

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1523 SCOMM 55: JNT. SPEC. COMM. ON STATE TAX POLICY, 1986-1987 1323

State of Alaska MEMORANDUM

Office of the Governor

Division of Policy

P.O. Box AM, Juneau, AK, 99811
Tel. 465-3568 / Mail Stop 0164

TO: Mary Halloran
Director

DATE: 16 January 1987

FROM: Gregg Erickson
Senior Economist

SUBJECT: Oil and Gas Property Tax Revisions

Summary

You asked for an analysis of decoupling the state and local taxes (AS 43.56 and AS 29.53.045) on oil and gas property (the "hardware tax"). The state now levys a 20 mill (2 percent) annual tax on the value of oil and gas production and transportation facilities, but local property taxes are allowed as an offset to the state tax: a 15 mill local tax means that the state collects only 5 mills.

Under the decoupling proposal the state would levy a 10 mill tax against which local taxes could no longer be offset. Oil companies would get a tax reduction in any area where local taxes are less than 10 mills (such as the Kenai Borough), but where local taxes exceed the 10 mill level (principally the North Slope Borough and Valdez) tax payments would increase.

If the proposal were adopted with an immediate effective date the state could collect an additional \$84.9 million in FY 87, and a further \$76.7 million in FY 88. The total available for allocation in the current session would thus be \$161.6 million.

Revenue Impacts

Most of the revenue collected under the current property tax is received by the Department of Revenue (DOR) by wire transfer on June 30, the last day of the fiscal year. The actual amount of collections depends on the assessed value of oil and gas property, finally determined in late May, and local mill levies, in most cases also determined in late May. Neither of these factors are known yet for the current year, so the FY 87 estimates include some guesswork. Here are our calculations:

FY 87:

Assessed Value 1/1/87 (OMB est.)	\$17.7 billion
Collections under new tax @ 10 mills	\$177.0 million
Less current revenue (DOR est.)	(\$82.7 million)
Net additional collections	\$94.3 million
Less wellhead reductions (OMB est.)	<u>(\$9.4 million)</u>
NET NEW FY 87 REVENUE	\$84.9 million

The wellhead reductions, calculated here at 10 percent of additional collections, result from the pass-through to TAPS shippers, (in the form of higher tariffs) of additional taxes paid on the pipeline facilities. We figure about 40 percent of the additional tax will be attributable to TAPS, and about 26 percent of that will be passed through to the state as reduced wellhead values ($.26 * .40 = .10$).

The assessed valuation of the pipeline depends in part on the expected flow of future tariff revenue to TAPS owners. The TAPS settlement has reduced this expected revenue stream, and thus will reduce the pipeline's assessed value. Moreover, if world oil prices remain depressed it is unlikely that additional field investments will continue to countervail the depreciation of existing facilities, as has been the case in recent years. Both of these factors suggest rapidly declining assessed values. Our guess is that the FY 88 value (assessed as of 1/1/88) will be down 8.5 percent.

FY 88:

Assessed Value 1/1/88 (OMB est.)	\$16.2 billion
Collections under new tax @ 10 mills	\$162.0 million
Less current revenue (DOR est.)	(\$76.8 million)
Net additional collections	\$85.2 million
Less wellhead reductions (OMB est.)	<u>(\$8.5 million)</u>
NET NEW FY 88 REVENUE	\$76.7 million

The total new state revenue available for expenditure in the current legislative session from the adoption of this proposal, net of royalty and severance tax offsets, is thus:

	FY 87	\$84.9 million
	FY 88	<u>\$76.7 million</u>
TOTAL NET NEW REVENUE THIS SESSION-----		\$161.6 million

Local Tax Limitations

AS. 29.53 allows local taxation of oil and gas property but also contains special limitations related to the ratio of local to statewide per capita assessed values. The new proposal could leave these limits in place or repeal them. Although not currently a constraint on local taxes, in earlier years the special limitations did restrict local access to the oil and gas property tax base. Not suprisingly, the limitations were and are resented by communities in the affected areas.

The limitations, which are in addition to the statewide 3 percent limit on property taxes, date from the 1973 special session. Oil companies threatened that they would cancel pipeline construction unless they were granted concessions, including imposition of special ceilings on local governments' ability to tax oil company property. The limitations were adopted.

Differences in how the limitations should be interpreted have since produced a three cornered dispute between the local governments, DOR, and the Department of Community and Regional Affairs that has been simmering since the mid-70s. Moreover, Valdez, the Fairbanks Borough, and the North Slope Borough are miffed because the state adopted the TAPS Settlement Agreement without (in their view) proper concern for its adverse effects on local revenue. All these issues (and possibly others as well) are likely to be raised if the decoupling proposal is introduced, regardless of whether it repeals the limitations or leaves them untouched.

Why a Property Tax Increase

Property would be valueless but for the benefits conferred by civilized society. Property rights exist only in the context of their enforcement by government. Thus are property taxes justified:

Because the property value is a creature of government, the property values should bear the burden of supporting government.

It is unlikely that the above argument will dominate discussion. The decoupling proposal is a tax increase on the oil industry, and on that basis alone, the usual policy arguments will be advanced against it. The strongest point will probably be that the companies shouldn't be asked to pay any additional taxes to the state when they are not earning profits on their Alaska operations. The counter will be to show that substantial profits are in fact being earned. The industry rejoinder will be that the profits, if earned here, are needed to provide a source of funds for reinvestment in Alaska. The reply will show that they are not being returned to Alaska as investment.

To carry the policy arguments, tax supporters must prove their case on the profits issue. Evidence developed by OMB and others suggests that the facts support this position. Unfortunately, in these technical areas of accounting and economics facts adduced by Alaskan experts are likely to be seen as self-serving. What will be needed, and what is not currently available, is the testimony of unbiased professional experts from outside the state (1) that profits are being earned in Alaska and (2) that those profits are largely being invested outside and overseas.

TO: Governor Steve Cowper

FROM: Budget Transition Team
Oral Freeman, Chairman *Oral Freeman*
Brian Rogers, Vice-Chairman *Brian Rogers*
Dave Rose, Member *Dave Rose*
Bob Poe, Member *Bob Poe*
Richard Fineberg, Member *Richard Fineberg*
Mary Halloran, Member *Mary Halloran*
Senator John Sackett, Member *John Sackett*
John Halterman, Member *John Halterman*

DATE: December 12, 1986

"Major budget issues" is not all included

Enclosed is the final report from the Budget Transition Team. The report is presented in three parts: 1) Identification of the FY87 budget shortfall; 2) Identification of revenue options; and 3) Major budget issues. This report is not purported to be an exhaustive research document, but rather an initial review of the State's revenue potentials and fiscal concerns.

In preparing this report the members divided into subcommittees for review and initial identification of major departmental fiscal issues. Because of time constraints, not all members were able to thoroughly familiarize themselves with the departmental fiscal concerns of the subcommittees. Therefore, the committee has identified the subcommittee members responsible for the departmental review.

The committee has enjoyed the opportunity to assist your new administration through transition. The challenge of directing the state through the next four years cannot be overstated. If there is any way this committee can assist you and your administration further, we will be pleased to do so.

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December 15, 1986

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B. General Budget and Fiscal Policy Issues

C. Shortfall and Financial Plan

Section IV.

Department Reviews

TO: Governor Steve Cowper
FROM: Budget Transition Team
DATE: December 12, 1986
RE: FY 87 Year-End Shortfall

Our best estimate of the FY 87 Unrestricted General Fund year-end shortfall is (\$593.0) million (negative).

Please note that this estimate is subject to final revisions in the State's Annual Financial Report (AFR), currently nearing completion in the Department of Administration. The State Accountant advises that until the report is completed swings up to \$50.0 million in either direction are possible. Wrap-up of the AFR is anticipated by Dec. 22.

This estimate assumes that operating budget appropriation restrictions imposed by the previous administration remain in place until those appropriations lapse, but that capital appropriations (which do not lapse) should be regarded as valid obligations.

We could find no existing computer system (or systems) that calculate the amount available for appropriation during the coming legislative session. The attached worksheets represent the best (and only) existing method to close the gaps that exist in the current budget, revenue and accounting systems.

MEMORANDUM

Office of Management and Budget
465-3568 MS 0164

TO: Budget Transition Team

DATE: Dec. 11, 1986
[revised]

FROM: R.A. Fineberg

SUBJECT: FY 87 Year-End Shortfall

Preliminary estimates place the FY 87 year-end shortfall at approximately negative (\$593.0) million. This estimate may increase or decrease by up to \$50.0 million when the Annual Financial Report tables are completed by the State Accountant during the coming week. In the meantime, this figure should replace the negative (\$299.5) million anticipated by the previous administration in October as a preliminary estimate of the FY 87 shortfall.

Changes in the (\$299.5) shortfall estimate are:

Unrestr. G.F.
(\$ Millions)

Oct. 30 Estimated FY 87 Shortfall:	(\$299.5)
Decrease in FY 87 revenue (Dec. forecast)	(74.4)
Annual Fin. Rpt. V. Budget Estimates:	
Receivables, reserves etc.	34.6
Other (final estimate pending)	
Remove lapse balance	(10.0)
Revision to TAPS refunds estimate	(12.1)
Increase Extraordinary Repayments to GF	1.6
Remove transfers counted in AFR	(13.0)
Add transfers not in AFR	100.0
Remove proposed repeal of capital project and loan fund balances	(81.3)
Net increase operating agency restrictions (DOE: +13.9; Courts, Leg: -[8.3])	5.6
Subtotal:	(348.5)
1986 Session Capital and Loan Restrictions	(219.5)
Contingency for FY 87 Supplemental Appropriations	(25.0)
Dec. 11 Estimated FY 87 Shortfall:	(593.0)

The State Accountant advises that final calculations could alter the final numbers in the Annual Financial Report by \$50.0 million in either direction. The Division of Finance intends to present a semi-final estimate during the coming week.

Fineberg / Budget Transition Team
Shortfall
12/11/8 (Page Two) [rev.]

Note that this estimate excludes current-year operating agency restrictions and operating agency lapse. The Budget Transition Team concluded that operating agency restrictions appear to be effecting valid reductions to the operating budget. Exclusion of lapse from these calculations is consistent with the premise that revenue estimates should be cast conservatively to avoid unnecessary dislocation due to declining revenues.

Attachment #1 contains the summary data; attachment #2 details these calculations in a standardized format that is useful for tracking revenues and appropriations; attachment #3 adds a column to show the current estimate against the calculations that produced the (\$299.5) million negative used by the previous administration; attachment #4 is the latest version of the preliminary FY 86 Annual Financial Report statement from which the FY 87 starting shortfall is taken; attachment #5 shows repeals, appropriated and administrative fund transfers by fiscal year.

(1)

1986-87 Session Revenues and Appropriations

Preliminary estimates based on Budget Transition
Team review of OMB documents; worksheets
attached.

12/11/86

(With Restrictions)
(\$ Millions)
(Unrestricted G.F.)

FY 87 Appropriations Total (1986 session w/restrictions)	\$2,153.5	(2)
Estimated FY 87 Year-End Balance (Shortfall)	(593.0)	(3)
Revenue (1987 Session):	<u>1987 Session</u>	
Carry-forward to FY 88 (Shortfall)	(593.0)	(3)
FY88 Revenues (DOR Jan. 30% case)	1,325.0	
Adjustments to FY 88 Revenue		(4)
Estimated Total Available Revenue (FY 88)	<u>\$732.0</u>	

Notes:

- (1) These numbers reflect 30% December forecast totals and preliminary FY 86 Annual Financial Report data.
- (2) 1986 session operating, capital and loan appropriations of \$2,580.2 million less restrictions of \$415.0 million and \$11.6 FY 86 supplementals. (Source: 1986 Appropriations Digest (OMB; operating restrictions adjusted per DBR 11/24/86 [Leg. & Courts and OMB 12/11 [school debt]]).
- (3) Estimated shortfall for FY 88 includes (\$219.5) million for capital and loan restrictions and (\$25.0) million for FY 87 supplementals.
- (4) Anticipated extraordinary repayments to General Fund of \$2.8 million approximate FY 87 well credits; Therefore no adjustments to FY 88 revenue are necessary.

Preliminary 12/11/86

[r]

ATTACHMENT #1

**REVENUES AND APPROPRIATIONS WORKSHEET,
1986 AND 1987 LEGISLATIVE SESSIONS**
(1987 session version; 12/7/86)

12/12/86
30% case

(These figures are preliminary and
subject to revision.)

1986 SESSION

(PRELIMINARY)

1	Estimated Carry-Forward to 1985 Session	/	OMB estimates replaced with Item 5
2	1986 Session Appropriations with FY 85 Effective Dates	/	
	A. FY 86 Operating Program Supplementals	/	
	B. Capital Projects	/	
	C. Loan Programs / Other	/	
3	1986 Session Adjustments to Prior-Year Appropriations	/	
4	Adjustments	/	
	A. Adjustments in FY 86 Annual Financial Report	/	
5	FY 86 Year-End Balance	221.6	FY 86 Preliminary AFR St. 12, 12/9/86 (Adjusted by OMB, 12/9/86)
6	Estimated FY 87 Revenues (DOR 9/86 30% case) (exclude TAPS legal & refunds)	1,334.2	DOR, Dec. 1986 30% case
7	Adjustments to FY 87 Revenues		
	A. Drilling Incentive Credit	(5.0)	OMB estimate (based on FY 86-87 data)
	B. Extraordinary Payments to General Fund	12.4	OMB estimate (per DOR 12/2/86)
	C. Estimated Lapse of FY 87 Appropriations		
	D. TAPS Refunds and Legal	65.0	Amount due; Dec. forecast (fn. 15; net of 138.6 to Budg. Res. Acct.)
	E. Administrative Transfers (not in 1986 AFR)	70.8	70.8 Anticipated Administrative Transfers (see OMB worksheet);
	1986 session statutory transfers (not in 1986 AFR)	100.0	100.0 Statutory (70.0 HAD; 25 HWCF; 5 Vet RLF)
	F. Restrictions of prior capital (6.0)	6.0	(per Sheffield Press Release, 8/1/86)
8	1986 Session Appropriations with FY 87 Effective Dates		
	A. FY 87 Operating Programs (2169.9 - 181.6)	(1,988.3)	HB500, HB574 (Restrictions: Appropri. Digest, Table 10 [rev. 12/3/86])
	Local School Debt Restructuring Gain (12/11/86)	13.9	
	B. Capital Projects (337.6 - 213.4)	(124.2)	SB171, HB574 with restrictions (Appropriation Digest, Overview)
	C. Loan Programs / Other (61.0 - 6.1)	(54.9)	SB171 with restrictions (Appropriations Digest, Overview)
	FY 87 Total Appropriations	<u>(2,153.5)</u>	(8A.+B.+C.)
9	Estimated Unrestricted GF Surplus (Shortfall)	<u>(348.5)</u>	Subtotal
10	Contingent Liabilities:		
	A. 1986 Session Capital, Loan Restrictions	(219.5)	OMB restriction estimate, 7/86
	B. Reserve for essential FY 87 Supplemental Appropriations	<u>(25.0)</u>	Estimate
11	Estimated FY 88 Shortfall:	<u>(593.0)</u>	Estimated FY 88 Shortfall

WORKSHEET: REVENUES, APPROPRIATIONS AND TRANSFERS, 1985 AND 1986 LEGISLATIVE SESSIONS

12/11/86
30% case

10/86
30% case
w/restrictions

(Tracking version)

1985 SESSION

(PRELIMINARY)

1	Estimated Carry-Forward to 1985 Session	/	/	OMB estimates replaced with item 5
2	1985 Session Appropriations with FY 85 Effective Dates	/	/	
	A. FY 85 Operating Program Supplementals	/	/	
	B. Capital Projects	/	/	
	C. Loan Programs / Other	/	/	
3	1985 Session Adjustments to Prior-Year Appropriations	/	/	
4	Adjustments	/	/	
	A. Adjustments in FY 85 Annual Financial Report	/	/	
5	FY 85 Year-End Balance	/	(213.9)	FY 85 Annual Financial Report, St. 12
6	Estimated FY 86 Revenues (DOR 3/12/86 30% case)	/	2,681.9	DOR Oct. actual (preliminary)
	(includes FY 86 TAPS gain; excl. refunds & legal)	/		(includes revenue gain from TAPS settlement, 25.4 8g)
7	Adjustments to FY 86 Revenues	/		
	A. Drilling Incentive Credit	/	(0.7)	OMB estimate
	B. Extraordinary Payments to General Fund	/	50.6	OMB estimate (revised per DOR, DCED information 10/20/86)
	C. Estimated Lapse of FY 86 Appropriations	/	50.0	OMB estimate
	D. TAPS Adjustments:	/		Refunds to Reserve Fund; see Reserves, below
	E. ARCO Production Tax Settlement (1/13/86)	/	243.0	Announced 1/13/86
	F. 8g Settlement (counted in July forecast)	/		Congressional, Presidential approval 4/86
	G. Other (this item merged with 7B. in 8/28)	/		Bond Bank interest & sale gain
8	1985 Session Appropriations with FY 86 Effective Dates	/		
	A. FY 86 Operating Programs	/	(2,274.9)	1985 Appropriation Digest, p. 17
	B. Capital Projects	/	(433.0)	"
	C. Loan Programs / Other	/	(79.6)	"
9	Estimated Carry-Forward to 1986 Session	/	23.4	(5 + 6 + 7 + 8) this entry is analogous to the (\$285.5) figure used during the 1986 session; see attached worksheets.

