

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 150 3251

Alaska's Construction Spending

2007 Forecast

*Fourth Annual Report
for the
Construction
Industry
Progress Fund
and the
Associated
General Contractors
of Alaska*

*By
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and Mary Killorin
Institute of Social
and Economic Research
University of Alaska
Anchorage*



Dear Alaskans,

The Construction Industry Progress Fund (CIPF) and the Associated General Contractors of Alaska (AGC) are pleased to provide you with this Alaska Construction 2007 Spending Forecast.

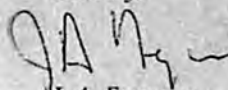
This vital, informative review and estimate of construction activity in the State of Alaska is in its fourth year of publication.

Compiled and written by Scott Goldsmith and Mary Killorin of ISER at the University of Alaska Anchorage, the forecast looks at construction activity, projects and spending by both the public and private sectors for 2007.

Construction is the third-largest industry in the state, pays the state's second highest wages, employs nearly 22,000 workers with a payroll over \$1 billion, accounts for 20% of Alaska's economy and currently contributes more than \$7 billion annually to the state's economy.

I hope you enjoy reading this publication. When the construction industry is vigorous, so is the state's economy.

Sincerely,


J. A. Fergusson
CIPF President

Overview

Total construction spending in Alaska in 2007 that "hits the street" will be \$7 billion, an increase of 7% from a revised figure of \$6.56 billion in 2006.¹

However, construction spending excluding the oil and gas sector—which by itself will account for 38% of the total—will be down from \$4.525 billion to \$4.365 billion, a drop of 4%.²

Because of increases in the cost of materials during 2006, construction industry employment, narrowly defined, will be essentially flat in 2007 even though total

spending is expected to be higher than last year. Nevertheless, 2007 will be another very strong year for the construction industry, particularly among firms working for the oil and gas sector.

This year private-sector construction spending is projected to be \$4.55 billion, up 15% over 2006, driven by a 30% increase in spending by the oil and gas sector. Public spending will be \$2.45 billion, down 6% from 2006, due to a decline in federal spending that will not be totally offset by an increase in spending from state funding sources.

¹ Our original projection for 2006 was \$6.525 billion. We subsequently revised mining down slightly to reflect a slowdown in development of Kensington and Rock Creek mines. We increased our estimates of residential and commercial construction marginally to reflect higher construction costs. For the 2007 projection, we reclassified local road construction from state and local government to highways. The net effect was an increase of \$30 million.

² We define total construction spending broadly to include not only the construction industry as defined by the U.S. Department of Commerce and the Alaska Department of Labor but also other activities. Specifically, our construction spending figure encompasses all the spending associated with construction occupations (including repair and renovation, but excluding design and planning), regardless of the type of business where the spending occurs. For example, we include the capital budget of the oil and gas and mining industries in our figure, except for large, identifiable equipment purchases such as new oil tankers.

³ A significant share of the state capital budget is for the purchase of equipment, for capitalizing funds such as the Power Cost Equalization Fund, and for various operating programs.

Uncertainty in the forecast for 2007 comes from several sources. The decline in the crude oil price in recent months may cause some firms working in the oil patch to re-evaluate their capital budget decisions and slow their rate of investment in exploration and development. All sectors of the industry are continuing to experience rapid increases in construction material costs that will undoubtedly cause some projects to be canceled or postponed, as has been the case in the last several years.

Public construction spending estimates are complicated by the fact that a federal budget for the 2007 fiscal year, which began in October of last year, has yet to be passed. In the absence of a budget, federal agencies have generally planned on program funding at the same

level as last year. That could change when the budget is finally passed. The state capital budget enacted for 2007 is much larger than it was in 2006, but the new governor may decide not to fund or to delay the funding of some projects it contains.³

As in past years, some firms are reluctant to reveal their investment plans, because they don't want to alert competitors, and some have not completed their 2007 planning. Large projects often span two or more years, so estimation of cash that will "hit the street" this year is difficult. And tracing the path of federal spending coming to Alaska without double counting is a challenge. We are confident of the overall pattern of the forecast, but some surprises should be expected, as is always the case.

Alaska Construction Spending 2007 Forecast

	Level	Change
PRIVATE	\$ 4,550,000,000	15%
Oil and Gas	2,650,000,000	30%
Mining	195,000,000	—
Other Rural Basic Industry	20,000,000	-60%
Residential	750,000,000	3%
Other Commercial	350,000,000	8%
Hospitals	200,000,000	-9%
Utilities	385,000,000	-4%
PUBLIC	\$ 2,455,000,000	-6%
National Defense	570,000,000	-22%
Highways	425,000,000	-17%
Airports and Ports	360,000,000	9%
Alaska Railroad	100,000,000	25%
Denali Commission	100,000,000	—
Education	350,000,000	13%
Other Federal	365,000,000	-9%
Other State & Local	185,000,000	32%
TOTAL	\$ 7,005,000,000	7%

Source: Institute of Social and Economic Research

PRIVATE CONSTRUCTION

Privately funded construction projects will account for about 65% of total construction spending in 2007. This represents a 15% increase in spending compared to the total of \$3.96 billion in 2006.

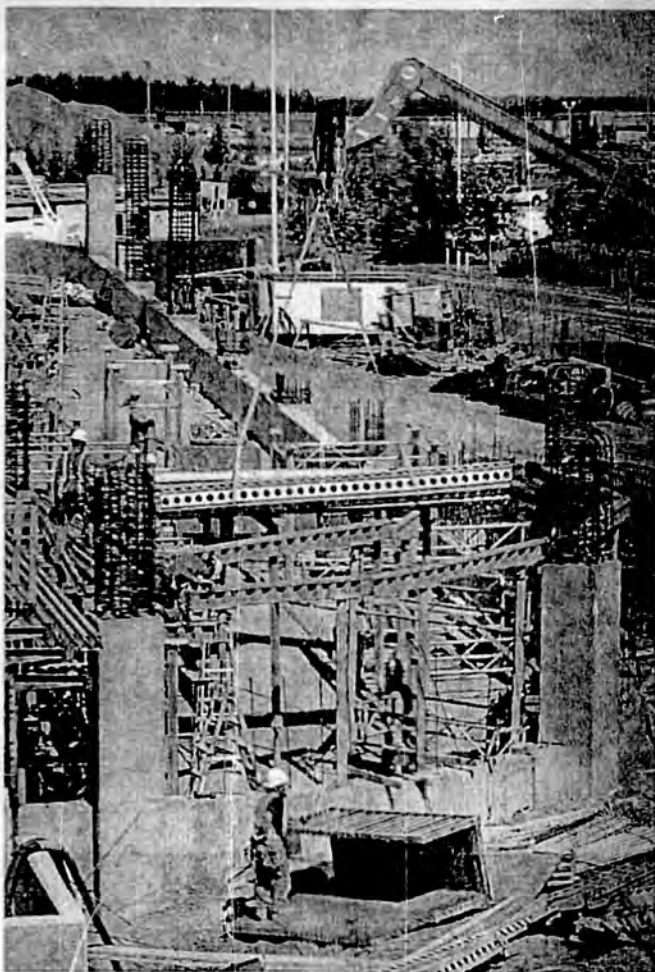
Oil and Gas: \$2,650 Million

Spending in 2007 is expected to be about 30% above the level of last year due to an increase in exploration and development activity, primarily on the North Slope, by both the major producers and smaller independents. Although part of the increase is due to higher construction costs, the companies have announced plans to add additional workers and drill more wells. It is possible, of course, that some companies may re-evaluate their announced capital expenditures in light of crude oil prices, which have fallen significantly in the last few months.

The North Slope majors—BP, Conoco-Phillips, and Exxon—expect to invest over

\$1.6 billion in their Alaska operations in 2007. This will be concentrated on North Slope exploration and development because, unlike in past years, they will not be spending any of their Alaska capital budget on the purchase of tankers. Work will concentrate on, among other projects, the Alpine satellites, West Sak heavy oil, continued development of the Prudhoe Bay and Kuparuk areas, and construction of an ultra-low-sulfur diesel production facility. The completion date for the major reconfiguration of the trans-Alaska pipeline has been pushed back at least through this year, but netting that out of the total still leaves an increase in spending over last year for North Slope activity.

Activity on the North Slope by independents is up sharply from last year. We estimate spending will be \$813 million. Shell has announced plans to drill four offshore exploratory wells and undertake a significant seismic program. Other companies that have announced plans to drill include Eni, Anadarko, Pioneer, FEX, Brooks Range Petroleum, and Savant.



Parking Garage, Ted Stevens Airport, Anchorage

In Cook Inlet, we expect exploration and development spending by Chevron, Marathon, and others will be modestly higher than last year at \$182 million.

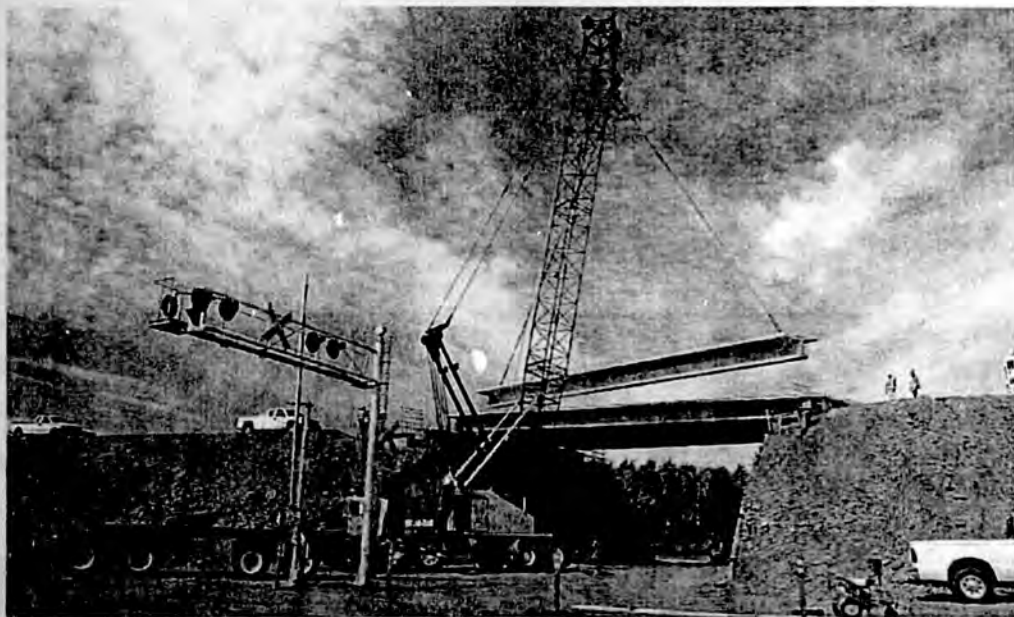
No significant new construction is anticipated at the refineries and other petroleum manufacturing facilities around the state.

Mining: \$195 Million

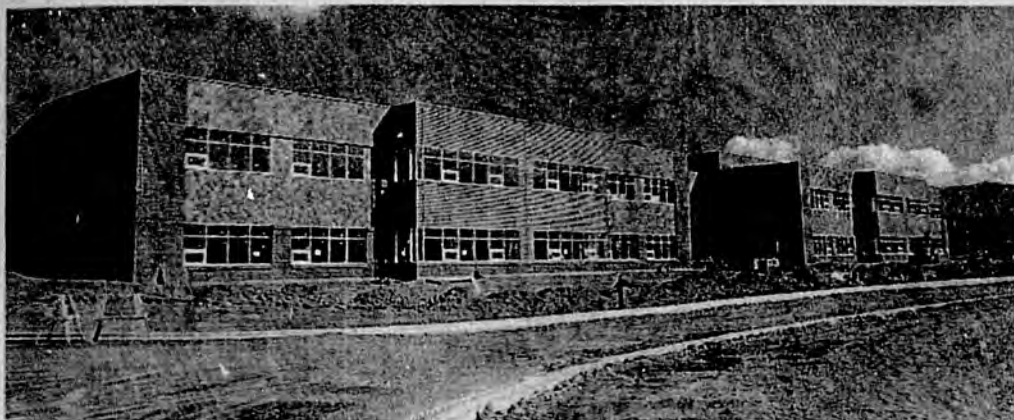
We anticipate spending by the mining industry—on exploration, development, and construction of new mines as well as upgrading existing mines—to be about the same as last year.

