

AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 150 3252

Chapter 37.07. EXECUTIVE BUDGET ACT

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 under AS 37.07.050 and by the following separate bills: (1) an appropriation bill authorizing the operating and capital expenditures of the state's integrated comprehensive mental health program under AS 37.14.003(a); (2) an appropriation bill authorizing state operating expenditures other than those included in the state's integrated comprehensive mental health program; (3) an appropriation bill authorizing capital expenditures other than those included in the state's integrated comprehensive mental health program; and (4) a bill or bills covering recommendations, if any, in the budget for new or additional revenue. The budget for the succeeding fiscal year and each of the bills shall become public information on December 15 at which time the governor shall submit copies to the legislature and make copies available to the public. The bills, identical in content to the copies released on December 15, shall be delivered to the rules committee of each house before the fourth legislative day of the next regular session for introduction.

(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.

(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.

(d) *[Repealed, Sec. 35 ch 126 SLA 1994].*

(e) The budget prepared under (a) of this section must present the proposed operating expenditures for each agency for annual facility operations, annual maintenance and repair, and periodic renewal and replacement for components of public buildings and facilities separately from the other proposed operating expenditures by the agency. Proposed annual appropriations for an agency's facility operations, maintenance and repair, and renewal and replacement for components of public buildings and facilities contained in an appropriation bill prepared under (a) of this section must be presented separately from appropriations for other proposed operating expenditures by the agency.

CSHB 125 An Act relating to budget planning and a fiscal plan for the State of Alaska.

Section 37.07.010 Statement of Policy

No suggested changes

Section 37.07.014 Responsibilities of the legislature.

(d) change "financial plans" to "fiscal plan"

A major premise of the bill is that the State's financial plans will be contained within the 10-year fiscal plan. Consequently, in several sections of the Executive Budget Act, the term "financial plans" should be changed to "fiscal plan."

(g) new subsection

[Conceptual: This is a policy statement dealing with the legislature's responsibility for taking action on the fiscal plan and I believe that it belongs in the section dealing with responsibilities of the legislature. So for the time being I am retaining it here.]

Policy statement that provides that it is the legislature's responsibility to review the fiscal plan and respond to the governor's conclusions and recommendations in order to participate in the fiscal planning process and provide guidance stating areas that the legislature supports and areas that it does not support. Since the legislature makes its response to the governor's plan for the succeeding fiscal year in appropriation bills and other legislation passed, the response to the fiscal plan should be for fiscal years two through ten. It is likely that the response will not cover the full ten year period, but will be directed to the major policy choices expressed in the plan. The legislature shall provide its advice through a concurrent resolution.

Section 37.07.020 Responsibilities of the Governor

(b) In addition to the budget and bills submitted under (a) of this section, the governor shall submit a [CAPITAL IMPROVEMENTS PROGRAM AND FINANCIAL] fiscal plan covering the succeeding ten [SIX] fiscal years.

(c) Proposed expenditures may not exceed estimated revenues 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 AUTHORIZATION PASSED AND PROPOSED.]

New Section 37.07.025. Fiscal Plan

(a) It is the policy of the State of Alaska that the State's ten-year fiscal plan

(1) 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;

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

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

(A) offset the effect of inflation on the principal of the fund;

(B) maintain a strong permanent fund dividend program;

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

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

(b) The fiscal plan must include

(1) a projection of revenue for the succeeding 10 years categorized by each major source of revenue and an explanation of any significant changes from previous projections;

(2) projections of the expenditures for the succeeding 10 years listed by each major area of expenditure and an explanation of any significant changes from previous projections, including the assumptions on which the 10-year projections are made;

(3) proposed actions for increasing revenue while maintaining a stable tax environment and cutting expenditures as necessary to ensure expenditures do not exceed revenue;

(4) changes in strategy or new strategies needed as a result of previously unanticipated changes in expenditures, revenues, and unsuccessful strategies;

(5) an analysis of state debt, identification of the target maximum debt amount, and, if debt is projected to exceed the target maximum, strategies to reduce state debt, satisfy outstanding bonds, and meet deferred maintenance needs;

(6) the status of unfunded state liabilities, a trend analysis for the liabilities, and the strategy for funding the liabilities;

(7) an analysis of anticipated changes in federal funding and the plan accommodating the reduced funding;

(8) **[This section and the next needs more work. It didn't seem to me that it was easy to incorporate the emergency provisions with the savings accounts provisions.]** the target minimum level of funds in 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), and, if the amounts are less than the target minimum levels, the target levels of repayments to the funds together with the plan for achieving the repayments;

(9) the target level of funding for an emergency fund to address state disasters and the plan for achieving the funding;

(10) a plan for using any surplus state revenue; and

(11) actions the legislature must take for the state's financial strategy to succeed and the time each action must be taken.

Section 37.07.040 Office of Management and Budget

(1) assist the governor in the preparation and explanation of the proposed comprehensive program and fiscal [FINANCIAL] plan, including the coordination and analysis of state agency goals and objectives, plans, and budget requests;

(2) prepare for submission to the governor a[NNUALLY 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;

Section 37.07.060 Governor's Recommendation

(a) The governor shall formulate the operating and capital improvements 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. [Question – do the following provisions apply to the budgeting process or the fiscal planning process?] 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 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, except that in the first year of the first term of a governor, the message shall be given by the 45th 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 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, which [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 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 debt ratios over the life of the state's bonds outstanding, bonds authorized and to be issued, and bond authorizations recommended in the plan;

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

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

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

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

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

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

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

AMENDMENT #1

OFFERED IN THE HOUSE

BY REPRESENTATIVE CISSNA

TO: CSHB 125(W&M), Draft Version "E"

1 Page 2, line 29, following "resources":

2 Insert ";

3 (5) may include a list of reports, plans, and other materials relied
4 on in the preparation of the fiscal plan, together with a brief description of the
5 relevance of the materials and how to obtain paper or electronic copies of the
6 materials"

AMENDMENT

#2

OFFERED IN THE HOUSE

BY REPRESENTATIVE HAWKER

TO: CSHB 125 (W&M) Draft Version "E"

1 Page 6, line 16, following "* Sec. 5."

2 Insert "AS 37.07.070 is amended to read:

3 **Sec. 37.07.070. Legislative review.** The legislature shall consider the governor's
4 proposed comprehensive operating and capital improvements programs and fiscal plan
5 [FINANCIAL PLANS], evaluate alternatives to the plans, make program selections
6 among the various alternatives and determine, subject to available revenues, the level of
7 funding required to support authorized state services.