1986 SESSION

1	Estimated Carry-Forward to 1986 Session	/	23.4	From item 9 (above)
2	1986 Session Appropriations with FY 86 Effective Dates	/		
	A. FY 86 Operating Program Supplementals	/	(11.6)	Estimated (\$B348, 0.04; HB574, 11.52)
3	1986 Session Adjustments to Prior-Year Appropriations	/		
	A. Statutory	/	175.2	1986 Appropriation Digest, OMB Worksheets: 150.2 HB574; 25.0 HB500 (excludes admin. transfers shown with FY 87 adjustments)
4	Adjustments			
	A. Adjustments in FY 86 Annual Financial Report	99.4		12/9 preliminary replaces 11/21 and 12/5 versions
	B. Other (HB 574 Capital Adjustment from Line 8-B., 8D.)	122.2		HB 574 capital in FY 86 AFR (in Lines 8B. and 8D., below)
	Reserves and Other: Adjustment			(+/- \$50.0 per DOA 12/6/86; final due 12/12)
5	Estimated Carry-Forward to FY 87	221.6	187.0	(1+2+3+4)
6	Estimated FY 87 Revenues (DOR 12/3/86 30% case)	1,334.2	1,408.6	DOR Oct., Dec. 1986 30% cases
	(exclude TAPS legal & refunds)			
7	Adjustments to FY 87 Revenues			
	A. Drilling Incentive Credit	(5.0)	(5.0)	OMB estimate (based on FY 86-87 data)
	B. Extraordinary Payments to General Fund	12.4	10.8	OMB estimate (per DOR 12/2/86)
	C. Estimated Lapse of FY 87 Appropriations		10.0	OMB estimate (reduced per DBR estimate, 7/86)
	D. TAPS Refunds and Legal (received after 3/1/86)	65.0	77.1	Amount due; Oct. forecast (footnote 15 net of 138.6 to Rainy Day Acct.)
	E. 1986 Session Administrative Transfers	70.8	83.8	11/27 excludes 13.0 included in AFR preliminary at Line 5
	Repeals anticipated subsequent to 1986 AFR	100.0		Per DOA 11/26/86 (see OMB worksheet)
	F. Repeal prior capital	6.0	87.3	Revised 11/27/86 from Governor's Press Release (8/1/86)
8	1986 Session Appropriations			
	A. FY 87 Operating Programs (2169.9 - 181.3)	(1,974.4)	(1,980.0)	HB500, HB574 (Restrictions: Appropri. Digest, Table 10 (rev. 12/11/86))
	B. Capital Projects (337.6 - 213.4)	(124.2)	(124.2)	SB171, HB574 with restrictions (Appropriation Digest, Overview)
	C. Loan Programs / Other (61.0 - 6.1)	(54.9)	(54.9)	SB171 with restrictions (Appropriations Digest, Overview)
	D. Capital/Loan Restrictions + Contingency for Supplementals	(244.5)		
9	Estimated Unrestricted GF Surplus (Shortfall)	(593.0)	(299.5)	Estimated Year-end Balance (excludes reserves)

BUDGET RESERVE FUND:

Rainy Day Account (without TAPS)	294.9	294.9	Rainy Day Account FY 86 Year-End (without TAPS)
TAPS deposits to RDF	138.6	138.6	(Per Sec. 762, Ch. 105, SLA 85)
Disaster Relief Withdrawals	(4.8)		State portion of Disaster Relief (per OMB 11/28/86)
Total Budget Reserve Fund	428.7	433.5	Budget Reserve Fund (HB 513, HB 574)

GF EXTRAORDINARY PAYMENTS (PRINCIPAL REPAYED, ETC.):

FY 87	12.4	FY 88	2.9
7 B. General Fund Extraordinary Income: (FY 86 = 50.6)		B. General Fund Extraordinary Income:	
Est. Cr. Union Debt certificates paid, FY 87 (DOR, 12/2)	9.6	Debt certificates paid (rev. per DOR, 12/2/86)	
Miscellaneous GF (AHFC, ASHA, etc.)	0.4	Miscellaneous GF	0.4
Small Business Revolving Loan Fund (DCED, 10/21/86)	--	Small Business	--
Tourism Revolving Loan Fund	0.3	Tourism	0.3
ARC	--	ARC	--
0.9 Power Project Loan Fund (from budget form C-21)	1.1	Power Project Loan Fund	1.1
Bond Bank: Interest plus bond sale gain	1.0	Bond Fund (est. interest due GF)	1.0

STATE OF ALASKA
GENERAL FUND
PRELIMINARY ESTIMATE
June 30, 1986
(Stated in Thousands)

12/9/06

	June 30, 1986	June 30, 1985	
ASSETS			
Cash and Investments:			
Cash in Transit	\$ 425	\$ 1,905	1,481
Interest Cash	967	1,432	465
Deposits with State Treasurer	1,595,867	1,675,833	79,766
Deferred Compensation	66,579	54,137	12,442
Total Cash and Investments	\$ 1,663,838	\$ 1,733,307	69,669
Advances:			
Salary, Travel and Other	1,295	998	297
Capital Projects Funds	10,400	10,400	0
Enterprise Funds	1,440	1,466	16
Advances to Other Jurisdictions	440	477	(37)
Total Advances	\$ 13,595	\$ 13,341	254
Receivables:			
Accounts Receivable	\$ 151,796	\$ 1,170	150,626
Due from Federal Government		36,800	(36,800)
Due from Other Governmental Units		7,102	(7,102)
Inter-Agency Receivables		21,578	(21,578)
Accrued Interest Receivable	74,053	47,842	26,211
Loans Receivable	17,090	16,961	129
Total Receivables	\$ 242,939	\$ 131,453	111,486
Inventories, at Cost:	\$ 1,394	\$ 1,514	(120)
Total Assets	\$ 1,921,766	\$ 1,879,615	42,151
LIABILITIES:			
Payroll and Taxes withheld	\$ 36,431	\$ 43,055	(6,624)
Accounts Payable	77,263	144,227	(66,964)
Permanence Percent on Contracts	216	259	43
Due to Other Funds:			
Enterprise Funds	3,014	26,039	(23,025)
Alaska Permanent Fund		2,573	(2,573)
Bond Redemption Fund			
Other Liabilities	13,219	18,526	(5,307)
Total Liabilities	\$ 132,143	\$ 234,679	(102,536)
FUND EQUITIES AND RESERVES:			
Reserves:			
Encumbrances	\$ 402,024	\$ 584,834	(182,810)
Continuing Programs- Operating	21,909	9,947	11,962
Continuing Programs- Capital	603,614	578,793	24,821
Emergency Operating Expenses	431,526	298,000	133,526
Loans to Other Jurisdictions	12,300	12,343	(43)
Retirement & Other Reserves	20,491	18,969	1,522
Total Reserves	\$ 1,491,864	\$ 1,502,886	(11,022)
Available Fund Equity:			
Restricted for Deferred Compensation	66,579	54,137	12,442
Restricted for Non-Liquid Investments	134,760	301,854	(167,094)
Balance Available for Appropriation	99,438	1213,941	(1,114,503)
Total Available Fund Equity	\$ 240,777	\$ 142,932	97,845
Total Fund Equity and Reserves	\$ 1,732,641	\$ 1,645,818	86,823
Total Liabilities, Reserves and Fund Equity	\$ 1,921,766	\$ 1,879,615	42,151

ATTACHMENT #4

(Revised 10/27/86)

1986-1987 Revenues and Appropriations (p.2)

Adjustments to Carry-Forward to 1986 Session	FY87 est. 8/28	FY87 est. 11/27
4/9/86 Estimate	(285.5)	(269.0)
Additional Credit Union Debt Certificates Repaid	2.2	
Additional FY 86 Loan Principal Repayments (Tourism 2.0, Sm. Business 1.6)		3.6
FY 86 Drilling Credits (4/9 est. v. 8/28 est.)	14.3	
Adjusted Carry-Forward to 1986 Session	(269.0)	(265.4)

Adjustments to FY87 Revenue	FY87 est. 8/28	FY87 est. 11/27	FY 88 est. 11/27
Extraordinary Repayments to GF (reflects cr. union prepayments of C.D.'s)	5.3	13.0	2.8
FY87/88 Lapse	10.0	10.0	10.0
FY87 Drilling Credits (4/9 est. v. 8/28 est.)	(5.0)	(5.0)	(5.0)
Total Adjustments to FY87/88 Revenue	10.3	18.0	7.8

Transfers / Other Sources:	(Stated in \$000) (session est.)	(Stated in \$000) (est. 11/27/86)	Comments (Revised 10/86)
APA / DCED Transfers:			
PDRLF cash in suspense (transfer)	9,000.0	9,036.0	AkSAS 7/19/86 (FY 86 GF)
Power Project Fund Lapse (per s. 502, Ch. 105, SLA 85)	4,000.0	4,000.0	AkSAS 2/12/86 (adjust FY 85 account)
Proposed Sale of GF Assets (eff. 7/1/86)			
State Mortgage Loans (to AHFC)	12,800.0	4,500.0	DOR/AHFC est. 10/86 (non-delinq. housing only)
Obligations of State Corporations (to AHFC; eff. date 7/1/86)	28,600.0	3,643.0	Marine View (est. 12/1/86)
		24,957.0	AHFC intends to acquire this amount
ASBA transfers to GF:			
Lease building program surplus	7,000.0	7,000.0	Pending Oct. '86 board meeting (ASHA may hold 10% reserve)
Undesignated Surplus	7,500.0	7,500.0	Spring 1987 (reasons for delay unclear)
Small Business Loans (to AIDA)	20,000.0	23,192.0	Received 5/86 from AIDA
Administrative Lapse from various capital and/or loan funds	2,500.0	0.0	(DCED will transfer c. 11/1) 9 Capital balances duplicate proposed capital lapse 7/16/86
(Note: ASBA lease bldg. and SBA counted in DOR July revenue forecast)			
NON-STATUTORY TRANSFERS (FY 86 SUBTOTAL):		13,036.0	Reference Total:
NON-STATUTORY TRANSFERS (FY 87 SUBTOTAL) 91,400.0		70,792.0	83,828.0

Repeals / Reappropriations (HB 574 as enacted):			
Publ. Facil. Planning Fund (s. 61)	6,000.0	6,000.0	(Fund 13707; in FY86 cash)
ASHA (s. 383; see admin. transfers)			
Veterans Revolving Loan Fund Repeal (s. 39)	5,000.0	5,000.0	Est. 11/1/86 (To confirm contact: C. Green, DCED)
Other Loan Fund Repeals (s. 427):			
Veterans RLF	408.6	408.6	Completed 8/16/86 (AkSAS)
Comm Fish	2,000.0	2,000.0	Completed 8/16/86 (AkSAS)
Mining	13,350.0	13,350.0	Completed 8/16/86 (AkSAS)
Alt. Energy	1,809.0	1,809.0	Completed 8/16/86 (AkSAS)
Res. Energy	1,800.0	1,800.0	Completed 8/16/86 (AkSAS)
Rural Elect.	1,779.9	1,779.9	Completed 8/21/86 (AkSAS)
Power Dev. RLF	18,605.9	8,590.1	Completed 8/16/86 (AkSAS)
SUBTOTAL (s. 427): 39,753.4		10,015.8	Balance from 4-Dam Pool by 8/31/87 (FY86 cash or rcvbles)
PCA/PCE Lapse (s. 453-455)	5,490.0	2,763.3	OMB/AkSAS (s. 455 void)
HALF (s. 551)	70,000.0	70,000.0	Pending AHFC bond sale of 11/25
PFD (s. 553-7; vetoed)			
MAJOR REPEALS (SUBTOTAL):	126,243.4	123,516.7	
CAPITAL REPEALS (Est.; incl. repeals to new projects)	26,989.0	26,989.0	
OPERATING REPEALS	741.2	741.2	
HB 574 TOTAL REPEALS/REDUCTIONS (FY86)		76,246.9	Reference Total:
HB 574 TOTAL REPEALS/REDUCTIONS (FY87)	153,973.6	75,000.0	151,246.9

Other Statutory Repeal (HB 500, s. 16)			
Highway Equipment Working Capital Fund	25,000.0	25,000.0	Fnd. 22652 moved in FY 87

HB 574 Totals: Sectional 8/1/86, Sorted 7/31/86 (Ref.: disks 17, 19)

DSP/OMB 11/27/86

* GF inv. income adjustment to resident tax
entire 23.2 outside funding

ATTACHMENT # 5

INTRODUCTION REVENUE OPTIONS

The attached sheets identify a variety of general fund revenue measures, both one-time and recurring, which could be used to cope with the FY87 year-end shortfall and to bolster state revenues for FY88 and in the future.

This information is presented with several strong caveats:

First, these measures are options, not recommendations by the budget team.

Second, the budget team consistently chose the lowest estimates of revenue generation available. Some of the options, if adopted, might raise more revenue than that which was identified.

Third, some of the options are mutually exclusive. You cannot, for example, choose to phase out AHFC and still receive a yearly income return from AHFC interest flowing to the General Fund.

Fourth, all options are not equal in terms of good public policy, ease of implementation, or political soundness.

Finally, any and all of these options must be thoroughly researched and analyzed before being adopted by the new administration.

REVENUE OPTIONS
(in millions \$)

	<u>FY87</u>	<u>FY88</u>	<u>FY89 & Beyond</u>
G.F. Revenues-unrestricted	\$1,399.2	\$1,325.0	\$1,373.9 (FY89)
Adjustments to G.F.	<u>7.4</u>	<u>0</u>	<u>0</u>
Current Unrestricted G.F	<u>1,411.6</u>	<u>1,325.0</u>	<u>1,373.9</u>
<u>ONE-TIME REVENUE MEASURES:</u>			
Budget Reserve Fund*	428.5		
Railbelt Energy Fund*	281.0		
AHFC Purchase of HAD Loans	100.0		
Bradley Lake (Change of funding source)	95.0		
Cash-out Loan Fund Balances*	37.3		
Sale of Student loan Portfolio	136.0		
Sale of Other Loan Portfolios	122.9		
Dinkum Sands			238.0 (FY89)
Amerada HESS			? (FY90)
Disputed Taxes	?	?	? (\$1,495.0 owed in disputed taxes)
Repeal of Prior Year Cap. Approp.*	?	(up to \$950.0)	
Unencumbered AIDA Assets	152.0		
Sale of State Assets (AHFC, Ak Railroad, 4-Dam Pool, AIDA)			?
<u>RECURRING REVENUE MEASURES:</u>			
Lottery*		11.8	11.8
Gov't. Loans & Debt:			
Debt Restructuring	50.0	45.0	35.0
AIDA Income Return to G.F.	28.9	28.9	28.9
AHFC Income Return to G.F.	41.8	41.8	41.8
AHFC Phase-out	?	?	?
Permanent Fund:			
Earnings Reserve*	281.0	18.0	0
Inflation Proofing*	138.0	357.0	484.0
Dividends*	362.0	393.0	423.0
Oil Taxes:			
ELF*	31.5	123.4	151.8
Severance Tax*		?	?
Petroleum Corporate Income Tax* (See Corporate Income Tax)			
Separate Accounting*		?	?
Reserves Tax*		280.0	280.0
Oil			
Gas			
Property Tax (per 1 mill)*		16.0	16.0

	<u>FY87</u>	<u>FY88</u>	<u>FY89 & Beyond</u>
Other Business Taxes & Licenses:			
Motor Fuel Tax Increase (\$.08/gal inc.)*		20.0	20.0
Aviation Fuel Tax Increase*		7.7	7.7
Waterfuel Tax Increase*		4.1	4.1
Misc. Fees Increase*		35.8	35.8
Licenses & Permits	5.4		
Corp.			
Occ. Lic.			
Motor Vehicles			
Bev. Lic.			
Amuse.			
Fishing & Hunting			
Vehicle License			
(1% of value)	13.4		
APUC	4.0		
Oil & Gas Cons.	2.5		
Bus. Lic. Fees	9.5		
Misc.	1.0		
 Tobacco Tax*		1.5	1.5
Alcohol Tax*		4.8	4.8
Business Gross Receipts*			
Regressive		31.7	38.4
or		or	or
Flat		53.9	62.3
Corporate Income Tax *		93.0	93.0
Household and Individual:			
Income Tax*		125.0	250.0
Sales Tax @ 1% *			
with food		55.4	55.4
or		or	or
excluding food		33.0	33.0
School Head Tax (@ \$25 per person)*		5.0	5.0
 Real Property Tax*		?	?
Personal Property Tax*		?	?
Land Speculation Tax*		?	?