The largest share of development spending will be devoted to the continued construction of the Kensington Mine near Juneau and the Rock Creek Mine outside Nome. Construction schedules for both have been delayed and are complicated by ongoing legal challenges.

Exploration work will continue to be centered at the Pebble prospect west of Anchorage and the Donlin



Mile 276 Parks Highway



Nicholas J. Begich Middle School, Anchorage

Creek prospect northeast of Bethel. Although development plans for one or both of these projects may be forthcoming in the near future, it is likely to be several years before construction could occur at either of these large mining prospects.

Most of the other large operating mines will have more modest construction budgets this year, including the Red Dog, Pogo, Ft. Knox, Nixon Fork, Greens Creek, and Usibelli mines.

Exploration continues at a number of different prospects, buoyed by high metal and energy prices.

Other Rural Basic Industries: \$20 Million

Although no large construction projects have been announced for the tourism, seafood, timber, and manufacturing sectors this year outside of the urban areas, we expect that normal maintenance associated with existing facilities will result in about \$20 million in spending, down from \$50 million last year.

Utilities: \$385 Million

Major telecommunication firm spending will increase

modestly this year, to \$160 million, and natural gas utility spending at \$23 million will also be higher because of a project to augment service to Fairbanks with LNG trucked from the North Slope.

Electric utility capital spending will be down from last year (at \$170 million) with the completion of the Golden Valley Electric Association capacity expansion.

Private air freight facility expansion at Ted Stevens International Airport in Anchorage and small private port projects in the southeast will add about \$40 million to the total.

Hospitals: \$200 Million

Non-military hospital construction is projected to be down slightly from 2006. The Providence Health System is projected to have the largest construction budget this year, and a new Veterans Administration clinic in Anchorage will be under construction.

Most other private, public, and nonprofit hospitals around the state have smaller expansion plans. The new hospitals planned for Nome and Barrow are on hold this year pending funding from the federal government.

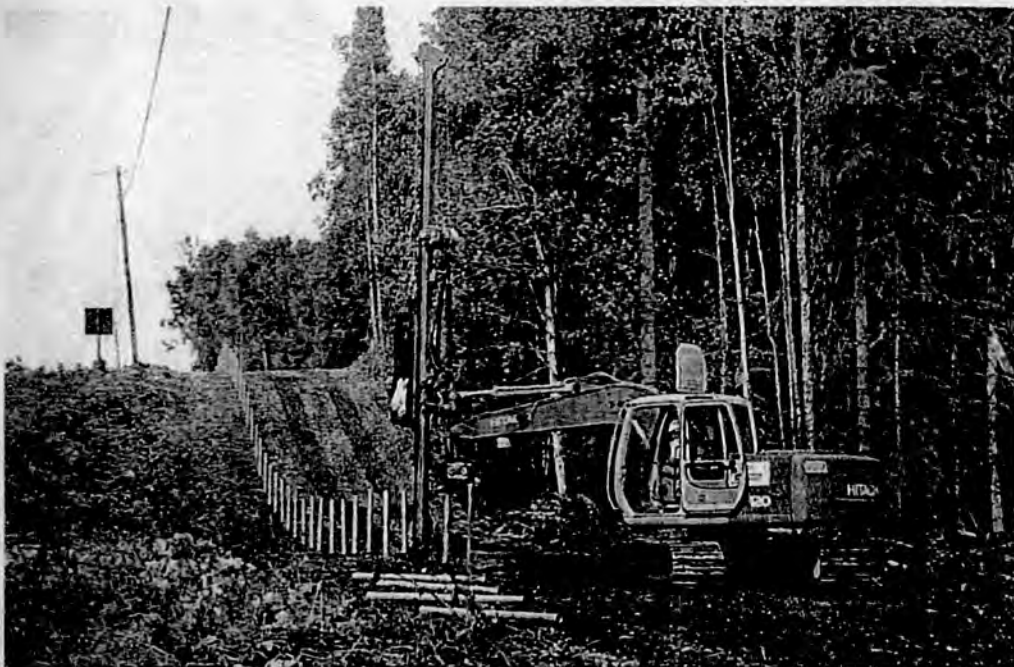
Other Commercial: \$350 Million

Private commercial construction spending consists of a wide range of building types including retail, office, medical, hotel, and warehouse space.⁴ Some spending is driven by both the size of and growth in the economy, but the level of spending in this sector tends to be somewhat volatile given the small size of most commercial real estate markets. A few large projects have a big influence on the total for the year.

We expect spending to be higher this year, at \$350 million, driven by a continued strong economy and a few large projects.

The largest projects are the expansion of the Anchorage museum and the new convention center. A number of large office buildings are also in various stages of planning,

⁴ Our commercial construction figure is not comparable to the published value of commercial building permits reported by Anchorage and other communities. Sometimes municipal reports of the value of construction permits include government-funded construction, which greatly increases the total. We report all government construction in different categories. In addition, we have excluded hospitals, utilities, and private transportation facilities from our commercial total and reported them elsewhere.



Fence Addition, Fort Richardson, Anchorage

PHOTO COURTESY ACME FENCE

as are several large retail establishments, some of which are new to Alaska. However, the rapid increase in construction costs in the last several years will probably cause some developers to reconsider their plans.

Additional retail space will continue to be the most important component of commercial construction for the Mat-Su Borough.

Fairbanks commercial construction spending will be strong, as a result of population growth stemming from military expansion.

Activities in the other smaller markets of the state will be mixed, depending on local economic conditions.

Residential: \$750 Million

Rising prices will drive total residential construction spending higher this year in spite of a softening of the market in response to those higher prices. The number of new units should be down from previous highs for this reason.

The higher prices will continue to shift demand away from single-family and toward multifamily and rehabilitation of existing units.

We will continue to see a shift in new residential construction in Southcentral Alaska—which accounts for about 80% of new construction—away from Anchorage and toward the Mat-Su Borough. Anchorage residential construction will be increasingly composed of multifamily units and higher-value single-family homes.

Activity in Fairbanks will be robust due to an increase in military personnel.

Activity in the rest of the state will be mixed, depending on local economic conditions. Juneau and the Kenai Peninsula, in particular, will see strong residential spending.

PUBLIC CONSTRUCTION

Public construction spending in 2007 is expected to be about \$2.45 billion, down 6% from last year due to a modest decline in spending financed by the federal government.

The majority of funding for public construction comes from the federal government, with smaller amounts from state and local sources financed by current revenues and bonds.

There are numerous ways to categorize public construction spending. For ease of collecting information about them, we have put them into eight categories.

National Defense: \$570 Million

Defense spending will be down \$160 million from last year. The drop is due to completion of the large military hospital at Fort Wainwright and a decision to slow the pace of expenditure of funds for construction activities at the main Alaska bases.

This budget consists of all military expenditures for defense purposes, as well as Corps of Engineers spending for environmental remediation and civil works—such as flood control. In recent years

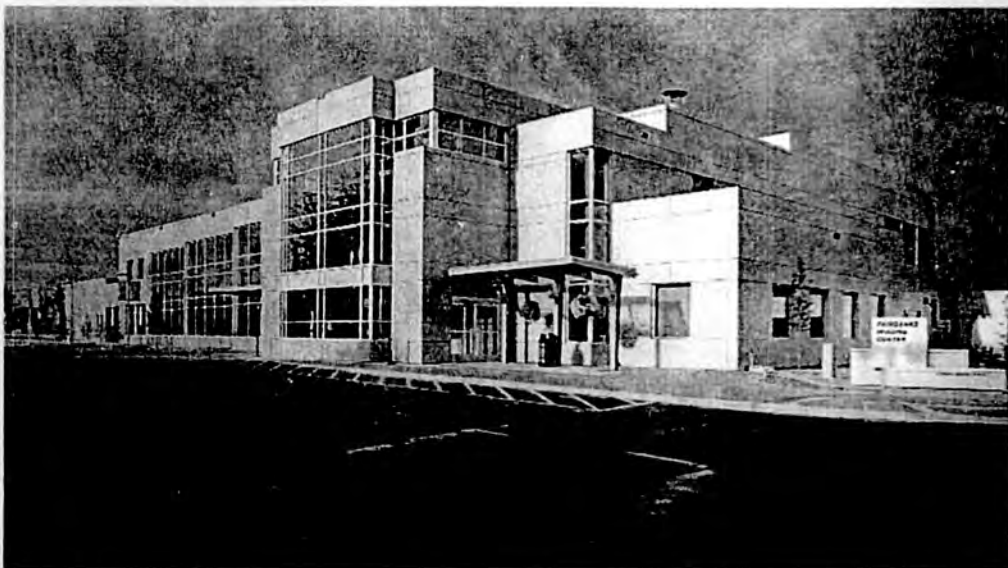


Canyon Lodge, Denali National Park

Alaska has benefited from an exceptionally large share of the total defense budget, and that is likely to remain high for several more years. In 2005 Alaska received over 7% of the entire budget of the Army Corps of Engineers, making Alaska the third largest recipient of Corps of Engineers construction dollars.

Highways: \$425 Million

Although the amount of federal money authorized for highway construction in Alaska has increased in recent years, actual expenditures this year are expected to be down about \$25 million from last year.



Fairbanks Imaging Center



Little Coal Creek, Parks Highway

Federal funding will be down \$125 million. This is due to uncertainty over the use of funds that have been earmarked in federal legislation for two large Alaska projects—the bridge over Knik Arm in Southcentral Alaska and the bridge between Ketchikan and Gravina Island in Southeast.

The drop in federal funding will be partially offset by an increase in funding from state sources of \$41 million.

Airports and Harbors: \$360 Million

The budget for airports and harbors will be up \$30 million from last year to \$360 million.

As in past years, the largest share of funding comes from about \$200 million in federal funds from the Federal Aviation Administration. This will be spent on airport construction projects in the \$5- to \$10-million range throughout the state.

Spending at the major airports in Anchorage and Fairbanks will be \$110 million, up \$20 million from 2006. Most of the activity will be at the Ted Stevens International Airport in Anchorage, but a major upgrade at Fairbanks International Airport will get underway this year as well.

Spending at the Anchorage Port will be \$36 million on renovations and upgrades. The port is still in the process of putting together its large-scale expansion project, which will cost upwards of \$300 million. This will boost construction spending for airports and ports in future years.

State funded projects will add \$10 million to the total.

Alaska Railroad: \$100 Million

The capital construction program for modernizing and upgrading the Alaska Railroad will continue this year at an increased level, up from \$80 million last year. Funding will come from a variety of federal

sources as well as retained earnings. The focus of the program this year will be on track rehabilitation, siding extensions and upgrades, bridge replacement and upgrades, passenger equipment, and a collision avoidance system.

Denali Commission: \$100 Million

Spending by the Denali Commission, created by Senator Ted Stevens to more efficiently direct federal capital spending to rural Alaska's infrastructure needs, will be about the same this year as last.

The commission is moving into the funding of transportation projects, including roads and waterfront development. It continues to fund energy projects—including bulk storage units—and health facilities. Development work has begun on hospitals in Nome and Barrow but construction is not expected to begin this year.

The Denali Commission's inventory of project needs is quite long, and we can expect a continuation at least at the current level as long as there is federal support for this program.

Education: \$350 Million

Education funding will be \$30 million higher than last year.

Primary and secondary funding is estimated to be \$225 million, funded by state grants and local bond authorizations for school construction and maintenance. An additional \$20 million is locally funded.

The state school construction priority list contains projects totaling more than \$1 billion for both construction and maintenance, so K-12 education spending should continue to be strong in the coming years.