8 **(1)** The operating and capital budgets of each agency shall be separately reviewed.
9 During each regular session of the legislature, legislative review of the governor's
10 supplemental appropriation bills and the governor's budget amendments shall be
11 governed by the following time limits:

12 **(a)** [(1)] requests by the governor for supplemental appropriations for state
13 agency operating and capital budgets for the current fiscal year may be introduced by the
14 rules committee only through the 30th legislative day;

15 **(b)** [(2)] requests by the governor for budget amendments to state agency
16 budgets for the budget fiscal year may be received and reviewed by the finance
17 committees only through the 45th legislative day.

18 **(2) The presiding officers of each house may refer the fiscal plan to one or more**
19 **committees. The first committee of referral shall hold at least one public hearing on**
20 **the fiscal plan.**

Conceptual
AMENDMENT #3

OFFERED IN THE HOUSE

TO: CSHB 125 (W&M) Draft Version "E"

- 1 Page 5, line 5 through ^{line}~~page~~ 10, delete all material and insert
- 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 except that in the first year of the first term of a
- 6 governor, the fiscal plan need not be addressed. The message must be accompanied by
- 7 an explanatory report that summarizes recommended goals, plans, and appropriations.
- 8 The report must contain"
- 9

newly
elected

Conceptual
AMENDMENT #4

OFFERED IN THE HOUSE

TO: CSHB 125 (W&M) Draft Version "E"

1 Where appropriate, replace "financial plan" with "fiscal plan" wherever it appears in title 37.07.

2

AMENDMENT #1

OFFERED IN THE HOUSE

BY REPRESENTATIVE HAWKER

TO: CS HB 125 (W&M) 25-LS0546\C

- 1 Page 1, lines 6-7, following "fiscal plan"
- 2 Delete "covering projected sources and uses of funds during"
- 3 Insert "estimating significant sources and uses of funds for"
- 4
- 5 Page 1, line 10, following "including"
- 6 Insert "lump-sum"
- 7
- 8 Page 2, line 5, following "funds"
- 9 Insert "held"
- 10
- 11 Page 2, line 9
- 12 Delete all material
- 13 Insert "(4) may, at the discretion of the governor, also include recommendations to"

*Adopted
without
objection
2/21/06*

Amendment #1 to amendment #1 offered in committee by Rep. Gruenberg

Following line 7, insert:

“Page 1, line 11, following ‘expenditures’

Insert ‘by department’”

Gruenberg moved the amendment to the amendment

Hawker objected

Discussion was heard

Gruenberg withdrew the amendment to the amendment

**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.



GLEN "KNICKER" KNICKERBOCKER
President

New year, new governor, new legislators – same priorities

Another election season has recently passed and our state Legislature will soon be convening to conduct our business. We have a new governor and several new faces in the Legislature but, based upon past experience, and in spite of all of the campaign rhetoric, we must question whether anything will really change or will it just be more of the same.

For several years AGC of Alaska has established a list of legislative priorities. These are not just priorities important to the construction industry, but are of importance to every business and individual in the state. As I review this list in preparation for our annual "Legislative Fly-In," it strikes me how little this list changes each year. Does this lack of change mean that those who we have supported and sent to Juneau to act on our behalf forget about what we deem important once the elections are over?

- **Long-term fiscal plan** AGC, as well as numerous other groups and individuals, have repeatedly called upon our state Legislature and the administration to develop a fiscal plan based upon realistic revenues rather than continuing to spend based upon windfalls from temporary high oil prices and dreams of mega-projects to come. This plan should also address such huge unfunded liabilities as deferred maintenance on public facilities and the public employee's retirement plan.
- **Privatization of work done by the state** - Time and again we have expressed our concern that the state of Alaska, more specifically the Department of Transportation, performs work that could and should be done by private enterprise. Every year the amount of work the state takes away from private industry increases. Rather than working toward reducing the size of government, the bureaucracy just keeps getting larger.
- **Funding for vocational/technical education** - AGC has put a tremendous amount of effort into working

with our public education system, at all levels, to encourage vocational and technical education. We are proud and pleased with the few changes we have helped to bring about. But the fact remains that within two years of high school almost 80 percent of our young people enter the job market grossly ill-equipped. What does it say about our education system when it is 99 percent geared toward preparing 20 percent of high school graduates to attend college and offers comparatively little training for the 80 percent who will enter directly into the workforce?

- **State of Alaska transportation system** - There is little doubt that our influence at the federal level will suffer set-backs with our representatives now in the minority in both the House and the Senate. Unless you have had the opportunity to visit Washington, D.C., lately, it is hard to comprehend the damage Alaska has suffered due to the "Bridges to Nowhere" controversy. The days of enjoying a return from the federal government of more than \$5 for every \$1 contributed by the state are numbered. We need a long-range plan to continue to fund the much needed improvements to our transportation infrastructure. We cannot afford to hide our heads in the sand until lack of funding becomes a crisis to which we must react.

To paraphrase Albert Einstein, one definition of insane behavior is doing things the same way over and over and expecting different results. How many times are we going to go to Juneau with the same list and hope that maybe this time it will be different?