* Legislation Required

ONE TIME REVENUE MEASURES:

Budget Reserve Fund

The "buffer" fund was created last year out of the former "rainy day" fund and \$139 million from settlements of disputed oil tax matters. The current balance of the fund is approximately \$428.7 million. By statute, 25 percent of this amount will be available for spending in the FY88 budget.

[Source: OMB 12/86]

Railbelt Energy Fund

The \$281 million in this account was originally appropriated to assist in financing the now defunct Susitna hydro project. It is argued that the fund should be reserved for energy related capital projects in the railbelt area. For some, this apparently includes the Bradley Lake project, but others argue that project should continue to be financed from the state General Fund. [Source: OMB 10/86]

AHFC Purchase of HAD Loans

The remaining value of Housing Assistance Division loans has not been determined (because of delinquencies and poor market conditions reduce portfolio market value), but the Alaska Housing Finance Corporation estimates that it would purchase the remaining portfolio for approximately \$100 million. This amount could be returned to the general fund.

[Source: Ron Lehr, AHFC, meeting with budget transition team 11/86]

Bradley Lake Reappropriation

The General Fund can realize \$95.0 million through cancellation of the Bradley Lake hydro project. If the project were continued through the Railbelt Energy Fund, the General Fund could realize \$50.0 million appropriated for FY 87 and would be relieved of responsibility for an additional \$50 million proposed for FY 88 to complete the general fund portion of the project. [Source: OMB 12/86]

Cash-out Loan Fund Balances

This amount represents existing cash balances and gain from FY 87 restrictions of lending activity in DCED, APA and DNR loan programs. [Source: OMB 8/86]

Sale of Student Loan Portfolio

The State currently has a portfolio of approximately \$350M in student loans. The sale of the Student Loan Portfolio could realize \$136.0M, given current defaults. The annual income stream from loan repayments to the Post-secondary Education Commission would be lost. [Source: Milt Barker, Dept. of Revenue memo to transition team 12/86]

Sale of Other Loan Portfolios

In addition to the Rural Housing Assistance Loans (see AHFC purchase of HAD loans) and the Student Loan Portfolio (see sale of Student Loan Portfolio) the State also holds Agricultural loans (equity \$96M), Power Development loans (equity \$188M), and other Commerce loans (equity \$148M). The

sale of these loan portfolios could realize \$122.9M, given current default and delinquency rates. The annual income stream to these loan programs would be lost. [Source: Milt Barker, Dept. of Revenue, memo to budget transition team 11/86]

Dinkum Sands

U.S. v. Alaska. This case is a dispute over ownership of the Dinkum Sands area bordering the Arctic Ocean. Oil companies paid the U.S. government for the right to explore for oil in the disputed area. That money, plus interest, now amounts to \$1,150 million, which is being held in escrow by the federal government. The Department of Law says the state has a good chance of securing this outcome. Even under the worst possible outcome the state would receive 27 percent. (Gov. Sheffield sought but did not secure the release of the 27 percent). Assuming no negotiated settlement, the case will probably be resolved in the U.S. Supreme Court in late 1988. [Source: Barbara Hermann, Dept. of Law briefing of budget transition team 11/86]

Amerada Hess

Alaska v. Amerada Hess et al. This litigation concerns the valuation of royalty oil. If all issues are resolved in favor of the state's position Alaska will receive "hundreds of millions" according to the assistant attorney general handling the case. The state hopes to reach trial on the merits in state superior court in early 1988. Assuming no negotiated

settlement, appeals could take several years. [Source: Bob Maynard, Dept. of Law, briefing of budget transition team 11/86]

Disputed Taxes

The Department of Revenue claims that taxpayers owe the state \$1,495 million in back taxes thru 1982. Ninety-seven percent of this amount arises from disputes with oil companies concerning severance tax assessments and disagreements over net income determinations under the oil and gas corporate income tax. The Department believes that it will eventually collect a large proportion of this amount, but will make no estimate of the amounts likely to be collected in any particular fiscal year. [Source of estimate: Dept. of Revenue, budget transition team 11/86]

Unencumbered AIDA Assets

AIDA currently has an estimated \$162.0 million in unencumbered assets which could be utilized to purchase State assets. For example, ASHA issued State Lease Revenue Bonds through 1974 for construction of public buildings which were secured by long-term leases with the State. All structures leased to the State are operated and maintained by the State. A total of \$106M in ASHA bonds was issued. Currently, the debt remaining is less than \$40,000,000. Included in the facilities originally financed by ASHA was the Juneau State Office Building (completely paid off). Refinancing the State

Office Building through an agency such as AIDA would provide an injection of cash on a one-time basis, by increasing future operating costs in lease payments to repay this new debt.

[Source: Budget Transition Team 12/86]

Sale of State Assets

The State holds significant financial and other assets in AHFC, AIDA, the Alaska Railroad and the Alaska Power Authority. These assets could be sold (or the corporations privatized through sale to the private sector). No estimates are available for yield to the state from these actions.

Sale of AHFC - Privatization. In June 1986 the corporation held cash and marketable securities worth over \$2 billion, among total assets of \$6.4 billion. If all the mortgages held by AHFC were paid off, and if AHFC in turn paid back the money it had borrowed in the bond market, \$1.5 billion would remain. If the subsidized loan program were terminated, all of this amount could eventually be returned to the general fund (over a period of 10-15 years). Effects on the housing market and Alaska economy have not been evaluated.

[Source: OMB, AHFC 12/86]

Repeal of Prior Year Capital Appropriations

Capital appropriations do not lapse to the general fund if they are not spent during the fiscal year in which they were appropriated. Repeal of these unspent appropriations

could provide one-time availability of funds for reappropriation. There is a total of approximately \$950 million in unspent capital project appropriations. This total is divided between state agency projects and capital project grants, mostly to local governments.

In the last two years the backlog of unspent capital has been picked over intensively; most of the remaining money is being counted on by some community or agency, though the legislature could still legally reappropriate some portions. [Source: Budget Transition Team, 12/86]

RECURRING REVENUE MEASURES:

Lottery

A state lottery as proposed during the last legislature could yield approximately \$12 million in net income to the state. [Source: Legislative fiscal note 1/86]

G.O. Bond Debt Restructuring

This restructuring action can be accomplished by the Executive Branch through the Bond Committee.

Debt can be rescheduled in various ways to provide for example (1) level debt service, (2) a constant annual percentage of unrestricted revenues, (3) a short maturity schedule of fifteen years duration, (4) a longer schedule which provides for a lower dedication of an annual percentage of unrestricted revenues and provides for future debt

capacity, (5) varying costs or savings on a present value basis dependent upon serial or term maturities and interest rates or (6) the opportunity to capitalize interest if necessary and prudent.

Existing debt could be rescheduled in its entirety or partially. Such rescheduling could reduce debt service payments by up to \$50 million per year. The effect of restructuring would be to lower State debt service payments over the FY 87 - FY 89 period, while increasing those payments in the subsequent years. [Source: Bond Counsel and budget transition team worksheets 12/86]

AIDA/AHFC Income Return to G.F.

Net income for the two agencies for FY 86 was \$28.9M (AIDA) and \$41.8M (AHFC). Both have substantial equity. There is no evidence that new income flow is currently utilized to secure new debt or is pledged to secure existing debt. Automatic retention of earnings by AHFC and AIDA may not pass constitutional muster if challenged. In recent years, earnings from other entities have been appropriated back to the agencies by overt legislative action. [Source: Budget Transition Team, 12/86]

PERMANENT FUND:

Earnings Reserve

By the end of the current fiscal year the reserves are expected to contain a \$281 million excess after transfers for inflation-proofing and payments of dividends. This money, along with a possible \$18 million accumulating during FY88, could be appropriated to the general fund. This transfer would require no change in statute (other than an appropriation). [Source: Alaska Permanent Fund Corporation 12/86]

Inflation Proofing

The Permanent Fund Corporation projects that it will set aside \$138 million for inflation-proofing in FY87 and \$357 million in FY88. If these amounts were diverted to the FY88 budget, by statute the result would be an erosion of the real value in the principal of the permanent fund. [Source of estimate: Alaska Permanent Fund Corporation 12/86]

Dividends

Under current law the Permanent Fund Corporation projects that \$362 million and \$393 million will be available for dividends in FY87 and FY88 respectively. Both amounts could be diverted by statute all or in part, to the General Fund. Currently, dividends are calculated each year based upon one-half of 21% of 5 year earnings of the Fund. [Source: Alaska Permanent Fund Corporation 12/86]

OIL TAXES:

ELF

Elimination or modification of the Economic Limit Factor (ELF) provision could increase FY 88 forecast severance tax revenue by an estimated \$70 to \$150 million. Although, studies by the Department of Revenue suggest that the ELF changes under discussion will cause a small loss of future production, every barrel of forgone future production will yield approximately \$70 in additional tax revenue. There are several options for changes in ELF; this estimate is based on the "field alternative" now under study by the state Tax Policy Committee. [Source: State Tax Policy Committee 12/86]

Severance Tax

The current 15 percent rate on Prudhoe production compares to a range for other fields in Alaska from zero for most Cook Inlet fields to a high of 7.7 percent for the Kuparuk field. [No estimates have been developed for this alternative]

Petroleum Corporate Income Tax (see Corporate Income Tax - Business Taxes)

Separate Accounting

Alaska's oil & gas corporate income tax is forecast to collect \$110 million in FY 87. OMB estimates that return to

some form of the separate accounting method of determining income for oil and gas corporations would increase FY 88 revenue under current forecast scenarios; the amounts would be larger if the change to separate accounting were made retroactive to January 1987. Separate accounting is more sensitive to price than the existing tax and therefore could result in reduced revenue in latter years. The separate accounting method used in Alaska from 1978 to 1981, was withdrawn in the face of a legal challenge that subsequently failed. [No estimates have been developed for this alternative]

Reserves Tax

Alaska does not currently tax the property value of oil and gas reserves. (The state did impose this tax in 1975 and 1976). Reimposition of the reserves tax at the previous 20 mill (2 percent) rate could bring as much as \$280 million annually. [Source: Dept. of Revenue 1/86]

Property Tax

Alaska does tax the property value of facilities and equipment used in oil and gas production and transportation. The tax rate is 20 mills, with a part of the revenue is returned to local governments, depending on the local tax rates. Each one mill increase in the tax rate would increase state property tax revenues by \$18 million, though about 10 percent of this increase would be offset by resulting

decreases in severance tax and royalty revenue. Because of the offsetting reductions, add only \$16 million for each mill (tenth of a percent) increase in the oil and gas property tax. [Source: Dept. of Revenue 1/86]

OTHER BUSINESS TAXES & LICENSES:

Motor Fuel Tax

Aviation Fuel Tax

Waterfuel Tax

If all fuel taxes were doubled and allowed to increase with inflation, the following additions to revenue would result:

	FY87	FY88
(Million \$)		
Highway Fuel Tax	25.0	28.5
Aviation Fuel Tax	8.3	9.6
Marine Fuel Tax	6.1	7.7

The incidence of the tax is on both consumers of highway fuel and consumers in general. A portion of the tax is paid by business on the fuel they use in producing goods and services and is passed on to consumers in general. The incidence is regressive because fuel expenditures represent a larger percentage of income for low income as compared to high

income taxpayers. Part of the incidence is shifted out of state to nonresident tourists who consume fuel within Alaska.

In terms of economic efficiency, this tax makes fuel relatively more expensive compared to other commodities, thus altering consumer choices and resource allocation.

In practice, the demand for fuel is fairly inelastic relative to price changes over the short term and within a reasonable price range. Thus the yield from this tax should be fairly stable and increase proportionally to any rate increase. If population in Alaska increases, the highway fuel tax would show a proportional increase.

Administrative and compliance organizations are already in place and changing the rates would not entail any additional costs. [Source: Dept. of Revenue 1/86]

Miscellaneous Fees Increase:

Licenses and Permits

Licenses and permits, including corporation/occupational licensing fees (AS 02.05, AS 10.05-.35, AS 21.06-.90), motor vehicle fees and permits (AS 05.30, AS 28.10-.15, AS 42.10), alcoholic beverage licenses (AS 04.10), amusement and gaming fees (AS 43.35) and fishing and hunting licenses (AS 16.05 and AS 16.43), could be increased. If all the licenses and permits were allowed to increase with inflation, the following

additional General Fund and Fish and Game Fund amounts would be realized:

	FY 87	FY 88
Licenses & Permits	3.2	5.4

(millions \$)

If revenues from licenses and permits are still considered insufficient, a vehicle license fee could be enacted. The vehicle license fee could be levied at the time of registration in lieu of a property or ad valorem tax at a rate of 1% of vehicle market value. The following additional revenues could be generated:

	FY 87	FY 88
Vehicle License Fee	12.8	13.4

(millions \$)

[Source of estimate: Dept. of Revenue 1/86]

APUC

Changes in APUC funding are available through levying a gross receipts tax on utilities and common carriers, and/or allocating the cost of staff time on specific proceedings. Both options reasonably associate the cost of regulation with the benefits derived from the work of the APUC and of the Department of Transportation. (This option is included in Governor's Budget for the year of Nov. 24, 1986. [Source: Dept. of Transportation])

Oil & Gas Conservation

The existing oil and gas conservation tax in AS 43.57.010 can be increased to cover the amount of the operating costs of the Alaska Oil and Gas Conservation Commission ("commission"). An oil and gas conservation tax is included in most of the conservation Acts of the 30 oil and gas producing states. The tax would be in the amount of four mills per barrel of crude oil and 50,000 cubic feet of natural gas. The commission has calculated that approximately \$2,680,000 would be collected annually if this bill were enacted. (This option was included in Governor Sheffield's draft budget of Nov. 24, 1986).

[Source: Dept. of Revenue 1/86]

Business Licenses

The license fee for each business is currently \$25 for each year or portion of a year for which the license is issued. This option would increase the annual fee to \$100.

[Source: Dept. of Revenue 1/86]

Miscellaneous Fee Increases

Includes user fees increase for parks, museum, etc.

[Source: Budget transition team estimate from new legislation and transition reports]

Tobacco Tax

If the cigarette tax were allowed to increase with inflation, and the contribution amount per pack to the School

Fund held constant at \$.05 per pack, the following additional General Fund amounts would be realized:

	FY 87	FY 88
Cigarette Tax	0.9	1.5
(millions \$		

[Source: Dept. of Revenue 1/86]

Alcohol Tax

If Alaska were to equalize its excise tax rate on wine and beer to the equivalent amount of absolute alcohol contained liquor, it is estimated the revenue gained per year would amount to \$4.7 million. Using the absolute alcohol amount in liquor as the base in an excise tax rate of \$5.60 per gallon, the equivalent rate for wine would be \$1.83 per gallon and for beer would be \$0.58 per gallon. [Source: DHSS memo 10/30/85]

Business Gross Receipts Tax

The gross receipts tax portion of the Alaska Business License Act, AS 43.70, could be reenacted. Currently under AS 43.70 all persons or businesses must purchase annually a business license costing \$25 for the privilege of engaging in a business in the state. Previously, most businesses paid a tax on their gross receipts equal to one-half of one percent on gross receipts between \$20,000 and \$100,000 and one-quarter

of one percent on gross receipts in excess of \$100,000. If this gross receipts tax were reenacted with previously existing rates, the following additional revenues would be generated:

	FY 87	FY 88
Business License Tax	36.1	38.4
(millions \$)		

If the gross receipts tax were reenacted but if the previous regressive rate structure were replaced with a flat rate of one-half of one percent on all gross receipts in excess of \$20,000 the additional revenues would be as follows:

	FY 87	FY 88
Business License Tax	58.0	62.3
(millions\$)		

Sixty percent of the previous gross receipts tax went to local incorporated areas. If this aspect were retained, the net to the state would be approximately 40 percent of the above amounts.

