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curative act. Borough and school district appealed. The Supreme Court, Burke, J., held that legislation explicitly ratifying and approving all of the restrictions imposed by the governor was a valid curative act, as the legislation was narrowly tailored to authorize those impoundments specified by the governor and the legislature had the authority to authorizes the governor to withhold payment on specific appropriations and the legislation did not impair any vested rights of local governmental units.

Affirmed.

1. Constitutional Law ⇐193

Legislation explicitly ratifying and approving governor's impoundment of some legislative appropriations was valid curative act; legislature had power to enact statute authorizing governor to withhold payment on specific appropriations and legislation did not grant governor sweeping power over entire budget, without guidance or limitation, but rather, was narrowly tailored only to authorize specified impoundments. AS 37.07.080(g).

2. Constitutional Law ⇐92

Legislation explicitly ratifying and approving restrictions imposed by governor when governor impounded some legislative appropriations did not impair any vested rights of local governmental units and, thus, legislation was valid curative act; political subdivisions were prohibited from asserting due process and equal protection claims against state and determining that local governments had some inviolate right to receipt of appropriated funds would effectively place purse strings in hands of judiciary, which would be no more qualified to possess them than was governor. AS 37.07.080(g)(2); U.S.C.A. Const.Amends. 5, 14.

Eugene P. Hardy and Mark Andrews, Asst. Borough Attys., Gordon W. Duval, Staff Atty., Fairbanks, Paul H. Cragan, Hughes, Thorsness, Gantz, Powell & Brundin, Fairbanks, for appellants.

James Baldwin and Robert M. Maynard, Asst. Attys. Gen., Grace Berg Schaible, Atty. Gen., Juneau, for appellees.

Before MATTHEWS, C.J., and BURKE, COMPTON and MOORE, JJ.

OPINION

BURKE, Justice.

This case is before us for the second time on appeal. In *State v. Fairbanks North Star Borough*, 736 P.2d 1140, 1140–41 (Alaska 1987) (*Fairbanks I*), we affirmed the superior court's decision holding unconstitutional the governor's impoundment of certain legislative appropriations under the authority of AS 37.07.080(g). We concluded that that statute permitted the governor so much discretion as to amount to an unconstitutional delegation of legislative power to the executive branch. *Id.* at 1142–44. As a result of our decision, the governor's Administrative Orders,[1] which had withheld expenditure authority on funds earmarked for, among others, plaintiffs Fairbanks North Star Borough and Fairbanks North Star Borough School District (collectively "Borough"), were vacated, clearing the way for payment of the appropriated funds. *Id.* at 1144.

Before any payment was made, however, the legislature enacted ch. 9, SLA 1987 (H.B. 132),[2] which explicitly ratified and approved all of the restrictions imposed by the governor. The trial court, on remand,[3]

1. Former Governor Sheffield issued Administrative Order No. 90 in August, 1986. 736 P.2d at 1141. A very similar order, Administrative Order No. 91, was issued by Governor-elect Cowper in December, 1986. *Id.* at n. 1. For purposes of convenience, we refer to these executive actions herein simply as those of "the governor."

2. We decided *Fairbanks I* on May 6, 1987. However, we granted a ten-day stay of judgment on the basis of the state's assertion that such time was needed to allow the legislature to respond to the situation. H.B. 132 was enacted May 15, 1987.

3. In *Fairbanks I*, we affirmed the superior court on the merits, but we remanded with instructions that the court modify its earlier judgment to allow for total retroactivity. 736 P.2d at 1140–41. After enactment of H.B. 132, the state moved this court for rehearing in *Fairbanks I*.

concluded that H.B. 132 was a valid curative act, and modified its earlier judgment to affirm the withholdings. Now, with the governor and the legislature in complete agreement on the cuts, appellant local governments approach this court seeking compelled payment of the originally appropriated funds. We affirm the modified decision of the trial court.

> A curative statute is
>
> a statute passed to cure defects in prior law, or to validate legal proceedings, instruments, or acts of public and private administrative authorities which, in the absence of such an act would be void for want of conformity with existing legal requirements, but which would have been valid if the statute had so provided at the time of enacting.

2 C. Sands, Sutherland Statutory Construction § 41.11 (4th ed. 1973); *see generally School District No. 26 Bouse Elementary of Yuma County v. Strohm*, 106 Ariz. 7, 469 P.2d 826, 828 (1970); *McCormack v. Houston*, 84 Cal.App.2d 665, 191 P.2d 569, 576–77, *cert. denied*, 335 U.S. 868, 69 S.Ct. 138, 93 L.Ed. 412 (1948). In this case, the state legislature passed H.B. 132 with the express intention of validating the governor's impoundment orders, which had been rendered void by the *Fairbanks I* decision. *See* ch. 9, § 1(b), SLA 1987. Thus, if the statute qualifies as a valid curative act, it should be given its intended retroactive effect, thereby legitimizing the governor's heretofore improper exercise of executive power.

Courts have uniformly upheld the validity of curative legislation where (1) the legislature originally had the power to authorize the acts done, and (2) there is no unconstitutional impairment of vested rights as a result of the act's passage. *See State ex rel. Tomasic v. Kansas City*, 230 Kan. 404, 636 P.2d 760, 775 (1981); *accord Strohm*, 469 P.2d at 828; *Hoffman v. City of Red Bluff*, 63 Cal.2d 584, 47 Cal.Rptr. 556, 558, 407 P.2d 857, 862 (1965); *Labor Inv. Corp. v. Russell*, 405 P.2d 1008, 1012 (Okla.1965); 2 C. Sands, Sutherland Statutory Construction § 41.11–.12 (4th ed. 1973), *see also Zurfluh v. State*, 620 P.2d 690, 692-93 (Alaska 1980) (applying retroactively a curative statute relating to criminal sentencing). H.B. 132 easily satisfies both requirements.

[1] First, it can hardly be argued that the legislature is without power to enact a statute authorizing the governor to withhold payment on specific appropriations. *See, e.g., State ex rel. Holmes v. State Board of Finance*, 69 N.M. 430, 367 P.2d 925, 929 (1961); *State ex rel. Boyle v. Ernst*, 195 Wash. 214, 78 P.2d 526, 528 (1938); *see also Fairbanks I*, 736 P.2d at 1144 ("[t]his court does not hold that the legislature could not draft a statute which would permit the executive to exercise limited authority to control expenditures as [the governor has] done"). H.B. 132 does not grant the governor "sweeping power over the entire budget with no guidance or limitation" as did AS 37.07.080(g)(2) *Fairbanks I*, 736 P.2d at 1142–43. Rather, it is narrowly tailored to authorize only those impoundments specified in Administrative Orders 90 and 91. *See* ch. 9, § 2, SLA 1987. The Borough's argument that H.B. 132 "is unconstitutional for the same reasons AS 37.07.080(g)(2) was unconstitutional" is therefore unconvincing.

[2] Second, H.B. 132 does not unconstitutionally impair any vested rights. The Borough's claimed violations of due process and equal protection fail for a number of reasons, not the least of which is our recent holding in *Kenai Peninsula Borough v. State, Department of Community and Regional Affairs*, 751 P.2d 14, 18–19 (Alaska 1988), wherein we concluded that political subdivisions of the state are prohibited from asserting due process and equal protection claims against their creator. In sum, we see no bar to enforcement of H.B. 132 as a valid curative act.[4]

We denied the motion, but we expressly noted that our denial was "without prejudice to appellants' right to move for a modified judgment in the superior court" on remand.

4. We reject as meritless the Borough's numerous other claims of error.

Our decision in *Fairbanks I* comports with our analysis here. In *Fairbanks I*, we affirmed the trial court's finding that the governor acted unconstitutionally in withholding the Borough's funds because he purported to act under the authority of a statute so broadly worded as to amount to an abrogation of the legislature's responsibility over appropriations. 736 P.2d at 1142–43. The legislature has since recognized its responsibility, and has taken it upon itself to consider and approve each of the heretofore unconstitutional impoundments. To now hold, as the Borough suggests, that our earlier decision gave the Borough some inviolate right to receipt of the funds, would be to effectively place the purse strings in the hands of the judiciary, a branch no more qualified to possess them than was the executive.

We conclude that H.B. 132 is a valid and constitutional exercise of the legislative power, which effectively cured any constitutional infirmities in the governor's earlier actions. Accordingly, the judgment of the superior court is AFFIRMED.

RABINOWITZ, J., not participating.

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STATE of Alaska, William Sheffield, Governor of the State of Alaska, Marshall Lind, Commissioner of Education, Eleanor Andrews, Commissioner of Administration, Emil Notti, Commissioner of Community & Regional Affairs, Loren Lounsbury, Commissioner of Commerce & Economic Development, Milton Barker, Acting Commissioner of Revenue, all in their official capacities, Appellants, Cross-Appellees,

v.

FAIRBANKS NORTH STAR BOROUGH and Fairbanks North Star Borough School District, Appellees, Cross-Appellants.

Nos. S-2122, 2141.

Supreme Court of Alaska.

May 6, 1987.

Borough and borough school district brought suit challenging constitutionality of Executive Budget Act section pursuant to which governors withheld or reduced appropriations to state agencies in view of anticipated revenue shortfalls. The Superior Court, Fourth Judicial District, James Blair, J., found statute unconstitutional delegation of legislative authority, and State appealed. The Supreme Court, affirmed on opinion of Superior Court, and held that: (1) statute was unconstitutional delegation of legislative power, and (2) decision would be given retroactive effect.

Affirmed and remanded.

1. Constitutional Law ⇐62(13)

Executive Budget Act section allowing governor to withhold or reduce appropriations to state agency when anticipated revenues appear inadequate to meet appropriation levels was an unconstitutional delegation of legislative power; statute authorized exercise of sweeping power over entire budget with no guidance or limitation. AS 37.07.080(g)(2).

2. Courts ⇐100(1)

Decision striking down as unconstitutional Executive Budget Act section allowing governor to withhold or reduce appropriations to state agency when anticipated revenues appeared inadequate to meet appropriation levels would be given retroactive effect. AS 37.07.080(g)(2).

Robert M. Maynard, Asst. Atty. Gen., Grace Berg Schaible, Atty. Gen., Juneau, for appellants/cross-appellees.

Mark Andrews, Asst. Borough Atty., Gordon W. Duval, Staff Atty., Paul H. Cragan, Borough Atty., Fairbanks, for appellees/cross-appellants.

Before BURKE, MATTHEWS, COMPTON and MOORE, JJ.

OPINION

PER CURIAM.

[1, 2] The judgment is affirmed on the opinion of the superior court, attached as appendix, except as noted hereafter. The traditional rule that judicial decisions should apply retroactively governs this case as the resolution of the issue presented was foreshadowed by prior opinions of the state attorney general, there has been no irremediable reliance on the statute in question, and inequity would result if only the appellees were to receive the benefit of this ruling. *See Commercial Fisheries Entry Commission v. Byayuk*, 684 P.2d 114, 117 (Alaska 1984).

Accordingly, we remand this case to the superior court with instructions to modify its judgment to allow for total retroactivity.

AFFIRMED on the merits, REMANDED as to effect.

RABINOWITZ, C.J., not participating.

APPENDIX

FAIRBANKS NORTH STAR BOROUGH, and FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT, Plaintiffs,

vs.

STATE OF ALASKA, WILLIAM SHEFFIELD, Governor of the State of Alaska, MARSHALL LIND, Commissioner of Education, ELEANOR ANDREWS, Commissioner of Administration, EMIL NOTTI, Commissioner of Community & Regional Affairs, LOREN LOUNSBURY, Commissioner of Commerce & Economic Development, MILTON BARKER, Acting Commissioner of Revenue, all in their official capacities, Defendants.

Case No. 4FA-86-2528 Ci.

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA FOURTH JUDICIAL DISTRICT

OPINION

This case comes before the court on the State's motion for summary judgment and the Borough's cross-motion. The motions require the court to resolve questions of constitutional and statutory interpretation. The facts are undisputed.

In December of 1985, Governor Sheffield submitted his proposed budget for fiscal year 1987 (FY87) to the legislature. His proposal was based on the Department of Revenue's December revenue forecast, which predicted that $2718.9 million in unrestricted funds would be available for FY87.

On March 12, 1986, the Department issued a new forecast, which projected a drop in revenue of $641.3 million. The decline was due to sharply reduced oil prices. Revenues derived from oil comprise approximately eighty-five percent of the State's income.

The budget passed by the legislature in early June of 1986 was approximately $400 million less than that submitted by the Governor in December. The Governor then exercised his veto power to further reduce appropriations to within $40 million of the June revenue projection. The budget was approved with item vetoes on June 9, 1986.

On July 16, 1986, the Department of Revenue issued the June forecast, which projected a further decline of $857.2 million, for a total projected deficit of $897.2 million. At about the same time, the final accounting for FY86 was completed. Funds which remained unspent under the 1986 appropriations—the unrestricted surplus—totalled $17.3 million. That amount lapsed back into the general fund.

To cope with the substantial projected deficit, the Governor decided to act without recalling the legislature for a special session. He announced that he would restrict the obligation of revenues set aside by appropriation for FY87. On August 22, 1986, he issued Administrative Order No. 90, which stated that he had determined it to be in the State's best interest to withhold expenditure authority for certain appropriations.[1] His purpose was to avoid deficit spending which is prohibited by Article IX, sec. 8 of the Alaska Constitution.

Under Administrative Order No. 90, expenditure authority for different classes of appropriations was restricted by different percentages. Some appropriations were unrestricted. Appropriations which were intended to provide funds for municipalities were restricted ten percent; the ten percent restriction on those appropriations is at issue in this case.[2] Expenditures of

1. On December 8, 1986, Governor Cowper issued Administrative Order No. 91 for the same purpose and under the same authority cited in Administrative Order No. 90. Governor Cowper made a ten percent actual cut in expenditures for school debt retirement.

2. Those appropriations included amounts set aside for municipal grants, school bond debt reimbursement, State shared revenue, municipal assistance, day care assistance, public school foundation account, tuition for military schools, education of youth in detention, grants for community schools and transportation.

appropriations for State agencies were limited by fifteen percent and those for capital projects sixty-five percent. The restrictions totalled approximately $450 million.

The Governor based his authority to issue Administrative Order 90 on Article III, secs. 1 & 24 of the Alaska Constitution[3] and AS 37.07.080(f) and (g).[4] The central question in this case is whether AS 37.07.080(g)(2) is constitutional.

AS 37.07.080(g)(2), a provision of the Executive Budget Act, provides that:

> (g) The governor may direct the withholding or reduction of appropriations to a state agency at any time during the fiscal year only if the governor determines that
>
> ....
>
> (2) estimated receipts and surpluses will be insufficient to provide for appropriations.

"Appropriation," for the purposes of the Executive Budget Act, is defined to mean "a maximum amount available for expenditure by a State agency for a stated purpose set out in an appropriation act." AS 37.07.120(3).

The Borough has argued that AS 37.07.080(g)(2) is unconstitutional for two reasons: first, because it delegates power over appropriations, a power which can only be exercised by the legislature in accord with the procedures mandated by Article II of the Alaska Constitution; second, because the statute lacks standards to guide the exercise of administrative discretion. In either case, the Borough argues that the statute violates the principle of separation of powers.