University of Alaska construction projects will total \$105 million, concentrated in



Ketchikan Dock Replacement

PHOTO COURTESY WEST CONSTRUCTION

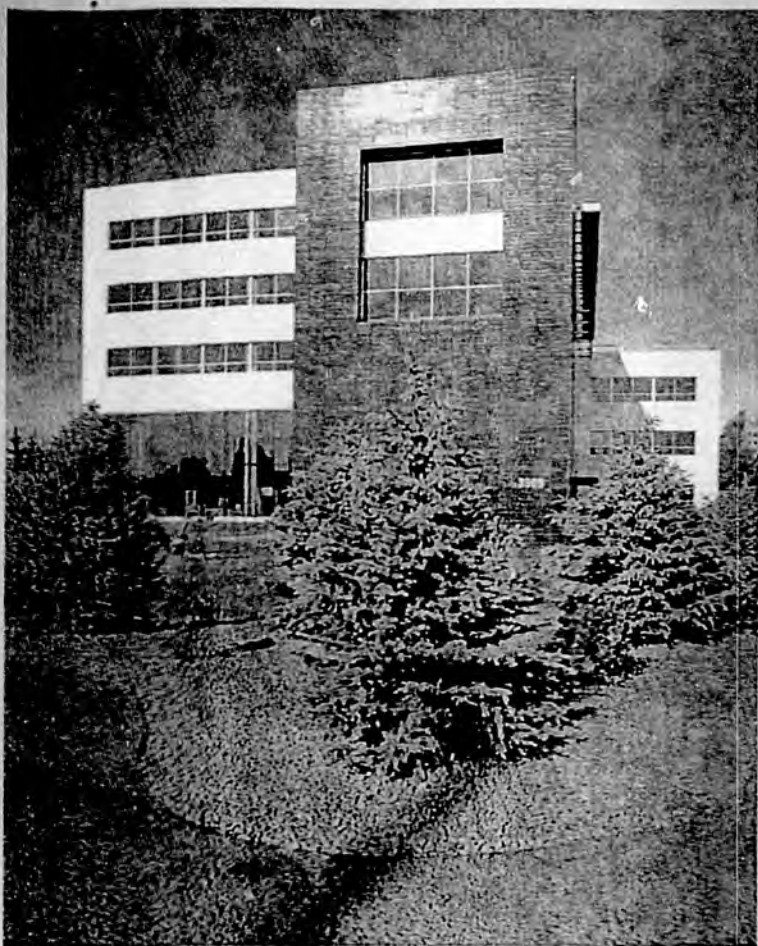


PHOTO COURTESY KEN GRAHAM PHOTOGRAPHY

Afognak Native Corporation, Alutiiq Center, Anchorage

Anchorage with work on the new integrated science building. Other capital spending will be spread among the campuses at Fairbanks, Juneau, and elsewhere.

Other Federal: \$365 Million

National defense; transportation spending for roads, airports, and ports; and the Denali Commission make up the largest and most visible part of federal construction spending in Alaska. We forecast an additional \$365 million of federal capital spending in Alaska for other types of projects.⁵ This is down from \$400 million last year.

⁵ It is difficult to track all the federal dollars that find their way into construction spending in the state because there are so many pathways, and they change every year. The possibility of double counting funds as they pass from agency to agency, or become part of a larger project, also creates difficulties for the analyst.

In a normal year, most of the state capital budget is funded by federal grants. Excluding transportation projects, the largest category is rural sanitation projects, based on grants from the Environmental Protection Agency, Indian Health Service, and other federal agencies. This initiative will be contributing \$100 million to state construction spending—\$10 million more than last year—to fund the village safe water program. Other state departments with significant federal funding for capital projects include Commerce, Natural Resources, Veterans Affairs, and Public Safety.

The federal government also provides grants and other construction funding to Alaska tribes, nonprofit organizations, and local governments across the state. The most important recipients

of these grants are Native nonprofit corporations, housing authorities, and health care providers. The largest single program is the Native American Housing Self Determination Act (NAHSDA) that provides funds for housing construction in Native communities through a large number of Native housing authorities throughout the state. Grants for health care not associated with a hospital or passing through the Denali Commission are also counted here. We expect spending for these programs to be down from \$150 million last year to \$120 million this year.

We expect the level of direct construction spending by other federal departments to be down significantly from last year—from \$110 million to \$70 million. This includes construction spending by the Department of the Interior (the National Park Service, U.S. Fish and Wildlife Service, and Bureau of Land Management), the Postal Service, the Department of Agriculture, and the National Oceanic and Atmospheric Agency (NOAA). For example, the Barrow Climate Change Laboratory is still waiting for funding to move forward.

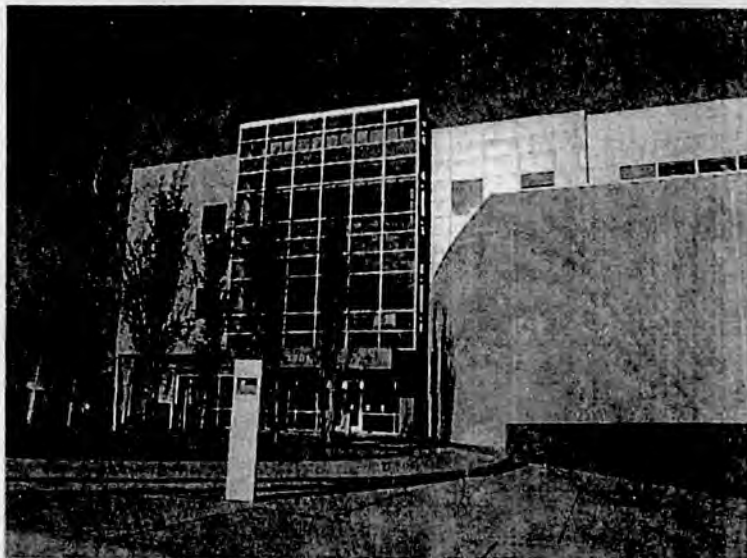
Other State and Local: \$185 Million

Other state and local government capital spending from own sources (not federal or state) will be \$185 million, an increase of \$45 million from 2006.⁶

We expect state-funded construction spending that is neither based on federal grants nor related to transportation or education to be about \$80 million, a significant increase from the previous year due to the large size of the 2007 fiscal year capital budget. These projects fall primarily in the Departments of Commerce, Community, and Economic Development, Health and Social Services, Corrections, Military Affairs, and Public Safety. A new prison, estimated to cost \$300 million, is in the planning stages, but is unlikely to be under construction until 2008.

Local government capital spending, from both general and enterprise funds, is estimated to be \$105 million. The largest component in this category is the Anchorage Water and Wastewater utility, which plans to spend \$62 million this year.

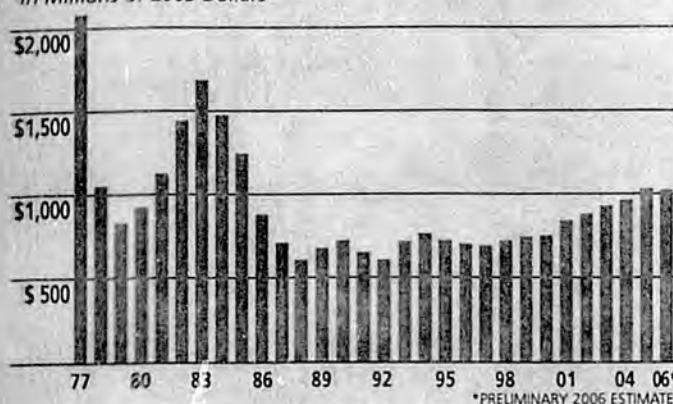
⁶ This category excludes state and local spending for education, highways, airports, and ports.



Orthopedic Physicians Building, Anchorage

Construction Industry Payroll

In Millions of 2005 Dollars



WHAT'S DRIVING SPENDING?

Construction activity—measured by total spending, jobs, payroll, or gross product—has experienced strong growth for more than a decade, driven largely by growing federal capital grants to Alaska, large federal agency capital budgets, and oil and gas spending.

These large external sources of construction funds not only fuel public spending and oil patch spending but also give a general boost to the economy—and thus add to the aggregate demand for new residential, commercial, and private infrastructure spending.

This growth is evident in the construction industry payroll (Alaska Department of Labor) shown in the graph above, which surpassed \$1 billion in 2005 for the first time since 1985. The values in years before 2005 are adjusted upward to account for inflation.

CONSTRUCTION IN THE OVERALL ECONOMY

Construction spending is one of the important contributors to overall economic activity in Alaska. It supports firms not only in the construction industry itself but also construction activity

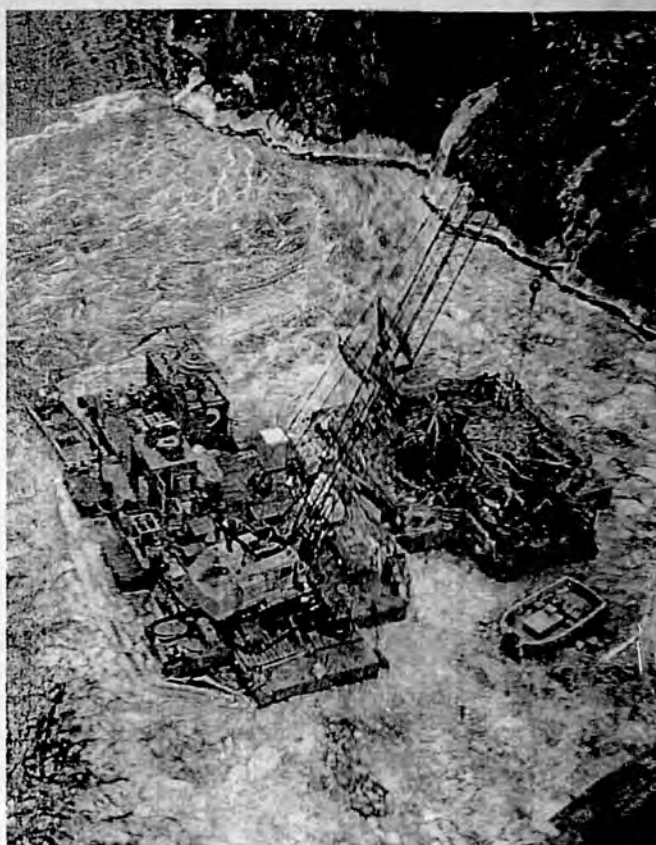


PHOTO COURTESY AMERICAN MARINE CORPORATION

Sitka Blue Lake Hydroelectric Project

“hidden” in other sectors of the economy such as oil and gas and mining.

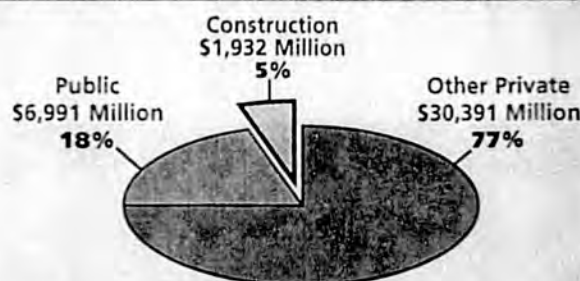
In addition, construction spending generates activity in a number of industries that provide input to the construction process. These “backward linkages” include, for example, sand and gravel purchases (mining), equipment purchase and leasing (wholesale trade), design and administration (business services), and construction finance and management (finance).

When the “hidden” construction activity and the “backward linkages” are

included, the contribution of construction spending to the economy is considerably greater than is reflected in Alaska's Gross State Product.

Measured by Gross State Product (GSP), the construction sector is only 5% of the economy (see chart below). But this consists mostly of the payroll of construction firms and does not reflect either construction “hidden” in other sectors or “backward linkages” to other industries. Including these would significantly increase the importance of construction as a component of GSP.

Alaska Gross State Product 2005: \$39 Billion



Source: U.S. Department of Commerce

Cover: Den'aina Civic & Convention Center, Anchorage

All photos by Danny Daniels Photography unless otherwise noted



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25th Alaska State Legislature

House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
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Rep. Paul Seaton
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465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct
465-4979 fax

AGENDA

February 9, 2007

3:30 – 5:00 pm

Is “Fiscal Plan” a noun or a verb?