Corporate Income Tax - Petroleum & Non-Petroleum

The existing graduated rate schedule could be extended by adding additional marginal tax rate categories. Presently all taxable income over \$90,000 is taxed at a rate of 9.4 percent for both petroleum and nonpetroleum corporate tax payers under the Alaska Net Income Tax Act, AS 43.20. If additional

categories were added such that taxable income between \$1 million and \$4 million would be taxed at 10 percent, taxable income between \$4 million and \$10 million at 11 percent, taxable income between \$10 million and \$100 million at 12 percent, taxable income between \$100 million and \$500 million at 13 percent, taxable income between \$500 million and \$1 billion at 14 percent and taxable income over \$1 billion at 15 percent the following amounts of additional revenues are projected.

	FY 87	FY 88
Corporate Income Tax	92.5	93.0
(million \$)		

Although the corporation pays the tax, the burden may fall on equity owners, employees, suppliers or consumers of products produced by the corporation. For this reason it is not possible to say whether the effective incidence is progressive or regressive even within this nominally progressive rate structure. It is likely, however, that at least part of the burden is shifted out of state to nonresident equity owners and consumers. The total burden of state corporate taxes is diminished by the provisions which allow the deduction of state corporate income taxes from taxable income when computing federal taxable income. [Source: Dept. of Revenue 1/86]

HOUSEHOLD AND INDIVIDUAL TAXES:

Income Tax

The Alaska Net Income Tax AS 43.20.011 (a)-(d) could be reenacted to apply to individuals. If a measure similar to the previous tax were instituted, the Department of Revenue estimated the following amounts of additional revenue could be generated:

	FY 87	FY 88
Individual Income Tax	330.0	352.0
(millions \$)		

These estimates were based on the most current DOR employment and income projections combined with previously estimated individual income tax equations available, Jan. 1986. The budget transition team revised these estimates downward to approximately \$250M based on the revision of federal tax rates and expected lower levels of economic activity in Alaska.

[Source: Dept. of Revenue 1/86 as modified by budget transition team]

General Sales Tax

A general sales tax could be enacted at the State level. Alaska currently has no sales tax at the State level, however seven boroughs and fifty-nine smaller municipalities do levy some form of sales tax. The rates levied range from one percent to five percent with six percent being the maximum a municipality is allowed to levy under AS 29.53.415. The base upon which these rates are levied also varies with different exemptions being allowed in various communities. If a sales tax were enacted at the State level it would be in addition to the tax at the local level.

Currently forty-five of the fifty states levy some form of sales tax at the state level. Food purchases, except restaurant meals and alcohol, are exempt in twenty-eight of the forty-five states. Prescription drug purchases are exempt in forty-three states. Gas and electric utility bills are exempt to some degree in thirty-two states. Five states exempt clothing purchases to some degree. Also, nine states allow some credit for sales taxes paid against state income tax liability. These various exemptions and credits are meant to ameliorate the regressive incidence of the sales tax. The rates levied on taxable purchases of goods and services varies considerably from state to state with a low of three percent to a high of seven and one half percent. The median rate levied by states which exempt food is five percent and by those which do not exempt food is four percent.

Based on Jan. 1986 projections of Alaska personal income the probable revenue yield from a one percent sales tax would be as follows:

	FY 87	FY 88
Sales Tax Revenue	42.5-70.0	44.3-73.8

(millions \$)

The two figures shown for each year represent point estimates of the probable sales tax revenues with and without a food exemption. Also note these figures are for a one percent tax rate so the yield from a higher tax rate can be calculated accordingly. In reviewing these estimates, the Budget Transition Team has discounted the yield from a 1% sales tax to reflect a downturn in the Alaska economy.

[Source: DOR 1/86, revised by Budget Transition Team 12/86]

School Head Tax

The school head tax was a \$10.00 head tax assessed all individuals employed in the State. The tax was repealed at the same time individual income taxes were repealed. Reenactment of a head tax at \$25.00 per head is estimated to result in a collection of \$5M annually, based upon an estimated 200,000 individuals employed in the State annually.

[Source: Budget Transition Team, 12/86]

Real Property Tax

Real and personal Property Tax in Alaska has generally been held to be within the purview of local governments. Many states do, however, levy real and personal property taxes on a statewide basis to be reallocated to local communities through revenue sharing, or some other form of local government assistance, in an effort to equalize local wealth. [No estimates have been developed for this option]

Personal Property Tax

(See Real Property Tax)

[No estimates have been developed for this option]

Land Speculation Tax

A land speculation tax could be developed to tax capital gains on land purchases at the time of sale. [No estimates have been developed for this option]

Subcommittee Report on Revenue Forecasting and Petroleum
Revenue Data

Budget Transition Team
December 12, 1986

Subcommittee Members: Brian Rogers, John Sackett and Richard Fineberg

Summary: In the face of the extremely difficult challenge posed by changing oil prices, it is not clear that the revenue forecasting model and the procedures used by the Dept. of Revenue (DOR) provide timely, useful and accurate information on anticipated State revenues. Non-forecast uses of petroleum revenue data are similarly unwieldy. This report identifies seven problem areas and recommends broad approaches for resolution. None require statutory action.

Five of these problems relate to the Department of Revenue; the final two points are inter-departmental.

1. The DOR forecast system appears slow to respond to major price shifts.

The December 1985 forecast anticipated significant increases from the previous forecast for the fiscal year (then nearing its midpoint) and revenue increases and for each of the next two fiscal years. The March 1986 forecast reflected a significant drop for all three years but failed to reflect the severity of the revenue decline, even though the price slide was nearly complete. (Graphs submitted to the transition team show that the daily spot-market price for ANS crude had reached its 6-month bottom-point at approximately the same time the March forecast was issued.)

In 1982 we note that the forecast was similarly slow to respond to unforeseen declines in oil prices.

RECOMMENDATION: Based on failure to anticipate significant price swings in two of the last five years, the possibility of developing a different forecasting system should be explored.

2. The DOR forecast system produces confusing results.

In the March 1986 forecast, DOR attached this caveat to its 30%-case estimates:

"If there is a chance for error in this forecast it is on the optimistic side, i.e., the downside risk is much greater than any perceived upside potential."

Subcommittee Report: Revenue Forecasting
Budget Transition Team
Dec. 12, 1986 / Page Two

A similar warning has appeared in each of the last three forecasts. The warning appears to have been valid: Even the reduced March 1986 forecast figures were significantly higher for FY 87 and FY 88 than the current forecast levels. Nevertheless, we find the forecasters' caveat perplexing. The essence of the 30%-case forecast is that it is conservative -- i.e., there is a 70% chance that revenues will exceed the forecast. How, then, we wonder, can it be that each of the last four supposedly conservative, 30%-case forecasts erred to the optimistic side? We are not aware that DOR has instituted measures or recommended revisions to the forecast system that produced this paradox.

RECOMMENDATION: If conservative forecasting is desired to lessen disruptions to services due to the volatility of oil prices, new bases for revenue forecasting should be developed. (The existing model should be maintained to test simpler systems.)

3. The forecast system seems unresponsive to short-range demands for revenue forecast information.

During the price decline of early 1986, DOR expressed confidence in its December and its March estimates long after other State observers had concluded those forecasts were no longer likely to be valid. And as recently as Nov. 11, 1986, DOR forecasters advised the Budget Transition Team the October forecast was "on-target" now but could slide next spring. Three weeks later, the new forecast reduced current-year revenue by \$74.4 million. This decline would have been greater without the serendipitous aids from tax breaks and a tardy reduction to the TAPS tariff in the forecast model.

RECOMMENDATION: If the current petroleum revenue model is maintained as the primary forecasting device, consideration should be given to updating the quarterly forecast monthly by plugging in new price data on a microcomputer spread-sheet. (Changes could be reported monthly, based on a formula that analyzed reported spot price trends subsequent to that forecast.)

4. DOR system results depend on terms that need closer examination and better public reporting.

Production costs, capital costs, pipeline tariff, tanker charges and market prices are representative of key parameters that affect the State's revenue stream. In some cases, major sums ride on the costs applied to these terms. Because 90% of the North Slope production and its pipeline conduit are owned by three large companies, many of these

cost elements are not determined in normal, open market transactions. For this reason, it is disturbing that these key terms are not recorded in consistent form in one place. For example, the Dept. of Natural Resources publishes monthly field data that are uncorroborated and difficult to reconcile with DOR reports. To develop a comprehensive picture of the three major companies' and the State's share of a barrel of oil, it is necessary to extract data from a variety of reports and data bases.

RECOMMENDATION: In view of this unique economic situation and its fiscal importance to the State and the State's economy, DOR should assemble comprehensive and consistent data through which interested citizens can understand the economics of Prudhoe Bay.

5. DOR systems do not respond well to non-forecast policy demands.

In recent years the Legislature, the Governor's office and other would-be users of public information have experienced difficulty obtaining timely and useful information concerning the mechanics of the forecast model, and to public policy issues relating to State oil revenues. Examples of inadequate public information and inter-agency review include the final review of the TAPS settlement, separate accounting, the ARCO settlement and analysis of the ELF.

RECOMMENDATION: The Governor should take steps to ensure that DOR fulfills its public trust by making maximum information on key petroleum revenue issues available to all involved agencies and to the public in a useful and timely manner.

6. Confidentiality often serves as a bar to information on North Slope economics.

In recent years, many aspects of oil economic questions have been kept behind the screen of confidentiality. For example, the Oct. 23, 1985 confidential decision-document on the TAPS case was modified after decision-meetings were held and before the document was released; the version on which the decisions were made was never made public. In 1986 a North Slope producer expressed dismay that DOR made public the producer's intention to seek revision of existing mechanisms to secure public revenue. While we recognize individual and tax-payer rights to privacy, on the other hand it must be noted that these events are typical of public policy decisions that rightly belong in the public sector.

RECOMMENDATION: Before information is stamped "confidential," the Dept. of Law and the managing state agency should ensure that it is indeed necessary and proper to withhold that information from the public. If confidentiality bars release of individual tax-payer information, the agencies should attempt to assemble and release aggregate data that do not compromise an individual tax-payer's rights.

7. Better inter-agency coordination of outstanding petroleum revenue tax challenges and litigation is needed.

Because the State's royalties are derived from the State's function as steward of the land, this branch of oil revenue is managed by the Dept. of Natural Resources (DNR). Because the economic factors identified in Item 4 (above) affect both royalties and production taxes, multi-department analyses of these factors should be coordinated. (Coordinated analysis was evidently lacking in the trans-Alaska Pipeline rate case.)

With amounts well in excess of \$1 billion depending on the outcome of the Dinkum Sands and Amerada-Hess litigation and an even larger sum dependent on disputed taxes (almost all of which derives from the North Slope operations of the same three companies), the lead department in each of these endeavors needs the best information the other can provide.

RECOMMENDATION: The Governor's office should take steps to insure (1) that petroleum revenue data produced by different agencies are clear and consistent and (2) that legal efforts are coordinated by an inter-agency working group to guarantee a thorough review of all involved agencies before final decisions are made.

ISSUE PAPERS

A series of Issue Papers have been prepared which address a wide range of financial and policy concerns.

Some of the options covered by these Papers appear in a more brief form, elsewhere in this report.

- I. Budget Reduction Timing Strategies - 1988 - 1992
- II. Reduction of State Reimbursement of School Construction Debt
- III. Analysis of the Functions of State Government - Structural Change
- IV. Reduction of Annual General Obligation Debt Service - Rescheduling State Debt
- V. Appropriation of Permanent Fund Earnings
- VI. Sales Tax and Income Tax Options
- VII. Revenue Enhancement - Purchase of Housing Assistance Division (HAD) Community and Regional Affairs Loans From the State By AHFC
- VIII. Disposition of Alaska Industrial Development Authority (AIDA) and Alaska Housing Finance Corporation (AHFC) Earnings
- IX. Revenue and Liquidity Enhancement - Sale and Leaseback of State Facilities
- X. Reduction of Expenditures - Employer's (State of Alaska) Contributions to Employee Retirement Plans

SUBJECT: Budget Reduction Timing Strategies: 1988 - 1992

PROBLEM: Revenue projections indicate that State budgets must be dramatically reduced and, once reduced, must be contained.

A major policy decision centers around the strategy of whether the budget should be brought down in easy stages or whether Alaska will best be served by an abrupt, immediate and steep reduction.

ANALYSIS: Proponents of a gradual budget decline scenario argue that:

1. A major part of the operating budget is comprised of personal services. An abrupt reduction of the work force will increase unemployment and reduce the amount of available disposable in an already faltering economy.
2. Capital construction has been pared to the bone. This sector of the private work force has unprecedented unemployment and business failure. State projects should continue at a reasonable level to protect the existence of this economic sector.
3. Rainy day savings (to include buffer account, litigation settlements, and permanent fund income) should be used to "let down" the budget over a period of years. This will not only continue State provision of essential services but will provide needed economic activity and preclude a statewide economic tailspin. These reserves represent "rainy day" reserves, and the rainy days are here!

Proponents of an abrupt budget decline scenario argue that:

1. Uncertainty brought about by a prolonged and continuous stream of reductions has a devastating effect on lives, careers, programs and performance. Alaskans can deal with known adversity, but you cannot burden them with years of fear and anxiety.
2. Bad news feeds on itself. A steady stream of bad news (over a five-year term) is self-defeating in that it will perpetuate and prolong a poor economic outlook and will have a long-term chilling effect on the economy.

3. An artificial propping up of non-effective or un-needed programs is a luxury the State cannot afford. These types of programs must be discarded without delay.

Many actions designed to integrate, consolidate or eliminate programs and resources can only be implemented by legislative action. While the Executive may formulate proposals and successfully pursue them through the legislative process, the actual realization of a portion of savings will occur over time rather than in the most immediate budget year.

CONCLUSIONS:

1. An abrupt reduction -- and the immediate pain associated therewith -- is more direct and intellectually honest than letting the budget down gently.
2. An abrupt reduction will not occur in any event because of the need to secure statute change through legislative action. Many programs have been legislated for decades and may have well established constituencies. It may be naive to believe that these programs can be consolidated, integrated or abolished in a single legislative session.

OPTIONS:

1. Abruptly and aggressively reduce the 1987 and 1988 budgets within the limits of the authority of the Executive branch of government.
2. Aggressively fashion analyses and legislation (with negative fiscal notes) for legislative consideration which will have an early effect on budget reduction.
3. Budget submissions which anticipate rapid and favorable legislative action set forth in No. 2 above -- and for which public consensus and support are apparent -- should contain projected deletions/reductions.

SUBJECT: Reduction of State Reimbursement of School Construction Debt

PROBLEM: Can the annual reimbursement be reduced thus materially reducing the operating budget? What methodology should be employed?

ANALYSIS: As of June 30, 1985, local governments had incurred general obligation debt in the amount of \$738,493,553 for school construction. Additional debt has been incurred since that date.

Local governments are required to incur this debt, equal to 100% of school construction, since the State desires to frustrate goldplating. It is assumed that if a city must provide for "up front" funding of schools, it will only construct essential facilities.

Under several statutory enactments, the State may reimburse these local governmental units for a percentage of debt service (principal repayments plus interest). This reimbursement ranges from 80 to 100 percent of debt service but may be prorated downward depending upon the level of appropriation. In the sale of bonds, local governmental units disclose the reimbursement procedure and bond buyers rely on representations that the State will honor the commitment made.

Managerial problems are exacerbated at the local level if reimbursement is not consistent with the levels set forth by statutes and representations made to bond holders. The local unit position is even more critical if a deep pro-ration of available funds takes place on short notice.

Local units can restructure this debt. By capitalizing current and/or coming year debt, they can eliminate near-term payments entirely. More reasonably, they can reschedule over a longer payback period and reduce the annual strain on their operating budgets.