The public initiative process has been used to bring issues directly to the people. Maybe it is time to consider utilizing something similar to finally bring resolution to our list of priorities. Those who were recently elected promised things would be different if they were sent to Juneau. If our list is still the same next year I, for one, am ready to try something new.

To paraphrase Albert Einstein, one definition of insane behavior is doing things the same way over and over and expecting different results. How many times are we going to go to Juneau with the same list and hope that maybe this time it will be different?



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.

2007 Policy Statement



**Approved by
AML Membership
November 2006**

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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.

adn.com

Anchorage Daily News

Print Page

Close Window

It is about time for a fiscal plan*(Published: February 5, 2007)*

Pardon us for pointing out the obvious, but this state still has no real fiscal plan despite years of talking the subject nearly to death. Admittedly, the Legislature may have a lot on its plate this year, but figuring out how to fund government in the future and ensure Permanent Fund dividends is no small matter, especially for those of us who revile the notion of an income tax.

Times are good now. High oil prices are keeping the wolves from the door, but with declining production, and a gas line a decade or so away, it would seem prudent to begin looking at exactly where state government will draw revenues when times are tougher and its emergency stash, the Constitutional Budget Reserve, a repository for windfall profits from royalty and tax settlements, dries up.

Another problem. Continued and repeated draws on the CBR in the past to stem the flow of red ink made bond-rating agencies nervous and that could cost the state in the long run.

So far, the best prospect has been some version of the Percent of Market Value, or POMV, approach that would take some percentage of the \$36.9 billion Permanent Fund each year, say 5 percent, and divide that amount between government operations and dividend checks.

The small percentage used would cushion the fund from radical, short-term swings in the national economy and allow the fund to grow. It is a method used by large institutional funds across the nation, and one designed to protect those pots of money.

There will always be problems with trying to craft such a plan here, first from those who have enshrined the Permanent Fund and view any use of its earnings as a "raid," to those who would think it a nefarious plot of some kind to resurrect former Gov. Frank Murkowski.

As it stands now, using the Permanent Fund's earnings has become a political third rail, despite the 1976 constitutional amendment that stipulates the earnings be placed in the general fund to run government. Most politicians would rather take a beating than suggest such a thing.

A POMV would avoid some of that, and, over the years, there have been various plans and formulas for such a program. Some would have used the money for education and dividends; others, only dividends; and still others, to run state government.

But, for one political reason or another, nothing has been done. Now, while oil prices are high, is the perfect time to begin talking rationally about a POMV or some other vehicle to fund government and fuel dividends in the future. There is little pressure and lots of time.

History shows us it will not always be this way.

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February 19, 2007

The Honorable Mike Hawker, Chair
House Special Committee on Ways and Means
Alaska State Capitol, Room 502
Juneau, AK 99801-1182

RE: HB 125 (House Special Committee on Ways and Means)--Support

Dear Chair Hawker:

On behalf of the members of AARP in Alaska, we encourage you and your colleagues on the House Special Committee on Ways and Means to support your Committee bill HB 125.

HB 125 is a significant effort in establishing a long-range fiscal plan for Alaska.

HB 125 is an ambitious bill which, we hope, will provide some economic stability and guidance for our elected officials and our citizens.

When AARP considers our state budget, we follow a set of basic principles:

- Budget policy should promote economic growth and stability.
- Fairness across generations should be an important goal in formulating budget policy.
- Government should strive for balance during both economic expansion and contraction.
- Flexibility should be maintained and vulnerable populations (of any age) should be protected.
- Budget policymakers should be mindful of how their decisions impact other levels of government.

AARP believes that states should provide localities with the funding they need to meet their obligations. Passing responsibilities down to lower levels of government should be undertaken primarily to place services closer to the people being served and to maximize administrative efficiencies, not as a way to reduce costs. We do not support placing unfunded mandates on local government.

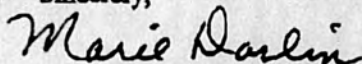
Many AARP members lived in Alaska when we had a state income tax. Many of our members live in communities that currently have a sales tax. Many have lived in other states that had both income and sales taxes. We understand that Alaska's fiscal situation, without a state income tax or a state sales tax, has often been subject to oil revenue going up and down. Hopefully HB 125 will help our elected officials and our citizens have a more accurate reading of Alaska's fiscal status and what to expect in the future.

AARP recommends an "AYE" vote on HB 125.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3314).

Thank you for your consideration.

Sincerely,



Marie Darlin, Coordinator
AARP Capital City Task Force
415 Willoughby Avenue, Apt. 506
Juneau, AK 99801
586-3637 (voice)
463-3580 (fax)

CC: Vice-Chair Anna Fairclough
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

February 14, 2007

Representative Mike Hawker, Chair
House Ways & Means Committee
State Capitol
Juneau, AK 99801

Dear Representative Hawker,

The Alaska State Chamber of Commerce strongly supports HB 125. State Fiscal Planning has been a top priority of the State Chamber for many years. We believe the state needs stability in budget planning as volatile state revenues create unforeseeable budget gaps and revenue excesses. Any smart business plans for future years through detailed planning of revenues and expenditures, with adjustments made each year.

Amending Alaska Statutes regarding the Executive Budget Act, HB 125 assigns a long-term fiscal plan requirement to the Governor's duties of providing yearly budgets. Under HB 125, the Governor's fiscal plan reaches forward 10 years into the future, showing legislators and the public what to expect in lean years and in years of excess. HB 125 may fall short of enacting an actual fiscal plan; however, HB 125 will provide for a constantly evolving framework-a fiscal plan, for the legislature and the public to follow as budgets are enacted from year to year.

