORE BE IT RESOLVED that ACSA supports a long-term approach including budget discipline, and use of Permanent Fund earnings, and a contribution from all people who live and/or work in Alaska; and

BE IT FURTHER RESOLVED that the Alaska Council of School Administrators supports using earnings of the Permanent Fund as one part of a sound and responsible solution to increasing revenue to meet services and obligations of the State of Alaska, and in determining essential state services as provided in the State Constitution.

Adopted by the Alaska Council of School Administrators (AASA, AAESP, AASSP and ALASBO) October and December 2004.



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Student Ex Officio

JEFFREY TRYENS
Executive Director

Oregon Progress Board At-A-Glance

The Oregon Progress Board is an independent state planning and oversight agency. Created by the Legislature in 1989, the Board is responsible for monitoring the state's 20-year strategic vision, *Oregon Shines*. The 12-member panel, chaired by the governor, is made up of citizen leaders and reflects the state's social, ethnic and political diversity. You can learn more about the Progress Board at www.oregon.gov/DAS/OPB.

The Progress Board focuses Oregon's institutions on outcomes that support the overall goals of *Oregon Shines*:

- Quality jobs for all Oregonians
- Safe, caring and engaged communities
- Healthy, sustainable surroundings

The Progress Board tracks these outcomes through 90 indicators known as the Oregon Benchmarks. The Benchmarks are a broad array of social, economic and environmental health indicators, including K-12 student achievement, per capita income, air quality, crime rates, employment, and infant health. Twenty-five "priority" benchmarks are considered deserving of special attention.

The Progress Board is a catalyst for change. It gathers and distributes data on the Benchmarks. It encourages state and local government agencies, businesses, and nonprofit and citizen groups to use the Benchmarks in their planning and reporting. And it assists its Oregon partners in developing their own benchmarks and creating programs that support meeting Benchmark targets. Both *Oregon Shines* and the Benchmarks were created with extensive citizen involvement.

Every other year since 1991, the Progress Board has issued an Oregon Benchmarks report, tracking Oregon's success in achieving the Benchmarks. In December 1996, the Progress Board issued a new *Oregon's Benchmark Performance Report*, followed in January 1997 by *Oregon Shines II*, a complete update of the original strategic plan.

The Progress Board meets every other month on the third Tuesday. For further information, please call 503-378-3201, or write Oregon Progress Board, 155 Cottage Street NE, U20, Salem, Oregon 97301-3966.

"Oregon's Future is Everybody's Business"

The Oregon Legislature establishes the Oregon Progress Board as a permanent advisory Board

69th OREGON LEGISLATIVE ASSEMBLY—1997 Regular Session

Enrolled

Senate Bill 285

Sponsored by Senator BRYANT, Representative REPINE; Representative WATT

AN ACT

Relating to the Oregon Progress Board.

Be It Enacted by the People of the State of Oregon:

SECTION 1. The Legislative Assembly finds that:

(1) The Oregon economy of the future can provide unparalleled opportunity while maintaining Oregon's traditional values if this state pursues the future with clarity of purpose and perseverance.

(2) The Oregon economy is in the midst of a massive transition created by technological changes, global competition and new production practices.

(3) In order to maintain employment opportunities, increase income levels, reduce poverty and generate the public revenues needed to provide public services, Oregon must increasingly rely on an economy that adds value to its natural resources and provides a diverse mix of products.

(4) An Oregon Progress Board is needed to:

(a) Encourage the discussion and understanding of critical global and national economic trends that will affect the Oregon economy in the coming decades;

(b) Formulate and submit to Oregonians a strategy that describes and explains a vision for Oregon's economic progress over the next 20 to 30 years; and

(c) Submit to the Legislative Assembly, for its adoption, goals for Oregon's progress, including measurable indicators of the achievement of those goals, in the manner prescribed in ORS 184.007

SECTION 2. (1) There is established an Oregon Progress Board consisting of the following members:

(a) The Governor; and

(b) Nine members appointed by the Governor.