The restructure of this debt, discussed above, has a mirror effect on the State operating budget because of the reimbursement factor. If a local unit reduces its debt service in a given year, the State reimbursement is also reduced.

If, however, the State arbitrarily and unilaterally reduces the reimbursement to a level not acceptable to bond buyers prior to local rescheduling, it forecloses the ability of local units to restructure their debt. Thus, such action could place a local unit in a perilous financial position without any sound economic remedy. A reduction of reimbursement must be coordinated so that new debt schedules can parallel new reimbursement schedules.

Quite apart from main line operating budget problems created at both the local and State levels, there are other critical considerations. Some are set forth below:

The employment of the existing scheme to avoid goldplating places a severe strain on the bonding capacity of a city or borough. An overwhelming percentage of debt capacity is consumed by school debt; thus precluding the ability to bond for water, sewer, roads and other essential municipal capital improvements.

If cities could avoid incurring school-related debt, they would have greater debt capacity and no State reimbursement uncertainty which should threaten their credit standing.

If cities could avoid incurring the State's portion -- say, 80 percent -- they would know with certainty what their exact debt service requirements for school construction would be and would not be subject to varying annual appropriations by the State.

The present scheme is self-defeating. Because it destroys city debt capacity, it assures that cities rely on the State for capital appropriations for other capital improvements such as water, sewers and roads. All of these needs are not necessarily State responsibilities, whereas education clearly is.

The present scheme is more costly than it should be. It is clearly established that the State of Alaska has a better bond rating than any city within the State. State bonds carry lower interest costs than city bonds. Clearly, if the State bonds for school construction, the overall cost will be less.

CONCLUSIONS:

Annual operating budgets can be reduced (in the near-term) through debt rescheduling.

The problems surrounding school construction debt reimbursement are numerous and complex and involve not only matters concerning the current year's operating budget but the more basic question of how Alaskans are going to structure the school construction program for the future.

Local governments and the State are inextricably tied to seeking mutually acceptable, articulated solutions to the problems inherent in the current program. Unilateral action by the State could produce even more chaos than currently exists.

OPTIONS:

Convene a panel of Department of Education, State Bond Committee and Municipal Government personnel to:

1. Formulate a specific course of action which provides for rescheduling local debt and State reimbursement on a fully coordinated basis.
2. Prepare statutory/regulatory documentation for enactment/adoption.
3. Address the long-range solution to the several problems addressed above which might include but not be limited to:

- a. State abandonment of the present reimbursement scheme and assumption of all responsibility for school construction in accordance with clearly established construction standards. Since the State bears the cost, cities must accept the standards.
- b. Granting cities the option of exceeding the above-mentioned standards provided they bear the total cost of the enhancement.
- c. Seek voter approval to issue State general obligation bonds, the proceeds of which would be used to defease all or part of the school construction debt of cities. This provides parity between organized municipalities and school districts outside of municipalities, would eliminate future funding uncertainties, and would restore debt capacity of cities for other essential capital projects.

SUBJECT: Analysis of the Functions of State Government - Structural Change

PROBLEM: Falling revenues clearly mandate that the State cannot conduct "business as usual"; some fundamental changes must be made in the functions it performs.

ANALYSIS: Alaskans currently receive services from three sources: (1) directly from the State; (2) directly from borough governments; and, (3) directly from city governments.

The provision of services is not equal. Some residents receive services only from the State - choosing not to fall within an organized unit of government.

Others live within a city and receive city and State services.

Others live within a city located within a borough and receive city, borough and State services.

And others live within boroughs (but not cities) and receive borough and State services.

In addition to unequal provision of services, there is also unequal taxation. Many who live within organized units of government pay high taxes for a specific service (such as education) while those who live within the unorganized borough pay no taxes at all.

As budgets are reduced, inequalities as to taxes and services may become even more imbalanced. It may be necessary for the State to shed itself of some of the functions it performs and pass responsibility for these functions on to local units of government.

Should the State continue providing services directly to individuals?

Should there be at least one level of government between each individual and the State?

Should the local level of government -- that which is closest to the people -- be responsible for all services except those specifically mandated by the State Constitution to the State?

Should the State legislature begin to convene as the Borough Assembly for the unorganized borough; determining what services should be provided and how they will be paid for?

Should the Department of Community and Regional Affairs be charged with the responsibility of reviewing the entire State-city-borough-unorganized borough relationship as it pertains to the delivery of services to the people?

Additionally, Community and Regional Affairs might be directed to formulate methods by which communities can be encouraged to organize units of government. Incentives to be considered should include, but not be limited to revenue sharing formulas based upon services provided.

CONCLUSION: The time is right to inquire whether or not these should be fundamental, structural change in city, State, borough, unorganized borough relationships.

OPTIONS: Direct the Commissioner of the Department of Community and Regional Affairs to develop a study plan directed at reviewing the issues outlined herein.

Develop and execute the study plan with a target date for completion which will permit the formulation of legislation (if required) for enactment in calendar year 1988 impacting the FY89 budget.

SUBJECT: Reduction of Annual General Obligation Debt Service - Rescheduling State Debt

PROBLEM: The State debt service payback schedule requires that an unreasonable amount of available annual revenues be utilized for this purpose.

ANALYSIS: The following chart depicts the total general obligation debt service due to bond holders each year:

<u>Years Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1986	\$109,265,000	\$ 53,979,162	\$163,244,162
1987	108,380,000	46,512,046	154,892,046
1988	108,685,000	39,220,555	147,905,555
1989	103,727,000	31,784,971	135,511,971
1990	95,560,000	24,746,290	120,306,290
1991	77,499,000	17,983,980	95,482,980
1992	56,149,000	12,052,225	68,201,225
1993	51,363,000	8,325,187	59,688,187
1994	28,398,000	5,531,975	33,929,975
1995	19,096,000	3,987,625	23,083,625
1996	18,610,000	2,864,412	21,474,412
1997	14,865,000	1,800,418	16,665,418
1998	13,380,000	1,008,193	14,388,193
1999	8,640,000	368,931	9,008,931
2000	<u>2,531,000</u>	<u>69,081</u>	<u>2,600,081</u>
Total	\$816,148,000	\$250,235,051	\$1,066,383,051

The next chart -- using the latest available estimates of unrestricted revenues -- depicts the percentage of these revenues which must be utilized for debt service.

<u>Years Ended June 30</u>	<u>Unrestricted Revenue</u>	<u>Debt Service</u>	<u>Debt Service As a percent of Unrestricted Revenue</u>
1977	874.3	41.9	4.8%
1978	764.9	50.0	6.5%
1979	1133.0	60.0	5.3%
1980	2501.2	75.1	3.0%
1981	3718.17	97.6	2.6%
1982	4108.38	97.5	2.4%
1983	3631.00	143.6	4.0%
1984	3390.02	166.3	4.9%
1985	3260.00	169.5	5.2%
1986	2681.91	163.2	6.1%
1987	1408.77	154.9	11.0%
1988	1273.41	147.9	11.6%
1989	1262.64	135.5	10.7%
1990	1352.55	120.3	8.9%
1991	1289.26	95.5	7.4%
1992	1265.20	68.2	5.4%
1993	1255.43	59.7	4.8%
1994	1201.90	33.9	2.8%
1995	1163.90	23.1	2.0%
1996	1139.98	21.5	1.9%
1997	1196.91	16.7	1.4%
1998	1155.19	14.4	1.2%
1999	1096.88	9.0	0.8%
2000	1042.82	2.6	0.2%

A review of the above data clearly indicates that bond maturities were designed to match the "Prudhoe Curve" of projected revenues. That is, payments are compressed into that period in which greatest Prudhoe revenue is generated. Revised revenue data projections reveal that the revenue curve has changed abruptly and an inordinate percentage of revenues must be used for debt service during the period 1987 - 1992.

If this condition continues to exist, an inappropriate strain will be placed upon the operating budget.

It is believed that a restructuring of this debt is appropriate given the known and projected revenue picture, and prudent fiscal management. It is believed that bond rating services will reward rather than penalize good fiscal management and will not downgrade State ratings solely because of restructuring.

This restructuring action can be accomplished by the Executive Branch through the Bond Committee without further legislative approval.

Debt can be rescheduled to provide: (1) level debt service, (2) a constant annual percentage of unrestricted revenues, (3) a short maturity schedule of fifteen years duration, (4) a longer schedule which provides for a lower dedication of an annual annual percentage of unrestricted revenues and provides for future debt capacity, (5) varying costs or savings on a present value basis dependent upon serial or term maturities and interest rates and (6) the opportunity to capitalize interest if necessary and prudent. The iterations are almost infinite.

Existing debt could be rescheduled in its entirety or partially. Lifts of \$200 million should be considered over a scheduled time frame.

CONCLUSION: To the extent possible, State debt should be restructured to provide a level debt service schedule for the period 1988 - 2000 to more closely match revenue projections. In the alternative, the State should consider rescheduling debt so that no more than three percent of unrestructured revenue in any year is utilized for debt service.

OPTIONS: Restructure existing State debt in such a manner that debt service payments are reduced by \$50 million per year.

Restructure existing State debt, capitalizing FY 88 debt service of \$147,905,555, and reducing the FY 88 operating budget by this amount.

If this revenue enhancement option is favorably considered, this matter should be directed to the State Bond Committee for immediate action.

SUBJECT: Appropriation of Permanent Fund Earnings

PROBLEM: Could Permanent Fund earnings be appropriated for operating or capital budget use? What level of appropriation could be considered?

ANALYSIS: All earnings of the Alaska Permanent Fund can, by law, be appropriated. Earnings history and future projections are as follows:

(millions of dollars)

1978A	2	1985A	658
1979A	8	1986A	1,021
1980A	32	1987P	781
1981A	150	1988P	767
1982A	368	1989P	815
1983A	471	1990P	867
1984A	530	1991P	921

A - Actual
P - Projected

Present statutes provide two uses of earnings: (1) The payment of annual dividends; and (2) transfers to principal in an amount necessary to offset the reduction in Fund purchasing power due to inflation.

After earnings are utilized for the above two uses, the remainder (if any) is placed in an earnings reserve account. A breakdown of earnings between these uses is set forth below:

	<u>Earnings</u>	<u>Dividends</u>	<u>Inflation</u>	<u>Earnings Reserve</u>
FY 87	781	362	138	281
FY 88	768	393	357	18

The legislature can, by statute, change any and all of the above.

Both dividend payments and inflation-proofing uses of earnings have occurred for several years. Both uses have become traditional and enjoy widespread support among Alaskans.

The use of funds from the earnings reserve account is another matter. This account was established as a repository for undistributed income so that such income would not flow automatically to the General Fund under the provisions of Article IX, Section 15 of the State Constitution. The automatic flow was impaired to insure that the intended use of such funds would enjoy special public scrutiny. In other words, the money could be appropriated but its use would have to be justified to the Alaskan people. Public consensus would have to exist which supported use of this portion of Fund earnings.

In considering an option which involves appropriating all or part of the earnings reserve account, we should be aware that the existence of both the Fund -- and this account within it -- plays a significant role in the evaluation of the credit worthiness of the State. Bond rating analyses contain repeated references to the Fund. The Permanent Fund Corporation provides to rating services and prospective buyers of bonds, current data indicating levels of principal, annual earnings versus debt service, and undistributed income balances versus debt service.

While it is absolutely clear that the Fund is not a guarantor of debt of the State of Alaska or its instrumentalities, nor does it have any moral obligation to guarantee or liquidate such debt; there exists solace to bondholders that the Fund has unencumbered retained earnings sufficient to meet current debt service.

Current levels of State debt service are in the \$150 million range. Retention of a similar balance within the earnings reserve account -- as a matter of announced continuing State policy -- would continue to support State credit ratings.

CONCLUSIONS:

All earnings of the Fund are available for annual appropriation.

Disruption of the traditional earnings usage for dividend payments and inflation-proofing transfers should be considered only if there is strong public consensus.

Earnings reserve account funds could be appropriated, provided Alaskans believe (1) this "last reserve" should be tapped, and (2) there was manifest need to do so.

If the earnings reserve was utilized, it probably should not be drawn down below the level of the annual general obligation bond debt service of the State.

OPTIONS:

Dividend and inflation-proofing portions of Fund earnings should not be disturbed pending a vote of the electorate.

Use Permanent Fund earnings only as a last resort for financing operating budgets and only a portion of the earnings reserve account balance should be considered for use.

SUBJECT: Sales Tax and Income Tax Options

PROBLEM: Should these two taxing options be considered as revenue enhancements in building the FY 1988 budget?

ANALYSIS: Estimates of revenues generated by imposition of these taxes were formulated by the Department of Revenue (DOR) and documented on January 10, 1986.

The table below shows the DOR estimate of the amount of revenue that would be generated per one percent sales tax, imposed on a state-wide basis.

<u>FY</u>	<u>Food Exempted</u>	<u>Food Included</u>
1987	42.5	70.8
1988	44.3	73.8

The next table shows the DOR estimate of the amount of revenue that would be generated by the re-imposition of a state-wide individual income tax in Alaska. This estimate is based upon the rate schedule previously in effect. The validity of this data is questionable due to the enactment of recent changes in the Federal income tax structure upon which State returns would be based. The DOR data is presented to provide an order of magnitude.

<u>FY</u>	<u>Amount</u>
1987	330.0
1988	352.0

Note: In his briefing of November 24, 1986, Governor Sheffield indicated a potential range of \$200 - 250 million.

Clearly, imposition of a state-wide sales tax and/or re-imposition of a personal income tax could generate substantial State revenues.

Such action would have a major economic, social and political effect on State residents.

Such action will dramatically change and diversify the State's revenue base and will diminish the reliance on oil revenues.

This action will not be accepted by Alaskans unless and until they are convinced that such taxation will not be utilized to sustain a government bloated by un-needed programs and projects.

Taxation will only become viable at such time as State budgets have been reduced, the impact of the reductions are evaluated

by the Alaskan public, and there is a consensus among our people that revenues from this source are acceptable.

Re-imposition of taxation and/or creation of a state-wide sales tax is the best example of an issue that must be dealt with cooperatively. Responsibility falls in three arenas: the Legislature, the Executive and the People.

The Executive has a distinct responsibility to provide analyses of the economic and social impacts of taxation, informing the public of what these impacts are, and participating in the debate which ensues.

CONCLUSION:

Do not anticipate imposition of sales tax or re-imposition of income tax in dealing with budget shortfalls for FY 1987 and FY 1988.

OPTION:

Request the Commissioner of Revenue to prepare updated analyses of what revenues taxation will generate; to include socio-economic analyses. This information should be made available for legislative debate and public comment during the next legislative session.

SUBJECT: Revenue Enhancement - Purchase of Housing Assistance Division (HAD) Community and Regional Affairs Loans From the State By AHFC

PROBLEM: Should the State General Fund sell additional assets -- in the form of home mortgages -- to the Alaska Housing Finance Corporation?

ANALYSIS: As the result of last year's legislative activity, (1) AHFC was to purchase \$70 million of HAD loans (2) AHFC was to purchase up to \$12.8 million of mortgage loans located in the portfolios of the departments of Commerce and Revenue, and (3) AHFC was to pay the State \$28.6 million representing other transactions.

The \$70 million purchase of HAD loans was paid for on December 1, 1986. Commerce and Revenue assets in the amount of \$8 million (\$3 million Commerce - \$5 million Revenue) will be paid for on or about January 1, 1987. It is not expected that the additional \$4.8 million (\$12.8 minus \$8.0) in mortgages will be purchased by AHFC. The balance of \$16.7 million of the \$28.6 million owed to the State will be paid on or about January 1, 1987.

An additional increment of HAD loans exist. Their value has not been determined (because of delinquencies and poor market conditions), but book value is in excess of \$100 million.

AHFC could purchase the remaining assets of HAD for approximately \$100 million. Such action might be a precursor to a phase-out of the HAD Mortgage program and integration of the function into AHFC.

CONCLUSION: AHFC could purchase the remainder of the HAD mortgage portfolio for \$100 million.

OPTIONS: Legislation be drawn permitting the sale of the remainder of HAD mortgages to AHFC with proceeds remitted to the General Fund.

HAD home mortgage functions be integrated into the AHFC programs and the HAD Mortgage unit be phased out.

SUBJECT: Disposition of Alaska Industrial Development Authority (AIDA) and Alaska Housing Finance Corporation (AHFC) earnings

PROBLEM: Should all or a part of net income of these agencies be returned to the State each year?