The doctrine of separation of powers is implicit in the Alaska Constitution. As Justice Brandeis said, the doctrine was adopted

> not to promote efficiency but to preclude the exercise of arbitrary power. The purpose was not to avoid friction, but, by means of the inevitable friction incident to the distribution of the government powers among three departments, to save the people from autocracy.

Myers v. United States, 272 U.S. 52, 293, 47 S.Ct. 21, 85, 71 L.Ed. 160, 242-243 (1926). The question then is whether AS 37.07.080(g)(2) permits the arbitrary exercise of power.

On its face, AS 37.07.080(g)(2) purports to endow the Governor with discretion to reduce appropriations—in effect, to amend the budget—when anticipated revenues appear inadequate to meet appropriation levels. The State contends that the legislature intended only to delegate discretion over expenditures in such a situation. This interpretation would comport with prior decisions which have held that the legislature may delegate discretion to the executive to spend or not spend appropriated funds. The existence of such discretion is a question of legislative intent, as manifested by the language and legislative history of the statute. *Ellis v. City of Valdez*, 686 P.2d 700, 705 (Alaska 1984).

This court is under a duty to construe a statute to avoid constitutional infirmity where possible. However, it cannot go so far as to redraft defective legislation. *State v. Campbell*, 536 P.2d 105, 110–111 (Alaska 1975). The limiting construction suggested by the State cannot save this statute. AS 37.07.080 fails because it authorizes the exercise of sweeping power over the entire budget with no guidance or

3. Art. III, sec. 1 provides that:
> The executive power of the State is vested in the governor.

Art. III, sec. 24 provides that:
> Each principal department shall be under the supervision of the governor.

4. AS 37.07.080(f) and (g) provide as follows:
> (f) The office shall report quarterly to the governor and the legislature on the operations of each state agency, relating actual accomplishments to those planned and modifying, if necessary, the operations plan of any agency for the balance of the fiscal year.
>
> (g) The governor may direct the withholding or reduction of appropriations to a state agency at any time during the fiscal year only if the governor determines that
>
> (1) the planned expenditures can no longer be made due to factors outside the control of the state which make the expenditure factually impossible; or
>
> (2) estimated receipts and surpluses will be insufficient to provide for appropriations.

limitation. The statute is thus an unconstitutional delegation of legislative power.

The Alaska court has never applied the delegation doctrine to a statute of comparable breadth. This is not a case where the legislature has delegated broad authority to an agency with expertise to regulate a narrowly defined field. *See Bochl v. Sabre Jet Room, Inc.*, 349 P.2d 585, 588 (Alaska 1960). Nor is this a case where the Act's purpose and standards are explicit and detailed. *See Walker v. Alaska State Mortgage Association*, 416 P.2d 247 (Alaska 1966). Indeed, the legislature has declined to provide even the general limitations and policy statements which were sufficient to guide administrative discretion involved in making loans to promote economic development. *De Armond v. Alaska State Development Corporation*, 376 P.2d 717, 723 (Alaska 1962). Surely a delegation of authority over the entire budget deserves no less.

The delegation doctrine was developed in the federal courts; therefore, it may be useful to assess this statute under the standard articulated in a recent federal case, *Synar v. United States*, 626 F.Supp. 1374, 1383–89 (D.D.C.1986). In *Synar*, the court found that a limited delegation of power over appropriations was not an unconstitutional delegation of legislative power. In that court's view, the constitutionality of a delegation is determined on the basis of the scope of the power delegated and the specificity of the standards to govern its exercise. "When the scope increases to immense proportions ... the standards must be correspondingly more precise." *Id.* at 1386. The essential inquiry is whether the specified guidance "sufficiently marks the field within which the administrator is to act so that it may be known whether he has kept within it in compliance with the legislative will." *Id.* at 1387 *quoting Yakus v. United States*, 321 U.S. 414, 426, 64 S.Ct. 660, 668, 88 L.Ed. 834, 849 (1944).

The statute at issue in *Synar* permitted administrators to affect spending levels over a specified range of federal programs and only to a limited degree. *Id.* at 1386. The Act provided explicit direction as to the procedures to be followed and established basic assumptions, definitions and criteria to guide the administrators. *Id.* at 1387–89. The court held that Congress had provided an adequate "intelligible principle to guide and confine administrative decision making." *Id.* at 1389.

The detailed direction described in *Synar* stands in sharp contrast to the statute at issue here. The legislature has articulated no principles, intelligible or otherwise, to guide the executive. Under AS 37.07.-080(g)(2), the governor decides when projected revenues are inadequate to meet appropriations.[5] Once he makes that determination, he may or may not assume authority under the statute. If he decides to act, he has total discretion as to which appropriations to cut and to what extent. The statute does not expressly require him to limit his cuts to the extent of the shortfall nor does it provide for adjustment of the cuts to the actual revenues received.

Most importantly, the executive is provided with no policy guidance as to how the cuts should be distributed. The State conceded at oral argument that the statute would permit the Governor to cut the entire budget for a particular department or project. Indeed, nothing in the statute would prevent him from effectively vetoing a project where his veto had previously been overridden. An appropriation could be eliminated entirely, cut in half or left untouched. In short, the effect of an exercise of authority under AS 37.07.080(g)(2) is no more predictable than the identity and priorities of our next governor.

This memorandum is not intended to impugn the motives or good faith of Governors Sheffield and Cowper. Both have interpreted the grant of authority under AS 37.07.080(g)(2) narrowly and have acted in accord with that narrow interpretation.

5. Before the Governor can take any action under AS 37.05.159, the statute creating a reserve for emergency operating expenses, he must make an express finding that there is an "imminent danger" that the State will be unable to meet its operating budget expenses. AS 37.05.-159(b)(1). AS 37.07.080(g)(2) does not explicitly require a similar finding.

However, the issue in this case is not what has been done under the statute; rather it is what can be done. As one court has said,

> [W]e find nothing in [the statute] whatsoever to indicate that the legislature was granting the authority to be exercised only in the circumstances and under the conditions which respondent says it has imposed on itself. As we read the section, the grant is absolute and totally devoid of restraints, direction or rules. Accordingly, the fact that respondent acted only under certain self-imposed restraints can in no way serve to supply what has been omitted.

State ex rel. Holmes v. State Board of Finance, 69 N.M. 430, 367 P.2d 926, 932 (1961). The limited exercise of authority undertaken in Administrative Orders 90 and 91 cannot save a statute which amounts to legislative abdication.

Nevertheless, the actions taken by the governors are relevant to the final issue in the case: the effect of this decision holding that AS 37.07.080(g)(2) is an unconstitutional delegation of legislative power. The State contends that this ruling should be given only prospective effect.

The Supreme Court has identified four conditions indicating the propriety of nonretroactive treatment in civil cases: 1. the holding is one of first impression ... and was not foreshadowed in earlier decisions; 2. there has been justifiable reliance on an alternative interpretation of the law; 3. the purpose and intended effect of the holding is best accomplished by prospective application; 4. undue hardship would result from retroactive application. *Plumley v. Hale*, 594 P.2d 497, 503 (Alaska 1979) (citations omitted).

In this case, the factors listed above favor partial prospective application of the holding in this case. The decision is one of first impression which was not clearly foreshadowed in prior Alaska cases applying the delegation doctrine. The governors acted reasonably in justifiable reliance on the statute when they issued the Administrative Orders; it is probable that the legislature and the public have relied on those Orders as well. In addition, retroactive application would not further the purpose of this ruling. This court does not hold that the legislature could not draft a statute which would permit the executive to exercise limited authority to control expenditures as Governors Cowper and Sheffield have done. Rather this court holds that the legislature unconstitutionally delegated legislative authority when it enacted AS 37.07.080(g)(2) without providing any meaningful guidance.

In the final analysis, the determination of the effect of this decision must be guided primarily by equitable considerations: what is necessary, what is fair, and what is workable. *Id.* at 504, n. 28 (citation omitted). The court is aware that the governor, the legislature and the public are now attempting to cope with the effects of diminished revenues. Stability is an important factor in making that adjustment. Total invalidation of Administrative Orders 90 and 91 now would only inject additional uncertainty into an already difficult calculation. The court notes that others in positions similar to plaintiffs have elected not to join this suit. As a practical matter then, it would be unduly burdensome, indeed unnecessary, to require the legislature to reconsider the entire $450 million deficit that the Administrative Orders served to remedy. The court therefore holds that this decision applies only prospectively except as to the plaintiffs in the case at bar. Whether plaintiffs ultimately obtain funding depends, of course, on legislative action or inaction.

SUMMARY

1. AS 37.07.080(g)(2) is unconstitutional.

2. Insofar as they are applicable to plaintiffs Fairbanks North Star Borough and Fairbanks North Star Borough School District, Administrative Orders Nos. 90 and 91 are set aside.

3. In light of the foregoing, it is unnecessary for the court to reach the other issues raised in plaintiffs' complaint.

DATED at Fairbanks, Alaska this 6th day of April 1987.

/s/ James R. Blair
JAMES R. BLAIR
Superior Court Judge

June NELSON, Appellant,

v.

Clairborne G. NELSON, Appellee.

No. S-1244.

Supreme Court of Alaska.

May 15, 1987.

The Superior Court, Third Judicial District, Anchorage, Victor D. Carlson, J., entered judgment of divorce and, after property was divided between parties, wife appealed. The Supreme Court, Matthews, J., held that equal division of marital assets upon divorce was not an abuse of discretion, notwithstanding two years at outset of marriage during which wife worked and husband went to school, where both parties benefitted from increased earning capacity gained by husband during those two years, husband's degree was not a specialized postgraduate degree, and husband supported his educational efforts by working part-time and through receipt of benefits because of his past military service.

Affirmed.

1. Divorce ⇐252.3(1)

A professional degree is not marital property subject to division upon divorce.

2. Divorce ⇐252.3(1)

A spouse who has worked and made other sacrifices while other spouse has obtained a potentially lucrative professional degree is not without a remedy and, though not entitled to a division of that degree as property upon divorce, may obtain a favorable award of property by establishing that he or she has contributed to earning potential of other spouse.

3. Divorce ⇐237

Financial needs of divorcing spouses should generally be secured by an appropriate property division rather than by alimony, but when there is not substantial property to divide supporting spouse may be entitled to alimony if it is both just and necessary.

4. Divorce ⇐252.3(1)

Equal division of marital assets upon divorce was not an abuse of discretion, notwithstanding two years at outset of marriage during which wife worked and husband went to school, where both parties benefitted from increased earning capacity gained by husband during those two years, degree was not a specialized postgraduate degree, and husband supported his educational efforts by working part-time and through receipt of benefits because of his past military service.

5. Divorce ⇐253(3)

Date of separation rather than date of divorce was appropriate time at which to value marital property for division where parties had not comingled their financial affairs since separation.

Harold Green and Kelly C. Fisher, Law Office of Harold Green, Anchorage, for appellant.

Ernest Z. Rehbock, Rehbock & Rehbock, Anchorage, for appellee.

Before RABINOWITZ, C.J., and BURKE, MATTHEWS, COMPTON and MOORE, JJ.

OPINION

MATTHEWS, Justice.

In this divorce case the trial court valued the marital property subject to division at $196,343 and divided it equally. On appeal, two points are raised: (1) whether the court erred in failing to recognize the "human capital asset of the marriage," a bachelor's degree, and divide it by property

ISER
FISCAL POLICY PAPERS

No. 1, August 1989

Institute of Social and Economic Research University of Alaska Anchorage

THE ALASKA FISCAL GAP

by Oliver Scott Goldsmith

Alaska faces a problem that will be very tough to solve but is easy to explain: state government is spending more than it collects. The problem will get much worse as time goes on. If state general fund spending stays at the current level of $2.25 billion (in 1989 dollars), we face a fiscal gap—the difference between current spending and projected revenues—that could soon grow to $1 billion annually.

This budget crisis looms because oil production, which supplies 85 percent of the state's general fund revenues, will soon begin dropping as the huge Prudhoe Bay oil field is depleted. Likely new petroleum production, higher oil prices, and other economic activity in the coming decade won't be able to generate nearly enough tax and royalty income to replace the loss of Prudhoe Bay production.

Figure 1 shows projected oil production and state petroleum revenues over the next 20 years, based on the Alaska Department of Revenue's estimates from producing fields and our own estimates of new field production and per barrel revenue. Production is at its peak and will soon begin a long decline. Even assuming production from new fields such as West Sak—the timing of which is uncertain—production in 2000 will be only half of what it is today. Petroleum revenues have already fallen to just half of what they were in the early 1980s, because oil prices are much lower now. If the real price of oil remains in the range where it has been for the last few years, petroleum revenues will drop by half again by 2000.

This figure does not include potential production and revenues from oil fields that may exist in the Arctic National Wildlife Refuge (ANWR). Such revenues would of course help reduce the budget shortfall in the next century. But under any reasonable assumptions (see the box on page 4) they would fall far short of revenues we've enjoyed from Prudhoe Bay, and could not reverse the downward trend. Also, future production from ANWR is extremely speculative right now. Congress would first have to open the refuge to exploration and oil companies would have to discover commercial quantities of oil; after such discoveries it would take years to bring new fields into production.

THE FISCAL GAP

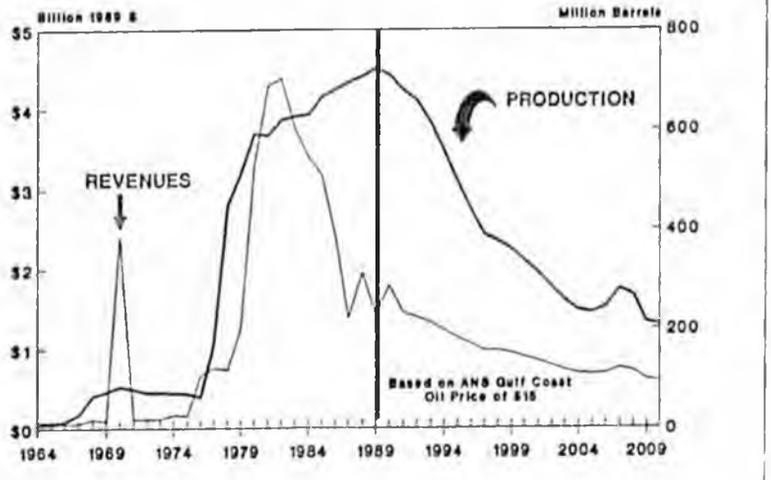
How shrinking production and revenues translate into trouble for Alaska is apparent in Figure 2. It shows the potential size of the future gap

This is the first in a series of *ISER Fiscal Policy Papers* that will examine aspects of state government spending. We intend these papers to focus the attention of state officials and of Alaskans in general on the serious budget crisis we face, and on the necessity for dealing with it soon. We hope this and later papers will provide policymakers with information and analysis they will need when making the difficult decisions ahead.