(2) The term of office of each member is four years. Before the expiration of the term of a member, the Governor shall appoint a successor whose term begins on January 31 next following. A member is eligible for reappointment.

(3) A member of the Oregon Progress Board shall be entitled to compensation and expenses as provided in ORS 292.495.

(4) Of the members of the board, five shall be selected who are residents of different congressional districts in this state.

5) Members of the Oregon Progress Board shall be appointed so as to be representative of the ethnic, cultural, social and economic diversity of the people of this state.

Enrolled Senate Bill 285 (SB 285-A) Page 1

SECTION 3. Notwithstanding the term of office specified by section 2 of this Act, of the members first appointed under this Act to the Oregon Progress Board:

(1) Four shall serve for terms ending January 31, 1999.

(2) Five shall serve for terms ending January 31, 2001.

SECTION 4. (1) In addition to the members listed in section 2 of this Act, the Oregon Progress Board shall have as members:

(a) The Director of the Oregon Department of Administrative Services, who shall serve as a member ex officio; and

(b) A student selected by the Governor.

(2) The student member of the board shall serve for as long as the member remains a student or at the pleasure of the Governor.

(3) The director and the student member may not vote on matters before the board and may not bind the board with respect to decisions relating to matters described in sections 6, 7 and 8 of this Act. The director and the student member shall advise the board concerning the goals, missions and functions of the board.

(4) Section 2 of this Act does not apply to the members of the board serving under this section. However, the director and the student member may receive actual and necessary expenses actually incurred in the performance of their duties as board members as provided in ORS 292.495 (2).

SECTION 5.(1) In accordance with applicable provisions of ORS 183.310 to 183.550, the Oregon Progress Board may adopt rules necessary for the administration of sections 1 to 9 of this Act.

(2) The Governor shall serve as chair of the board and may appoint an executive officer for the board for a term and with such duties and powers as the board determines to be necessary or appropriate.

(3) A majority of the members of the board constitutes a quorum for the transaction of business.

(4) The board shall meet as the board determines necessary at times and places specified by call of the chair or a majority of the members of the board.

(5) The Economic Development Department shall provide clerical, technical and management personnel to the board to serve as the board's staff.

SECTION 6.(1) The Oregon Progress Board shall develop a strategy for Oregon that addresses the economic, social, cultural, environmental and other needs and aspirations of the people of Oregon.

(2) The strategy developed by the Oregon Progress Board shall address issues that the board determines are necessary and appropriate to Oregon's future. Such issues shall include:

(a) Education and workforce.

(b) Public and private cooperation.

(c) Environmental quality.

(d) Infrastructure.

(e) Funding and taxation.

(f) Such other issues as the board, by majority vote, shall add to the strategy.

(3) When developing the strategy, the Oregon Progress Board shall hold public hearings, public meetings and workshops as needed to ensure the participation of a broad cross section of Oregon's population. The board shall publicize the public hearings, public meetings and workshops in each city in which they are held and shall allow interested residents and other individuals to appear and be heard by the board.

(4) After considering any written comments and public testimony relating to the proposed strategy, the board shall revise the strategy as it considers necessary or appropriate. The board, by a vote of a majority of its members, shall approve and adopt a final strategy. The board shall submit, in addition to its adopted strategy, a summary and digest of comments and public testimony and its response, if any, to those comments. The adopted strategy shall be submitted to the Seventy-second Legislative Assembly not later than January 15, 2003, and every six years thereafter.

SECTION 7.As a part of the strategy adopted under section 6 of this Act, the Oregon Progress Board shall also adopt a recommended implementation plan. The plan shall include recommendations for statutory or other changes the board considers appropriate, modifications in public fiscal and spending policies, including the allocation of lottery revenues, and also recommendations for implementing actions to be carried out by local governments, businesses, private citizens and other

organizations.

SECTION 8.(1) The Oregon Progress Board shall, in its adopted strategy, include a series of goals for Oregon's progress over the next two to three decades.