HB 68 Long-Range Fiscal Plan

25-LS0546(C)

Cook

2/8/07

CS FOR HOUSE BILL NO. 125(W&M)**IN THE LEGISLATURE OF THE STATE OF ALASKA****TWENTY-FIFTH LEGISLATURE - FIRST SESSION****BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

Offered:

Referred:

Sponsor(s): **HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS****A BILL****FOR AN ACT ENTITLED****"An Act relating to budget planning and a fiscal plan for the State of Alaska."****BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:***** Section 1. AS 37.07.020(b) is amended to read:**

(b) In addition to the budget and bills submitted under (a) of this section, the governor shall submit a capital improvements program [AND FINANCIAL PLAN] covering the succeeding six fiscal years, and a fiscal plan covering projected sources and uses of funds during the succeeding 10 fiscal years. The fiscal plan

(1) must include sufficient details to identify

(A) significant sources of funds;

(B) significant uses of funds, including projections of

(i) operating expenditures;

(ii) capital expenditures;

(iii) debt service expenditures;

(iv) fund capitalizations;

(v) appropriations of income of the Alaska

permanent fund (art. IX, sec. 15, Constitution of the State of Alaska), if any;

(2) must balance sources and uses of funds while providing for essential state services and protecting the economic stability of the state;

(3) must include projected balances of significant funds in separate accounts, including the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska), the public education fund (AS 14.17.300), and the Alaska capital income fund (AS 37.05.565);

(4) may provide recommendations to

(A) encourage economic growth and stability, maintain a high quality of life, develop the state's natural resources, educate the children of the state, and maintain public health, safety, and welfare;

(B) provide services as efficiently as practicable and reduce state expenditures where possible;

(C) establish policies that protect the principal of the Alaska permanent fund over time while using the income of the fund to
(i) offset the effect of inflation on the principal of the fund;

(ii) maintain a strong permanent fund dividend program;

(iii) retain the legislature's flexibility to determine the appropriate use of the remaining income of the fund;

(D) raise revenue for the operation of state government while maintaining a stable tax environment; and

(E) provide adequate reserve funds to mitigate the consequences of market price volatility on state revenue from resources.

* Sec. 2. AS 37.07.020(c) is amended to read:

(c) Proposed expenditures may not exceed estimated revenue for the succeeding fiscal year. The expenditures proposed in the six-year capital improvements program [AND FINANCIAL PLAN] may not exceed the estimated revenue and bond authorizations passed and proposed.

* Sec. 3. AS 37.07.040 is amended to read:

Sec. 37.07.040. Office of management and budget. The Alaska office of

management and budget shall

(1) prepare for submission to the governor an annually updated 10-year fiscal plan and assist the governor in the preparation and explanation of the [PROPOSED COMPREHENSIVE PROGRAM AND FINANCIAL] plan, including the coordination and analysis of state agency goals and objectives, plans, and budget requests;

(2) prepare for submission to the governor an annually updated six-year capital improvements program and the proposed capital improvements budget for the coming fiscal year, the latter to include individual project justification with documentation of estimated project cost;

(3) develop procedures to produce the information needed for effective policy decision making, including procedures to provide for the dissemination of information about plans, programs, and budget requests to be included in the annual budget and opportunity for public review and comment during the period of budget preparation;

(4) assist state agencies in their statement of goals and objectives to achieve, among other things, the legislature's mission and desired results, preparation of plans, assessments of the extent to which missions and desired results have been achieved, budget requests, and reporting of program performance; all documents forwarded by the office to a state agency containing instructions for the preparation of program plans and budget requests and the reporting of program performance are public information after the date they are forwarded;

(5) administer its responsibilities under the program execution provisions of this chapter so that the policy decisions and budget determinations of the governor and the legislature are implemented;

(6) provide the legislative finance division with the budget information it may request;

(7) provide the legislative finance division with an advance copy of the governor's budget workbooks by the first Monday in January of each year, except that

1 following a gubernatorial election year the advance copy shall be provided by the
2 second Monday in January;

3 (8) prepare the proposed capital improvements budget for the coming
4 fiscal year evaluating both state and local requests from the standpoint of need, equity,
5 and priorities of the jurisdiction; other factors such as project amounts, population,
6 local financial match, federal funds being used for local match, municipality or
7 unincorporated community acceptance of the facility, and all associated costs of the
8 facility may be considered;

9 (9) for each department in the executive branch, report to the
10 legislature by the 45th day of each regular session the amount of money appropriated
11 to the department that is expected to lapse into the general fund at the end of the
12 current fiscal year;

13 (10) establish and administer a state agency program performance
14 management system involving planning, performance budgeting, performance
15 measurement, and program evaluation; the office shall ensure that information
16 generated under this system is useful for managing and improving the efficiency and
17 effectiveness of agency operations.

18 * Sec. 4. AS 37.07.060 is amended to read:

19 **Sec. 37.07.060. Governor's recommendation.** (a) The governor shall
20 formulate the operating and capital budget, capital improvements program,
21 [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended
22 to the legislature by AS 37.07.020 after considering the state agency proposed
23 program and financial plans, and other programs and alternatives that the governor
24 considers appropriate. The plans must include the governor's recommended missions
25 and results, recommended strategies to implement the missions and results,
26 recommended measures for determining whether the missions and desired results are
27 achieved, including an assessment of whether prior year missions and desired results
28 have been achieved, recommended operating program for the succeeding fiscal year,
29 recommended capital improvements program for the succeeding six fiscal years,
30 recommended programs for the upgrading of public buildings and facilities prepared
31 in accordance with AS 35.10.015, and recommended revenue measures to support the

1 programs.

2 (b) The governor shall present the proposed comprehensive operating and
3 capital improvements programs and fiscal plan [FINANCIAL PLANS] in a message
4 to a joint session of the legislature before the fourth legislative day following the
5 convening of the legislature in regular session. The message must be accompanied by
6 an explanatory report that summarizes recommended goals, plans, and appropriations.

7 The report must contain

8 (1) the coordinated program goals and objectives that [WHICH] the
9 governor recommends to guide the decisions on the proposed program plans and
10 budget appropriations;

11 (2) the governor's operating program and budget recommendations for
12 the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

13 (3) the governor's capital improvements program and budget
14 recommendations for the succeeding fiscal year and capital improvements program for
15 the succeeding six fiscal years, which must include

16 (A) a description of each project, its estimated cost for the year
17 construction is to start and the estimated cost of the project adjusted for
18 inflation over the estimated period of construction, and the source of financing
19 for the project; the project description for a new building or a new facility or
20 for a major addition to a building or facility scheduled for the first three
21 years of the plan should include a site plan, preliminary drawings, and
22 architect's or engineer's total cost estimate for the project;

23 (B) a summary of projects previously authorized and not yet
24 completed;

25 (C) a summary, listed by agency, of all previously proposed
26 projects that have been deferred beyond the six years covered by the plan and
27 the year in which construction has been rescheduled to begin;

28 (D) a forecast of the debt structure of the state and the various
29 debt ratios over the life of the state's bonds outstanding, bonds authorized and
30 to be issued, and bond authorizations recommended in the plan;

31 (E) a description of additional revenue measures needed to

1 finance the plan in lieu of debt;

2 (F) bond election bills to authorize the bonds required to fund
3 the projects scheduled for the first three years of the plan;

4 (G) projections of population of the state and its regions and
5 communities;

6 (H) economic data and projections necessary for the evaluation
7 of the plan;

8 (4) a summary of state receipts in the last fiscal year, a revised estimate
9 for the current fiscal year, and an estimate for the succeeding fiscal year;

10 (5) a summary of expenditures during the last fiscal year, those
11 authorized for the current fiscal year, and an estimate for the succeeding fiscal year;

12 (6) any additional information that will facilitate understanding of the
13 governor's proposed programs and financial plans by the legislature and the public.

14 * Sec. 5. AS 37.14.003(a) is amended to read:

15 (a) The governor shall, at the time the governor submits the proposed
16 [COMPREHENSIVE OPERATING AND] capital improvements program and fiscal
17 [FINANCIAL] plan under AS 37.07.060(b), submit to the legislature a separate
18 appropriation bill limited to appropriations for the state's integrated comprehensive
19 mental health program.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB068-GOV-OMB-2-08-07
 Bill Version: HB 68
 () Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: All

Title Long-range fiscal plan

RDU _____

Component _____

Sponsor Rep. Gruenberg

Requester Sen. State Affairs Committee

Component No. _____

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would require the legislature to prepare an annual five year long-range financial plan, including specific proposals to balance revenue and expenditures.

The bill does not call for executive branch participation; however, we would expect information and projections relating to revenues and expenditures to be requested from executive branch agencies. These requests would require some agency staff time for responses, but agency staff already respond to similar requests; therefore this legislation would not require additional staff or significant expenditures.

Prepared by: Jack Kreinheder, Senior Analyst
 Division: Office of Management and Budget
 Approved by: Karen J. Rehfeld, Director
 Agency: Office of Management and Budget

Phone 465-4676
 Date/Time 2/7/07 9:30 AM
 Date 2/7/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB068-DOR-TAX-2-8-07
Bill Version: HB 68
() Publish Date: _____

Revision Date/Time (Note if correction):
Title Long Range Fiscal Plan

Dept. Affected: Revenue 04
RDU Taxation and Treasury
Component Tax Division

Sponsor Representatives Gruenberg, Harris,
Doll, Wilson and Buch

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 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	------------	------------	------------	------------	------------	------------

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

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	*	*	*	*	*	*

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Nels Tomlinson

Division: Tax

Approved by: Jerry Burnett

Agency: Department of Revenue

Phone (907) 465-5636

Date/Time 8 February 2007 13:35

Date 2/8/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 68

ANALYSIS CONTINUATION

Bill Language: This bill would require the legislature to annually revise a long range fiscal plan which would include estimates of available revenues for the current and four succeeding fiscal years. The fiscal plan might also include ways to raise revenue and maintain a stable tax environment.

Revenues: This bill will have no effect on revenues.

Expenditures: The additional expenditures associated with this bill are indeterminate. After consulting with the governor's Office of Management and Budget, we believe that the projections required by Section 2 (a) of this bill could be provided by our current revenues forecasts. The Tax Division of the Department of Revenue currently produces semi-annual revenue forecasts, and the succeeding ten years' forecasts of Total Unrestricted General Purpose Revenue are published in the Revenue Sources Book. If the required projections can be fitted into our current framework of revenue projections, there would be no significant additional costs associated with this bill. Whether we can fit the required forecasts into our existing forecasting framework will depend upon the level of accuracy and detail required.

The forecasts of potential taxes which might be required under Section 2 (b) (4) are outside the scope of our current routine, and might require additional expenditures.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB068-DOA-FIN-2-2-07
Bill Version: HB068
() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: Administration

Title An act relating to the adoption and revision of a comprehensive long-range fiscal plan for St. of AK

RDU Centralized Admin Services

Component Finance

Sponsor Representative Gruenberg

Requester _____

Component No. 59

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE

(Thousands of Dollars)

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

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill adds a new section requiring the legislature to adopt and annually revise a comprehensive long-range fiscal plan that ensure state revenue meet expenditures for the current fiscal year and the next four fiscal years.

Involvement by the Division of Finance in implementing such a plan would be limited to providing current and historical financial information. Division of Finance is not involved in the forecasting of revenues or expenditures of future periods. Providing current and historical financial information is a normal business function that would not require any additional funding.

Prepared by: Kim Garner & Lisa Pusich

Division: Finance

Approved by: Kevin Brooks, Deputy Commissioner

Agency: Department of Administration

Phone 465-2240

Date/Time 2/2/07 4:20 PM

Date 2/2/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB68-LEG-LF-2-7-07
Bill Version: HB 68
() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: Legislature

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

RDU Budget and Audit Committee

Component Legislative Finance

Sponsor Gruenberg, Harris, Doll, Wilson, and Buch

Requester House Finance Committee

Component No. 774

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
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 (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This legislation has zero fiscal impact on the Legislative Finance Division. Any costs will be absorbed within the existing budget.

Prepared by: Karla Schofield, Deputy Director

Division: Legislative Affairs Agency

Approved by: Pamela Varni, Executive Director

Agency: Legislative Affairs Agency

Phone 465-6626

Date/Time 2/7/07 9:31 AM

Date 2/7/2007



Official Business

Alaska State Legislature

HOUSE OF REPRESENTATIVES

State Capitol
Juneau, AK 99801-1182

Representative John Harris

Representative Max Gruenberg

SPONSOR STATEMENT

HB 68

Adoption of a State Fiscal Plan

House Bill 68 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 require 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) plans to raise the necessary revenues while maintaining a stable tax environment; and (5) ways to maintain the integrity of the budget reserve fund.