With new legislators every two years, a volatile oil market, a PFD citizenry, and a new governor every four years, HB 125 hurdles many of the states political quagmires that may prevent adopting a long-term fiscal plan. Simply, requiring that a plan be submitted each year along with a budget, creates a first in Alaska, fiscal planning. The Alaska State Chamber strongly advocates for HB 125 and we hope the bill will move quickly through the legislature.

Yours in economic prosperity,

A handwritten signature in dark ink, appearing to read "Wayne A. Stevens", with a long horizontal flourish extending to the right.

Wayne A. Stevens
President/CEO

§37-69 The six-year program and financial plan. (a) The governor shall prepare a state six-year program and financial plan encompassing all state programs. Not fewer than thirty days before the legislature convenes in every odd-numbered year, the governor shall submit to the legislature and to each member thereof the six-year program and financial plan. The program and financial plan shall be annually and continually updated and maintained. The program and financial plan, in general, shall contain:

- (1) The state program structure;
- (2) Statements of statewide objectives and program objectives;
- (3) Program plans that describe the programs recommended to implement the statewide and program objectives and the manner in which the recommended programs are proposed to be implemented over the next six fiscal years; and
- (4) A financial plan that shows the fiscal implications of the recommended programs for the next six fiscal years.

(b) The information contained in the program and financial plan shall be presented generally in the following manner:

- (1) Information shall be displayed by programs, or groups of programs.
- (2) Programs shall be appropriately crosswalked to expending agencies.
- (3) Data shall be appropriately summarized at each level of the program structure.
- (4) Program costs shall include all costs, including research and development, operating and capital, regardless of the means of financing except that the means of financing shall be expressly identified; all costs shall be displayed in the year of their anticipated expenditure, regardless of whether such costs have been authorized to be expended by prior appropriations acts or are authorized to be expended by existing law, or require new appropriations or authorizations.
- (5) Cost data shall be presented in units of thousands of dollars or less.
- (6) Comparative data for the last completed fiscal year and the fiscal year in progress shall be shown.

(c) The financial plan for the ensuing six fiscal years shall more specifically include:

- (1) Economic data for the State and the counties of the following kinds:
 - (A) Population: Including historical, current, and projected population count; population distribution by age and sex; estimated increases and decreases, including increases and decreases by immigration;
 - (B) Employment: Including magnitude of labor force by age and sex; labor force participation rates; employment by age and sex; industry and occupational surpluses and shortages; effects of government programs on employment rate;

- (C) Income: Including per capita and per family income; disposable income; income distribution;
 - (D) Wages and prices: Including wages by industry and occupational groups; prices for government procurement items; construction costs; cost of living index; price indices for components of personal consumption;
 - (E) Industry and business trends; and
 - (F) Effects of national economic and financial policies and conditions;
- (2) Brief statements disclosing the basis upon which the revenue estimates in the plan were made, including for each specific tax and nontax revenue source:
- (A) The previous projections for the last completed fiscal year and the fiscal year in progress;
 - (B) The variance between the projections and the actual or revised estimate, and the reasons for the variances;
 - (C) Tax or source base and rates;
 - (D) Yield projections of existing revenue sources and existing taxes at authorized rates;
 - (E) Assumptions made and methodology used in projections;
 - (F) Changes recommended; and
 - (G) Projected yields if changes are adopted; etc.;
- (3) At the lowest level on the state program structure, for each program:
- (A) The total actual program cost for the last completed fiscal year, the estimated cost for the fiscal year in progress, and the estimated cost for each of the next six fiscal years; research and development, operating, and capital costs shall be included and the means of financing shall be identified. The number of personnel positions and all lease payments shall be shown for the program, identified by their means of financing;
 - (B) The program size indicators; the actual size attained in the last completed fiscal year, the estimated size for the fiscal year in progress, and the estimated size for each of the next six fiscal years; and
 - (C) The effectiveness measures; the actual level of effectiveness attained in the last completed fiscal year, the estimated level of effectiveness for the fiscal year in progress, and the estimated level for each of the next six fiscal years;
- (4) Appropriate displays of paragraph (3) (A) and (C), at every level of the state program structure above the lowest level, by the major groupings of programs encompassed within the level. The displays of [paragraph] (3) (A) shall appropriately identify the means of financing and the number of positions included in the level;
- (5) Financial summaries displaying the State's financial condition, actual for the last completed fiscal year, and

estimated for the fiscal year in progress and each of the next six fiscal years, including:

- (A) A display of the programmed, total state expenditures, by cost categories, the total state resources anticipated from existing tax and nontax sources at existing rates, by resource categories, including the fund balance or deficit at the beginning of the fiscal year and bond receipts, and the resulting fund balance or deficit at the close of each fiscal year. Lease payments in each cost category shall be stated separately; and
- (B) The changes proposed to the existing tax and nontax rates, sources or structure, and the estimated increases or reductions in revenues, the estimated cumulative increases or reductions, and the estimated fund balance or deficit in each of the next six fiscal years as a result of such proposed changes. Proposals for changes in the existing tax and nontax rates, sources or structure shall be made in every case where the proposed, total state expenditures exceed the total resources anticipated from existing tax and nontax sources at existing rates.