ANALYSIS: Both agencies have substantial equity as (1) the result of generous State contributions in better economic times and (2) the ability to retain annual earnings.

This equity, regardless of whether it is: liquid; invested in home mortgages or commercial property loans; pledged to secure bonds; or is unencumbered; should be earning market rates of return. Equity account balances are set forth below:

	<u>AIDA</u>	<u>AHFC</u>
<u>Year End Equity</u>		
FY 1984	\$ 274,777,574	\$ 1,381,491,000
FY 1985	305,073,901	1,458,373,000
FY 1986	333,949,102	1,500,208,000

Net income for the two agencies for the past three years is depicted below:

	<u>AIDA</u>	<u>AHFC</u>
<u>Net Income</u>		
FY 1984	\$ 25,269,388	\$ 74,774,000
FY 1985	29,752,227	76,882,000
FY 1986	28,875,201	41,835,000

AHFC and AIDA are not dedicated funds. Automatic retention of earnings may not pass constitutional muster if challenged. In recent years, earnings have been appropriated back to the agencies by overt legislative action.

Retained earnings have been utilized to increase equity in both agencies where substantial equity already exists.

There is no evidence that new income flow is currently utilized to secure new debt or is pledged to secure existing debt.

CONCLUSION: It is not unreasonable to expect that after years of contribution to these agencies, the State is entitled to some reasonable return.

OPTIONS: That all current year earnings of both agencies flow directly to the General Fund for general appropriation usage.

In the alternative, request that the boards of directors of each agency formulate long-term plans which provide for consistent long-term payouts of net income (dividends) to the State in return for its investments. A 3.5 percent return (a level which is similar to the yield of corporate portfolio of dividends) may be appropriate. In normal years this would enable the agencies to retain some earnings.

It should be noted that decisions on the withdrawal of earnings from AHFC and AIDA must be coupled with analyses of the current financial condition of each agency.

SUBJECT: Revenue and Liquidity Enhancement - Sale and Leaseback of State Facilities

PROBLEM: Should the State sell some of its assets to provide a one-time infusion of cash and should it lease back these facilities over time? If so, how can this be accomplished? .

ANALYSIS: The State has recently acquired a full ownership interest in the State Office Building in Juneau. Previously the facility had been leased from the Alaska State Housing Authority. The State paid rent equal to ASHA debt service on the building and took ownership upon maturation of the ASHA bonds.

Another State agency -- the Alaska Industrial Development Authority -- currently has unencumbered assets slightly in excess of \$150 million.

In lieu of extracting this equity from AIDA, an agency which may have to play an expanded role in diversifying the economy or fostering government-private sector joint ventures (similar to Red Dog), this equity might best be left within AIDA and employed both as an investment and debt security leveraging device.

In order to accomplish the above, AIDA could liquidate a portion of its investments representing unencumbered assets. Proceeds could be used to purchase the State Office Building in Juneau. The State would then enter into a long-term lease in an amount sufficient to pay back all principal and provide a market rate of return.

The holding by AIDA of a State of Alaska lease and its corollary income stream will (1) provide an instrument which would be used by AIDA to secure new AIDA debt for economic development purposes, and (2) eliminate short-term pressure to simply extract a portion of AIDA equity for one-time spending.

CONCLUSION: Substantial funds could be realized from a sale of the State Office Building in Juneau to the Alaska Industrial Development Authority and a long-term leaseback of the same facility. There may be other State owned facilities which should be considered for sale and leaseback.

OPTIONS: Determine the value of State owned sale/leaseback candidates using the income approach (lease cash flow). Second, negotiate the sale and leaseback with AIDA, insuring that the lease terms are coordinated with the long-term debt structure of the State. (Long-term leases and general obligation bond debt service are viewed as similar financial obligations.)

SUBJECT: Reduction of Expenditures - Employer's (State of Alaska)
Contributions to Employee Retirement Plans

PROBLEM: Can employer's (State of Alaska) contributions to both PERS and
TRS plans be reduced based upon sound actuarial evaluation?

ANALYSIS: Present (FY87) contribution rates are as follows:

<u>Plan</u>	<u>Rates Currently In Effect - 6/30/85 Evaluation</u>
PERS	11.30 percent
PERS - Police/Fire	15.74 percent
TRS	6.88 percent

The plans' actuaries are currently evaluating the soundness of the plans and their respective actuarial assumptions based on data as of June 30, 1986.

Ordinarily, the actuary's report would be reviewed, considered and adopted by the PERS and TRS Boards at the regular semi-annual meeting held in the Spring of 1987 and the new employer contribution rates would become effective July 1, 1988 -- the first day of Fiscal Year 1989.

The Director of the Division of Retirement and Benefits has had discussions with both the actuary and the budget transition team and has concluded:

1. New rates based upon 6/30/86 data would be:

<u>Plan</u>	<u>Rates Based on 6/30/86 Data</u>
PERS	9.55 percent
PERS - Police/Fire	13.99 percent
TRS	5.88 percent

2. These new rates would produce annual General Fund savings of approximately \$22.5 million (\$20.7 million - PERS and \$1.8 million - TRS)

3. It would be advantageous to the State to accelerate the implementation of the new rates. Savings could be built into the FY88 budget rather than waiting until FY89.

To this end, the Director has scheduled a meeting of both Boards on January 15, 1987. He will recommend to the boards that they adopt the evaluations effective July 1, 1987 (FY88).

The \$22.5 million savings is based on 90 percent of the 1986 payroll. If payroll drops further, savings are less. A \$20 million savings is reasonable and conservative.

CONCLUSION:

The State's (General Fund) retirement contribution for its employees retirement plans can be reduced in the approximate amount of \$20 million.

This reduction can become effective with the FY88 budget provided early action is taken by the PERS and TRS boards.

OPTION:

The Commissioners of Administration and Revenue be requested to pursue early adoption of the actuarial based data of 6/30/86 and its use effective 7/1/87.

a. May create an administrative disparity between government programs.

b. Program receipts may or may not be generated directly as a result of program activities. A reduction in government may result in a reduction in program receipts. However, programs may be funded from receipts generated through such revenues as licensing fees if that program is seen to benefit the constituency from which the program receipts are collected or if that program is designed to counteract some of the negative effects to society as a result of allowing the existence of the constituency group. Program receipts may be available independent of the program operation which it currently funds, and therefore could be used to support other government operations. This may also be true, to a lesser degree, with federal funds. Programs should be reviewed and prioritized to make certain "other funds" are used for the greatest benefit.

4. Department Mission- many departments have had programs included within the department's operations which are not directly related to the mission of the department as it was originally designed. These programs frequently have "stepchildren" status and may not be as fiercely protected from reduction or deletion as "core" department functions. Any department recommendations for reduction must be viewed with the "stepchild" consideration kept in mind.

5. Frequently programs begin to serve a specific need which has evolved to program operations which do many other things as well, or in lieu of, the original intent. The adage "work expands to fill the time allotted" may be applied as "programs expand to serve needs as identified" to this phenomena. In reviewing options for reduction of service, this should be a consideration.

6. Many government programs are interdependent on other programs. A reduction in one program may increase the demand upon another program service. Also, there is an equity consideration among government service, for example the Department of Law's prosecution staff levels in the Department of Administration's public defender/public advocacy offices. Proposed changes in any program levels must be reviewed in the context of the entire governments operations.

7. Implementation of the Classification Study. Current estimates are that \$16 million would be needed for implementation in the first year. This cost may be reduced as a result of negotiated roll backs on state salaries. Union positions should be analyzed and understood relative

GENERAL BUDGET ISSUES

The following issues were identified by individual committee members as important concerns to bear in mind during the budget process:

1. Repeal and reappropriation or lapse of capital project funds.

a. Many capital project funds which have not been expended could be repealed to lapse into the general fund or reappropriated for new capital priorities.

b. Future cost of operations of state facilities, i. e. the Juneau Pioneer's Home, may not be affordable in future years. These projects should be closely reviewed for postponement or cancellation.

c. As a matter of policy, repeal and reappropriations should be handled separately (except for routine house-keeping measures involving receipt of operating federal funds, etc.). The 1985 and 1986 session repeal and reappropriation bills contained over 600 individual sections--more than twice the number of individual repeal, reduction and/or appropriation sections in prior years. In addition to myriad net-zero sections were new appropriations of \$10 to \$20 million in operating items and \$40-\$120 million in capital appropriations. These items are inevitably loaded in at the end of the session; most items receive far less committee scrutiny than they would receive in the normal operating or capital review process; others escape review altogether.

Can the state afford to allow this significant slice of budget activity to take place outside the normal budget process? The simple remedy is to insist that repeal items lapse to the General Fund and new appropriations take place through normal channels.

2. In making a budget reductions, care should be taken to make sure that imposition of target levels does not result in unanticipated effects on services. For example, a 20% reduction in the AFDC component results in a 28% cut in payments to recipients when the projected increased caseload is recognized. Transition team staff calculations indicate that at a 20% target reduction, AFDC payments for a family living at the poverty level would drop from \$616/month to \$445/month. On the other hand, a 10% drop in payment level (to \$554) would require a General Fund increase from existing (FY 87 revised) budget levels.

3. Programs relying on "other funding" sources, be it federal, program receipts, etc., must not be excluded from consideration in any budget reductions.

to the implementation of the study to ascertain any impact implementation or the postponement thereof might have on pending labor negotiations.

8. Many cost-saving measures proposed to effect budget reductions require legislation in order to actually realize any savings. There is an inherent danger in building a budget heavily reliant on legislation revision. Alternatives must be considered for all program levels which are unable to continue without legislative revision, to assure that the budget presented by the Governor to the legislature is balanced within the means available to the executive branch. Any budget revisions as a result of legislation should be funded or defunded through fiscal notes.

MEMORANDUM

TO: Governor Steve Cowper

FROM: R.A. Fineberg

RE: Perspective on State Data Problems

DATE: December 14, 1986

After the Budget Transition Team watched the FY 87 year-end shortfall estimate bounce around from (\$806) million to (\$593) million last week, the majority of the team agreed that we should apprise you of our common concern about the lack of coordination among State data systems. The final measure of the looseness of State data systems is the Budget Transition Team's suggestion that you give the current estimate \$50 million leeway in both directions to allow for final adjustments in the FY 86 Annual Financial Report. After a month battling the problem of budget, revenue and accounting information that do not tie together without an enormously complicated effort, one committee member described the situation Friday as "appalling." Another commented, "All I know is that it doesn't work."

You and the State of Alaska pay the price for this problem in two ways: First, this situation is enormously inefficient. Individuals who attempt to respond to data requests waste an inordinate amount of time gathering information that ought to be readily available in useful form on a data base whose universe is comprehensive (or at least recognizable) and able to be converted to somebody else's needs. Staff and managers tie themselves up gathering, relaying and re-working data that should have been available and usable at first crack. To continue to provide first-rate services as revenues decline, the State cannot longer afford the luxury of these inefficiencies.

The second price is paid in the arena of policy-making. When basic data are suspect, arguments over the data base often obscure the tough policy questions. Moreover, conflicting budget numbers tend to undermine the credibility of the issuers. To guide the State through the fiscal crisis at hand, we need to preserve and promote the confidence of the public. Good numbers help; conflicting numbers undermine public confidence. In short, clean and comprehensive numbers enhance credibility.

The problem is inter-agency in nature. In the course of Budget Transition Team interviews and briefings it became apparent that the data needs of each commissioner are different. For example, the Commissioner of Revenue is

Fineberg / Cowper
Perspective on Data Problems
Dec. 14, 1986 / Page Two

concerned primarily with generating and collecting revenue to run this government; the Department of Administration is concerned with data-gathering systems and tracking conventions; the budget-maker is concerned with the politics that drive its product; DOT/PF's drive to design and build projects led it to run afoul of the accounting, revenue and budgeting systems.

To resolve this situation, the Governor must drive the effort to establish clear and comprehensive numbers from an inter-agency perspective. Attempting to find out what's out there in unbuilt capital appropriations, a faster third-party billing system and the recent \$200-million change in funds available as the Dept. of Administration wraps up the Annual Financial Report are examples of problems that should be tackled in a coordinated manner; without close coordination, the system "fix" that solves one of these problems may make the other two worse.

There is another school of thought on this problem. That school holds that public data are always a bit loose and that numbers are always changing. The "business as usual" school does not appear to recognize the difference between revising the shortfall to recognize your decision to restrict an additional (\$13.9) million in local school debt payments and reviewing the entire question of capital project billing and capital project reserves, resulting in a net swing of more than \$100 million in the balance available for appropriation (as the state accounting system did between Nov. 22 and Dec. 10).

The former is the kind of revision that rightly takes place as circumstances change; the latter is a symptom of a system whose discrete parts are not producing reliable results, and whose inter-relation is not properly coordinated. The former is inevitable; the latter causes agency people to waste a good deal of time re-inventing wheels and adding columns manually, delays products and undermines confidence in the numbers that frame public policy discussion. Several transition team reports -- both from this team and from policy groups -- contain statements that poor data present a significant management problem.

In calling your attention to this situation; the Budget Transition Teamh team did not make specific recommendations.

Fineberg / Cowper
Perspective on Data Problems
Dec. 14, 1986 / Page Three

If you would like to consider the implications of data problems -- and possible solutions -- in greater detail, members of the team would be happy to prepare recommendations for you.

MEMORANDUM

TO: Governor Steve Cowper

FROM: R.A. Fineberg
Brian Rogers

RE: Shortfall and Financial Plan

DATE: Dec. 12, 1986

In response to your request that we look at solutions to the budget problem in a multi-year context, attached is one of many possible scenarios:

This scenario funds the current deficit of approximately \$600 million (including restricted 1986 session capital projects) and allows a constant operating budget over a four-year period.

This scenario is presented in nominal dollars (attachment A-1), and in inflation-adjusted or real dollars (attachment A-2).

MEMORANDUM

Division of Strategic Planning
Office of Management and Budget
465-3568 MS 0164

TO: Budget Transition Team DATE: Dec. 11, 1986

FROM: R.A. Fineberg

SUBJECT: Shortfall & Financial Plan

This four-year plan pays off the FY 87 shortfall and balances the budget with a 19-agency operating budget of \$1,500.0 million. G.O. debt service, local school debt, scholarship loans, restricted 1986 capital appropriations and a modest capital budget are all funded, in addition to the existing shortfall and [\$25.0] million for FY 87 supplemental appropriations.

This plan is representative of various routes by which the existing shortfall can be cured without causing the tremendous economic dislocation, hardship and curtailment of services that would result from even harsher cuts to the operating budget. To effect this plan, the following revenue sources are used:

- == Bradley Lake is financed through the Railbelt Energy Fund;¹
- == the ELF is modified in FY 88;²
- == GO debt and local school debt are restructured;
- == the Budget Reserve Fund is used in FY 87-88;
- == cash is withdrawn from loan programs and AHFC purchases an additional \$100.0 million of HAD loans;
- == AIDA and AHFC return income to the General Fund;
- == beginning in FY 89, a personal income tax (or other new revenue sources) adds \$250 million per year to State revenues;
- == miscellaneous licenses and fees listed in the Budget Transition Team report bring in \$51.6 million per year;
- == minimal disputed taxes are paid to the State (FY 88-89 = \$100 million; FY 90-91 = \$150 million).

Attachment 2 presents the same table in real (inflation-adjusted) dollars.

Jack Fargnoli of the OMB strategic planning unit assisted in preparing this format in response to the Governor's request that the transition team take a multi-year approach to the budget; a format such as this one can be used to test all proposed budget solutions.

¹ The Railbelt Energy Fund repays the General Fund the amount that would be realized from cancellation of Bradley Lake project.

² For the ELF, low OMB estimated gains are used. The estimates DOR prepared for the interim legislative tax committee show significantly higher revenue gains.

Four Year Financial Plan (Session Revenues and Appropriations)

Dec. 1986 30% Revenues, FY 87-89;
Sept. 1986 30% revenues, FY 90-91;
assumed FY 87 shortfall = (\$605) million

(\$ NOMINAL - Millions)
(Unrestricted G.F.)