The author, Oliver Scott Goldsmith, is professor of economics with ISER. He has fourteen years of experience examining state spending. Lee Gorsuch, ISER director, is responsible for the design and presentation of this series. Linda Leask edited the paper.

The *ISER Fiscal Policy Papers* series is financed by a grant from ARCO Alaska.

FIGURE 1. PROJECTED ALASKA PETROLEUM REVENUES AND PRODUCTION



between general fund revenues and spending. If annual spending were held at its current level of about $[illegible]25 billion (in 1989 dollars), the gap between spending and revenues could be several hundred million dollars a year in the early 1990s and more than $1 billion annually after the turn of the century. If future revenues turn out to be larger than we anticipate, the fiscal gap could be reduced for a short time but the overall picture would be the same. (See the box on page 4 for a description of how our results would change under different assumptions about future developments and other factors.)

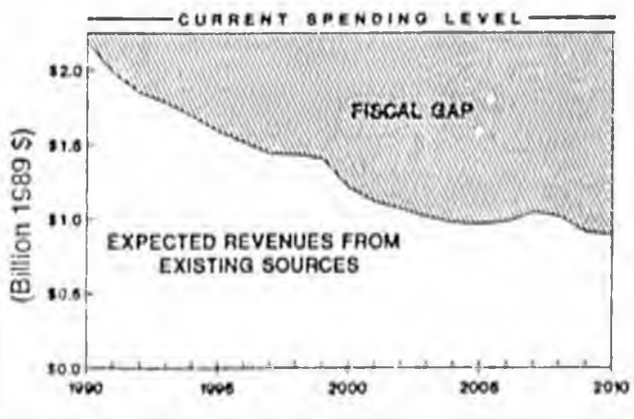
Such a gap of course can't persist. We'll have to balance the budget by cutting spending, raising taxes, using savings, or some combination of the three. These changes will affect not only those who currently enjoy state services, work for state government, or pay taxes. Everyone who benefits from local government services like schools and street maintenance will also be affected. Budget cuts will also affect recipients of government transfers – including Permanent Fund dividends – and businesses that depend on the purchasing power provided by a large public sector.

Balancing the budget will affect all Alaskans, because the economy and people of Alaska are dangerously dependent on state government spending financed by oil revenues. Even now, after several years of recession and a precipitous drop in revenues, state government spending still accounts directly and indirectly for more than one in four Alaska jobs.

Below we look at four possible ways to deal with the fiscal gap between now and the year 2010. Briefly, our four cases are: (1) Stumble From Year to Year; this case assumes that the state tries to maintain current spending for as long as possible by using all available reserves except the principal of the Permanent Fund and then cuts spending to match reduced revenues. (2) Deplete the Permanent Fund; this case examines what would happen if the state maintained the current budget level by spending the principal of the Permanent Fund. (3) Freeze the Budget; this case looks at how the fiscal gap would be affected if the state did not adjust the budget for inflation – in effect cutting the budget by the annual rate of inflation. (4) Cut Spending and Raise Taxes; this case describes the combined effects of reducing state spending, reimposing the personal income tax, and eliminating the Permanent Fund dividend.

There are other possible combinations, but these four scenarios include the main options available to the state. We do not discuss, nor have we attempted to analyze, the enormous political difficulties inherent in exercising any of these options. Some would require changes in law or even amendments to the Alaska constitution. All would generate intense public debate, and most

Figure 2. PROJECTED STATE FISCAL GAP*
(Difference Between Revenues and Spending)



*Projected at the current level of state general fund expenditures. Revenues include oil settlement estimate.

REAL VS. INFLATED DOLLARS IN FISCAL ANALYSIS

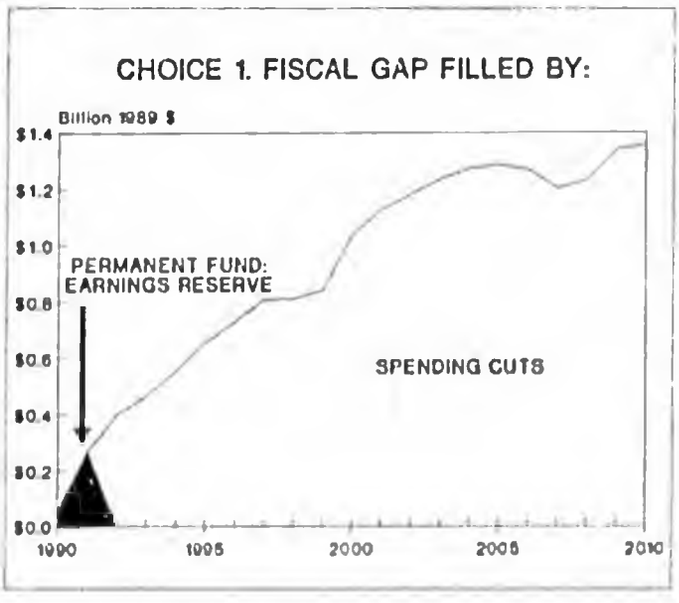
For simplicity and clarity all revenues and expenditures are presented in 1989 dollars. Using this technique eliminates the need to estimate the rate of inflation—the value of which has only a marginal effect on the rest of our analysis—and avoids the confusion that inflation can introduce when we try to compare the purchasing power of dollars received at different times. For example, $1 of revenue collected in 2000 would have the purchasing power of just 61 cents, if inflation were 5 percent annually over the next decade. Our use of 1989 dollars throughout the analysis allows direct comparisons of current and future purchasing power.

The use of real dollars also corrects a misinterpretation that can arise in revenue projections that use nominal dollars. In such projections, the inflation-proofing portion of Permanent Fund earnings can appear to be a source of recurring revenues. In fact, inflation-proofing is just the portion of earnings needed to offset the devaluation of the fund principal by inflation. Because we use real dollars in our analysis, inflation-proofing does not appear as a separate revenue source, and we avoid any potential misinterpretation. This assumption does not preclude the policy option of appropriating inflation-proofing to fund government spending.

would face extremely strong opposition from specific groups or from Alaskans in general. This paper does not endorse any particular strategy to balance the budget. Rather, it describes in general the tradeoffs—who bears the pain—and the ramifications of the various choices.

Doing an analysis like this requires making certain economic assumptions. Those assumptions are summarized in the box on page 4 and in the individual case descriptions. We can't be sure that these assumptions will prove correct, but changing those assumptions in any reasonable way would not substantially alter our findings.

FISCAL CHOICE 1: STUMBLE FROM YEAR TO YEAR



In this case we look at what would happen if the state government budgeted from year to year, trying to maintain the current level of spending ($2.25 billion in 1989 dollars) for as long as possible, using available fund balances but making no changes in current fiscal policies. The dividend program would not be changed, the principal of the Permanent Fund would be retained, and no new tax measures would be enacted.

Revenues from the settlement of disputes with the oil companies over past royalty and tax payments, as well as with the federal government over ownership of leases in the Beaufort Sea, are an important element of our revenue estimates for the 1990s. The amount and timing of any settlement money the state might receive is extremely uncertain, but we assume for this and the other cases that the settlements occur regularly over the next decade in an amount equivalent to $1.7 billion today. (See also the box on page 4 for an example of how changing this settlement total would change the analysis.) In reality the state may not be so fortunate as to receive a steady stream of income from this source, and the budget shortfall would pressure the state to accept quick negotiated settlements in these disputes.

Under these conditions, the Railbelt Energy Fund, the Earnings Reserve Account of the Permanent Fund, and other fund balances could balance the budget for a short time. A fiscal gap of $400 million would open in 1992 and grow to an annual deficit of $1 billion by 2000. In this scenario, state government and the economy would adjust to reduced state spending as discussed below and shown in the graphs on page 7.

Permanent Fund: The Permanent Fund would remain just about the same size (inflation-proofed) that it is today. Contrary to popular belief, future earnings of the Permanent Fund will not be able to replace petroleum revenues in the support of state government. Annual additions to the fund from petroleum revenues—which the state constitution currently requires go directly to the principal of the Permanent Fund—plus earnings would largely be consumed by the Permanent Fund dividend program, with little or nothing left

ECONOMIC ASSUMPTIONS USED IN ANALYSIS

If we changed the economic assumptions used in this analysis, the rate at which the fiscal gap grows would be different but the options for dealing with the gap would be the same. To focus on those options we held the economic assumptions constant throughout the four cases. The most important assumptions are listed below. (Full details on the assumptions are available from the author.)

OIL PRODUCTION: Alaska Department of Revenue estimate, Spring 1989, plus West Sak production scenario developed by author (oil companies recently announced postponement of West Sak exploration)

OIL PRICE: Gulf Coast delivered price for Alaska North Slope (ANS) crude averages $15 a barrel (in 1989 dollars)

RETURN ON PERMANENT FUND: 3 percent annually, net of inflation

EMPLOYMENT GROWTH RATE: 1.75 percent annually, independent of government spending

SETTLEMENT REVENUES FROM PETROLEUM DISPUTES: $1.7 billion (in 1989 dollars), received over 10 years

TAX REGIME: Reflects the Economic Limit Factor (ELF) as revised by the Alaska Legislature in June 1989

INFLATION RATE: 5 percent annually

RECURRING REVENUES (Non-petroleum revenues): 1 percent growth annually, net of inflation

for fund growth. The total amount available to pay dividends and the payments to individual Alaskans would stay fairly constant because population growth would roughly match growth in the total available for dividends. Dividends as a component of government spending would increase because of decreased spending in all other functional areas.

Revenues: With no new recurring revenues, general fund revenues would steadily decline to about $1.2 billion in 2000. Permanent Fund additions and earnings would remain relatively constant because of the stable size of the fund.

Expenditures: Declining petroleum revenues would force significant budget cutbacks beginning in earnest in 1992. The general fund would need to be cut 18 percent that year to balance the budget. Smaller annual cuts would be the rule over the next two decades. Expenditures in 2000 would be $1.2 billion—equal to revenues collected that year. These cuts in state spending would mean underfunding many and eliminating some government programs; reducing transfers to local governments (creating pressure on local governments to increase taxes and try to shift government functions back to the state); and reducing financial support for individuals. Projected population growth would add to the problem of deciding how the cuts should occur. Uncertainty about the timing and magnitude of cuts from year to year would create continuing confusion and negative attitudes both within government and the private sector.

Alaska Employment: During the next decade 26,000 public and private jobs would be lost as

WHAT IF WE CHANGED THE ASSUMPTIONS?

A question likely to be asked is: How much longer could we maintain current spending if revenues turned out to be greater than we have assumed? If we used up the entire Permanent Fund (as discussed in Case 2), we could maintain current spending up until 2003. Alternate assumptions would add to the number of years that the current spending level could be maintained as follows:

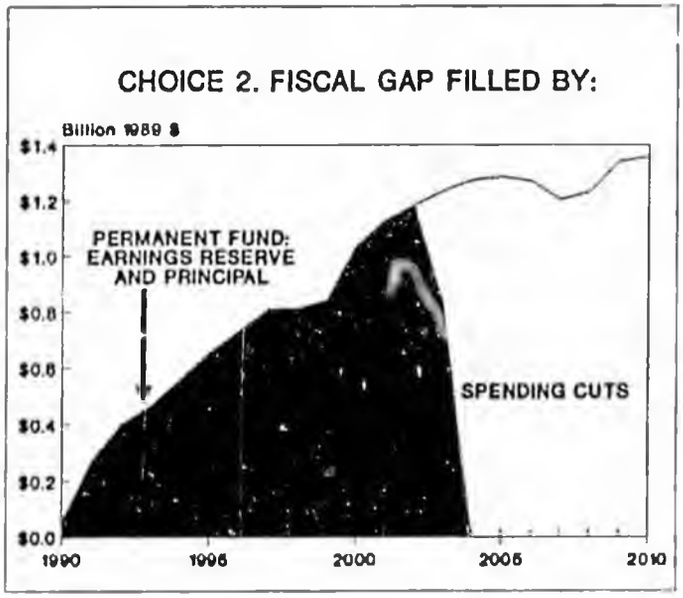
$1 increase in the price of oil	1 year
Gas pipeline in the 1990s	1 year
ANWR production shortly after 2000	1 year
Petroleum settlements of $3.4 billion	2 years

Another likely question is: What would be the cost of a one-year delay in closing the fiscal gap? Our analysis in Case 4 indicates that the state can sustain annual spending of about $1.45 billion (in 1989 dollars) based on the current tax regime, compared with the current spending level of $2.65 billion (including the approximately $400 million paid in Permanent Fund dividends). The difference between current and sustainable spending—$1.2 billion—approximates the loss in state fiscal assets associated with each year of delay in closing the gap.

state general fund spending was cut virtually in half. (For simplicity we assume public sector jobs would be eliminated in proportion to the budget cuts. Wage rate reductions could partially offset this job loss. We also assume that local governments do not raise taxes in response to less state fiscal support.) The drag on the economy created by a job loss of this magnitude would make it difficult if not impossible for the economy to grow, even assuming the private sector could generate new jobs at about the same rate projected for the national economy—1.75 percent annually. Total employment in Alaska in 2000 would be only slightly above what it is today.

Economic Well-Being: Annual percentage changes in employment would hover near zero for most of the next 10 years, with a dramatic drop when government spending was first reduced in 1992. Per capita general fund government spending would fall about 5 percent annually through most of the next 20 years.

FISCAL CHOICE 2: DEPLETE THE PERMANENT FUND



Another strategy for dealing with the budget crisis—the most drastic and one which would require an amendment of the Alaska constitution—would be to use the entire $10 billion in the Permanent Fund to plug the fiscal gap and keep spending at $2.25 billion (in 1989 dollars) for as long as possible. We do not endorse this strategy, but include it to cover the range of options available to the state. Under this scenario, the portion of Permanent Fund earnings now used to protect the principal of the fund from inflation would be spent, as well as the principal of the fund itself.

The first draw—$400 million from inflation-proofing—would be required in 1992. Within two years, however, we would begin taking from the principal of the fund, and the withdrawals would grow rapidly—topping $1 billion for the first time in 2000. The fund principal would be drawn down faster as time went on not only because of the growing fiscal gap but also because the shrinking Permanent Fund would generate less earnings each year. Under this scenario, the effects would be as discussed below and shown in the graphs on page 8.

Permanent Fund: More than $6 billion from the Permanent Fund would be needed to fill the budget gap between 1992 and 2000. The last year of withdrawals would be 2003, when the Permanent Fund would be depleted. The Permanent Fund dividend would be an additional casualty, declining each year as the fund shrank and disappearing when the fund disappeared.

Revenues: Revenues flowing into the general fund would be the same as in Case 1, but the use of Permanent Fund earnings and principal would disguise the shortfall until 2003, when the Permanent Fund would be gone. By 2005, revenues would be about $1 billion—60 percent less than the level expected in 1990. The additions and earnings of the Permanent Fund would fall as the fund itself shrank.