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK 99801-1182

Representative John Harris

Representative Max Gruenberg

SECTIONAL ANALYSIS

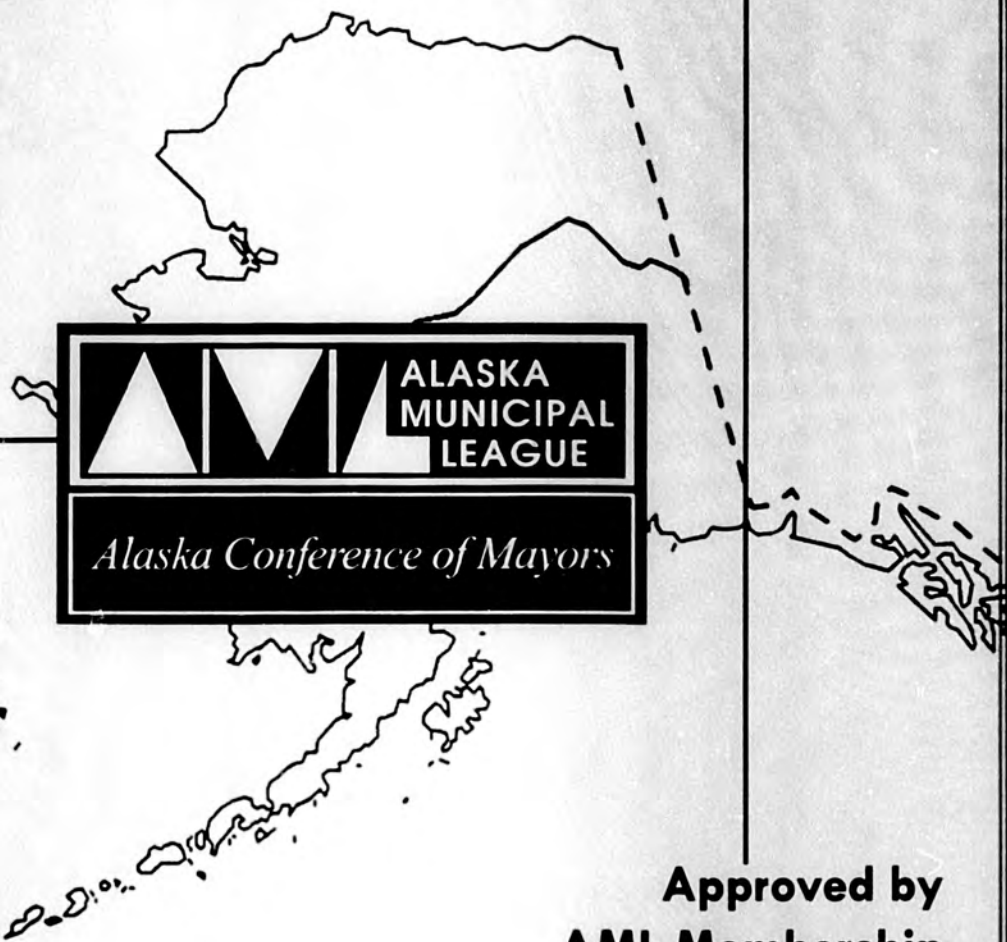
HB 68

Adoption of a State Fiscal Plan

Section 1. Makes 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 has sometimes been 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 addressed the disparity between state revenue and expenditures by drawing against the budget reserve fund; (5) the budget reserve fund could be entirely depleted, requiring the use of other revenue sources to meet state needs; (6) a combination of revenue sources will be required to achieve a fiscal plan that is balanced and fair to all Alaskans; (7) a comprehensive long-range fiscal plan will encourage the discipline necessary to ensure that the state budget remains balanced and properly planned in the future; and (8) the implementation of a comprehensive long-range fiscal plan will help stabilize the state's economy.

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 both 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 project 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 availability of the budget reserve fund.

2007 Policy Statement



**Approved by
AML Membership
November 2006**

Alaska Municipal League
217 Second Street, Suite 200
Juneau, Alaska 99801
Phone (907) 586-1325
Fax (907) 463-5480

reduce local taxpayer subsidization of state lands and facilities. Based on the above criteria, local taxpayers are currently subsidizing state government by approximately \$75 million per year. These subsidies should be funded with a PILT.

2. State Funding for Education:

- a. The League supports continued long-term full funding of the education foundation program, school debt reimbursement and construction. The foundation formula should be adjusted annually to compensate for inflation (See Part II, Education A.4. for a full discussion on the state's constitutional mandate to provide schools).
- b. The League strongly encourages amending the education foundation formula so it is equitable to local governments and does not take unfair advantage of changes in local assessed values.

3. Municipal Capital Matching Grants:

- a. The League supports full funding for the Municipal Capital Matching Grant Program, using earnings of the Amerada Hess Account for local capital infrastructure needs at not less than the historical funding level of \$ 28 to 32 million level per year, adjusted for inflation since inception of the program during the Hickel Administration (See also A.1. in Public Works and Infrastructure section). The purpose of the Municipal Capital Matching Grant Program was to allow communities to meet their top infrastructure needs most efficiently while shielding them from the political legislative allocation process.
- b. **State and Municipal Facilities and Infrastructure:** Funding for the maintenance of state and municipal facilities and infrastructure should be provided on a timely and consistent basis.
- c. **Deferred Maintenance:** The existing program to provide ongoing funding for deferred maintenance for state and municipal public facilities and infrastructure should be expanded using revenue sources other than local taxation for state mandated facilities.
- d. **Governmental Accounting Standards Board (GASB) Statement Number 34:** State support should be at a level at which municipalities can implement a deferred maintenance program and establish necessary reserves sufficient for future maintenance in order to comply with GASB 34.

4. Long-Range State Financial Plan:

- a. **Overall policy:** The adoption of a state operation and long-range fiscal plan is critical to a stable future for all Alaskans by promoting affordable state and local tax levels, and adequate state and local services with balanced complementary revenue sources for municipalities and the state.
- b. **Guiding Principles for a Financial Plan:** Elements that should be included in a long-range financial plan are:
 1. The plan provides financial stability.
 - Annual revenues are stable, predictable, and diversified.
 - State and local taxes are predictable.
 2. The plan is sustainable.
 - Protects and grows state and municipal financial assets.
 - Advances financial investment policies that maximize the returns of these assets.
 3. The plan is fair.
 - Any trade-offs between taxes, dividends, and public services are balanced across households, businesses, industries, and communities.
 - Economic activity supported with public dollars should provide financial return to state and/or local treasuries.
 - Provides smooth transition between substantial changes in dividends, taxes and/or public services.

c. Public Education and Involvement Regarding a Long Range Fiscal Plan:

- Municipalities should assist the Legislature and the Administration in educating the public through the use of local media, public forums, resolutions, creating local fiscal coalitions with local groups such as the PTAs and Chambers of Commerce, presentations at meetings of local organizations, one-on-one discussions with citizens, etc.
- The Administration must give Alaskans all the facts necessary to make decisions regarding a Long Range Fiscal Plan by developing written information, an interactive web site, meeting with local elected officials, etc.
- The Legislature should educate, inform and involve all citizens in these decisions regarding both fiscal and public service impacts through local forums, meeting with local officials, determining the impact of state budget actions on local taxes and services, and providing funding for schools to implement Alaska Civics and History to give young Alaskans information on how our government works.
- Together, municipalities, the Governor, and the Legislature should engage the public in a dialogue over the levels of public services that should be provided.

d. Legislative Open Meetings: To increase public understanding and support for legislative policy decisions, the legislature should hold open meetings to consider solutions for a Long Range Fiscal Plan.

e. Community and Local Control Issues:

- Revenue sharing or a Community Dividend is a component of the plan to maintain viable local communities with stable local taxes and services.
- Currently 102 of 163 municipalities depend on a sales tax of 1% - 7%. The League vigorously defends sales tax as a local option to maintain control over this key local revenue source. Imposition of a State sales tax would jeopardize local economics and cause a reduction in municipal sales tax.

f. Components of the Long Range Fiscal Plan:

There are two components that create a fiscal gap: **revenue and spending.**

1. Spending:

- a. State Spending Limit:** It is important to recognize that a balanced financial plan must respond to the public's concern to control state expenditures targeting long term financial stability. To this end, the League supports a spending limit that provides such restraint, but also includes the flexibility to respond to changing conditions including population, inflation, loss of federal funds, federal mandates, and emergencies.
- b. Sound Fiscal Policy:** The supplanting of general fund dollars with federal funds should only be done when it does not impair the effectiveness of a program in achieving its intended results, or its long-term viability should those federal funds at some point cease to supplant general fund dollars. Arbitrary replacement of state funds will serve as a disincentive to programs to diversify their sources of funding.
- c. Accountability:** A strong emphasis should be placed on the efficient use and accountability of public funds.

2. Revenue: Consider new revenues and equitable fees for state services to reduce the drain on dwindling state reserves. Consultation between state and local government is essential before the adoption of a broad-based fiscal plan.

- a. Income Tax:** Some form of a state income tax should be considered as part of an overall state fiscal plan. An income tax should include all wages earned in the State of Alaska regardless of residency.
- b. Permanent Fund Earnings:** The League supports investment and payout policies that provide a consistent financial return, with a Percent of Market Value (POMV) endowment plan, that results in payment of stable dividends to citizens and revenue to support state and local government services.

- c. **Keep Sales Tax Local:** A state sales tax is strongly discouraged because it would jeopardize local economies, reduce municipal sales tax revenue, and interfere with the evolution of municipal sales tax codes and exemptions, which have been refined and tailored to individual communities.
- d. **Natural Resource Revenues**
 - **North Slope Natural Gas Pipeline:** The League strongly endorses the construction of an all Alaskan natural gas pipeline from the North Slope, including regional spurs as proposed by the Alaska Gas Pipeline Port Authority. The program should be structured in such a way to include a provision for a PILT program or other guaranteed mechanism for local municipalities to levy local taxes.
 - **Arctic National Wildlife Refuge (ANWR):** (Note: Also in Section Part IV Land Use, Resources, and Economic Development) The League urges the Congress of the United States to open the Coastal Plain of the Arctic oil reserve, including the Alaska Native Claims settlement lands, to environmentally responsible oil and gas exploration, development, and production and upon collaboration with the local residents. The League also strongly supports the 90-10 split of revenues as required by the Statehood Act. The League also urges the State of Alaska to redistribute federal mineral revenue sharing funds to local governments.

B. ADMINISTRATION OF MUNICIPAL GRANTS AND ENTITLEMENTS

1. Regulation of Grants and Entitlements

- a. The League supports simple and standardized grant and entitlement programs. The League opposes the addition of special conditions or regulations to grants and entitlement programs by state departments administering the grants when such conditions are not contained in the appropriation or the authorizing legislation. Further, legislatively authorized grant award time frames should not be reduced due to administrative grant management policies.
- b. The League further supports the reduction of all administrative fees deducted by state departments administering the grants programs, and supports direct expenditures for those services.
- c. The League opposes any restriction on the grantees' retention or use of interest earned on grant funds.

2. Maintaining the Integrity of Objective Project and Program Ranking Processes.

The League supports maintaining the integrity of objective state grant ranking processes, developed in cooperation with the legislature, municipalities and school districts. Such objective ranking processes include Capital Project Matching Grants, School Construction Grants, and Water and Sewer Construction Grants. Rather than substitute projects at the legislative level, the League supports revision of the prioritization criteria, as appropriate, to best reflect the needs of Alaskans.

C. LOCAL TAXES

1. Tax Levying Authority:

The League opposes any action that would diminish the existing statutory authority of local governments to raise needed revenues through the levy of taxes. The League opposes any efforts by the state that would reduce local tax bases or adversely affect the marketability of municipal bonds. The League supports legislation to remove the prohibition in AS 4.21.010. (c) that prevents local voters from approving a special tax on alcohol.