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	FY 87 (w/restr.)	FY 88 (Cowper One)	FY 89 (Cowper Two)	FY 90 (Cowper Three)	FY 91 (Cowper Four)
Revenues					
Balance Fwd. from prior year	221.6	0.6	1.7	17.1	193.3
Unrestr. G.F. Revenue	1,297.1 *	1,285.7 *	1,356.6 *	1,352.6 *	1,289.3 *
Adjustments	7.4	0.0	0.0	0.0	0.0
Settlements	65.0				
Reappropriations/Transfers	176.8 **				
Permanent Fund	0.0	0.0	0.0	0.0	0.0
Disputed Taxes		100.0	100.0	150.0	150.0
ELF		66.8	74.0	77.0	80.0
License & Fee Incr.		51.6	53.9	57.2	60.6
Cash from Loan Funds	137.3				
AIDA-AHFC Income to GF	70.7	72.0	75.2	79.7	84.5
Budget Reserve Fund	128.0	300.5			
Railbelt Energy Fund***					
New Revenue Sources****			250.0	250.0	250.0
OTHER					
Total Revenues	2,103.9	1,877.2	1,911.4	1,983.6	2,107.7
Appropriations					
Operating Agencies	1,703.4	1,500.0	1,500.0	1,500.0	1,500.0
Prior-Year Supplementals		25.0			
G.O. Debt					
Existing	155.0	147.9	135.5	120.3	95.5
Restructuring Gain	(50.0)	(45.0)	(35.0)	(20.0)	(15.0)
School Debt*****	115.8	104.2	93.8	90.0	90.0
Bradley Lake*****		(95.0)			
1986 Session Capital	124.2	113.4	100.0		
New Capital		75.0	75.0	75.0	75.0
Loans	54.9	50.0	25.0	25.0	25.0
Total Appropriations	2,103.3	1,875.5	1,894.3	1,790.3	1,770.5
Net Balance	0.6	1.7	17.1	193.3	337.2

- * Adjusted for income changes due to timing of BRF; excludes potential income from Railbelt Energy Fund.
- ** 176.8 existing (see OMB worksheets); 100 HAD purchase + 37.3 loan balances proposed in separate entry.
- *** Funding of railbelt energy projects would not require General Funds.
- **** Potential revenue sources include (but are not limited to): income tax, petroleum taxes, Permanent Fund income and other sources listed in Budget Transition Team report.
- ***** FY 87: 90% of \$128.7 (FY 87 est. revised by DOE 11/25/86); subsequent years reduced by 10% to \$90.0 million cap thru restructuring local debt
- ***** 95.0 of 281.0 in Railbelt Energy Fund used for Bradley Lake; remainder for other REF projects in FY 88-90.

Four Year Financial Plan (Session Revenues and Appropriations)

Dec. 1986 30% Revenues, FY 87-90;
Sept. 1986 30% revenues, FY 90-91
assumed FY 87 shortfall = (\$605) million

(\$ 1987 - Millions)
(Unrestricted G.F.)

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	FY 87 (w/restr.)	FY 88 (Cowper One)	FY 89 (Cowper Two)	FY 90 (Cowper Three)	FY 91 (Cowper Four)
Revenues					
Balance Fwd. from prior year	221.6	0.6	1.6	15.2	161.7
Unrestr. G.F. Revenue	1,297.1 *	1,263.0 *	1,275.3 *	1,199.5 *	1,078.6 *
Adjustments	7.4	0.0	0.0	0.0	0.0
Settlements	65.0				
Reappropriations/Transfers	176.8 **				
Permanent Fund	0.0	0.0	0.0	0.0	0.0
Disputed Taxes		98.2	94.0	133.0	125.5
ELF		65.6	69.6	68.3	66.9
License & Fee Incr.		50.7	50.7	50.7	50.7
Cash from Loan Funds	137.3				
AIDA-AHFC Income to GF	70.7	70.7	70.7	70.7	70.7
Budget Reserve Fund	128.0	300.5			
Railbelt Energy Fund***					
New Revenue Sources****			235.0	221.7	209.2
OTHER					
Total Revenues	2,103.9	1,844.0	1,796.8	1,759.1	1,763.3
Appropriations					
Operating Agencies	1,703.4	1,473.5	1,410.0	1,330.2	1,254.9
Prior-Year Supplementals		24.6			
G.O. Debt					
Existing	155.0	145.3	127.4	106.7	79.9
Restructuring Gain	(50.0)	(44.2)	(32.9)	(17.7)	(12.5)
School Debt*****	115.8	102.4	83.2	79.8	75.3
Bradley Lake*****		(93.3)			
1986 Capital	124.2	111.4	94.0		
New Capital		73.7	70.5	66.5	62.7
Loans	54.9	49.1	23.5	22.2	20.9
Total Appropriations	2,103.3	1,842.4	1,780.7	1,587.7	1,481.2
Net Balance	0.6	1.6	16.1	171.4	282.1

- * Adjusted for income changes due to timing of BRF; excludes potential income from Railbelt Energy Fund.
- ** 176.8 existing (see OMB worksheets); 100 HAD purchase + 37.3 loan balances proposed in separate entry.
- *** Funding of railbelt energy projects would not require General Funds.
- **** Potential revenue sources include (but are not limited to): income tax, petroleum taxes, Permanent Fund income and other sources listed in Budget Transition Team report.
- ***** FY 87: 90% of \$128.7 (FY 87 est. revised by DOE 11/25/86); subsequent years reduced by 10% to \$90.0 million cap
- ***** 95.0 of 281.0 in Railbelt Energy Fund used for Bradley Lake; remainder for other REF projects in FY 88-90.

December 13, 1986

TO: Mr. Oral Freeman
FROM: John Halterman

Please find attached the reports of the Natural Resources Subcommittee of the Budget Transition Team, produced by Mary Halloran and myself. We regret the lack of detail in these documents, however the press of time did not allow us to undertake an in depth analysis of the agencies. Needless to say, each agency presents an opportunity to find new, more efficient, ways of accomplishing its mission. With the able assistance of the of the staff in each department this challenge can be met.

DEPARTMENT OF FISH AND GAME

The Department's FY 87 revised budget of \$70.1 million is supported by three funding sources: the Fish and Game Fund (\$11.4), federal funds for either game or sport fisheries management (\$17.4), and the General Fund (\$41.3). A major problem within the agency appears to be the difficulty in shifting activities between funding sources to optimize program efforts; to the degree this can be done, as in the use of Dingell-Johnson funds to support the FRED division, this should be encouraged.

The department has proposed closing or mothballing several hatcheries in its FY 88 budget. Additional effort should be made to transfer ownership and operation of production hatcheries to aquaculture associations or other entities capable of professional management.

While it is clear the department is stretched thin in meeting its widespread missions, an analysis should be made of the opportunities for combining functions across division lines, including field operations, research and administrative support. Because the department has such a direct effect on the economic and social well being of Alaska's citizens it is important, following the introduction of management efficiencies, that adequate funding be maintained. One obvious source of additional funds is an increase in license fees.

12/11/86

DEPARTMENT OF NATURAL RESOURCES

The level of reduction in the department's FY 88 budget proposal poses serious questions which must be addressed by the new commissioner regarding the minimum level of service which the department must provide the public, as well as degree to the state's resources must be preserved and protected. Some examples of such issues include:

Agency Reorganization

The department has already proposed or initiated the merger of several divisions, however in light of the need for further savings serious consideration should be given to the merger of the remaining three major divisions: Forestry, Parks and Land and Water Management. It may also be feasible to add the Division of Agriculture into an expanded division. An analysis should be performed to determine the degree of commonality in missions within the divisions' field staffs to determine the feasibility of merger.

Fire Suppression Fund

The FY 88 budget requests \$5.79 million in general funds for fire suppression. These costs were previously funded through the Rainy Day Account, but with the creation of the Budget Reserve Fund that practice was discontinued. There must be provision for the funding of fire suppression activities in order to meet the state's commitment to BLM, as well as to protect public resources. If feasible an audit of the historical expenditures against the fund should be made prior to establishing an FY 88 appropriation level.

User Fees

There are a variety of opportunities for the collection of user fees within the Department of Natural Resources, ranging from those for the use of parks to the provision of land status information. All opportunities to generate income should be fully explored.

12/10/86

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

While DEC has reached a point where further reductions are extremely problematic, there are opportunities for additional efficiencies and revenues to be obtained. One possibly fruitful area to explore is the merger of the Facilities Construction division with the Operations division. These divisions have many similar job classifications and with the probable reduction of facilities construction within the state the need for full divisional status is questionable.

Revenue generation opportunities also exist within the department. Legislation has been proposed to establish fees for drinking water plan reviews, wastewater disposal permits, subdivision approvals and on-site wastewater disposal certifications; many of these responsibilities could be delegated to local governments where they exist, or contracts could be negotiated with local governments for DEC to provide the service at cost. Within the Environmental Health Division fees could be instituted for food service permits, bar permits, retail food store permits and seafood processing inspections.

COWPER ADMINISTRATION - BUDGET TRANSITION TEAM

BUDGET TRANSITION REPORT

ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

OVERVIEW OF DOT/PF BUDGET

	<u>FY 86 ACT</u>	<u>FY 87 REV</u>	<u>FY 88 SFL*</u>	<u>FY 88 PRC</u>
Office of the Commissioner	2,108.4	2,302.0	2,510.1	
SW Management and Finance	2,480.0	2,565.6	3,200.6	
SW Information Systems	2,435.4	1,911.8	1,911.8	
Plans Programs and Budget	823.3	0.0	0.0	
SW Research	564.3	711.2	746.2	
SW Eng and Ops Standards	5,195.7	5,548.2	5,496.5	
CR Administrative Services	8,237.3	8,022.0	8,127.3	
CR Planning	2,219.2	1,046.1	1,022.8	
CR Design and Construction	22,492.5	28,279.4	27,837.5	
CR Maintenance and Operation	34,001.2	26,244.0	25,782.4	
Anc International Airport	17,323.5	19,115.0	20,110.1	
NR Administrative Services	12,569.2	12,361.3	12,542.7	
NR Planning	1,524.9	975.6	1,010.6	
NR Design and Eng Mngt	21,220.4	23,991.0	23,870.8	
ID Maint, Highways & Airports	28,885.6	21,493.7	21,226.3	
WD Maint, Highways & Airports	5,099.4	3,718.0	3,611.5	
SCD Maint, Highways & Airports	8,880.3	7,068.6	6,894.5	
Fbks International Airport	6,937.6	7,395.2	8,075.1	
SER Admin Services	3,062.8	2,913.5	2,918.7	
SER Planning	558.1	345.3	345.3	
SER Design and Construction	9,399.3	9,917.1	9,845.9	
SER Maintenance & Operations	13,279.8	10,504.2	9,956.1	
Marine Administration	2,452.2	2,226.7	2,226.7	
Marine Facilities Engineering	1,364.3	1,774.5	1,826.1	
Marine Marketing and Services	4,709.3	4,754.3	4,942.6	
Marine Operations	57,573.6	54,630.5	50,794.5	
Retirement Incentive Program	0.0	0.0	1,143.3	
TOTAL	277,940.7	262,229.9	259,884.9	

*Sheffield Proposed FY 88

KEY BUDGET ISSUES CONFRONTING ADOT/PF

Capital Project Clean-Up:

Description: At the present time ADOT/PF does not know the current financial status of a very large number of capital projects being developed within the Department. It is likely that the appropriations for several of these projects has been over-spent or over-obligated.

COWPER ADMINISTRATION - BUDGET TRANSITION TEAM

BUDGET TRANSITION REPORT

FOR THE FOLLOWING AGENCIES

- DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES
- DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS
- DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

SUB-COMMITTEE MEMBERS:

ROBERT POE
JOHN HALTERMAN

Discussion: The current status of ADOT/PF CIP projects is due to insufficient accounting controls within past and present accounting systems. The previous statewide accounting system, PBA did not provide enough cost centers (collocation codes) to control the large number of capital projects which had been assigned to the Department. The problem was further compounded by pressure on the Department and project engineers to get the projects out on the "street", and a perception by state project managers that their first priority was to get the project built and secondly to build the project within budget. In fact the legislature has historically appropriated annually over 175 % of the available Federal funds for that year in capital projects to be built by ADOT/PF.

Project managers did not rely on the internal ADOT/PF system, FMS, because the quality of data provided by the system was not considered accurate for a variety of reasons. Unfortunately when the new statewide accounting system came on line, AKSAS, the same cost center problems were carried over to the new system even though this system was quite capable of handling most of ADOT/PF's needs for project financial control.

In 1983 the Sheffield Administration began to give serious attention to this problem. Numerous audits were performed to determine the actual status of the ADOT/PF CIP projects and by June 30, 1985 a fairly solid picture of the status of the projects was developed at a cost of over 1 million dollars. However nothing was done at that time to actually correct the problem. Since then the problem has grown worse due to the accounting control problems which were carried over to AKSAS. The problem still exists and will continue to represent an unknown exposure in terms of over-spent appropriations and missed Federal billings until the problem is finally cleaned up. In addition, some large amounts of general fund money may currently be committed to Federal match projects which have little chance of going into construction in the near term (within the next three years).

A further complication to the above problem is a recent decision by the FHWA not to accept any Federal billings produced by ADOT/PF's FMS system. The FHWA has determined that the FMS system is unreliable and is capable of producing and successfully passing one-sided accounting entries.

Recommendation: ADOT/PF should begin immediately to resolve the problems currently experienced with capital project balance information. Without this immediate action, ADOT/PF project managers will continue to doubt the validity of project data which they receive from the automated systems tracking their respective projects. The Department will also continue to be unable to determine whether project work is proceeding within the law and in an efficient manner. Finally, this clean-up effort may assist in identifying and receiving additional Federal dollars and in freeing up possible general fund dollars which are currently committed to projects which will not be developed in the near future.

Maintaining an Acceptable Level of Maintenance and Operations:

Description: Probably the service provided by the Department which is most immediately noticed by Alaskan residents is the maintenance and operations of our roads, highways, airports and harbors. ADOT/PF's ability to provide a satisfactory level of service in this area is being negatively effected due to overall budget cuts combined with increased capital investment in infrastructure.

Discussion: Maintenance and operations of Alaska's roads, highways, airports and harbors is a very basic service that most Alaskans have come to expect. In addition, the proper maintenance and operation of our public facilities is an important factor in preserving the life of these capital investments.

Currently ADOT/PF maintains many roads which might properly be maintained by local communities. ADOT/PF has recently developed a three tier approach to prioritizing which roads will receive maintenance;

1. Roadways connecting population centers, economic centers, the airports and major intrastate harbors,
2. Roadways built with sufficient federal funds so that the State is contractually bound to provide at least the minimum amount of maintenance necessary to realize the service life anticipated at the time of their construction, and
3. All roadways not in categories 1 or 2.

Further budget cuts to maintenance and operations will follow this prioritization approach in determining which services will be cut first. The Department has also recently suggested raising the motor fuel tax from .08/gal to .16/gal and have further proposed that this revenue be appropriated by the legislature to provide for road maintenance. In addition, several of the State's airports have recently been lighted which has expanded the time over which an airport must be maintained in ready condition. While, at the same time, landing fees are not charged to air carriers who use these airports with the exception of some of the larger airports (e.g., Anchorage, Fairbanks, Juneau).

Recommendation: Since maintenance and operations is required to preserve the life of virtually every capital project the State invests in, the Administration should work toward timing capital investment so that it does not burden the ADOT/PF with an unmanageable load of maintenance and operation responsibilities which cannot be adequately supported under the State's current revenue budget. The State should also work, to the extent possible, to encourage local communities to take over the maintenance on roads, airports and harbors which primarily serve that community. Finally, the State may need to consider which projects that use federal funds should be built by the State. It may be prudent in the current time period, to limit further participation in such projects to ones which repair or otherwise benefit our existing infrastructure.

Operations of the Marine Highway System:

Description: The Alaska Marine Highway (MHS) represents the largest single component of the ADOT/PF's general fund operating budget. The Marine Highway System has often been criticized for inefficient and ineffective operations.

Discussion: Since this function within ADOT/PF represents such a large portion of the operating budget it must be examined very closely to look for ways to deliver the needed services at a significantly lower cost. The MHS has long been criticized for having lost sight of its original purpose. The system has been continually expanded under the guise of making the system profitable and therefore self supporting. This has not yet been accomplished.

Local residents complain that regular passage on the ferries is not available to them on short notice during the summer months because most available space is taken up by visitors to the State. The system has been shown to have significant excess capacity during the non-summer months. The system duplicates an existing highway system from Prince Rupert to Seattle, and has, in the past, displaced private carriers of freight to Southeastern Alaska. The pay structure of state employees on the MHS has also been criticized as unnecessarily high and complex. Finally, the management of the MHS has generally been assigned to retired military personnel who generally have little experience in operating ferry systems for profit.