Such financial summaries shall be prepared for the total state expenditures and resources and for the general fund and special fund portions thereof;

- (6) A summary of the balance of each special fund, actual for the last completed fiscal year and estimated for the fiscal year in progress and estimated for each of the next six fiscal years;
- (7) A summary of the State's total bond fund required to carry out the recommended programs and the kinds of bonds and amounts thereof through which the requirements were met in the last completed fiscal year, are to be met in the fiscal year in progress, and are proposed to be met in each of the next six fiscal years. The summary shall detail, for each fiscal year:
 - (A) Of the total bond fund requirements, the amount, by cost categories, requiring new bond issuance authorization and the kinds and amounts of bonds planned for issuance under such new authorizations;
 - (B) By bond categories, the total, cumulative balance of bonds authorized in prior years but unissued and the amount thereof proposed to be issued; and
 - (C) A recapitulation of the total bonds to be issued, including both new authorizations and prior authorizations, by bond categories;
- (8) Separately for general fund tax revenues, special fund tax revenues, general fund nontax revenues, and special fund nontax revenues:
 - (A) By kinds of taxes or sources, the amount of revenue

from existing, authorized taxes or sources at existing rates received in the last completed fiscal year and estimated to be received in the fiscal year in progress and in each of the next six fiscal years;

(B) A summary of the proposed changes in the existing taxes or sources or rates, and the estimated increases or reductions in revenues in each of the next six fiscal years resulting from such changes; and

(C) The total estimated revenues with and without the proposed changes in each of the next six fiscal years; and

(9) A summary of the State's total payments due under financing agreements required to carry out the recommended programs and the kinds of financing agreements and amounts thereof through which the requirements were met in the last completed fiscal year, are to be met in the fiscal year in progress, and are proposed to be met in each of the next six fiscal years. The summary shall detail, for each fiscal year:

(A) Of the total financing agreement requirements, the amount, by cost categories, requiring new financing agreement authorizations and the kinds and amounts of financing agreements planned for execution and delivery under such new authorizations;

(B) By cost category, the cumulative balance of financing agreements authorized in prior years but not executed and delivered and the amount proposed to be executed and delivered; and

(C) A recapitulation of the total financing agreements to be executed and delivered, including both new authorizations and prior authorizations, by cost categories.

(d) The program plans for the ensuing six fiscal years shall more specifically include:

(1) At the lowest level on the state program structure, for each program:

(A) A statement of its objectives;

(B) Measures by which the effectiveness in attaining the objectives is to be assessed;

(C) The level of effectiveness planned for each of the ensuing six fiscal years;

(D) A brief description of the activities encompassed;

(E) The program size indicators;

(F) The program size planned for each of the next six fiscal years;

(G) A narrative explanation of the plans for the program.

It shall contain, and in general be limited to, the following:

(i) A description of the kinds of activities carried out or unusual technologies employed;

- (ii) A statement of key policies pursued;
 - (iii) Identification of important program or organizational relationships involved;
 - (iv) A description of major external trends affecting the program;
 - (v) A discussion of significant discrepancies between previously planned cost, effectiveness, and program size levels and those actually achieved;
 - (vi) Comments on, and an interpretation of, cost, effectiveness, and program size data over the upcoming budget period, with special attention devoted to changes from the current budget period;
 - (vii) Comments on, and an interpretation of, cost, effectiveness, and program size data over the four years of the planning period and how they relate to the corresponding data for the budget period; and
 - (viii) A summary of the special analytic study, program evaluation, or other analytic report supporting a substantial change in the program where such a major program change recommendation has been made;
- (H) The full cost implications of the recommended programs, by cost categories and cost elements, actually experienced in the last completed fiscal year, estimated for the fiscal year in progress, and estimated for each of the next six fiscal years. The means of financing shall be identified for each cost category. The personal services cost element and the lease payments cost element shall be shown separately; the cost elements of other current expenses, equipment, and motor vehicles may be combined. The number of positions included in the program shall be appropriately identified by means of financing;
- (I) A recapitulation of subparagraph (H) for the last completed fiscal year, the fiscal year in progress and each of the next six fiscal years, by means of financing grouped under each cost category. The number of positions included in any program shall be appropriately identified;
- (J) An identification of the revenues generated in the last completed fiscal year and estimated to be generated in the fiscal year in progress and in each of the next six fiscal years, and the fund into which such revenues are deposited;
- (K) Details of implementation of each capital improvement project included in the total program cost, including:
- (i) A description of the project, location, and scope;
 - (ii) The initially estimated, currently estimated, and

final cost of the project, by investment cost elements and by means of financing;

(iii) The amounts previously appropriated by the legislature for the project, by cost elements and by means of financing specified in the acts appropriating the sums, and an identification of the acts so appropriating;

(iv) The costs incurred in the last completed fiscal year and the estimated costs to be incurred in the fiscal year in progress and in each of the next six fiscal years, by cost elements and by means of financing; and

(v) A commencement and completion schedule, by month and year, of the various phases of the capital improvement project (i.e., land acquisition, design, construction, and occupancy) as originally intended, as currently estimated, and as actually experienced; and

(L) A crosswalk of the program expenditures, by cost categories and cost elements between the program and expending agencies for the next two fiscal years. The means of financing and the number of positions included in the program costs to be expended by each agency shall be specified; and

(2) Appropriate displays at every level of the state program structure above the lowest level. The displays shall include:

(A) A listing of all major groupings of programs included within the level, together with the objectives, measures of effectiveness, and planned levels of effectiveness for each of the ensuing six fiscal years for each such major groupings of programs; and

(B) A summary of the total cost of each cost category by the major groupings of programs encompassed within the level, actual for the last completed fiscal year and estimated for the fiscal year in progress and for each of the next six fiscal years. [L 1970, c 185, §9; am L 1972, c 72, §§2, 5; am L 1974, c 219, §3; am L 1991, c 125, §2; am L 1996, c 119, §4]

Attorney General Opinions

Details of current year's lapses need not be set forth in supplemental appropriations bill and budget. Att. Gen. Op. 83-4.

Although express words "balanced budget" are not included in state constitution or statutes relating to state budget, constitutional and statutory provisions do require a balanced budget by requiring a description of proposed expenditures and sources of revenue to pay for them. Att. Gen. Op. 97-1.

Using historical data to make estimates for a future fiscal period is an acceptable planning tool. Att. Gen. Op. 03-2.