January 24, 2007

Representative Max Gruenberg
State Capitol, Room 110
Juneau, AK 99801-1182

Dear Representative Gruenberg,

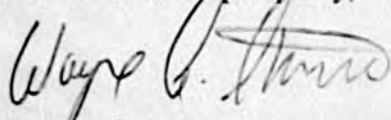
The Alaska State Chamber of Commerce wishes to say thank you for your efforts to begin a serious discussion on the development and adoption of a long-term fiscal plan for Alaska. Your willingness to introduce House Bill 68 brings us a step closer towards a long-term fiscal plan and may incite future legislatures to work at leveling the state's budgetary roller coaster. The State Chamber supports HB 68 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 68 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 should be considered. 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 68 and urges the legislature to pass the bill; however, the chamber also feels that HB 68 falls short of 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.

We genuinely appreciated your careful attention and thoughtful consideration of this matter.

Yours in economic prosperity,

A handwritten signature in dark ink, appearing to read "Wayne A. Stevens", written over a horizontal line.

Wayne A. Stevens
President/CEO

**Alaska State Chamber of Commerce
2007 Priority
Fiscal Plan**

The Alaska State Chamber of Commerce urges the Legislature to adopt a comprehensive fiscal policy. The State Chamber recognizes that the first problem in adopting a comprehensive fiscal policy is to have a common definition of what is a fiscal policy. While the State Chamber recognizes that no policy can bind future legislatures, the policy should reflect long-term sustainability and the best combination of the following considerations.

- Economic development and business opportunities need some level of fiscal certainty. That certainty can only be accomplished with a comprehensive fiscal plan which addresses state spending in times of shortfall and defines essential priorities
- A comprehensive fiscal policy should determine what constitutes a basic budget of essential services in times of revenue short-falls
- A comprehensive fiscal policy should seriously consider a two-year budget cycle based on funding these essential government services
- A comprehensive fiscal policy shall recognize the complex dependency of locally delivered services that are funded through state revenue sharing and factor that into the policy
- A comprehensive fiscal policy should address the PERS/TERS issue making this state obligation actuarially sound
- A comprehensive fiscal policy should include the utilization and sustainability of the Constitutional Budget Reserve
- A comprehensive fiscal policy should adopt the percent-of-market (POMV) management tool for the Alaska Permanent Fund;
- A comprehensive fiscal policy should reasonably anticipate scenarios of growth predicated on realistic resource development and its affect on budgets
- Forge a plan for implementation of a program to privatize state services that could be competitively provided by the private sector
- A comprehensive fiscal policy should not preclude the continuation of the Alaska Permanent Fund Dividend program
- No additional business taxes should be enacted by the legislature until a fiscal plan is developed. Further, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.

Anchorage Assembly



Anna Fairclough
Janice Shamberg
Melinda Taylor
Dick Traini
Doug Van Etten

Dan Kendall
Dan Sullivan
Allan Tesche
Dick Tremaine
Fay Von Gemmingen
Brian Whittle

Municipality of Anchorage

April 14, 2004

Dear Legislators

The citizens of Anchorage have repeatedly expressed frustration over rising taxes and are fatigued by the burden upon them and their households. Unfortunately, this burden is a direct result of the continuing reductions in State funding which has contributed to a 31% increase in property taxes in the past six years, and a 38% increase in local taxes to support Anchorage schools since the 1998-99 school year.

As you are aware, a ballot proposition was presented to the voters at the April 6, 2004 election requesting an advisory vote to determine if this community - as a whole - wished to publically advocate the Alaska Legislature to adopt a comprehensive long-range fiscal plan for the State of Alaska and, in open session.

The unofficial results of the vote, not including the outstanding absentee and questioned ballots to be tallied on April 16, 2004, resulted in the following:

- **120 out 122 precincts reported (to date)**
- **68.87% of the voters (33,030 votes) spoke out in favor of urging the Alaska Legislature to adopt a comprehensive long-range fiscal plan for the State of Alaska in open session**

The message is clear. Alaska's largest city expects our elected officials in Juneau to work diligently during the last weeks of this session to develop a long-range fiscal plan that will ensure fiscal stability, sustainability, and fairness to all Alaskans by providing adequate funding for public schools in Anchorage, as well as local programs such as "Safe Communities" historically funded with State revenues.

I look forward to working with you during the remaining weeks of this session.

Sincerely,

Dick Traini
Chair

cc. Assemblymembers
Mayor Begich
Carol Comeau, ASD Superintendent
Anchorage School Board

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-4750
www.muni.org/assembly2



THE ALLIANCE

...for responsible development of Alaska's Oil, Gas and Mineral Resources

2006 LEGISLATIVE PRIORITIES

PRIORITY

Legislative approval of a gas fiscal contract

PRIORITY

Competitive investment climate for oil and gas

PRIORITY

Extend exploration incentive program

PRIORITY

Long-range fiscal plan, with "percentage of market value" management of Permanent Fund

PRIORITY

Legislation promoting workforce development

2006 Alliance Legislative Priorities

1. Legislative approval of a gas fiscal contract that:

- encourages the earliest possible construction of a gas pipeline;
- promotes the use of Alaskan contractors and suppliers in pipeline engineering, construction, operations & maintenance;
- provides for in-state access to gas supplies with strategic "take-off" points;
- provides for 3rd party access and expansion capability to incentivize gas exploration.

2. Promote a positive business climate for oil and gas investment.

Alaska's economic future depends on tens of billions of dollars in new oil and gas investments. In order to compete successfully for those investments, Alaska must provide a stable business climate that includes a fair and predictable state fiscal system. The Alliance opposes any tax increase on oil and gas, such as a gas reserves tax, and supports a fiscal system that is fair and predictable for current and prospective oil and gas investors.

3. Extend and expand the current exploration incentive program.

The current 5-year exploration incentive program, providing severance tax discounts based on the distance of exploration drilling and seismic activity from current unit boundaries and existing wells, is due to expire in July 2007.

The program has worked in attracting new interest and exploratory activity, and it's critical that the credits be extended another five years during this session in order to promote exploratory drilling and seismic in 2008 due to planning cycles for these activities.

The Alliance also endorses enhancements to the program in order to make it more effective and attractive to prospective explorers. The current system dilutes the incentive for explorers with no production by forcing them to sell their credits at a discount and has no provisions incentivizing exploration for large reservoirs that are greater distances from existing infrastructure.

Among the possible enhancements are making the credits applicable toward corporate tax, lease bonus and rental obligations; increasing credits in proportion to distances from existing units and wells, and modifying or eliminating distance requirements for wells targeting new horizons.

4. Fiscal responsibility.

The Alliance supports legislative and administrative efforts to develop a long-range fiscal plan, including use of Permanent Fund earnings, a "percentage of market value" management structure for the Permanent Fund and, as a last resort, broad-based statewide taxes.

The Alliance opposes depositing budget surpluses into the Permanent Fund.

5. Support Legislation that promotes the development of a highly skilled and globally competitive resident Alaskan workforce that will meet the current and future needs of the oil, gas and mining industries.

The Alliance supports long-term and just-in-time funding through a combination of public education funding, public and private grants and working with such private/public coalitions as the Alaska Business Education Compact and Putting Alaska's Resources to Work.

Resolution #11
Comprehensive Fiscal Plan

WHEREAS, the Alaska Association of School Administrators includes the financial and business leadership of public education in Alaska; and

WHEREAS, public education is a significant economic force throughout the State educating in excess of 133,000 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, AASA is eager to support a responsible and committed effort to address the fiscal challenges Alaska currently faces; and

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

WHEREAS, AASA believes that reform will require a long term approach including a combination of budget discipline, use of Permanent Fund earnings, revenues generated by a natural gas pipeline and natural resource development, and a contribution from all people who live and/or work in Alaska; now

THEREFORE BE IT RESOLVED that the Alaska Association of School Administrators supports using earnings from 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, determining essential State services as provided in the State Constitution.

Adopted: Fairbanks, Alaska, October 7, 2006



Associated General Contractors of Alaska Legislative Priorities 2007

Long-term fiscal plan

It is in the best interests of the state of Alaska 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 Alaska Permanent Fund and incentives to encourage new economic growth. In addition the serious problems that currently exist in the state retirement programs demand 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

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. Garvee Bonds should be used judiciously since they add no new money to Alaska's highway program, they merely accelerate expenditures of anticipated future receipts. Given the likelihood that Alaska's share of the "highway trust fund pie" will decrease in the future, Garvee Bonds represent an opportunity to spend non-existent dollars, thereby greatly diminishing the money available to maintain and expand the infrastructure of Alaska.

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 not only continue providing full funding of

the federal highway matching funds but also start a consistent program of investment by the state in the program.

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 of 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 Alaska 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. The Workforce Investment Board has recently prepared a long-term strategy for meeting the projected shortfall in construction laborers. The strategy calls for increased funding for vocational training at the secondary level and a renewed emphasis at the post-secondary level to capture those who do not have the opportunity to receive such training at the secondary level.

In 2006, the Legislature took the first step and funded a pilot program at the King Career Center in Anchorage. The program represents a true public/private partnering effort and initial indications are that the model will help address the long-term labor needs of the construction industry. The program should be expanded to other schools in the state and the funding increased appropriately.

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.



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.



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

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

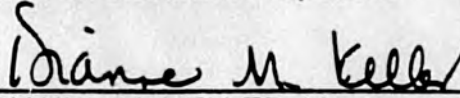
WHEREAS, diversified economic development requires a stable and predictable State-wide and local fiscal environment; and

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.

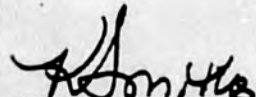
NOW THEREFORE BE IT RESOLVED, that the Wasilla City Council, urges the Alaska State Legislature to develop and adopt a Long-Range Fiscal Plan during its 2005 Legislative Session.

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



DIANNE M. KELLER, Mayor

ATTEST:



KRISTIE SMITHERS, MMC
City Clerk

[SEAL]

SCOMM

150:9

25-LS0546E

Cook

2/22/07

CS FOR HOUSE BILL NO. 125(W&M)**IN THE LEGISLATURE OF THE STATE OF ALASKA****TWENTY-FIFTH LEGISLATURE - FIRST SESSION****BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS****Offered:****Referred:****Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS****A BILL****FOR AN ACT ENTITLED****"An Act relating to budget planning and a fiscal plan for the State of Alaska."****BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:***** Section 1. AS 37.07.020(b) is amended to read:**

(b) In addition to the budget and bills submitted under (a) of this section, the governor shall submit a capital improvements program [AND FINANCIAL PLAN] covering the succeeding six fiscal years, and a fiscal plan with estimates of significant sources and uses of funds for the succeeding 10 fiscal years. The fiscal plan

(1) must include sufficient details to identify

(A) significant sources of funds;

(B) significant uses of funds, including lump sum projections of

(i) operating expenditures;

(ii) capital expenditures;

(iii) debt service expenditures;

1 (iv) fund capitalizations;

2 (v) appropriations of income of the Alaska
3 permanent fund (art. IX, sec. 15, Constitution of the State of
4 Alaska), if any;

5 (2) must balance sources and uses of funds held while providing
6 for essential state services and protecting the economic stability of the state;

7 (3) must include projected balances of significant funds held in
8 separate accounts, including the budget reserve fund (art. IX, sec. 17,
9 Constitution of the State of Alaska), the public education fund (AS 14.17.300),
10 and the Alaska capital income fund (AS 37.05.565);

11 (4) may, at the discretion of the governor, also include
12 recommendations to

13 (A) encourage economic growth and stability, maintain a
14 high quality of life, develop the state's natural resources, educate the
15 children of the state, and maintain public health, safety, and welfare;

16 (B) provide services as efficiently as practicable and reduce
17 state expenditures where possible;

18 (C) establish policies that protect the principal of the
19 Alaska permanent fund over time while using the income of the fund to

20 (i) offset the effect of inflation on the principal of the

21 fund;

22 (ii) maintain a strong permanent fund dividend
23 program;

24 (iii) retain the legislature's flexibility to determine
25 the appropriate use of the remaining income of the fund;

26 (D) raise revenue for the operation of state government
27 while maintaining a stable tax environment; and

28 (E) provide adequate reserve funds to mitigate the
29 consequences of market price volatility on state revenue from resources.