Recommendation: The Marine Highway System should be reviewed against its original purpose, to serve as a highway system to Southeastern and Southwestern Alaskan communities who did not have access to the existing highway system. Ferry operations which extend beyond this original purpose should be considered for budget cuts. This may include closing the ferry runs between Prince Rupert and Seattle. The system should also examine closely its current capacity relative to projected demand for its originally intended function. Serious negotiations should be conducted with the unions serving the MHS to simplify the salary structure and to lower the cost of personnel on the ferries. The MHS should also consider the contracting for ferry services to private sector companies where the cost of those services is lower than the current cost structures.

Agency "Corporate Culture":

Description: ADOT/PF was in existence within Alaska before Statehood. As a result, this department has one of the strongest "corporate cultures" of any organization within the State bureaucracy. Changing this culture in order to help it deal with the future changes will be key to successfully trimming down the cost of ADOT/PF and helping it run more efficiently.

Discussion: ADOT/PF engineers not only have a strong loyalty to ADOT/PF but also to their profession as engineers. When you combine this professional perspective with the previous flow of funds through ADOT/PF, it is not surprising to learn that many engineers in ADOT/PF do not consider it their responsibility to closely monitor the costs

Adjusting to Smaller CIP Budgets in the Future:

Description: During FY 82, FY 83, FY 84 and FY 85 relatively large amounts of capital projects were appropriated to the ADOT/PF. In order to appropriately support this high level of work the agency built a large in-house staff of planners, engineers, draftsmen, surveyors, etc. In light of the State's current and projected revenue budgets, the Department will need to consider how to trim the current staff complement down in order to more cost effectively complete the smaller capital building programs expected in future years.

Discussion: In light of the the State's current revenue picture the ADOT/PF can probably expect considerably smaller CIP work programs in future years. The current staffing complement and approach to completing projects should be reevaluated to consider how these smaller work programs can best be addressed.

The legislature has historically appropriated more general fund matching money to ADOT/PF than there is federal funds available in a given year to match. Generally this over-appropriation of general fund matching money has been 175% of the available federal funds. This places the burden on the Department to prioritize which of these projects receives federal funds, creates unrealistic expectations among the constituents of the project (since it may never actually be built), and unnecessarily ties up general funds which may be better used in some other area within State operations during that year. This unrealistically high appropriation level also forces the Department to carry a somewhat higher staff complement than may actually be needed to accomplish the work program for that year.

However, the Department will need to maintain a staff complement which is sufficient to meet a minimum competency level from the point of view of the Federal agencies (FHWA and FAA) which distribute funds to ADOT/PF. It is unclear what this level is and whether the competency level may be maintained through contracts with private providers of these types of engineering services. It is also unclear as to whether the Department must maintain its regional structure.

Recommendation: The ADOT/PF should begin now to evaluate the minimum staff levels which are required to address the present and future programs of work. This review will require a great deal of creativity in considering different approaches to accomplish the same level of work. Issues for consideration should include contracting for engineering, drafting and surveying, recentralization of certain functions within ADOT/PF and the use of productivity measures to encourage efficiencies.

The Cowper Administration should also give strong consideration to the question as to whether all federal funds available to the State in a given year should be sought through commitment of general funds. The State should establish a policy to commit general fund match to federal funds which allow for the repair and maintenance of existing facilities before committing to new construction which adds to the State's future maintenance and operation costs. By using federal funds that assist the State in keeping its current infrastructure in good condition we may be able to reduce our overall M & O costs down and avoid adding unnecessary capital projects to the current infrastructure base which tend to drive the State's M & O cost upward.

The positive points regarding developing this system as part of AKSAS is that it would be available to all other agencies who wish to perform federal billing automatically. However, from the ADOT/PF point of view there are a great many negatives. Developing a federal billing system within AKSAS is considerably more complicated and will require some significant redesign to address the system requirements of the other agencies all of which are costly in terms of time and money. Developing FIS as part of AKSAS will also make the FIS system less responsive to changes in the way ADOT/PF is required to perform federal billing in the future.

The positive points with regard to developing FIS outside of AKSAS are that the system can be developed more quickly, for less cost, without redesign and will be more responsive to ADOT/PF's specific requirements as they may change in the future. In addition, ADOT/PF has had real success in developing systems which accurately and effectively interface with AKSAS. The negative to developing the FIS system outside of AKSAS is that it may not take the needs of all other agencies into consideration and may not be available to all other agencies.

Recommendation: The ADOT/PF should begin developing the FIS system as soon as possible. An RFP should be issued which solicits creative input from the vendor community on how to quickly effectively and in a cost efficient manner address the Department's federal billing requirements. This RFP should not be issued with preconceived notions on the part of Department personnel on a specific solution or vendor (Price Waterhouse has received over 16 million in sole-source system development contracts in the State over the last 5 years with no involvement from their Anchorage office). The ADOT/PF should oversee the issuance of this RFP and should contract to meet the specific federal billing needs of ADOT/PF. In the mean time, ADOT/PF should develop a manual system to run parallel to the development of FIS in order to perform continued federal billing. This manual process will also need to exist to support the Capital Project Cleanup effort.

of a project as long as the project is well designed and constructed. This may also be fueled by the past pressure placed on ADOT/PF to get their appropriated capital projects out on the "street" as fast as possible. Under these types of pressures it may seem reasonable for a project manager to focus on building a project quickly and well regardless of the cost.

Project managers within ADOT/PF have complained with some real justification that the project management tools available to them to control project costs have been, at best, unreliable. The previous systems (PBA and FMS), which they have had at their disposal, provided untimely and often erroneous data.

Recommendation: Top level support from the commissioner and the Governor will be necessary to continually encourage ADOT/PF project managers to get control of project costs. The Capital Project Cleanup effort must be completed quickly so that the data the project managers currently receive from AKSAS is accurate, timely and reliable. Appropriate project management tools must also be made available to project managers to help them in getting control of project costs and maintaining control. Getting control of project budgets and expenditures should also help ADOT/PF step up its efforts to generate timely billings to the Federal government. One project management oriented system which the Department has recently brought into place in the Southeastern Region is the Project Cost Information System (PCIS) which should be examined more closely to see if it can be useful agency-wide.

Federal Billing System:

Description: As a result of problems experienced with the ADOT/PF FMS system the Federal Highway Administration, effective 11/28/86, suspended reimbursement of all future ADOT/PF Current Billing claims until the Department can provide assurances that project claims for reimbursement are accurate. Obviously until this problem is cleared up the State will not be able to receive federal funds owed to it for work which could not be billed as a result of this action.

Discussion: Over the last five years the ADOT/PF has spent millions to develop financial information systems for its specific needs. Almost without exception these systems have either not been completed or when they were brought up, were not used. Based on a previous design of a financial information system (FIS) by Price Waterhouse, the Department is now considering the development of this system to address the federal billing problem and the project control issues that presently exist within ADOT/PF.

The ADOT/PF is strongly considering developing the system in conjunction with the Department of Administration so that the system can address the federal billing concerns of other departments as well as those of ADOT/PF. The current thinking on the system is that it would be developed as an integral part of the AKSAS system as opposed to a stand alone system that receives and sends data to AKSAS.

aspect of shifting the tax burden to the local communities is that local officials will need to be more responsive to the voters in their delivery of services since the voter will now view those municipal or borough revenues as coming out of their own pockets. However, communities who have a small tax base or one that is not a strong cash-based economy will be seriously hurt through cuts in this area. They simply do not have any good replacements for these funds from a local source.

Recommendation: Under the current State revenue picture, the State can probably no longer afford to subsidize local communities who have other means at their disposal to fund local programs and services. However, it is very important to remember that the rural Alaskan communities who now receive revenue sharing and municipal assistance do not have real alternatives to this source of funding. The Cowper Administration should give strong consideration to eliminating the revenue sharing and municipal assistance programs but should make provisions to address the needs of rural Alaskan communities who have no real alternative to this funding source. Alternatives available to address the needs of the rural Alaskan communities may be to institute a gross receipts tax, a sales tax within the Unorganized Borough, or a statewide sales tax with rebates to local governments.

Housing Assistance Division

Description: In 1986 the legislature authorized the purchase of up to \$70.0 million in HAD loans by AHFC. With the purchase of these loans the HAD portfolio decreased in size and the revenue stream from the program was reduced by \$14.0 million. One of the revenue options presented in this report suggests to the Cowper Administration that another group of HAD loans be purchased by AHFC.

Discussion: A policy decision will need to be made regarding the provision for home financing in rural Alaska. As the HAD loans are sold to AHFC the revenue stream from this portfolio is significantly reduced which also reduces the amount of funds which are available for rural housing loans.

Recommendation: The Cowper Administration must decide the future of rural housing loans. Options which appear to be available to the Administration include merging the HAD program with AHFC, keeping the same program in DCRA with cash infusions as required, or eliminating the program.

Tax Relief Programs

Description: Currently DCRA provides a number of tax relief programs to local communities. Among these are senior citizen tax relief programs, disabled veterans tax relief programs, and agricultural land exemption programs. Given the current revenue picture for the State, consideration should be given to the discontinuance of at least some of these tax relief programs.

Discussion: Many of the tax relief programs reimburse local communities for the tax revenue which they forego due to the various

COWPER ADMINISTRATION - BUDGET TRANSITION TEAM

BUDGET TRANSITION REPORT

ALASKA DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

OVERVIEW OF DCRA OPERATING BUDGET

	<u>FY 86 ACT</u>	<u>FY 87 REV</u>	<u>FY 88 SPL*</u>	<u>FY 88 PRO</u>
Administration and Support	2,568.6	2,038.9	1,855.6	
Sr Citizens/Dis Vets Tax	4,415.2	3,087.5	0.0	
Child Assistance	13,418.5	11,138.2	11,101.2	
Job Training Partnership	12,869.5	14,466.5	14,151.2	
Displaced Homemakers	527.4	0.0	0.0	
Community Assistance Grnts	3,912.5	5,756.2	4,957.6	
Local Government Assistance	7,282.9	5,555.9	4,994.9	
Energy Programs	3,658.5	2,184.7	2,066.5	
Rural Development	876.9	796.8	766.8	
Block Grants CIP	297.1	77.5	77.5	
Data and Word Processing	293.6	232.4	232.4	
Housing Assistance	2,185.9	2,939.9	2,874.4	
Municipal Revenue Sharing	140,879.8	113,737.6	96,849.3	
Retirement Incentive Prog	0.0	0.0	34.8	
TOTAL	193,186.4	162,012.1	139,962.2	

*Sheffield Proposed FY 88

KEY BUDGET ISSUES CONFRONTING DCRA

Revenue Sharing / Municipal Assistance

Description: The FY 88 operating budget proposed by the Sheffield Administration proposes \$40.8 million in revenue sharing and \$55.9 million in municipal assistance. If the operating budget is to be reduced to sustainable levels, major reductions in these programs will have to be made or new sources of revenue must be developed, either at the local or state level.

Discussion: Many Alaskan communities have depended on the revenue sharing, municipal assistance, school foundation and school debt reimbursement programs for the large majority of their funding. Many have not resorted to their local taxing authority to provide the revenues necessary for their programs and services.

One unfortunate result of this situation is that the local communities and their residents have come to depend on these revenues. Since local services have been provided through other means than local taxation the voters have not been as able to voice their preferences on the services they would like provided to them. Elimination of the municipal assistance and revenue sharing programs may not necessarily hurt communities with a wide tax base, since, in most cases, taxes are currently low in those areas. A positive

exemptions provided for under these programs. While many of the groups who are protected under these programs certainly deserve assistance from government it may now be time, under the current revenue picture, to consider eliminating these programs. The Sheffield proposed budget for FY 88 already proposes eliminating all of the senior citizen and disabled veterans tax relief programs.

Recommendation: The Cowper Administration should give close consideration to eliminating these tax relief programs. If benefits are required to assist certain segments of the Alaskan population then specific programs which provide those needed benefits should be funded and developed.

DCRA Reorganization

Description: The Department of Community and Regional Affairs is a unique collection of services that are offered, in part, by other departments but which are specifically directed to local communities. The Cowper Administration should give strong consideration to moving these programs to agencies who might be better organized to deliver this type of service.

Discussion: If the Administration elects to end municipal assistance and revenue sharing, then the major share of DCRA's operating budget is eliminated. This change would also signal the end to DCRA's specific focus on the local Alaskan communities. Given these changes, it would make better sense to move programs to agencies who presently offer programs which are closely related to the ones provided by DCRA. Some examples of programs which might be moved include;

<u>Program</u>	<u>Agency Moved To</u>
Child Assistance	DH&SS
Job Training Partnership	DOE
Energy Programs	ECER (new Energy Div)
Housing Assistance	AHFC

Recommendation: The Cowper Administration should give close consideration to slowly disassembling DCRA and transferring its required programs to other agencies who are already providing similar services. These actions will have only minor impact on administrative costs but may result in a more effective delivery of service. Please note that the Department of Community and Regional Affairs is viewed by bush constituents as the only department in state government which has a focus on rural issues. It will be very important to assure that these services are still made available to bush residents, and that bush residents do not feel they are being ignored by state government.

Agency For Rural Alaska

Description: Many residents of rural Alaska perceive that the Department of Community and Regional Affairs is the only department in state government which focuses specifically on the issues of rural Alaska. If DCRA is eliminated and its programs are moved to agencies who already provide similar services, it will be very important to create an entity in state government which has as its primary focus the issues of rural Alaska.

Discussion: The interests and concerns of rural Alaskans may need to be specifically addressed through a single designated entity within state government. One possibility may be to establish an entity in Governmental Coordination within the Governor's Office to coordinate the delivery of services to rural Alaska. Arrangements could be made with other agencies who are best able to deliver specific services through the use of Reimbursable Service Agreements.

Recommendation: The Cowper Administration should provide for the specific delivery of services to rural Alaska. Oftentimes the needs of rural Alaska are significantly different than the needs of the larger Alaskan communities. Some provision should be made in state government so that residents of rural Alaska can go to a single entity in the state bureaucracy with their needs and concerns.

Recommendation: This program should be reviewed to determine its effectiveness in providing electric power to rural communities at a reasonable cost so that these communities can enjoy some of the modern conveniences enjoyed by their more urban counterparts. Consideration should be given to placing a cap on the kilowatt hours which will be subsidized for each household under this program. In addition, local utilities should be audited to suggest ways for them to improve the cost effectiveness with which they deliver power to their rate payers. Consideration should also be given to removing public and private (non-household) entities from the program since they will normally pass the increased cost of electric power on to their customers.

Bradley Lake/Railbelt Energy Fund

Description: The railbelt Energy Fund (REF) currently contains \$ 281 million which was set aside during the past legislative session for the purpose of meeting future Railbelt energy needs. In addition, the APA is currently developing the Bradley Lake Hydro Project on the Kenai Peninsula. This project may require an additional \$ 50 million to complete the project. There exists a close relationship between the REF and the Bradley Lake project since they both directly address the future energy needs of the Railbelt.

Discussion: The Bradley Lake project has been the subject of some controversy in the Railbelt. Many Railbelt utilities argue that the power from this project will be needed by their ratepayers in the very near future. While others argue that the power from Bradley Lake will simply add to the surplus power which currently exists in that region. There has also been some real question as to whether the Bradley Lake will have sufficient water to run the project.

Railbelt utilities have, at the same time, been discussing what to do with the Railbelt Energy Fund. The projects which appear to have received the widest base of support from the utility community are intertie enhancement projects from the Anchorage/Mat-Su utilities to the Kenai Peninsula and to Fairbanks. The utilities argue for the Kenai intertie project because the present power lines, owned by Chugach Electric, will not be able to carry all of the power generated from the four projects on the Kenai Peninsula to the main intertie maintained by the APA. The utilities claim that if Bradley Lake is constructed approximately 100 megawatts of surplus power will be held captive in the Kenai and will not be available to other Railbelt ratepayers without an enhancement of this intertie.

Enhancement of the Fairbanks intertie has as its primary purpose to allow for more efficient wheeling of power to Fairbanks and to provide a backup if a portion of the intertie went down for a period of time. The Railbelt utilities maintain that an investment into the intertie enhancement projects will make expansion of future power generation in the Railbelt much more economic since extensive power lines will not need to be included in each project to bring the power to the consumer. They contend that, if the intertie projects are constructed, the "power highway" will already exist for an efficient