(2) Goals shall include such measurable indicators of attainment, as the board shall determine, that show the extent to which each goal is being achieved.

(3) Goals shall be reviewed by the Legislative Assembly, which may, by joint resolution, adopt, modify, delete or add to the goals. Any goals adopted by the Legislative Assembly shall become the goals used by the board in its subsequent activities.

(4) After the legislative review and adoption of goals, the board may recommend such modifications to the goals as it considers appropriate.

SECTION 9.The Oregon Progress Board shall prepare, at least once each biennium, a report that describes Oregon's progress toward achievement of the board's strategy, based on the specific indicators the board adopts for measuring the attainment of strategic goals. The report shall include an analysis of issues and trends of strategic significance and shall propose an agenda that identifies key steps that Oregon should take over the following two years to build for Oregon's future. In developing the report required by this section, the Oregon Progress Board shall consider the criteria contained in ORS 285.005 (3).

FISCAL PLAN

BUDGET
2004
ON ROUTE
ON COURSE

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Historical Fiscal Summary, 1985-86 to 2006-07^a

(millions of dollars)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 Forecast	2004-05 Estimate	2005-06 Target	2006-07 Target
INCOME STATEMENT																						
Revenue																						
1 Personal income tax	1,521	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,445	3,877	4,601	5,100	3,943	4,183	4,834	4,613	5,085	5,438	5,786
2 Corporate income tax	780	396	595	697	700	803	731	637	854	1,073	1,332	1,407	1,849	1,659	1,255	2,023	2,229	2,019	1,796	1,957	1,976	2,070
3 School property tax	660	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,169	1,212	1,118	1,128	1,151	1,094	1,113	1,166	1,233	1,304	1,366
4 Other tax revenue	341	262	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,157	1,218	1,178	1,241	1,386	1,469	1,633	1,755	1,696	1,705	1,734
5 Resource revenue	4,932	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,034	3,778	2,368	4,650	10,586	6,227	7,130	7,446	4,784	4,356	3 ^c
6 Investment income	2,161	1,965	1,847	1,834	1,891	2,125	2,155	1,711	1,837	1,567	1,724	1,616	1,747	1,610	1,906	1,353	788	(462)	1,649	1,226	1,291	1
7 Other own-source revenue	1,111	959	1,407	1,662	2,022	1,615	1,566	2,319	2,710	2,832	2,431	2,473	2,890	2,950	3,183	3,272	3,672	4,319	3,922	4,000	4,090	4,141
8 Total own-source revenue	11,506	7,928	9,993	9,765	10,896	11,820	11,587	11,814	13,316	14,235	13,767	15,301	16,571	15,484	18,463	23,714	19,662	20,586	22,347	19,981	20,160	20,324
9 Federal transfers	1,788	1,689	1,912	2,135	1,943	2,365	2,150	2,457	2,090	1,929	1,748	1,351	1,183	1,335	1,640	1,813	2,264	2,074	2,991	2,971	3,182	3,265
10 Total Revenue	13,294	9,617	11,905	11,900	12,839	14,185	13,737	14,271	15,406	16,164	15,515	16,652	17,754	16,819	20,103	25,527	21,926	22,660	25,338	22,952	23,342	23,589
Expense by Function^b																						
11 Health	3,003	3,244	3,114	3,372	3,631	3,895	4,129	4,352	4,194	3,928	3,773	4,006	4,401	4,660	5,341	5,946	6,846	6,917	7,649	8,407	8,672	8,910
12 Basic / advanced education	2,961	3,114	3,118	3,227	3,379	3,532	3,676	3,904	4,036	3,756	3,713	3,738	4,081	4,241	4,735	5,040	6,099	5,461	5,887	6,354	6,439	6,508
13 Social services	1,156	1,270	1,329	1,434	1,502	1,567	1,746	1,889	1,721	1,495	1,456	1,511	1,564	1,560	1,668	1,790	1,942	2,108	2,305	2,408	2,470	2,512
14 Other program expense	6,753	5,725	5,137	5,077	5,328	5,741	5,501	6,031	5,172	4,301	3,739	3,446	3,727	3,885	4,612	5,200	5,184	5,567	5,890	5,117	5,228	5,149
15 Total program expense	13,873	13,353	12,698	13,110	13,840	14,735	15,052	16,176	15,123	13,480	12,681	12,701	13,773	14,346	16,356	17,976	20,071	20,053	21,731	22,286	22,809	23,079
16 Debt servicing costs	182	297	572	797	1,115	1,282	1,314	1,419	1,654	1,746	1,683	1,462	1,322	1,379	956	980	774	476	280	363	329	315
17 Total Expense	14,055	13,650	13,270	13,907	14,955	16,017	16,366	17,595	16,777	15,226	14,364	14,163	15,095	15,725	17,312	18,956	20,845	20,529	22,011	22,649	23,138	23,394
18 Net Revenue (Spending)	(761)	(4,033)	(1,365)	(2,007)	(2,116)	(1,832)	(2,629)	(3,324)	(1,371)	838	1,151	2,489	2,659	1,084	2,791	6,671	1,061	2,131	3,327	303	204	196
19 Transfer from Capital Account																			416	741	425	—
20 Transfer from (to) Sustainability Fund																			(3,608)	(784)	(356)	77
21 Other requirements ^c																			(135)	—	—	—
22 Contingency Allowance																			—	280	273	272
BALANCE SHEET																						
23 Net Financial Assets (Debt) ^d	11,817	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(9,313)	(7,355)	(6,255)	(3,728)	(1,089)	(63)	2,654	9,042	9,814	11,803	14,951	14,846	14,637	1 ^e
24 Capital Assets ^e	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,220	7,669	7,411	7,292	7,215	7,218	7,259	8,002	10,141	10,285	10,464	10,872	11,285	11,565
25 Net Assets (Debt) ^d	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(93)	314	1,156	3,564	6,126	7,155	9,913	17,044	19,955	22,088	25,415	25,718	25,922	26,117
26 Pension obligations	5,500	6,625	7,946	8,004	8,243	6,156	5,774	4,770	5,066	5,352	5,352	4,981	4,890	4,813	4,728	4,742	4,771	4,927	5,047	5,166	5,287	5,415
27 Accumulated Debt ^f	4,953	10,091	11,105	13,069	15,527	16,647	17,406	20,305	22,701	21,451	20,531	17,733	14,976	14,106	12,020	8,195	5,261	4,736	3,714	2,988	2,729	2,729
28 Sustainability Fund assets																			2,500	2,500	2,529	2,500
29 Capital Account assets																		910	1,180	718	187	—