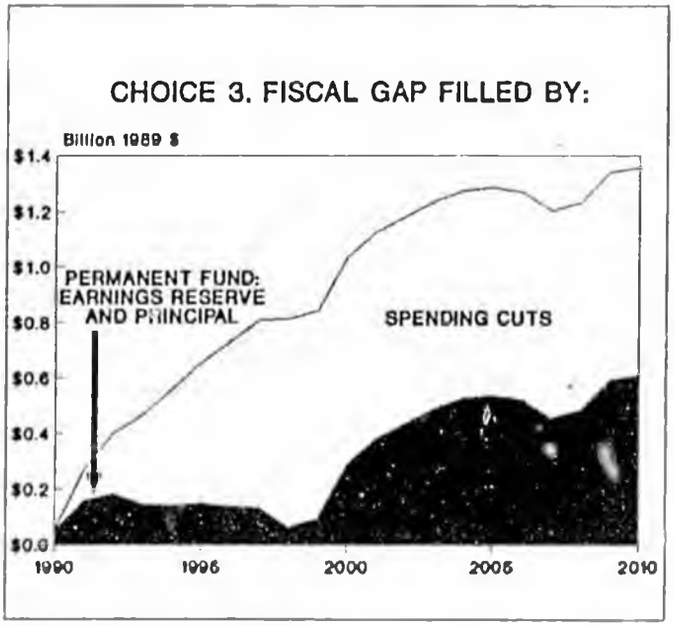
Expenditures: The Permanent Fund would prop up expenditures until 2003. Then a massive "forced transformation" of the public sector and the entire Alaska economy would occur because of the sudden drop in state general fund spending—from $2.25 billion to $1 billion in just two years. All public services at the state and local levels would suffer dramatic cutbacks.

Alaska Employment: Extreme dislocation and a serious economic recession would start in 2003. About 30,000 jobs—both public and private—supported by general fund spending would disappear over a two-year period. (To put such a drop in perspective, job loss during the 1985-1988 recession was about 25,000.) Even assuming

private industry would continue to generate jobs at the rate of 1.75 percent annually, by 2010 Alaska would still not have replaced all the jobs lost during the recession.

Economic Well-Being: Alaska employment would increase through 2002 because of growth in the private economy and constant general fund government spending. In the following two years, 12 percent of total state jobs would disappear. Despite constant government spending through 2002, per capita state general fund spending would decline because private economic growth would be drawing people to Alaska. Per capita state general fund spending would be cut nearly in half when the "forced transformation" occurred.

FISCAL CHOICE 3: FREEZE THE BUDGET



The forced transformation of the public sector and the severe recession described in Case 2 could be mitigated under a scenario in which the budget was held constant in nominal dollars—that is, not adjusted for inflation. Such a strategy would reduce the purchasing power of the budget each year by the rate of inflation.

The average annual rate of inflation in the coming years is expected to be in the neighborhood of 5 percent. If the budget were not adjusted for that inflation, the real dollar value (the effective purchasing power) of the budget would fall by 5 percent each year. If the state government implemented a constant budget policy starting in 1991, the budget could be reduced to an arbitrary target level of $1.5 billion (in 1989 dollars) by 1998.

A gradual policy like this would require a large amount of political discipline, but it would have several attractive features--even though it would not entirely solve the state's long-term fiscal problem. Public programs could be phased out on the basis of plans developed to minimize the effects of the budget reductions. The economy would not suffer the kind of massive shock described under Case 2, when state spending would be reduced by half in just two years. The effects of using inflation to cut the budget are discussed below and shown in the graphs on page 9.

Permanent Fund: This strategy at first glance appears to preserve the Permanent Fund, since the balance would hold relatively constant for several years after budget cuts ended. It would require use of portions of the annual appropriations for inflation-proofing during the 1990s. After 2000 continuing declines in revenues would force significant withdrawals from principal. By 2010 the fund principal would be only about $3.5 billion, as compared with $10 billion today. As the Permanent Fund shrank, the amount paid out as dividends would also fall off.

Revenues: General fund revenues would be the same as in Cases 1 and 2. The spending reductions would not be sufficient to produce a general fund surplus; such a surplus could in itself be a new source of earnings. Additions and earnings of the Permanent Fund would taper off after 2000 as the principal of the fund was spent.

Expenditures: State expenditures would fall off gradually but steadily each year until 1998 and then hold steady at $1.5 billion through the next decade—but only because we would be using the principal of the Permanent Fund to supplement other revenues. After 2010 the Permanent Fund would be used up and a smaller "forced transformation" of the public sector and the economy would occur. Under this scenario, dramatic cuts in state spending—as much as 40 percent—would be forced by 2015 (not shown on the graph).

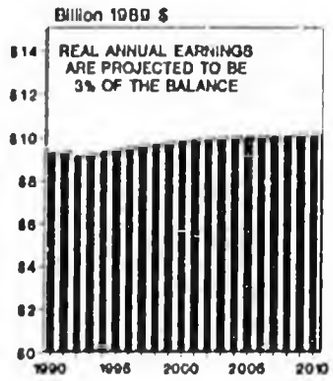
(Text continued on page 11)

Fiscal Choice 1: Stumble from Year to Year

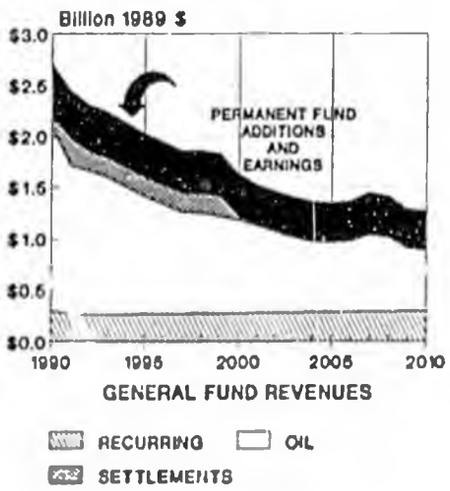
CASE ASSUMPTIONS

- SPENDING: General Fund spending based on availability of revenues up to $ 2.25 billion (1989$)
- TAXES: No new taxes
- DIVIDEND: Retain Permanent Fund dividend
- PERMANENT FUND: Leave Permanent Fund principal intact, continue contributions and inflation proofing, spend earnings reserve account
- OIL PRICE (constant across cases): Average ANS Gulf Coast oil price $15 (1989$)
- SETTLEMENTS (constant across cases): $1.7 billion of oil settlements collected and spent over 10 years

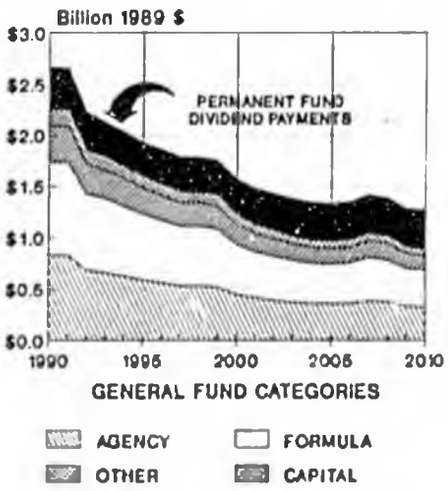
PERMANENT FUND BALANCE



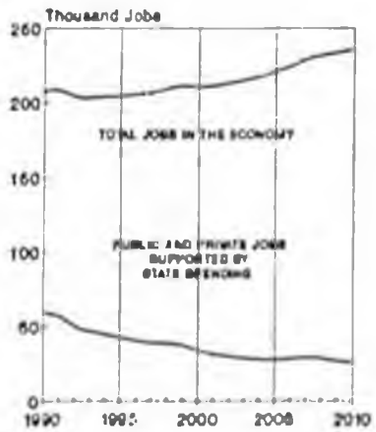
STATE GOVERNMENT REVENUES (Permanent Fund Included)



STATE GOVERNMENT EXPENDITURES (Dividend Included)

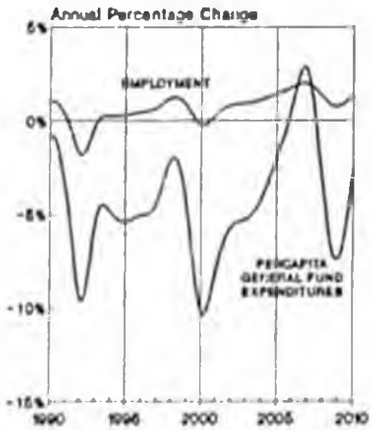


ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

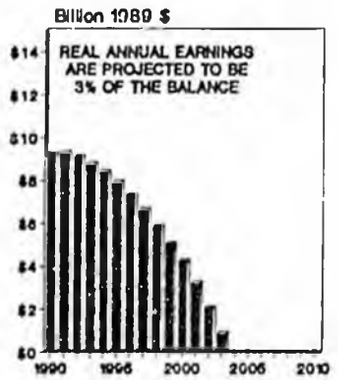


Fiscal Choice 2: Deplete the Permanent Fund

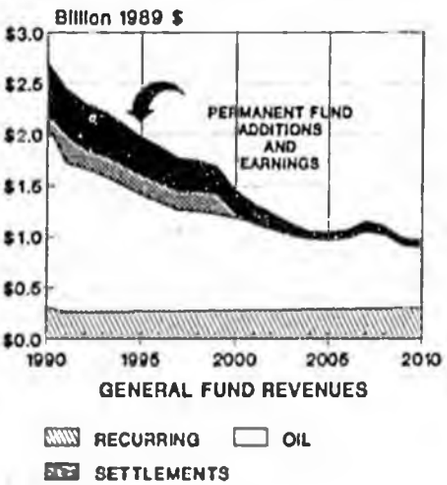
CASE ASSUMPTIONS

- SPENDING: General Fund spending based on availability of revenues up to $ 2.25 billion (1989$)
- TAXES: No new taxes
- DIVIDEND: Retain Permanent Fund dividend
- PERMANENT FUND: Use Permanent Fund principal to maintain spending as long as possible
- OIL PRICE (constant across cases): Average ANS Gulf Coast oil price $15 (1989$)
- SETTLEMENTS (constant across cases): $1.7 billion of oil settlements collected and spent over 10 years

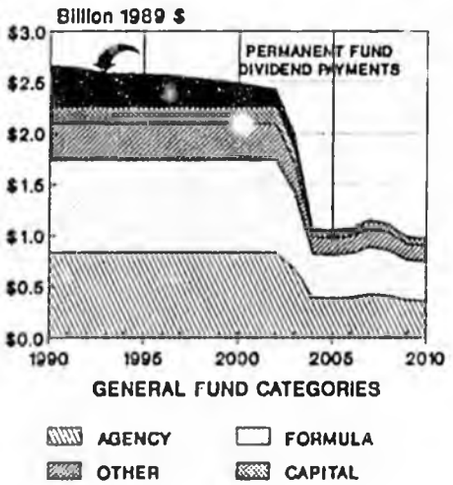
PERMANENT FUND BALANCE



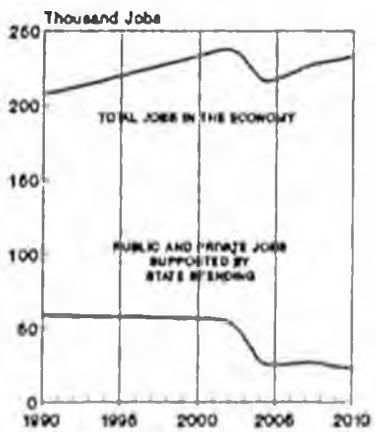
STATE GOVERNMENT REVENUES (Permanent Fund Included)



STATE GOVERNMENT EXPENDITURES (Dividend Included)

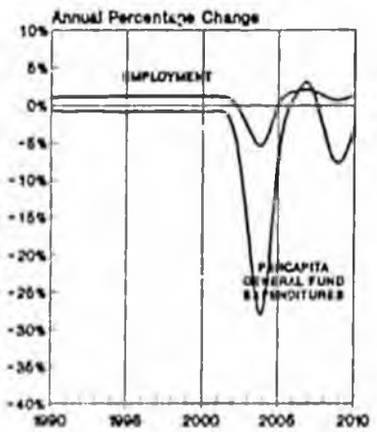


ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

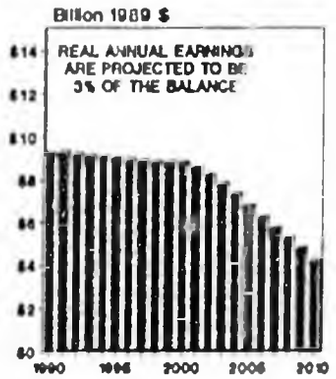


Fiscal Choice 3: Freeze the Budget

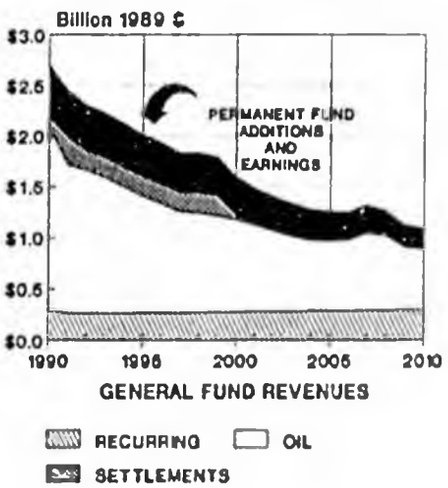
CASE ASSUMPTIONS

- SPENDING: General Fund spending constant in nominal dollars from 1991 to 1998. (The budget declines to a target of $1.5 billion in 1989$)
- TAXES: No new taxes
- DIVIDEND: Retain Permanent Fund dividend
- PERMANENT FUND: Use Permanent Fund principal to maintain spending at targeted level as long as possible
- OIL PRICE (constant across cases): Average ANS Gulf Coast oil price $15 (1989$)
- SETTLEMENTS (constant across cases): $1.7 billion of oil settlements collected and spent over 10 years

PERMANENT FUND BALANCE



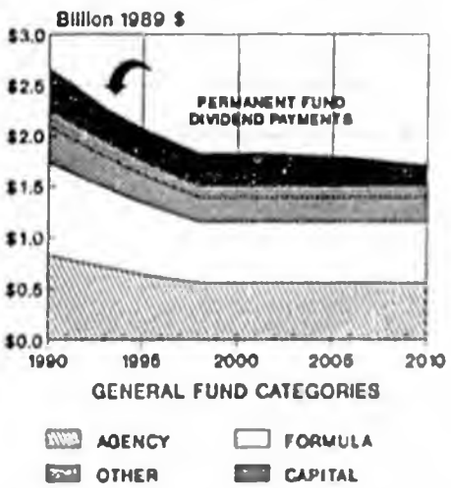
STATE GOVERNMENT REVENUES
(Permanent Fund Included)



GENERAL FUND REVENUES

RECURRING
OIL
SETTLEMENTS

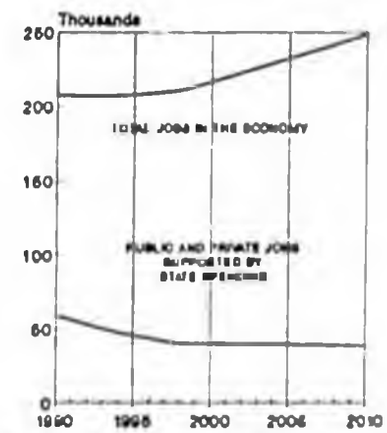
STATE GOVERNMENT EXPENDITURES
(Dividend Included)