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SCOMM

150:10



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
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct
465-4979 fax

MEMORANDUM

TO: Ways & Means Committee Members

FROM: Representative Mike Hawker
Chair, House Special Committee on Ways & Means

RE: House Bill 156 Materials

DATE: January 28, 2008

Enclosed is an updated packet for HB 156, relating to mining production, license taxes and royalties, which is scheduled for a hearing on January 30th, 2008.

Contents:

- ♦ Work Draft version M
The work draft has not yet been adopted, but contains all the amendments approved at the last hearing on the bill.
- ♦ Amendment #1
Amendment #1 will move all deadlines/effective dates forward one year.
- ♦ Revised fiscal notes
- ♦ Revised materials from the sponsor's office:
 - Cover Memo
 - Sponsor Statement
 - Power Point Presentation
 - Non-renewable Resource Tax Comparison Chart
 - State Assessor's Review of Alaska and National Mining Taxation
 - Bristol Bay Native Association Testimony
 - Legislative Research Report dated December 21, 2007
 - Three graphs from the Department of Revenue

Alaska State Legislature

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Suite 102B
Homer, AK 99603
Phone: 235-2921
Fax: 235-4008

REPRESENTATIVE Paul Seaton

District 35

MEMORANDUM

TO: Representative Hawker, Chair
House Ways and Means Committee

FROM: Representative Seaton

DATE: Monday January 28, 2008

RE: Additional materials for HB 156

Because significant time has passed since the last time we heard HB 156, I wanted to provide the committee with updated information on proposed mining tax changes in Hb156. If committee members want a valuable overview of mining taxes in Alaska and comparative data with other states, I suggest reading the report from the State Assessors office dated October 17, 2007.

Attached please find: updated sponsor statement; handout for a power point presentation comparing existing statute with HB 156; updated non-renewable resource tax comparison chart; report on mining taxes from the State Assessor; resolution of support from the Bristol Bay Native Association; December 2007 Legislative Research Report; graphs from Revenue detailing total impact of HB156.

Staff contact: Katie Shows, ext. 2028

Alaska State Legislature

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REPRESENTATIVE Paul Seaton

District 35

HB 156

Sponsor Statement

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." - The Constitution of the State of Alaska

House Bill 156 recognizes our constitutional duty by providing a reasonable share of Alaska's non-renewable resources to benefit all Alaskans. The bill makes changes to the existing Mining License Tax, minerals and coal royalties, as well as the rentals for mining activity on state land.

The Mining License Tax is paid by all mining operations in the state and is levied on the net income from those activities. Tax rates are based on a graduated scale that increases with net income, currently topping out at 7%. Mining operations (excluding sand and gravel) are exempt from paying the mining license tax for the first three and a half years of production. HB 156 changes this exemption to a deferral that is payable over the following 10 years of production. Rates are increased by 2% per income bracket with an additional marginal tax bracket for net income over \$1 million to be taxed at 11%. Income brackets for the mining license tax have not been updated since 1955. These brackets are increased from \$40K to \$100K; \$50K to \$250K; \$100K to \$500K; with a new bracket for mines with a net income over \$1 million. Mines with a net income under \$100,000 pay no mining license tax. HB 156 also disallows mining companies from deducting their state corporate net income tax from their mining license net tax, a practice that is not allowed with other industries or with federal net income taxes. The depletion allowance is changed under HB 156 to cost depletion.

HB 156 changes the calculation of the royalty for mineral mining on state land from our current 3% of net income to a 3% Net Smelter Return (NSR) tax. The royalty represents a share of mineral wealth that is paid to the owner of the mineral rights. Most land owners in Alaska, other than the State, negotiate for a NSR royalty between 2% - 5%.

The bill also updates the royalty for coal by setting the 5% of adjusted gross value currently in regulation as the minimum that can be negotiated with the Administration. This is the first change to the statute governing coal royalties since statehood.

Alaska State Legislature

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REPRESENTATIVE Paul Seaton

District 35

Land claim rental rates are adjusted under HB 156. These annual fees are paid by all operators on a per-acre basis for mining on state land. The minimum rates for coal are updated in statute to reflect regulation: \$3/acre. Hard rock and placer claims will be charged \$1.65/acre for the first five years and \$3.30/acre for every year thereafter.

A significant change in HB 156 from the final version of Mining Tax legislation from the 24th legislature is to allow the State to accept coal as royalty in kind, similar to how the State accepts oil and gas. The University of Alaska Fairbanks has a coal fired electric plant and could benefit financially by not having to purchase coal.

Alaska's mining industry bears a light tax burden compared to Alaska's other high value resource industries. The State has historically received less than 1% of the mined resource value as tax revenue, while an additional 1% is paid to municipalities primarily as property tax (based on 2005 figures). With the escalation in mineral prices since 2004, this figure has increased to around 6%. The State receives 12.5% royalty on oil and gas on State lands plus an additional 25% of net profits. The oil and gas industry also pays 20 mills in property tax to the state and municipalities. State revenue from fisheries amount to about 2.8% of the total production value while an additional 2.5% is paid in severance and use taxes to municipalities. Additionally, vessels, docks and processing plants pay property tax to municipalities.

HB 156 allows the State a reasonable share of the wealth for its mined resources through many overdue changes to the mining tax structure. It is important that we establish a stable tax structure that is fair to the private sector and provides the people of Alaska with a reasonable benefit from their resources.

HB 156

Mining Taxes

review (v.M)

House Ways and Means
Wednesday - January 30, 2008

Prepared by the Office of Rep. Seaton

According the Fraser Institute Annual Survey of Mining Companies:

- Industry considers Alaska the second most favorable taxation regime in the world
- Alaska has moved from the 7th most favorable jurisdiction in composite policy and mineral potential in 2005-2006 to the 4th most favorable in 2006-2007

Alaskans favor change ...