^a Numbers have been restated on 2004-05 basis where possible. Numbers for 2001-02 forward are fully comparable. For the period 1992-93 to 2000-01 numbers are essentially comparable to the 2004-05 presentation with exception of the treatment of disposal of capital assets (in most years variance of less than \$100 million). Prior to 1992-93, spending is on an expenditure basis, using actual capital numbers rather than capital amortization costs.

^b Beginning in 1996-97, valuation adjustments have been allocated by function. In prior years, all valuation adjustments were included in other program expense.

^c 'Other requirements' is the net of retained income of funds and agencies and capital cash requirements. This amount is not available for transfer to the Sustainability Fund.

^d Excludes pension obligations. Net debt was increased by \$1,474 million in 1992-93 primarily for a provision for school construction debt, reduced by \$125 million in 1993-94 to record personal income tax and established programs financing entitlements on an accrual basis, and increased by \$32 million in 1995-96 to report some other revenues on accrual basis.

^e Capital Assets information not available prior to 1992-93. In 1994-95, includes the disposal of \$449 million in capital assets, (primarily transfer of secondary highways to municipalities). In 2001-02, includes \$1.8 billion transfer of provincial secondary highway system from municipalities to the Province.

^f Net of cash set aside for future debt repayments. In 2001-02, the amount of \$5,261 million includes commitment of \$414 million to debt retirement based on a higher-than-expected year end cushion. This amount was transferred in 2002-03 from other assets.