GENERAL FUND CATEGORIES

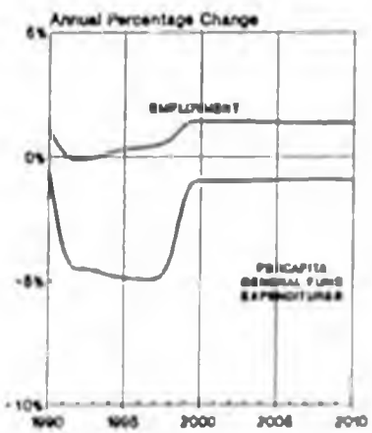
AGENCY
FORMULA
OTHER
CAPITAL

ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

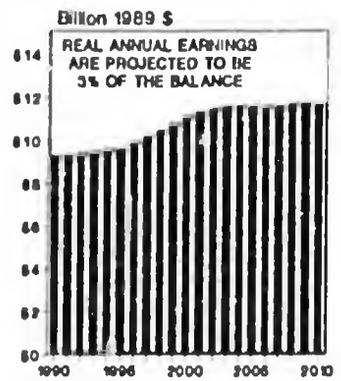


Fiscal Choice 4: Cut Spending and Raise Taxes

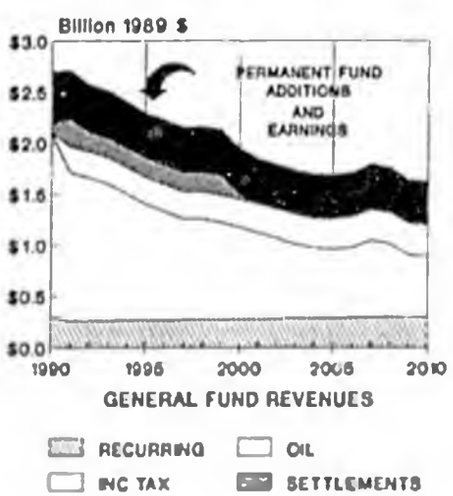
CASE ASSUMPTIONS

- SPENDING: General Fund spending is reduced 2.5% annually (1989$) from 1991 to 2000. (The budget declines to a target of $1.7 billion in 1989$)
- TAXES: Personal income tax reimposed in 1991
- DIVIDEND: Permanent Fund dividend eliminated in 1995
- PERMANENT FUND: Leave Permanent Fund principal intact, continue contributions, spend earnings reserve account. Appropriate real earnings to General Fund. Use inflation proofing to fill revenue gap.
- OIL PRICE (constant across cases): Average ANS Gulf Coast oil price $16 (1989$)
- SETTLEMENTS (constant across cases): $1.7 billion of oil settlements collected and spent over 10 years

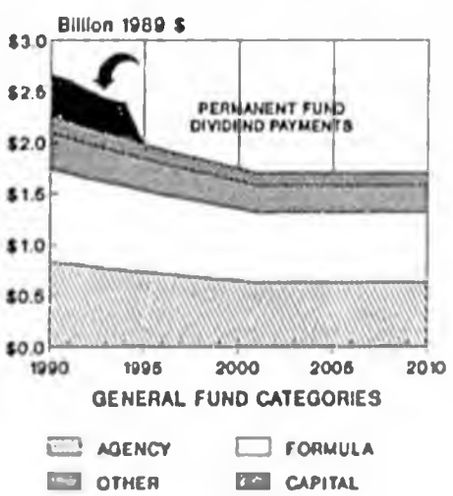
PERMANENT FUND BALANCE



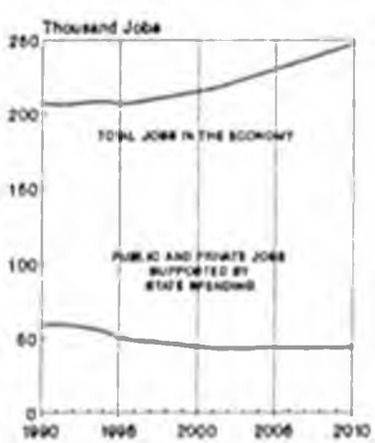
STATE GOVERNMENT REVENUES
(Permanent Fund Included)



STATE GOVERNMENT EXPENDITURES
(Dividend Included)

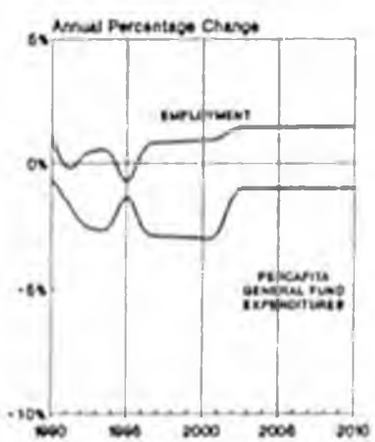


ALASKA EMPLOYMENT



Wage and Salary Employment Only

ECONOMIC WELL-BEING

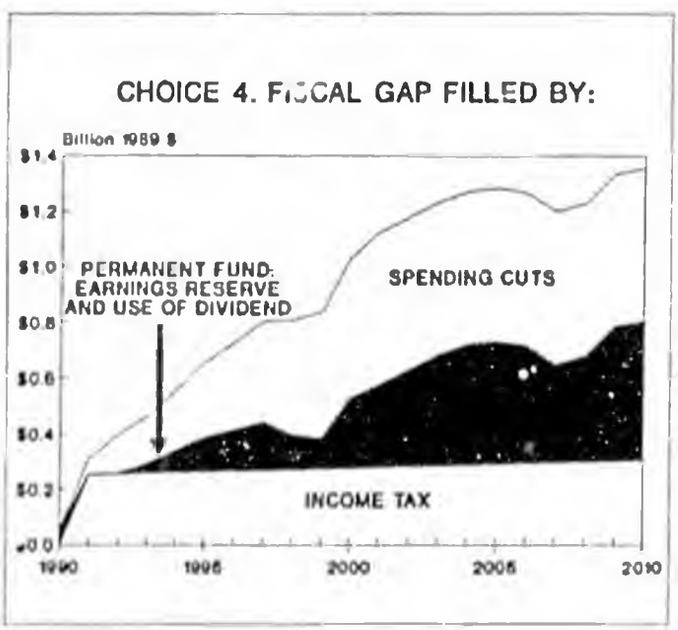


(Text continued from page 6)

Alaska Employment: The number of public and private jobs supported by state spending would suffer gradual attrition throughout most of the 1990s, dropping by about 20,000 over the decade. Private industry would be hard pressed to replace those jobs that had been supported by state spending. Total Alaska employment would stagnate until 1995 and only then begin a gradual increase. However, after 2010, when state spending dropped off very abruptly, a shock wave would again travel throughout the economy, eliminating public and private sector jobs and precipitating another recession.

Economic Well-Being: There would be little year-to-year change in Alaska employment until the late 1990s. In the following decade, modest growth in the private sector combined with stable public employment would result in small annual increases in employment. Per capita general fund state spending would decline every year for the next two decades, but the drops would be smaller after the 1990s. Again, both per capita state spending and employment would suffer after 2010, when state spending dropped sharply.

FISCAL CHOICE 4: CUT SPENDING AND RAISE TAXES



The cumulative budget reductions described in the first three cases, combined with the elimination of the Permanent Fund in the second and third, may be more than Alaskans are willing to endure. An alternative to those kinds of reductions would be for the state government to use new sources of revenues. The most likely sources are a personal income tax and the earnings of the Permanent Fund that now finance the dividend program. Those two together could contribute $650 million annually—$250 million from the income tax and $400 million from the dividend program—to the general fund. In this scenario, we look at what would happen under one possible combination of these two new revenues. We assume the income tax is reimposed in 1991 and that beginning in 1995 the revenues now used to fund the Permanent Fund dividend program are instead used to supplement general fund revenues.

The state would still need to cut the budget, because at the current level of spending the fiscal gap would soon exceed the $650 million generated by these new revenue sources. Furthermore, cutting the budget at the same time new revenues were added would distribute the pain between the taxpayers and the beneficiaries of public spending.

Our analysis suggests that the state is spending $1.2 billion more annually than it can support in the long run, without an income tax ($800 million in general fund spending and $400 million in dividends). If we chose to reimpose the income tax and use the earnings of the Permanent Fund to support public spending, sustainable revenues would increase $650 million annually and $550 million in non-sustainable spending would remain. Thus the general fund budget would need to be cut to $1.7 billion—about a 25 percent reduction. In combination with the revenue generating measures, such a budget cut would eliminate the fiscal gap not only in the 1990s but into the following decades as well—and the Permanent Fund would remain intact.

Depending on when the state receives settlements in tax and other disputes, this scenario might require budget cuts in years of increasing revenues. The state would intentionally collect more than it spent—thus setting aside a small balance of settlement reserves to smooth the transition to a smaller budget. Although that might be a rational decision when we consider the projected revenue decline in the later years, the plan would be tough to justify in the short run, particularly in the presence of fluctuating oil

prices. The effects of this fourth scenario are discussed below and shown in the graphs on page 10.

Permanent Fund: The principal of the Permanent Fund would grow slowly through the next two decades, with the addition of revenues from petroleum and withdrawals only of real earnings to fund government. The fund would have a continuing capacity to generate real earnings of $400 million annually that could be used to support public spending. Individual Alaskans would, however, lose their annual dividends in 1995.

Revenues: Even with the addition of new revenues from the income tax, total general fund revenues would still fall under this scenario, because the new taxes would not completely offset lost petroleum revenues. But the drop would not be as dramatic as in the other cases—revenues independent of the Permanent Fund would be $1.5 billion in 2000 and fall to $1.25 billion in 2005. As noted above, the Permanent Fund would produce about $400 million in real earnings annually, some of which could be reinvested in early years.

Expenditures: Annual budget reductions would continue for 10 years, cutting expenditures by 25 percent over the decade. (If the annual rate of inflation averaged 5 percent, then the budget in nominal dollars would be increasing at 2.5 percent in this case.) These cuts would of course reduce the level of government services, but the reductions would be much more gradual than in the other cases we've looked at. After 2000 expenditures could be maintained at the target level indefinitely.

Alaska Employment: About 12,000 public and private jobs supported by general fund spending would disappear as state spending declined. Another 3,000 jobs would be eliminated when the income tax was reimposed and 5,000 more when the dividend program ended. Although the rate of job loss from these government actions over a 10-year period would be gradual, private industry would have to create new jobs at a rate greater than 1.75 percent annually to produce significant total employment growth before 1996.

Economic Well-Being: The economy would contract when the income tax was reimposed, and again when the Permanent Fund dividend was eliminated. Reimposition of the income tax would draw purchasing power out of the private economy. Elimination of the Permanent Fund dividend would shift purchasing power from an activity with a high multiplier to one with a lower multiplier—because the money would be spent not by thousands of individuals but by government. Per capita general fund spending would decline in the 1990s, but the loss would be less than in the other cases. In contrast, per capita discretionary income of Alaskans (not shown on the graph) would fall in this case due to the reimposition of the income tax and the elimination of the dividend.

TRADEOFFS AMONG STRATEGIES

We have described four ways—all of them painful—of dealing with the fiscal gap. In each case the level of public services—both aggregate and per capita—would fall. In each case the private economy would also suffer, since reduced public spending and transfers and increased taxes would mean less buying power. There is no strategy that would close the fiscal gap without creating pain, because the gap can only be filled by taking from somewhere in the economy.

In each case the pain would be distributed among citizens—present and future—in a different way. Those different distributions are the distinguishing features of each strategy. We recognize, of course, that the effects of balancing the budget will vary among individual Alaskans and in different areas of the state. For example, areas where state spending makes up a larger share of economic activity would be harder hit by budget cuts. Similarly, eliminating or reducing Permanent Fund dividends would affect the pocketbooks of low-income Alaskans more than those with higher incomes, while reimposing the personal income tax would have more impact on those with higher incomes. Despite these individual and regional differences, there are broad kinds of tradeoffs all Alaskans will need to consider; some of these are discussed below.

Present vs. Future Public Spending: If we spend less of our petroleum wealth now, more will remain for future needs—our own or those of

later generations. Should we discount the needs of the future, because such needs are not easily identifiable or because we think the wealth of future generations is currently underestimated? Or should we weight the needs of the future heavily because new public needs are continually being identified, the population is growing, and we may be overestimating future revenues?

Figure 3 shows state spending levels over the next 20 years under our four choices. All the choices show much lower spending by 2010—but how much we spend along the way varies sharply among the choices. Choice 1 and Choice 2 offer the biggest contrast in spending over the next decade; under Choice 1 we would continue current fiscal policy, using all available reserves except the Permanent Fund, while in Choice 2 we would prop up spending by draining the Permanent Fund. Although spending would obviously be much higher under Choice 2 over the next decade, by 2010 spending under both cases would fall to about the same level—but the Permanent Fund would be gone under Choice 2. Choice 3 also would prop up state spending by using the Permanent Fund, but at a slower rate. Spending under Choice 4 would be highest in 2010—but we would maintain that spending level without drawing on the Permanent Fund principal.

Figure 4 shows how each of our four choices would affect the Permanent Fund, our primary repository of oil wealth. The fund and its earning power would not last long if we opted to use the principal to prop up state spending. In Choice 2, the fund would be used up in 2003; in Choice 3 it would dwindle after the 1990s and be gone by 2015. The fund would increase somewhat under both Choices 1 and 4. But under Choice 1 the fund would be left intact while state spending shrank and the state government and the economy floundered from year to year. Under Choice 4, state spending would be stabilized and the economy would not be jolted by continuing spending cuts over 20 years—but it would be stabilized at the cost of a new personal income tax and the elimination of Permanent Fund dividends.

The most straightforward benefit to the average Alaskan from the Permanent Fund has been the annual dividends paid out of fund earnings. Figure 5 shows how dividend payments would be affected under each of our four choices. Under Choice 1, real dividend payments (in 1989 dollars) to each Alaskan would remain fairly constant over the next 20 years, since population growth would roughly match growth in the amount available for dividends. Under Choice 2, the dividends would shrink over the next decade as the principal of the fund was being drawn down and its earnings reduced; the last dividends would be paid in 2004. The attrition of dividends would be somewhat slower under Choice 3, but the result would be the same: shrinking and then disappearing dividends by 2015. Under Choice 4, the dividend program would end in 1995 and the money that formerly went into that program would be shifted over to the general fund.

To conclude our discussion of spending, we should note that in the past decade the state government has spent part of its oil wealth in ways intended to stimulate future economic growth rather than simply to maintain current programs. Many of these ventures have so far had limited success, and it's outside the scope of this paper to assess their value to the state as investments. But to the extent that the state can use its oil wealth to promote economic growth, that kind of spending should be viewed as investment and distinct from spending that simply creates jobs and income in the present.