30 * Sec. 2. AS 37.07.020(c) is amended to read:

31 (c) Proposed expenditures may not exceed estimated revenue for the

succeeding fiscal year. The expenditures proposed in the six-year capital improvements program [AND FINANCIAL PLAN] may not exceed the estimated revenue and bond authorizations passed and proposed.

* Sec. 3. AS 37.07.040 is amended to read:

Sec. 37.07.040. Office of management and budget. The Alaska office of management and budget shall

(1) prepare for submission to the governor an annually updated 10-year fiscal plan and assist the governor in the preparation and explanation of the [PROPOSED COMPREHENSIVE PROGRAM AND FINANCIAL] plan, including the coordination and analysis of state agency goals and objectives, plans, and budget requests;

(2) prepare for submission to the governor an annually updated six-year capital improvements program and the proposed capital improvements budget for the coming fiscal year, the latter to include individual project justification with documentation of estimated project cost;

(3) develop procedures to produce the information needed for effective policy decision making, including procedures to provide for the dissemination of information about plans, programs, and budget requests to be included in the annual budget and opportunity for public review and comment during the period of budget preparation;

(4) assist state agencies in their statement of goals and objectives to achieve, among other things, the legislature's mission and desired results, preparation of plans, assessments of the extent to which missions and desired results have been achieved, budget requests, and reporting of program performance; all documents forwarded by the office to a state agency containing instructions for the preparation of program plans and budget requests and the reporting of program performance are public information after the date they are forwarded;

(5) administer its responsibilities under the program execution provisions of this chapter so that the policy decisions and budget determinations of the governor and the legislature are implemented;

(6) provide the legislative finance division with the budget information

1 it may request;

2 (7) provide the legislative finance division with an advance copy of the
3 governor's budget workbooks by the first Monday in January of each year, except that
4 following a gubernatorial election year the advance copy shall be provided by the
5 second Monday in January;

6 (8) prepare the proposed capital improvements budget for the coming
7 fiscal year evaluating both state and local requests from the standpoint of need, equity,
8 and priorities of the jurisdiction; other factors such as project amounts, population,
9 local financial match, federal funds being used for local match, municipality or
10 unincorporated community acceptance of the facility, and all associated costs of the
11 facility may be considered;

12 (9) for each department in the executive branch, report to the
13 legislature by the 45th day of each regular session the amount of money appropriated
14 to the department that is expected to lapse into the general fund at the end of the
15 current fiscal year;

16 (10) establish and administer a state agency program performance
17 management system involving planning, performance budgeting, performance
18 measurement, and program evaluation; the office shall ensure that information
19 generated under this system is useful for managing and improving the efficiency and
20 effectiveness of agency operations.

21 * Sec. 4. AS 37.07.060 is amended to read:

22 **Sec. 37.07.060. Governor's recommendation.** (a) The governor shall
23 formulate the operating and capital budget, capital improvements program,
24 [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended
25 to the legislature by AS 37.07.020 after considering the state agency proposed
26 program and financial plans, and other programs and alternatives that the governor
27 considers appropriate. The plans must include the governor's recommended missions
28 and results, recommended strategies to implement the missions and results,
29 recommended measures for determining whether the missions and desired results are
30 achieved, including an assessment of whether prior year missions and desired results
31 have been achieved, recommended operating program for the succeeding fiscal year,

recommended capital improvements program for the succeeding six fiscal years, recommended programs for the upgrading of public buildings and facilities prepared in accordance with AS 35.10.015, and recommended revenue measures to support the programs.

(b) The governor shall present the proposed comprehensive operating and capital improvements programs and fiscal plan [FINANCIAL PLANS] in a message to a joint session of the legislature before the fourth legislative day following the convening of the legislature in regular session. The message must be accompanied by an explanatory report that summarizes recommended goals, plans, and appropriations. The report must contain

(1) the coordinated program goals and objectives that [WHICH] the governor recommends to guide the decisions on the proposed program plans and budget appropriations;

(2) the governor's operating program and budget recommendations for the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

(3) the governor's capital improvements program and budget recommendations for the succeeding fiscal year and capital improvements program for the succeeding six fiscal years, which must include

(A) a description of each project, its estimated cost for the year construction is to start and the estimated cost of the project adjusted for inflation over the estimated period of construction, and the source of financing for the project; the project description for a new building or a new facility or for a major addition to a building or facility scheduled for the first three years of the plan should include a site plan, preliminary drawings, and architect's or engineer's total cost estimate for the project;

(B) a summary of projects previously authorized and not yet completed;

(C) a summary, listed by agency, of all previously proposed projects that have been deferred beyond the six years covered by the plan and the year in which construction has been rescheduled to begin;

(D) a forecast of the debt structure of the state and the various

1 debt ratios over the life of the state's bonds outstanding, bonds authorized and
2 to be issued, and bond authorizations recommended in the plan;

3 (E) a description of additional revenue measures needed to
4 finance the plan in lieu of debt;

5 (F) bond election bills to authorize the bonds required to fund
6 the projects scheduled for the first three years of the plan;

7 (G) projections of population of the state and its regions and
8 communities;

9 (H) economic data and projections necessary for the evaluation
10 of the plan;

11 (4) a summary of state receipts in the last fiscal year, a revised estimate
12 for the current fiscal year, and an estimate for the succeeding fiscal year;

13 (5) a summary of expenditures during the last fiscal year, those
14 authorized for the current fiscal year, and an estimate for the succeeding fiscal year;

15 (6) any additional information that will facilitate understanding of the
16 governor's proposed programs and financial plans by the legislature and the public.

17 * Sec. 5. AS 37.14.003(a) is amended to read:

18 (a) The governor shall, at the time the governor submits the proposed
19 [COMPREHENSIVE OPERATING AND] capital improvements program and fiscal
20 [FINANCIAL] plan under AS 37.07.060(b), submit to the legislature a separate
21 appropriation bill limited to appropriations for the state's integrated comprehensive
22 mental health program.

25-LS0546C

Cook

2/8/07

CS FOR HOUSE BILL NO. 125(W&M)**IN THE LEGISLATURE OF THE STATE OF ALASKA****TWENTY-FIFTH LEGISLATURE - FIRST SESSION****BY THE HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

Offered:

Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

A BILL**FOR AN ACT ENTITLED****"An Act relating to budget planning and a fiscal plan for the State of Alaska."****BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:***** Section 1. AS 37.07.020(b) is amended to read:**

(b) In addition to the budget and bills submitted under (a) of this section, the governor shall submit a capital improvements program [AND FINANCIAL PLAN] covering the succeeding six fiscal years, and a fiscal plan covering projected sources and uses of funds during the succeeding 10 fiscal years. The fiscal plan

(1) must include sufficient details to identify**(A) significant sources of funds;****(B) significant uses of funds, including projections of****(i) operating expenditures;****(ii) capital expenditures;****(iii) debt service expenditures;****(iv) fund capitalizations;****(v) appropriations of income of the Alaska**

1 permanent fund (art. IX, sec. 15, Constitution of the State of
2 Alaska), if any;

3 (2) must balance sources and uses of funds while providing for
4 essential state services and protecting the economic stability of the state;

5 (3) must include projected balances of significant funds in separate
6 accounts, including the budget reserve fund (art. IX, sec. 17, Constitution of the
7 State of Alaska), the public education fund (AS 14.17.300), and the Alaska capital
8 income fund (AS 37.05.565);

9 (4) may provide recommendations to

10 (A) encourage economic growth and stability, maintain a
11 high quality of life, develop the state's natural resources, educate the
12 children of the state, and maintain public health, safety, and welfare;

13 (B) provide services as efficiently as practicable and reduce
14 state expenditures where possible;

15 (C) establish policies that protect the principal of the
16 Alaska permanent fund over time while using the income of the fund to

17 (i) offset the effect of inflation on the principal of the
18 fund;

19 (ii) maintain a strong permanent fund dividend
20 program;

21 (iii) retain the legislature's flexibility to determine
22 the appropriate use of the remaining income of the fund;

23 (D) raise revenue for the operation of state government
24 while maintaining a stable tax environment; and

25 (E) provide adequate reserve funds to mitigate the
26 consequences of market price volatility on state revenue from resources.

27 * Sec. 2. AS 37.07.020(c) is amended to read:

28 (c) Proposed expenditures may not exceed estimated revenue for the
29 succeeding fiscal year. The expenditures proposed in the six-year capital
30 improvements program [AND FINANCIAL PLAN] may not exceed the estimated
31 revenue and bond authorizations passed and proposed.

* Sec. 3, AS 37.07.040 is amended to read:

Sec. 37.07.040. Office of management and budget. The Alaska office of

management and budget shall

(1) prepare for submission to the governor an annually updated 10-year fiscal plan and assist the governor in the preparation and explanation of the [PROPOSED COMPREHENSIVE PROGRAM AND FINANCIAL] plan, including the coordination and analysis of state agency goals and objectives, plans, and budget requests;

(2) prepare for submission to the governor an annually updated six-year capital improvements program and the proposed capital improvements budget for the coming fiscal year, the latter to include individual project justification with documentation of estimated project cost;

(3) develop procedures to produce the information needed for effective policy decision making, including procedures to provide for the dissemination of information about plans, programs, and budget requests to be included in the annual budget and opportunity for public review and comment during the period of budget preparation;

(4) assist state agencies in their statement of goals and objectives to achieve, among other things, the legislature's mission and desired results, preparation of plans, assessments of the extent to which missions and desired results have been achieved, budget requests, and reporting of program performance; all documents forwarded by the office to a state agency containing instructions for the preparation of program plans and budget requests and the reporting of program performance are public information after the date they are forwarded;

(5) administer its responsibilities under the program execution provisions of this chapter so that the policy decisions and budget determinations of the governor and the legislature are implemented;

(6) provide the legislative finance division with the budget information it may request;

(7) provide the legislative finance division with an advance copy of the governor's budget workbooks by the first Monday in January of each year, except that

following a gubernatorial election year the advance copy shall be provided by the second Monday in January;

(8) prepare the proposed capital improvements budget for the coming fiscal year evaluating both state and local requests from the standpoint of need, equity, and priorities of the jurisdiction; other factors such as project amounts, population, local financial match, federal funds being used for local match, municipality or unincorporated community acceptance of the facility, and all associated costs of the facility may be considered;

(9) for each department in the executive branch, report to the legislature by the 45th day of each regular session the amount of money appropriated to the department that is expected to lapse into the general fund at the end of the current fiscal year;

(10) establish and administer a state agency performance management system involving planning, performance budgeting, performance measurement, and program evaluation; the office shall ensure that information generated under this system is useful for managing and improving the efficiency and effectiveness of agency operations.

* Sec. 4. AS 37.07.060 is amended to read:

Sec. 37.07.060. Governor's recommendation. (a) The governor shall formulate the operating and capital budget, capital improvements program, [PROGRAMS] and fiscal plan [FINANCIAL PLANS] required to be recommended to the legislature by AS 37.07.020 after considering the state agency proposed program and financial plans, and other programs and alternatives that the governor considers appropriate. The plans must include the governor's recommended missions and results, recommended strategies to implement the missions and results, recommended measures for determining whether the missions and desired results are achieved, including an assessment of whether prior year missions and desired results have been achieved, recommended operating program for the succeeding fiscal year, recommended capital improvements program for the succeeding six fiscal years, recommended programs for the upgrading of public buildings and facilities prepared in accordance with AS 35.10.015, and recommended revenue measures to support the

1 programs.

2 (b) The governor shall present the proposed comprehensive operating and
3 capital improvements programs and fiscal plan [FINANCIAL PLANS] in a message
4 to a joint session of the legislature before the fourth legislative day following the
5 convening of the legislature in regular session. The message must be accompanied by
6 an explanatory report that summarizes recommended goals, plans, and appropriations.