DEBT SUMMARY

Budget and Fiscal Plan

2005/06 – 2007/08



THREE YEAR FISCAL PLAN — OPERATING STATEMENT

	2004/05		Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
	Budget Estimate	Updated Forecast			
Taxpayer-supported programs and agencies			(\$ millions)		
Revenue ¹	28,568	30,273	30,746	31,245	32,114
Expense ¹	(30,440)	(30,986)	(32,456)	(32,847)	(33,494)
Taxpayer-supported balance	(1,872)	(713)	(1,710)	(1,602)	(1,380)
Commercial Crown corporation net income	2,072	2,453	2,330	2,252	2,130
Surplus before forecast allowance	200	1,740	620	650	750
Forecast allowance	(100)	(300)	(400)	(450)	(550)
Surplus	100	1,440	220	200	200

¹ The 2004/05 budget includes an additional \$148 million federal Health Accord and Immunization Trust funding authorized in the May 20, 2004 Supply Act.

- The updated forecast shows a \$1.44 billion surplus including a \$300 million forecast allowance. This represents a \$1.34 billion improvement from budget, resulting primarily from strong economic performance, higher than expected commodity prices, increased federal transfer payments, higher commercial Crown corporation net income and lower debt interest costs.
- The fiscal plan shows a \$220 million surplus for 2005/06 and \$200 million for 2006/07 and 2007/08. Combined with the contingency vote and forecast allowance, this provides a cushion of \$890 million in 2005/06, \$920 million in 2006/07 and \$1,060 million in 2007/08 to protect the balanced budget plan against unforeseen events.
- Economic growth of 3.1 per cent for 2005 and 3.0 per cent for 2006 and 2007 is forecast, slightly lower than the independent Economic Forecast Council average.

PROVINCIAL DEBT SUMMARY¹

Forecast debt at March 31	2004/05		Budget Estimate 2005/06	Plan 2006/07	Plan 2007/08
	Budget Estimate	Updated Forecast			
Taxpayer-supported debt			(\$ millions)		
Provincial government direct operating	16,558	14,175	13,990	13,633	12,744
Education facilities	6,901	6,796	7,273	7,837	8,300
Health facilities	2,479	2,393	2,755	3,103	3,318
Highways and public transit	5,018	4,527	4,867	5,219	5,542
Other debt	1,159	722	703	687	669
Total taxpayer-supported debt	32,115	28,613	29,588	30,479	30,573
Self-supported debt					
Commercial Crown corporations and agencies	7,180	7,150	7,344	7,819	8,476
Total self-supported debt	7,180	7,150	7,344	7,819	8,476
Forecast allowance	100	300	400	450	550
Total provincial debt	39,395	36,063	37,332	38,748	39,599
Taxpayer-supported debt as a per cent of GDP	21.8%	18.5%	18.2%	18.0%	17.3%
Taxpayer-supported interest bite (cents per dollar of revenue)	6.4	5.2	5.5	5.7	5.8

¹ Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

- Provincial debt is forecast to total \$36.1 billion at March 31, 2005. This is a record \$1.7 billion lower than the debt balance at March 31, 2004 reflecting the forecast surplus, the pay-down of BC Rail debt and lower working capital requirements.
- The updated forecast debt is \$3.3 billion lower than budget due to the improved surplus forecast, lower debt of the BC Transportation Financing Authority and BC Hydro, lower working capital requirements and higher cash balances at the start of the year.
- To meet the needs of a growing economy, significant capital investments are planned over the coming years. This will result in an increase in provincial debt to \$39.6 billion by March 31, 2008.
- The debt forecast includes a forecast allowance of \$400 million for 2005/06, \$450 million for 2006/07 and \$550 million for 2007/08 to mirror the operating forecast allowance.
- The taxpayer-supported debt to GDP ratio is now forecast to be significantly lower than Budget 2004. Consistent with government's strategic plan commitment, the taxpayer-supported debt to GDP ratio falls over the three year plan.