In your packet there is a 2007 Hellenthal poll that asks:

"Do you favor or oppose increasing taxes on the mining industry"

Favor	51.3 %
Oppose	33.5 %
Don't Know	15.1%

HB 156 – Simplified
Comparative Sectional

Sec. 1 Coal Royalty

- Shortens the time a royalty is fixed to 10 years. *(Currently 20)*
- Changes coal royalty to a 5% minimum of the adjusted gross value. Increases the minimum rental amount to \$3 an acre for coal, fixed for no more than 20 years. *(Updates statute to reflect regulation)*

Sec. 2 Coal In-kind

- Allows the coal lessee to give the state royalty-in-kind rather than cash to fuel the State coal fired power plant. At least every 10 years the commissioner will update the in kind rental amount to reflect inflation. *(New section)*

Sec. 3 Mining Rentals

- A holder of a mining claim, lease, leasehold location, prospecting site is required to pay:
 - -\$200 for the two year term of prospecting the site (*Current statute*)
 - -Annual rental for a mining claim no less than \$3.30 an acre
 - (*Current rental is based on a sliding scale of \$.5 -\$2.5/ acre*)

Sec. 4 Adjustment of Rental Rate for mines before 2009

- Applies the revision of rental rates every 10 years using the January – June 1989 base consumer price index only to a claim, leasehold, location, prospecting site, or mining lease first located before the effective date of HB 156 (January 1, 2009).

Sec. 5 Adjustment of Rental Rate for mines after 2009

- Applies the revision of rental rates every 10 years using the January – June 2005 base consumer price index for a claim, leasehold, location, prospecting site, or mining lease first located after the effective date of HB 156 (January 1, 2009). The rental amount shall be increased or decreased to the nearest \$5 unit. *(Currently the base index is from 1989 and it does not specify whole \$5 amounts)*

Sec. 6 Net Smelter Return Production Royalty

- Exploration incentive tax credits can be applied to the royalty. (*Current statute*)
- Repeals the current production royalty and re-establishes it as a 3% Net Smelter Return (NSR) or 3% of the gross value of the mineral at the point of production if the mineral is not further processed by a smelter or refinery. (*Current royalty is 3% of net income for mines on State land*)

Sec. 7 Definitions

- Defines "affiliated" and "destination value"
- Defines "net smelter return" as the value that the mining company receives from the sale of their ore after it has been smelted or refined. That value could be based on:
 - -the current price of the mineral minus what was spent processing the mineral and transporting it between the refinery and the mine
 - -OR however the department sees fit to determine it in regulation.
 - *(New definition)*

Sec. 8 Gross Value at Point of Production

- Establishes "Gross Value at Point of Production" as the value of the mineral immediately after it is removed from the mine excluding income received from extraction or processing mine waste previously taxed.
- The value of the mineral immediately after it is removed from the mine is what the mining company receives after they have added value to the resources through production unless:
- the Department feels like the price the company received is less than the fair market value
- the price received does not reflect the total value received by the mining company in the transaction
- the buyer and seller are affiliated
- the price received was not negotiated in an arms length transaction

Sec. 8 Gross Value at Point of Production continued...

- If the Department thinks the price the company received is not adequate they shall substitute the fair market value of the resource.
- In order to determine the Gross Value at Point of Production the cost of transportation is deducted.
- The cost of transportation = the actual cost unless:
 - 1. parties are affiliated
 - 2. the transportation contract is not the result of an arms length transaction or is not representative of fair market value
 - 3. an unreasonable method of transportation was used
- If the Department determines that the transportation costs used to calculate the gross value at point of production are not representative of fair market value they will determine the reasonable cost of transportation
- Definitions of affiliated and destination value. *(New section)*

Sec. 9 Application for Mining License

- The application period for a mining license tax is before May 1 or 30 days after mining begins, whichever is later.
(Currently the application for renewal of mining license is due before May of each year)
- The Department adopts regulations on what needs to be submitted on the application and the application fee.

Sec. 10 Mining License Tax Deferral

- A mining company can defer their mining license tax payments for their first 3 1/2 years of production. However, they are required to pay the amount deferred (without interest) in equal payments over the next 10 years. Sand and gravel do not have the option to defer mining license taxes. *(Currently mining companies, excluding sand and gravel, have an exemption for the first 3 1/2 years)*

Sec. 11 Certification

- DNR certifies the date production begins at the mine. *(No substantive changes)*

Sec. 12 Mining License Tax Rates

(current)

Net Income	Tax
0 - \$40K	0
\$40K - \$50K	$\$1,200 + 3\% > 40K < 50K$
\$50K - \$100K	$\$1,500 + 5\% > 50K < 100K$
\$100K - Up	$\$4,000 + 7\% > 100K$

Sec. 12 Mining License Tax Rates (proposed HB 156)

Net Income	Tax
0 - \$100K	0
\$100K - \$250K	5% of amt > 100K < 250K
\$250K - \$500K	\$7,500 + 7% of amt > 250K < 500K
\$500K - \$1m	\$25,000 + 9% of amt > 500K < 1m
>\$1m	\$70,000 + 11% of amt > \$1m

Sec. 13 Taxing Multiple Mines

- If one company has more than one mining operation, taxes are based on aggregate income. If an organization leases a mine to a company, the organization will pay taxes on the royalties received as if it were the mining company. *(Updates language to confirm with current drafting style, no substantive changes)*

Sec. 14 Depletion

- Deletes existing depletion statute and allows mining companies to only calculate depletion using the cost depletion method. *(Current statute allows a company in any given year to choose between percent and cost depletion.)*

Sec. 15 Definitions

- Definitions:
- "date production begins" – when a mining company first ships their product (*new definition*)
- "gross income from property" – gross income from mining in the state
- "mining" – the extraction of minerals (lists minerals) taken from the earth and treated by the mine to produce a marketable product. Does not include oil and gas.
- "net income of the taxpayer" – [gross income from mining] – MINUS- [allowable deductions for depletion and treatment (for example, overhead, operating expenses, development costs, depreciation, taxes, and losses)]. Does not include deductions for federal income taxes, state corporate income taxes, or mining license taxes. (*current statute allows the deduction of state corporate income taxes*)
- "new mining operation" – first operation on property that has never been mined before.
- "ordinary treatment process" – defines the how the minerals of hard metal and sulphur ores, among others are traditionally processed.