Present vs. Future Economic Activity: The Alaska recession that followed the "petrodollar boom" of the early 1980s demonstrated that a large portion of the economic activity stimulated by state spending of oil revenues could be sustained only as long as the flow of oil dollars continued. We can continue to spend oil revenues when we receive them, and immediately receive the benefits of the jobs and income produced by that spending. Alternatively, we can postpone spending some of the revenues and receive the economic benefits at some future time. The choice should depend on when those jobs and income will contribute most to the economy and on what we want to save for future generations. Until we make such a choice, the marketplace—essentially the OPEC cartel and the petroleum production cycle—will continue to dictate the booms and busts of our economy.

Figures 6 and 7 show how the number of jobs supported by state spending—including both public and private jobs—and the total number of jobs in Alaska would vary under our four choices. Under Choice 1, the number of jobs supported by

public spending would decline steadily for the next 20 years. Under Choice 2, spending of the Permanent Fund would keep such jobs at about their current level until the fund was exhausted in 2003—then many jobs would be eliminated quickly, and by 2010 there would be about half as many jobs supported by public spending as there are today. Under Choice 3, which involves more gradual use of the Permanent Fund, the number of jobs created directly and indirectly by state spending would drop somewhat by 2010—but not shown on the graph is a very sharp drop that would occur after 2010, when the Permanent Fund was depleted. As with the other cases, the number of jobs supported by state spending would also drop under Choice 4, but the decline would be somewhat smaller and the number of such jobs would stabilize after 2000.

How total jobs in the state—including both those supported by public spending and those by private industry—would fare under each of our choices depends largely on the timing of public spending and on whether the Permanent Fund is depleted. We assume in all cases that private industry in Alaska is able to generate new jobs at an average annual rate of 1.75 percent. Under Choice 1, it would take about 10 years for private growth to offset the job loss from reduced public spending. Use of the Permanent Fund would keep the number of jobs growing under Choice 2—until the fund was used up; then a severe recession would occur. By 2010 Alaska employment would be lowest under Choice 2. Under Choice 3, total jobs would grow slowly but steadily through 2010—but again, not shown on this graph is a sharp decline in jobs that would happen around 2015. Employment under Choice 4 would be slightly lower than under Choice 3, because in that case spending of the Permanent Fund would not be supporting jobs. However, unlike Choice 3, Choice 4 would not involve a recession in 2015.

Public vs. Private Consumption: How much we are able to consume as a state ultimately depends on the productive capacity of our basic industries—petroleum, seafood, tourism, mining, forest products and federal government spending. The split between public and private consumption does not affect this capacity unless government raises taxes so high that private economic incentives are adversely affected. However, the distribution of the benefits does depend on that split. We have argued that the current rate of consumption can't be sustained (because public spending exceeds sustainable public revenues), but we have not suggested what the proper balance is between public and private consumption. Is public consumption in Alaska too large because of historical accident and because the only constraint on public spending seems to have been the availability of revenues? Or should we increase public consumption relative to private consumption to meet the continuing growth in those needs best served through public action? Do we need a large public sector to balance the dominant economic influence of a single commodity? Or does high public consumption hamper diversification in the private sector?

Gradual vs. Abrupt Transition: A gradual transition to a sustainable level of public spending would allow both the public and private sectors to adjust in ways that would minimize the pain from the loss of public services, income, and employment. At the same time, a gradual transition would be very difficult to manage politically and would have a lasting negative psychological effect on the state and population. A quick transition would not leave much time for adjustments and would cause some inefficiencies as public agencies, businesses, and individuals reorganized in the wake of budget cuts. On the other hand, the detrimental psychological effects would be short-lived.

Figure 8 shows the different rates of spending cuts under the four cases. The most drastic would be Choice 2, where state spending would drop by more than half shortly after 2000. Choice 1 would see sharp cuts in the early 1990s and then a continual downward drift for the next 20 years. Choice 3 would result in a fairly stiff drop in the early 1990s followed by relatively stable state spending through 2010—but then another sharp cut in the next decade. Under Choice 4 we'd see small but steady decreases throughout the 1990s but a leveling off after that.

Public vs. Private Economic Activity: Delivering public services requires hiring public employees--teachers, construction workers, office workers—and indirectly generates private employment. Delivering private goods and services requires hiring private employees—clerks, construction workers, office workers. Is the mix

Comparisons Across Fiscal Choices

Figure 3

STATE GENERAL FUND EXPENDITURES

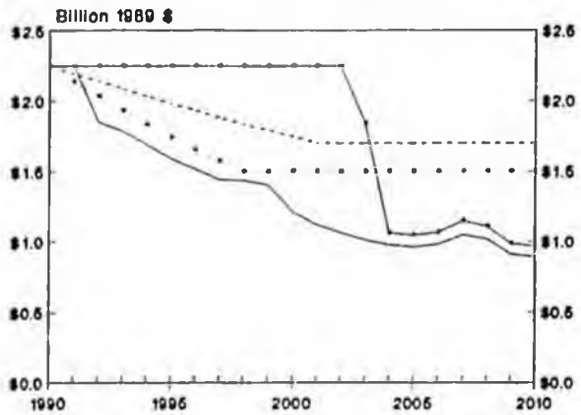


Figure 4

PERMANENT FUND BALANCE

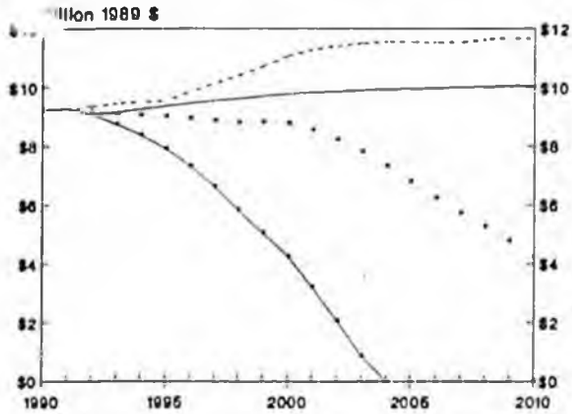


Figure 5

PERMANENT FUND DIVIDEND

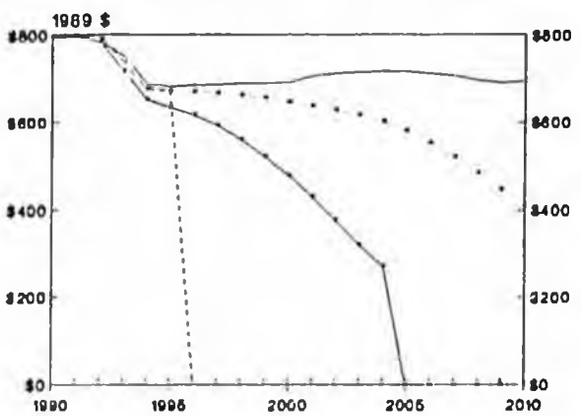


Figure 6

STATE SUPPORTED EMPLOYMENT

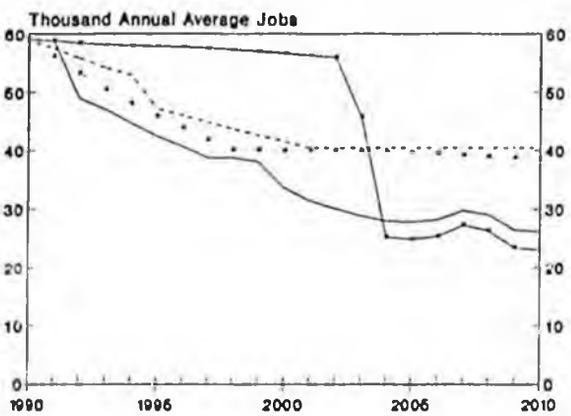


Figure 7

ALASKA WAGE AND SALARY EMPLOYMENT

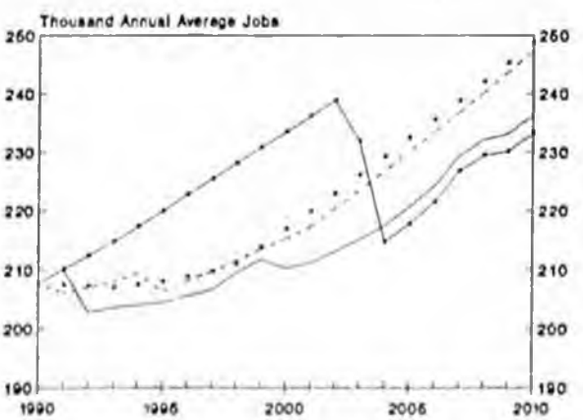
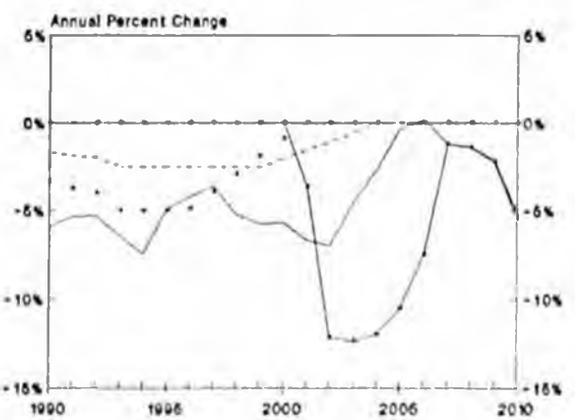


Figure 8

GENERAL FUND SPENDING: YEARLY CHANGE



Values have been smoothed

SCENARIO

1 STUMBLE ALONG
2 USE PERMANENT FUND
3 BUDGET FREEZE
4 BUDGET CUT & TAXES

of public and private jobs in the economy an important consideration, independent of the mix of goods and services provided?

It would be if the economic multiplier—the capacity of one job to create other jobs—were significantly different for public and private jobs. However, there doesn't seem to be a significant difference between the multiplier effects of public and private jobs, since most of the multiplier effect in the Alaska economy comes from the successive re-spending of income earned as wages and salaries, independent of who writes the checks.

CONCLUSION: A CALL FOR ACTION

These cases show some of the consequences of four different choices for closing the fiscal gap facing Alaska. As we noted at the outset, we have not assessed the political difficulties of putting budget changes into effect—but of course we recognize that enormous difficulties will accompany any such plan. Further, we don't know whether the assumptions we've used in this analysis will turn out to be accurate. But whether the price of oil is higher or lower than we've assumed, or other circumstances are somewhat different than we project, Alaska faces a serious fiscal problem. Despite the uncertainties always inherent in planning for the future, this analysis suggests positive action is warranted—and the sooner it is taken the better.

Differences among the four choices demonstrate that we can influence outcomes and change tradeoffs through public choices. For example, we can choose whether the Permanent Fund will be a lasting asset, throwing off income for future generations of Alaskans, or whether we will spend it to get ourselves through the next decade without sacrifice. We can decide on the mix of current versus future spending, total public versus private spending, and when to take the inevitable hit on the economy. With advance warning, we have an opportunity to plan spending reductions in an orderly fashion.

It is clear that what actions to take are political rather than economic decisions. Nonetheless, each decision will have significant economic consequences. Policymakers need information about the implications of different choices to make informed political decisions. Future issues of this series will seek to enlarge the scope of public information to help in this important public debate.

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Facts and Fables of State Spending

Alaska's state government was suddenly and surprisingly rich in the early 1980s. We quickly learned to spend rich. And the best part about our overnight wealth was that it came at virtually no cost to us as individuals.

Not only did oil revenues from Prudhoe Bay development pay the bill for almost all state operations over the past decade, there were enough revenues left over to pick up some of the costs of local governments, repeal state personal income taxes, create a huge state savings account, and pay all Alaskans annual cash dividends.

Now we're facing the reality of much smaller petroleum revenues in the next decade—see the adjacent box. Many Alaskans think cutting the state budget will be fairly easy: we'll just "cut the fat" that bloated the budget in the 1980s.

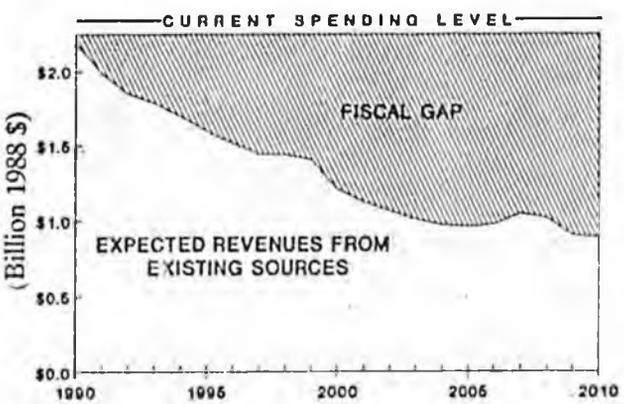
But as we'll make clear in this analysis, cutting the budget will by no means be easy. What some Alaskans regard as spending for "fat" others see as spending for essential services or entitlements. Many things contributed to the high spending of the past decade, and whatever is cut from the budget will hurt some Alaskans.

To make budget decisions, Alaskans need to know how the state actually spent its money in the 1980s. Many of the facts about high state spending have become obscured by fables about where the money went. This paper reveals the facts and discloses the fables about state spending in the 1980s and assesses how those facts will make budget cutting tough.

One important point that tends to get lost in all the talk about big spending is that even *before* Alaska was oil rich, our state government spent two to three times the average of other states. So the increased state spending fueled by oil revenues over the past decade started from a base that was already substantially above that of other states.

Also bear in mind that Alaska's population

PROJECTED STATE FISCAL GAP*
(Difference Between Revenues and Current Spending)



Adjusted for inflation, state government revenues from existing sources will drop 50 percent between now and 2000, leaving a difference of $1 billion between current spending and existing revenues. That substantial gap can only be closed by spending cuts, tax increases, use of reserves, or some combination of the three.

This is the second in a series of ISER Fiscal Policy Papers examining aspects of state government spending. We intend these papers to focus the attention of state officials and of Alaskans in general on the serious budget crisis we face, and on the necessity for dealing with it soon.

The authors are Oliver Scott Goldsmith, Lee Gorsuch, and Linda Leask. Teresa Hull prepared the graphics, and Alexandra Hill and M.L. Madden helped analyze the data.

The ISER Fiscal Policy Papers series is financed by a grant from ARCO Alaska.

Scope of Analysis

Much of our analysis is just of state spending, but we also look at local spending when appropriate. In Alaska the state often provides or pays for services that local governments provide for themselves in other states, without state aid. The fortunes of Alaska's local governments are very strongly tied to those of the state.

One final note that may be helpful in setting the stage for our spending analysis: *there is no absolute measure of what government ought to spend.* Generally, governments spend what citizens are willing to pay in taxes. Wealthi states spend more than poorer states. In this paper we compare Alaska's spending over the past decade with its own previous spending levels and patterns and with national averages. We aren't implying that those two comparisons should be the basis for determining future Alaska spending levels. Rather, we use these comparisons to help put Alaska's 1980s spending in some perspective and to help state officials and Alaskans in general think about what they want to accomplish with the more modest level of resources that will be available in the future.

doubled between 1967 and 1987, and inflation nearly tripled prices. Those factors together mean state spending would have to be six times larger today just to keep pace with population and prices. But state spending in 1987 was 16 times greater than in 1967—a much larger increase than can be accounted for by the combination of population growth and inflation.