7 The report must contain

8 (1) the coordinated program goals and objectives that [WHICH] the
9 governor recommends to guide the decisions on the proposed program plans and
10 budget appropriations;

11 (2) the governor's operating program and budget recommendations for
12 the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

13 (3) the governor's capital improvements program and budget
14 recommendations for the succeeding fiscal year and capital improvements program for
15 the succeeding six fiscal years, which must include

16 (A) a description of each project, its estimated cost for the year
17 construction is to start and the estimated cost of the project adjusted for
18 inflation over the estimated period of construction, and the source of financing
19 for the project; the project description for a new building or a new facility or
20 for a major addition to a building or facility scheduled for the first three
21 years of the plan should include a site plan, preliminary drawings, and
22 architect's or engineer's total cost estimate for the project;

23 (B) a summary of projects previously authorized and not yet
24 completed;

25 (C) a summary, listed by agency, of all previously proposed
26 projects that have been deferred beyond the six years covered by the plan and
27 the year in which construction has been rescheduled to begin;

28 (D) a forecast of the debt structure of the state and the various
29 debt ratios over the life of the state's bonds outstanding, bonds authorized and
30 to be issued, and bond authorizations recommended in the plan;

31 (E) a description of additional revenue measures needed to

- 1 finance the plan in lieu of debt;
- 2 (F) bond election bills to authorize the bonds required to fund
- 3 the projects scheduled for the first three years of the plan;
- 4 (G) projections of population of the state and its regions and
- 5 communities;
- 6 (H) economic data and projections necessary for the evaluation
- 7 of the plan;
- 8 (4) a summary of state receipts in the last fiscal year, a revised estimate
- 9 for the current fiscal year, and an estimate for the succeeding fiscal year;
- 10 (5) a summary of expenditures during the last fiscal year, those
- 11 authorized for the current fiscal year, and an estimate for the succeeding fiscal year;
- 12 (6) any additional information that will facilitate understanding of the
- 13 governor's proposed programs and financial plans by the legislature and the public.

14 * **Sec. 5.** AS 37.14.003(a) is amended to read:

- 15 (a) The governor shall, at the time the governor submits the proposed
- 16 [COMPREHENSIVE OPERATING AND] capital improvements program and **fiscal**
- 17 [FINANCIAL] plan under AS 37.07.060(b), submit to the legislature a separate
- 18 appropriation bill limited to appropriations for the state's integrated comprehensive
- 19 mental health program.



25th Alaska State Legislature

House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
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Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct
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Changes between HB 125 And CS HB 125 – work draft 25-LS0546\C

- Removed “long-range” wherever it appeared before “fiscal plan”
- Page 2, line 2, following “Alaska)
Inserted “,if any”
- Page 2, line 3, following “balance”
Replaced “state expenditures and revenue” with “sources and
uses of funds”
- Amended section two by removing the reference to the
“financial plan”

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB125-DOR-TAX-2-13-0
 Bill Version: HB 125
 () Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept. Affected: Revenue 04

Title: Long Range Fiscal Plan

RDU: Taxation and Treasury

Component: Tax Division

Sponsor: House Ways and Means

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 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

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

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

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	*	*	*	*	*	*

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Nels Tomlinson

Phone (907) 465-5636

Division: Tax

Date/Time: _____

Approved by: Jerry Burnett

Date 2/13/2007

Agency: Department of Revenue

612

STATE OF ALASKA

BILL NO. HB 125

ANALYSIS CONTINUATION

Bill Language: This bill would require the governor to provide a long range financial plan for the state, covering projected sources " ... of funds during the succeeding 10 fiscal years. The long range fiscal plan must include sufficient details to identify significant sources of funds [Section 1 (b)(1)(A)]."

The bill also would permit the governor to include recommendations to raise revenue for operation of state government while maintaining a stable tax environment [Section 1 (b)(4)].

Revenues: This bill will have no effect on revenues.

Expenditures: The additional expenditures associated with this bill are indeterminate. After consulting with the governor's Office of Management and Budget, we believe that the projections required by Section 1 (b)(1)(A) of this bill could be provided by a minor extension of our current revenue forecasts. The Department of Revenue currently produces semi-annual revenue forecasts, and the succeeding two years' detailed revenue forecasts are published in the Revenue Sources Book. The Department also publishes the succeeding ten years' forecasts of Total Unrestricted General Purpose Revenue. If the new projections can be fitted into our current framework of revenue projections, there would be no significant additional costs associated with this bill. Whether we can fit the required forecasts into our existing forecasting framework will depend upon the governor's eventual decision as to the level of accuracy and detail required.

The forecasts of potential taxes which might be required under Section 1 (b)(4) are outside of the current scope of our forecasts. Detailed forecasts of the revenues and economic impacts of new taxes would require additional expenditures.

POSITIONS

ANALYSIS:

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Page 2 of 2



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House Bill 125

Sponsor Statement

Short Title: Long-Range Fiscal Plan

House Bill 125 clarifies the existing duty imposed on the Governor by the Executive Budget Act (EBA) to annually prepare a "financial plan." The EBA contains no further definition of the financial plan.

Perhaps due to the vagueness of the EBA, the financial plan has not been prepared in recent years, if ever. The Director of the Office of Management and Budget (OMB) reports that "OMB has not prepared a formal plan for some time..."

HB 125 requires that, in addition to the annual budget, the Governor shall submit a fiscal plan consisting of estimates of significant sources and uses of funds for the succeeding 10 fiscal years. The fiscal plan must include only enough detail to identify significant sources of funds and lump-sum projections of significant uses of funds, such as for operating expenditures and capital expenditures. The plan does not require or imply adoption of any policy, only the estimation of future cash flows and identification of means to keep sources and uses of funds in balance over time.

The plan must also include projected balances of significant funds held in separate accounts, such as the constitutional budget reserve, the public education fund and the Alaska capital income fund.

HB 125 also allows, but does not require, the Governor to include fiscal policy recommendations in the fiscal plan.

The purpose of HB 125 is to require a simple and efficient process that puts the broadest picture of state expenditure and revenue trends in perspective and stimulates the discussion and development of specific long-range fiscal policies.

The baseline fiscal analysis provided under HB 125 is the necessary prerequisite for long-range fiscal decision making as well as a device to put current budgets in context, encouraging short-term discipline and responsibility.

Chapter 07. Executive Budget Act.

Section

- 10. Statement of policy
- 14. Responsibilities of the legislature
- 16. Governor's primary duty
- 20. Responsibilities of the governor
- 40. Office of management and budget
- 50. Agency program and financial plans; mission statements
- 60. Governor's recommendation

Section

- 62. Capital budget
- 70. Legislative review
- 80. Program execution
- 100. Proposed supplemental or special appropriations
- 110. Interpretation of chapter
- 120. Definitions
- 130. Short title

Revisor's notes. — Enacted as AS 37.35. Renumbered in 1970.

NOTES TO DECISIONS

Cited in International Org. of Masters v. Andrews, 626 F. Supp. 1271 (D. Alaska 1986).

Sec. 37.07.010. Statement of policy. It is the purpose of this chapter to establish a comprehensive system for state program and financial management that furthers the capacity of the governor and legislature to plan and finance the services that they determine the state will provide for its citizens. The system must include procedures for

- (1) the orderly establishment, continuing review, and periodic revision of the program goals and policies of state agencies and financial goals and policies of the state;
- (2) the development, coordination, and review of long-range program and financial plans that will implement established state goals and policies;
- (3) the preparation, coordination, analysis, and enactment of a budget that is organized to focus on the services provided by state agencies and on the cost of those services and that provides for implementation of policies and plans, in the succeeding budget period;
- (4) the evaluation of alternatives to existing policies, plans, and procedures that offer potential for more efficient state services;
- (5) the regular appraisal and reporting of program performance;
- (6) public participation in the development of the annual budget, including opportunity for the public to review and comment upon the plans and programs of the Office of the Governor and all state agencies in the executive branch, the legislature, the judicial system, the University of Alaska, and the public corporations of the state. (§ 1 ch 188 SLA 1970; am § 2 ch 168 SLA 1978; am §§ 1, 2 ch 2 SLA 1982)

Cross references. — For constitutional provisions as to budget, see Alaska Const., art. IX, § 12.

NOTES TO DECISIONS

Stated in M-K Eng'g Co. v. Alaska Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Sec. 37.07.014. Responsibilities of the legislature. (a) To carry out its legislative power under art. II, sec. 1, Constitution of the State of Alaska, and to promote results-based government, the legislature shall issue a mission statement for each agency and the desired results the agency should achieve. The legislature may issue a separate mission statement for a subunit of an agency. A mission statement and desired results should promote the efficient, measured use of the state's resources. A mission statement

and desired results constitute policy under which an agency shall operate, and, where appropriate, the mission statement may be implemented by statute.

(b) The legislature shall provide for a budget review function that promotes results-based government. The legislature shall adopt a method of measuring results for each agency, and measurements shall be reported semi-annually by each agency to the legislature. The reports shall be used by the legislature to evaluate whether the mission and desired results for that agency or subunit of the agency are being achieved.

(c) The legislature shall analyze the comprehensive operating and capital improvements programs and financial plans recommended by the governor.

(d) To foster results-based government, to carry out the mission statements, and to obtain desired results, the legislature shall authorize the comprehensive operating and capital improvements programs and financial plans. The legislature shall allocate the state's resources for effective and efficient delivery of public services by

- (1) clearly identifying desired results;
 - (2) setting priorities;
 - (3) assigning accountability; and
 - (4) using methods for measuring, reporting, and evaluating results.
- (e) The legislature shall

(1) provide for a post-audit function to cover financial transactions, program accomplishment, and compliance with legislative intent;

(2) adopt or revise the estimate of receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

(3) adopt, revise, or initiate revenue measures in order to balance the succeeding fiscal year's budget and the capital improvements section of the budget for the succeeding six years.

(f) To help fulfill the legislature's responsibilities under this section and achieve results-based government, each agency shall

(1) allocate resources to achieve the mission and desired results established by the legislature;

(2) express desired results established by the legislature and other program results in measurable terms;

(3) measure progress towards mission statements and desired results established by the legislature and other results;

(4) promote activities consistent with mission statements and desired results established by the legislature that reduce or avoid future costs;

(5) plan for the short-term and the long-term using consistent assumptions for major demographic and other trends; and

(6) require accountability at all levels for meeting program mission statements and desired results established by the legislature. (§ 1 ch 27 SLA 1998)

Sec. 37.07.016. Governor's primary duty. To carry out the executive power under art. III, sec. 1 and sec. 16, Constitution of the State of Alaska, the governor shall use the mission statements and desired results issued by the legislature as a guide to implement and execute the law. The governor shall assure that each agency complies with the mission statement and achieves the desired results identified by the legislature. (§ 1 ch 27 SLA 1998)

Sec. 37.07.020. Responsibilities of the governor. (a) The governor shall prepare a budget for the succeeding fiscal year that must cover all estimated receipts, including all grants, loans, and money received from the federal government and all proposed expenditures of the state government. The budget shall be organized so that the proposed expenditures for each agency are presented separately. The budget must be accompanied

by the information required by the appropriation bill and the integrated comprehensive appropriation bill authorizing the state's integrated comprehensive capital expenditures if any, in the budget for the year and each of the bills the governor shall submit to the public. The bills, identical copies, shall be delivered to the rules committee at the regular session for introduction.

(b) In addition to the bills, the governor shall submit a capital improvements plan for the six fiscal years.

(c) Proposed expenditures for the year. The expenditure financial plan may not be proposed.

(d) *[Repealed, § 35]*

(e) The budget preparation shall include expenditures for each repair, and periodic repair, and renewal of facilities separately from the Proposed annual appropriation, and renewal of facilities contained in an appropriation separately from appropriation. (§ 1 ch 188 SLA 1970; § 1 ch 61 SLA 1982; am § 1 ch 61 SLA 1998; § 6, 7 ch 59 SLA 1999)

Sec. 37.07.030. Responsibility of the governor.

Sec. 37.07.040. Off

ment and budget shall

(1) assist the governor in the development of the state's program and financial goals and objectives, p

(2) prepare for subcommittee improvements program fiscal year, the latter estimated project cost;

(3) develop procedures making, including plans, programs, and for public review;

(4) assist state agencies in other things, the legislative requests, and reporting a state agency contain