Sec. 16 Repeals

- Repeals the grandfathering of mines before August 1989 (AS. 28.05.211(e); repeals the reference to the application date for renewing mining licenses because it is covered in Sec. 9 of this act (AS. 43.65.030). *(Statute is no longer relevant)*

- **Sec. 17 Applicability**

- applies this legislation to all leases entered into are renegotiated after December 31, 2008.

- **Sec. 18 Effective Date**

- This legislation takes effect January 1, 2009.

Non-renewable Resource Tax Comparison Chart

Prepared by the office of Rep. Seaton

Current Mining (Statute/ Regulation)

HB 156 - Proposed Mining Tax Changes

Current Oil and Gas Taxes - ACES

Taxes

Mining License Tax Rates on Net Income (AS.43.65.010(c))

0 - \$40K	0
\$40K - \$50K	\$1,200 + 3% > 40K < 50K
\$50K - \$100K	\$1,500 + 5% > 50K < 100K
\$100K - Up	\$4,000 + 7% > 100K

Tax Exemption/ Deferral (AS.43.65.010(a))

3 1/2 year tax exemption for new mines

Depletion Allowance (AS.43.65.010(c))

Choice between Percent Depletion OR Cost Depletion

% depletion deduction against gross income:
Coal 10%; Metals/masc. minerals 15%; Sulphur 23%

State Corporate Income Tax (AS.43.65.060)

State income tax deductible from Mining License Tax

Mining License Tax Rates on Net Income (Sec. 12)

0 - \$100K	0
\$100K - \$250K	5% of amt > 100K < 250K
\$250K - \$500K	\$7,500 + 7% of amt > 250K < 500K
\$500K - \$1m	\$25,000 + 9% of amt > 500K < 1m
>\$1m	\$70,000 + 11% of amt > \$1m

(Sec. 10)

3 1/2 year deferral for new mines. Payable over following 10 years of production

(Sec. 14)

Cost Depletion Only

Changed to allow for cost depletion only.

(Sec. 15)

State Income Tax NOT deductible from Mining License Tax

Tax Rates on modified Net Income (see reverse)

General flat rate on net production tax value	25.0%
Progressive tax @ 0.4%/\$10 above \$30/bbl net	
Floor (minimum tax rate):	
4% gross when ANSwc > \$25; 3% = \$20--\$25; 2% = \$17.50--\$20; 1% = \$15 --\$17.50; 0% = <\$15	

Limited exemption for small producers (producing up to 50,000 BTU equivalent barrels per year)

No Depletion Allowance when calculating State taxes

State Income Tax NOT deductible from Petroleum Profits Tax (PPT)

Royalty

(AS.38.05.150(d)) COAL: 5% of Adjusted Gross Value. Taxable value is price received minus costs of transportation from the mine mouth. Fixed for no more than 20 yrs.

(AS.38.05.212(b)) METAL MINES: 3% of Net Income as calculated under Mining License Tax

Currently no provisions for royalty-in-kind

(Sec. 1) COAL: 5% minimum of Adjusted Gross Value. Taxable value is price received minus costs of trans. from the mine mouth. Fixed for no more than 10 yrs.

(Sec. 6) METAL MINES: 3% Net Smelter Return (NSR), for products which are smelted. The tax base for the NSR is the realized value of the produced materials minus costs associated with smelting, allowing for the deduction of transportation to the smelter

(Sec. 2) Allows the State to accept coal royalty in kind

OIL & GAS: minimum 12.5 - 20% of Gross Value at Point of Production. Tax on Private Royalty: oil 5% Gross Value at Pt. of Production, gas 1.67% of Gross Value at Pt. of Production

State accepts royalty-in-kind or in-value for oil & gas

Rents

(AS.38.05.150(d)) Coal \$3/acre per year
Linked to Anchorage CPI

(AS.38.05.211(a)) Minerals sliding scale: \$0.5-2.5/acre
Linked to Anchorage CPI (1989 base yr)

(Sec. 1) Coal \$3/acre per year
Linked to Anchorage CPI

(Sec. 3) Minerals \$1.65/acre first 5 yrs; \$3.30/acre yr
Linked to Anchorage CPI (2005 base yr)

Oil & Gas

First 4 years, \$1-2.50 / acre per year. Every year thereafter \$3/ acre per year. Changed by statute.



STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Community & Regional Affairs

Sarah Palin, Governor
Emil Notti, Commissioner
Tara Jolie, Director

MEMORANDUM

DATE: October 17, 2007
TO: Mike Black, Deputy Commissioner
THRU: Steve Van Sant, State Assessor
FROM: Ron Brown, Assistant State Assessor
RE: Review of Alaska and National Mining Taxation

Attached is a copy of the information collected in regards to mining taxation in Alaska and other States. The primary source of data for this report came from InfoMine USA, which contained data on 31 of the 50 states including Alaska.

There are three major taxes applicable to mines in the State of Alaska, these are;

- Corporate Income Tax
- Royalties
- Mining License Tax

The most significant issue noted in the review is that unlike other states, the Alaskan tax structure is almost solely based upon the calculation of net income in its treatment of mines. Due to this dependence on net income the significance of this single calculation cannot be overstated. However, due to allowed deductions for Mineral Incentive Credits, other taxes, percentage based depletion allowances and other issues, the net income calculation may be a questionable measure.

Currently, HB 156 is pending in the legislature. This bill appears to address several of the issues mentioned in this report and is a good source of additional information and comment.