The gap between Alaska state spending and the average for other states widened dramatically in the 1980s. Because Alaska had more money to spend it: (1) expanded existing programs; (2) delivered services in more expensive ways; (3) added many new kinds of spending; and (4) increased wages of public employees.

Those changes in state spending created economic and political forces that will complicate every step toward balancing the state budget. Among the many factors state officials will have to contend with are the importance of state money to individuals, municipalities, school districts, and the entire Alaska economy; the power of interest groups; the popularity and economic importance of the Permanent Fund dividend program and other special benefits; and the unwillingness of Alaskans to pay more taxes.

Our analysis is in three parts: (1) The Prudhoe Bay Ride—the source of big state spending; (2) Myths and Realities—perspectives on state spending; and (3) Between A Rock and A Hard Place—the difficulties associated with budget cutting.

The Prudhoe Bay Ride

The State of Alaska had a tremendous stroke of good fortune in 1968, when oil companies discovered the 10-billion barrel Prudhoe Bay field on state-owned lands on the North Slope. Development of that single oil field—the largest ever discovered in North America—became responsible for several of the state's economic booms, culminating with the biggest in the 1980s.

Figure 1 shows the Prudhoe Bay ride—petroleum revenues the state has collected, largely from the Prudhoe Bay field—over the past 25 years. The figures are in 1988 dollars—which eliminates the effects of inflation and allows us to compare the buying power of revenues each year during that period.

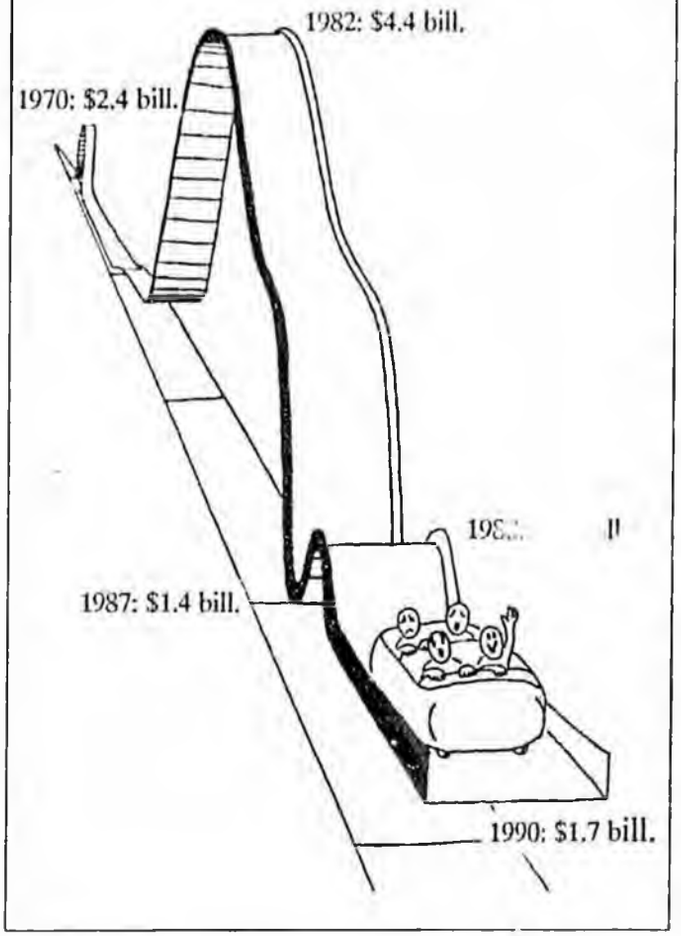
The state leased the Prudhoe Bay field to oil companies in a series of sales in the 1960s. The final sale, in 1969 (fiscal 1970), brought the state its first big petroleum revenues: $900 million ($2.4 billion in 1988 dollars). After that sale, Alaska's petroleum revenues returned to modest levels until the mid-1970s, when construction of the trans-Alaska pipeline to carry Prudhoe Bay oil was nearly complete. Taxes on Prudhoe Bay oil reserves and petroleum-related facilities sharply boosted state revenues in 1976.

In 1977 oil started flowing through the pipeline, and the state began collecting taxes on and royalties from North Slope production. Soon thereafter the world price of oil tripled. This tremendous increase in oil prices made the State of Alaska wealthy overnight. In just two fiscal years state revenues tripled, and by fiscal 1982 the state collected $4.1 billion (or about $4.4 billion in 1988 dollars) in petroleum revenues.

After 1982 oil prices began to slide. Nonetheless, through 1985 state petroleum revenues still exceeded $3 billion a year. Then came the 1986 oil price crash. In fiscal 1987 petroleum revenues were slashed to just a third of what they had been in 1985. Oil prices and, correspondingly, state petroleum revenues, recovered somewhat after 1986. Still, for the past few years the state's annual oil revenues have been only about 40 percent of what they were in the peak year of fiscal 1982.

Driving Alaska's fiscal problem is the fact that expected revenues from existing sources will con-

Figure 1. Alaska Petroleum Revenues
Selected Fiscal Years 1965-1990
(In 1988 Dollars)



tinue to slide, as production from Prudhoe Bay declines. By 2000, real petroleum revenues are projected to be just about half of what they are today.

Myths and Realities

What did the state do with its petroleum revenues in the 1980s? Below we expose the myths and discuss the realities surrounding big state spending by analyzing it in two ways. First we describe overall state spending from fiscal years 1981 through 1988 (figures for fiscal year 1989 are not yet available) and identify where the money went and which organizations or individuals benefitted from it. We then examine the much-discussed higher Alaska per capita spending, showing where and why it differs so much from the national average. In the course of our discussion we debunk some commonly held myths.

Total State Spending, Fiscal Years 1981-1988

Figure 2 shows that a whopping $34 billion (or around $36 billion in 1988 dollars) passed through the state general fund from fiscal years 1981 through 1988—an average of about $4 billion a year.

That $34 billion includes not only operating and capital spending but also some savings and investments. The money went for many purposes inside and outside the traditional purview of government. The list below reveals that not only did government programs benefit from the revenue bonanza but so did schools, municipalities, public corporations, non-profit groups, and—not least of all—individuals. In fact, two-thirds of the total $34 billion went for purposes other than state agency spending. In order of amounts received, the recipients of the state's largess were:

1. *State Agencies*: State agencies themselves spent about a third of the $34 billion for their own operating and capital expenses.

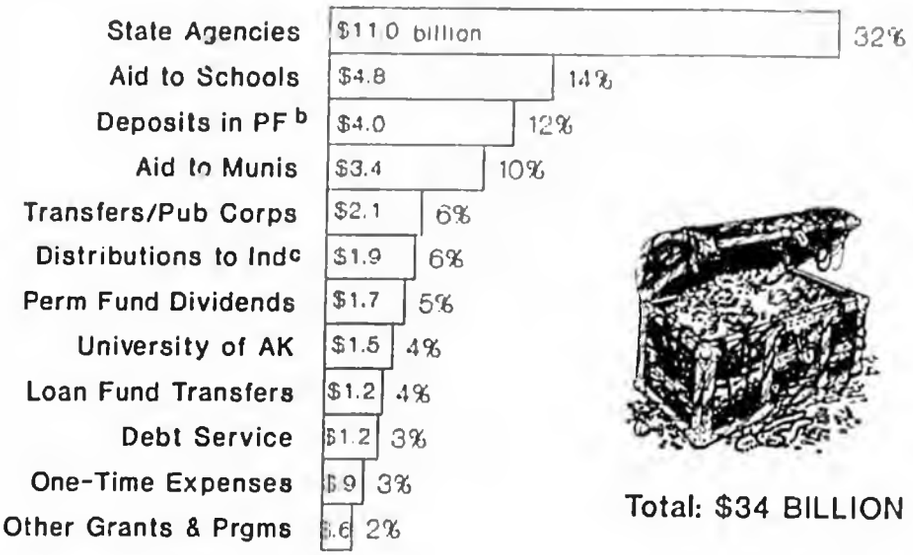
2. *Aid to Schools:* Alaska's urban and rural school districts got 14 percent—nearly $5 billion—of the total. That includes operating and capital aid and reimbursement for school construction debt.

3. *Deposits in Permanent Fund:* Not all of the $34 billion was spent. The legislature deposited $2.7 billion of general fund money and another $1.3 billion from the Undistributed Income Account into the Permanent Fund. These deposits of more than $4 billion accounted for 12 percent of total spending and were in addition to $2.8 billion that went directly into the Permanent Fund as required by the Alaska constitution.

4. *Aid to Municipalities:* Alaska's local governments were on the receiving end of about $3.4 billion in state operating and capital aid—about 10 percent of the $34 billion. State grants for capital projects were by far the biggest part of that aid.

5. *Transfers to Public Corporations:* The state's public corporations—which are quasi-state agencies that do everything from subsidize home mortgage interest rates to build dams—received

Figure 2. Total State Spending[a]
FY1981-1988



[a] Consists primarily of general fund expenditures, but also includes some transportation and education expenditures from other funds and $1.3 billion transferred from the Undistributed Income Account to the principal of the Permanent Fund.

[b] In addition to the Permanent Fund deposits mandated by the Alaska constitution.

[c] Excluding Permanent Fund Dividends.

more than $2 billion, or 6 percent, of the $34 billion. These transfers to public corporations represent an investment, increasing the assets of the corporations. It is beyond the scope of this analysis to determine the current value of those investments. While there have been some significant investment losses, the corporations continue to hold substantial state-financed assets.

6. *Distributions to Individuals:* Individual Alaskans collected nearly $2 billion—or 6 percent—of the total in cash or services through programs *other* than the Permanent Fund dividend program. Included among these distribution programs are the state's welfare programs, the Longevity Bonus program, and others.

7. *Permanent Fund Dividend Program:* This program alone paid Alaskans nearly as much as all the other state distribution programs combined in the 1980s—$1.7 billion between fiscal years 1983 and 1988. Distributed dividends amounted to 5 percent of the total $34 billion in expenditures.

8. *University of Alaska:* The statewide university system received $1.4 billion in operating and capital funds from 1981 through 1988. That is about 4 percent of total state spending during that period.

9. *Transfers to Loan Funds:* Funds that loaned money to students, farmers, fishermen, and others received $1.2 billion, or 4 percent, of state general fund money between 1981 and 1988. This money did not represent straightforward spending, because the state expects recipients to re-pay the loans. However, the amount that may ultimately be available to the state for other purposes is uncertain.

10. *Debt Service:* Debt service on just state general obligation bonds—excluding massive bonded debt held by the state's public corporations—cost Alaska about $1.2 billion, or about 3 percent, of total spending in the 1980s.

11. *One-Time Expenses:* One-time special expenses cost the state about 3 percent of the $34

Measuring State Spending

Reports of government spending often don't match. That happens because there are many ways to measure government spending. Among the most common measures are:

Appropriations: An appropriation is an amount government officials have approved for spending, but haven't actually spent.

Expenditures: An expenditure is an amount dispensed from a government account. Expenditures are mostly amounts actually spent, but they can also include amounts that are simply transferred from one government account to another.

Outlays: An outlay is an amount that actually leaves all government accounts.

Here's an example to illustrate differences in these three measures. A state *appropriation* for local government assistance becomes a state *expenditure* when the funds are transferred to local governments. Those transfers to local government become government *outlays* only when the local governments actually spend the money for intended purposes.

The timing of spending is an important difference among these three measures. Most operating expenditures and outlays do occur in the same fiscal year they are authorized by appropriations. However, the lag between some appropriations and expenditures can often exceed a year, particularly for capital projects, and the delay between expenditures and outlays can also be long. For example, in the early 1980s the state appropriated such large amounts for capital projects that it was impossible to expend it all in the year in which it was appropriated. Another kind of complication is that an amount the state records as an expenditure may not show up as an outlay. In the early 1980s, for instance, the state legislature appropriated $2.7 billion to the Permanent Fund, and that transfer was recorded as a state expenditure. But it has never become an outlay because the money is still in the Permanent Fund. Another difference in the measures is that appropriations don't always result in expenditures—because there may be a shortfall of revenues or a change of policy.

What We Use: In this paper we use both government expenditures and outlays, because using two measures gives us a more complete picture of Alaska state and local government spending.

We use ISER's own calculations of total state general fund expenditures during the 1980s, to provide a full picture of where about $34 billion went from fiscal years 1981 through 1988. Not all of that money became outlays—some went for special appropriations to the Permanent Fund, some went to public corporations, and some went to loan funds. More detailed information on these expenditures is available in the ISER publication *Alaska Review of Social and Economic Conditions*, "Where Have All the Billions Gone?" (February 1987) and the update, *Research Summary* No. 41 (February 1989).

The second source we use is the U.S. Department of Commerce's record of state and local outlays, reported annually in *Governmental Finances*. That source allows us to compare outlays of Alaska's state and local governments with those of other states. Virtually all comparisons of spending among states use this source. Because some aspects of Alaska spending are difficult to compare with national averages, we have made some adjustments in the figures to make the comparisons more accurate. The major adjustment we made was to exclude from outlays the very large interest payments on bonded debt of public corporations—for Alaska, this is primarily debt of the Alaska Housing Finance Corporation. In the federal reports, these interest payments are not identified as being paid from funds of the corporations. Including these interest payments—which do not come out of general revenues—distorts spending comparisons both with previous Alaska levels and with national averages.

billion. The biggest of these expenses were a $295 million payment the state owed Alaska Native corporations, and $160 million refunded to individual Alaskans when the personal income tax was repealed.

12. *Miscellaneous Grants and Programs:* Nonprofit corporations and others providing various kinds of services collected around $600 million, or 2 percent, of total spending from 1981 through 1988. (Such organizations received additional state money through state agencies as well.)

Spending and Employment Changes, 1967-1987

Now that we've seen how much of total spending went to various recipients in the 1980s, we refute some spending myths by looking at changing levels and compositions of state and local spending and employment over the past 20 years.

Figure 3 is a complex graphic that shows several things about Alaska spending per capita relative to the average of other states in 1967, 1977, and 1987. The figure tells us: (1) how much more we spent than the U.S. average in each of those years; (2) how much Alaska's higher costs contributed to those differences; and (3) how the

composition of the extra Alaska spending changed over time.

Because Figure 3 is complex, we use Table 1 to help clarify the information it presents. Table 1 simply repeats the U.S.-Alaska spending ratios and the changing composition of Alaska's extra spending from 1967 through 1987—so the reader can more readily see the changes.

The bars for each year in Figure 3 show total Alaska per capita state spending—so, for example, in 1967 Alaska's state government spent $742 per resident. The bottom portion of the bar shows the average spending per capita among all states—again, in 1967, the U.S. average per capita spending among state governments was $265.

To find the difference between Alaska and U.S. average state spending, we could just divide $742 by $265—which would indicate that Alaska state spending was 2.8 times the national average that year. This is the unadjusted ratio of Alaska to U.S. average spending per capita. But because we know that costs in Alaska are higher, we need to subtract that portion of Alaska spending that goes just to pay higher costs, so we can compare real buying power.

The part of the bar just above the U.S. average, labeled COLA (cost-of-living adjustment), is the portion of Alaska state spending we estimate is necessary to buy in Alaska the same bundle of goods and services state governments in the Lower 48 provide. If Alaska only provided the same things other state governments provide, that would be the only cost adjustment we would have to make.

We know, however, that Alaska's state government provides things other states don't—and those extras (labeled "Extra Spending" on the bars) also cost more to buy here than they would in other states. So we make a second cost adjustment—which is that portion of the Alaska-U.S. differential that the state spends just because the extra goods and services it provides cost more here than they would in other states. That second cost adjustment (COLA) is shown at the top of the bar.

This adjusted measure of how much government Alaska provides offers the better comparison, because it leaves out the differences that are solely due to Alaska's higher prices. With the two cost-of-living adjustments, we can see that Alaska state spending in 1967 was 1.8 times the national average—($742-$117-$141)/$265 = 1.8.

Although a single year can't perfectly reflect the spending pattern of a decade, we picked 1967 and 1977 to contrast with 1987 because those earlier years show spending before Prudhoe Bay was discovered and during the pipeline construction boom. While spending was somewhat lower in 1987 than it had been earlier in the decade, we believe it still provides a good representation of spending in the 1980s. (Comparable figures for 1988 and 1989 are not yet available.)

In addition to Figure 3 and Table 1, we use Figures 4 through 9 to tell a story: the story of what happened to state and local spending over the last 20 years.

Text continued on page 8.

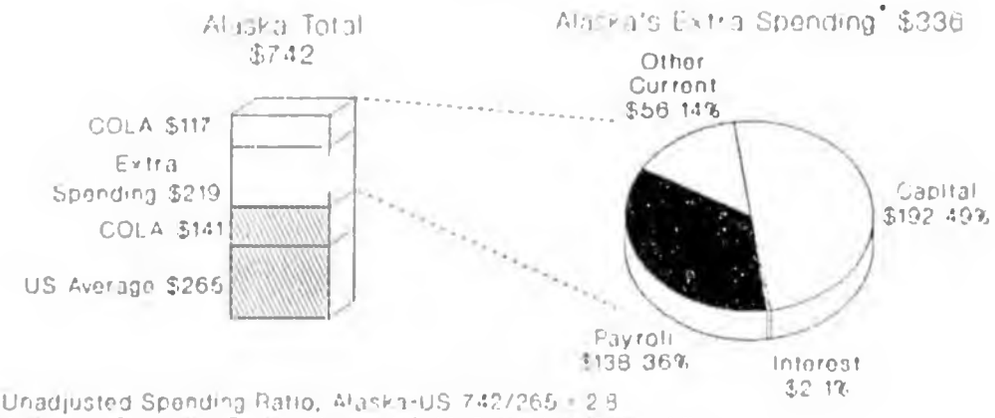
Table 1
Per Capita Alaska State Spending Compared to U.S. Average

Fiscal Year	Unadjusted Spending Ratio	Adjusted Spending Ratio	Composition of Extra Spending					
			Capital	Payroll	Other[a]	Local Transfers	Interest	Permanent Fund Dividend
1967	2.8	1.8	49%	36%	14%	0[b]%	1%	0%
1977	3.1	2.1	34	36	19	6	4	0
1987	4.0	3.1	12	23	25	23	1	16

[a]Other current expenses include spending for programs unique to Alaska and extra spending for programs common to other states.
[b]In FY67 Alaska spent 30% less on transfers to local governments than the average of other states.

Figure 3. Composition of Alaska State Spending Per Capita
(Nominal Dollars)

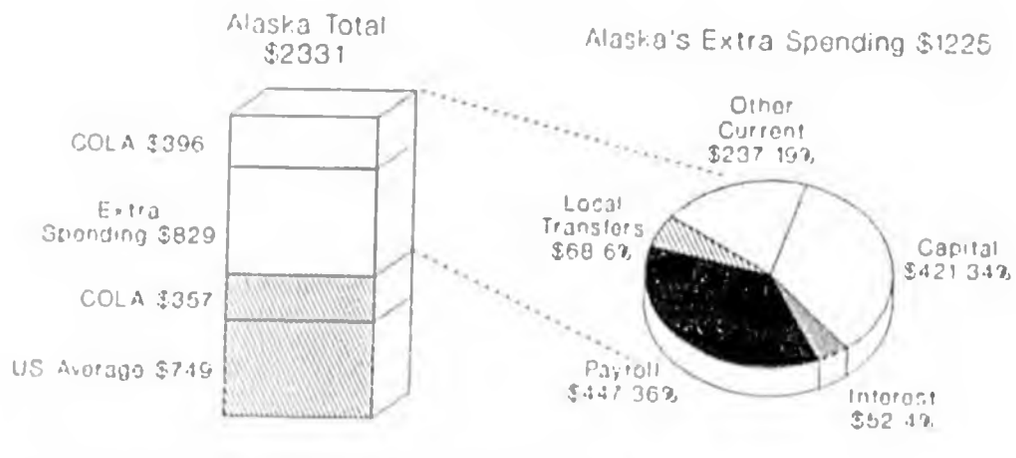
1967



Unadjusted Spending Ratio, Alaska-US 742/265 = 2.8
Adjusted Spending Ratio, Alaska-US (742-117-141)/265 = 1.8

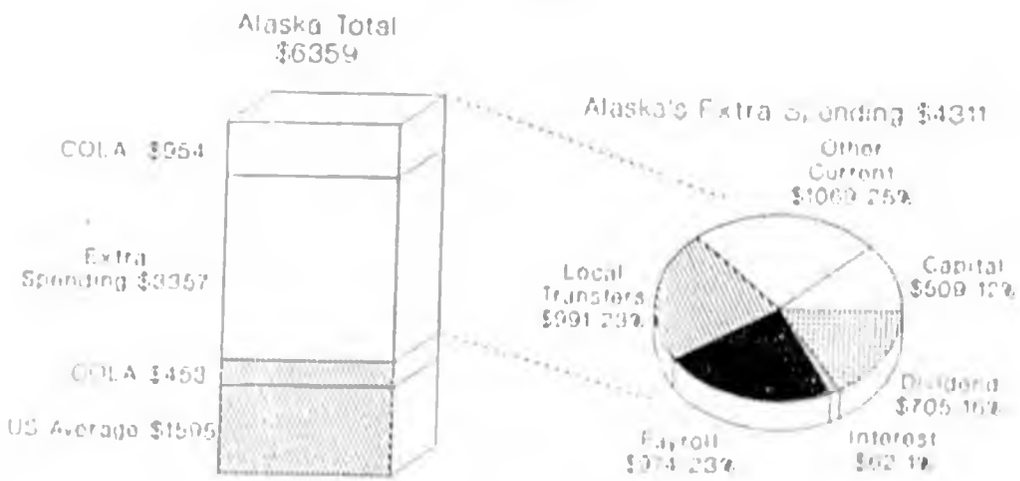
*Components exceed total since local transfers were $52 below US average

1977



Unadjusted Spending Ratio, Alaska-US 2331/749 = 3.1
Adjusted Spending Ratio, Alaska-US (2331-396-357)/749 = 2.1

1987



Unadjusted Spending Ratio, Alaska-US 6359/1505 = 4.0
Adjusted Spending Ratio, Alaska-US (6359-954-459)/1505 = 3.1

The Alaska Cost-of-Living Adjustment (COLA)

All our numbers are in 1988 dollars, except those in Figures 2 and 3. That adjustment eliminates the effects of inflation so we can assess real changes in spending over time.

Also, in Figures 4, 5, 6, and 9, we've added an Alaska cost-of-living adjustment (COLA) to the U.S. average numbers. That adjustment takes into account Alaska's higher living costs and shows what the U.S. averages would be at Alaska prices. We also used this COLA in Figure 3 to determine how much of per capita Alaska spending is required just to compensate for Alaska's higher prices.

Our cost-of-living adjustment takes into account both the higher cost of living in Anchorage relative to the U.S. average, and the higher cost of living in other Alaska regions relative to Anchorage. The 1988 COLA is 24 percent, and is based on a 15 percent differential between Anchorage and U.S. average prices, multiplied by an 8 percent differential between Anchorage and other Alaska prices. So, a commodity that costs $1.00 in the U.S. as a whole will cost $1.15 in Anchorage and $1.24 in the typical Alaska community. We calculated the Anchorage-U.S. differential with U.S. Bureau of Labor Statistics information. Our calculation of the differential between Anchorage and the rest of the state is based on the regional cost-of-living indexes reported in the *Alaska Geographic Differential Study* (prepared for the Alaska Department of Administration in 1985 by The McDowell Group), weighted by the proportions of state and local government employment in each region.

No cost-of-living adjustment is perfect. This one applies most appropriately to personal consumption and less so to the costs of construction. We know the relative cost of construction in Alaska is higher than the relative cost of labor—and higher construction costs in turn increase the overall costs of government. But since labor costs are such an important component of government costs, this COLA is an appropriate measure of a large part of the budget.

Text continued from page 6.

Some of the commonly held spending myths are:

Level of State Spending

Myth: Alaska state spending only soared above average spending among other states during the past decade.

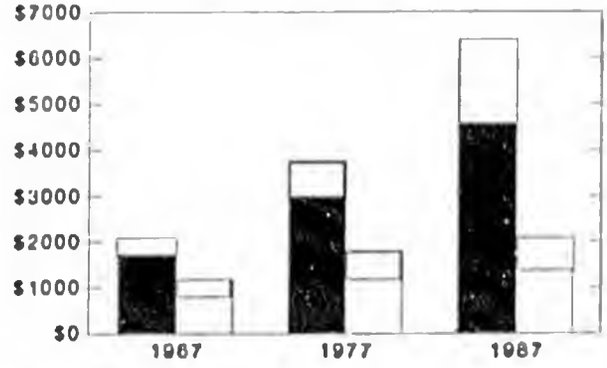
Reality: Alaska's spending has historically been far above the national average. True, the gap did widen dramatically in the 1980s—but it started from a relatively high base.

With no adjustment for living costs, state spending per capita in 1967 was 2.8 times the national average. Adjusted for Alaska's higher costs, that 1967 ratio was 1.8. (Figure 3). By 1977 the unadjusted ratio of Alaska spending to the average of other states had increased to 3.1, and the cost-of-living adjusted ratio was 2.1.

By 1987, unadjusted Alaska spending per capita had jumped to 4 times the national average; that ratio dropped to 3.1 times the national average with a cost-of-living adjustment. Overall, taking living costs into account, the gap between Alaska and U.S. average state spending increased moderately between 1967 and 1977 and then jumped from 2.1 to 3.1 times the national average between 1977 and 1987.

Figure 4 shows that real Alaska per capita spending—minus the effects of inflation—tripled between 1967 and 1987, with the fastest growth in

Figure 4. State Spending Per Capita
Alaska and U.S. Average
(In 1988 Dollars)



	1967	1977	1987
With Transfers to Local Government			
Alaska	$2091	$3757	$6383
US Avg	$1143	$1781	$2067
Ratio	1.83	2.11	3.10
Without Transfers to Local Government			
Alaska	$1831	$2981	$4651
US Avg	$738	$1115	$1319
Ratio	2.48	2.67	3.53

Alaska US Avg Transfers to Local Govt.

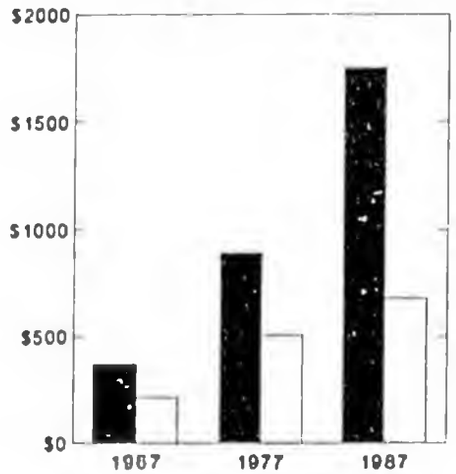
Note: U.S. averages are inflated by Alaska COLA

the last decade. Alaska's spending growth far outpaced the rate among other states – even though the U.S. average increased a substantial 80 percent in that same period. The U.S. averages in this figure and in several later figures are cost-of-living adjusted; see the text box for an explanation of what that means and why we use that adjustment.

The four graphs in Figure 5 show how selected components of state spending per capita changed over those 20 years. The sharpest increase in spending per capita was in transfers to local governments, which grew nearly sevenfold from 1967 to 1987. Spending for other current expenses (see note to Table 1) was also up dramatically -- nearly fivefold. Payroll spending per capita doubled. Capital spending per resident, which in 1967 was highest relative to the national average, remained near the same level in 1987.

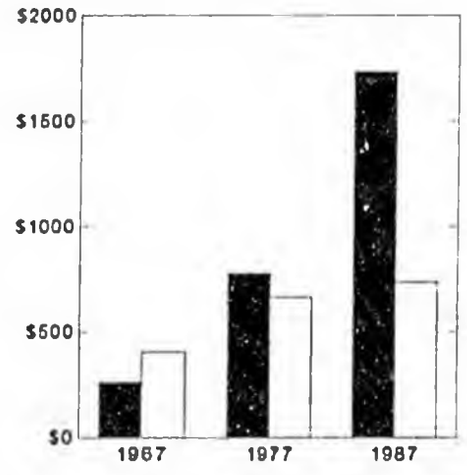
Figure 5. Changes in Selected Components of State Spending Per Capita
(In 1988 Dollars)

Other Current Spending Per Capita



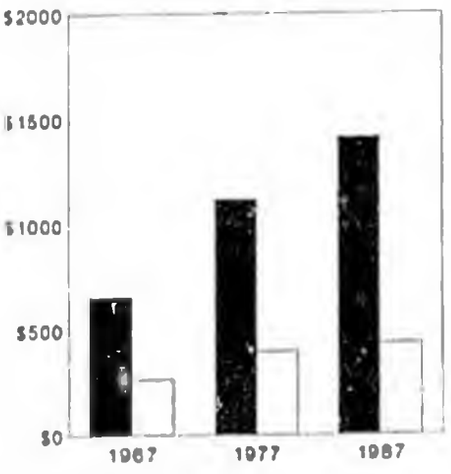
	1967	1977	1987
Alaska	$370	$889	$1750
US Avg	$212	$506	$677
Ratio	1.75	1.76	2.58

Local Transfers Per Capita



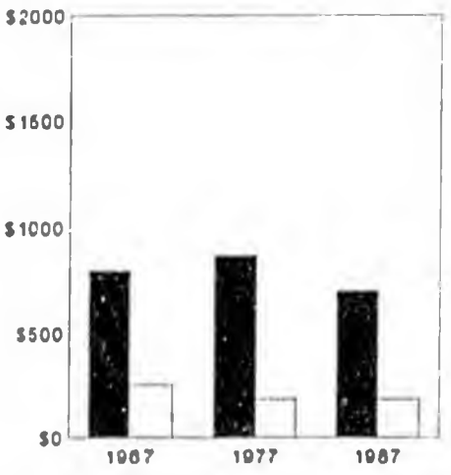
	1967	1977	1987
Alaska	$260	$776	$1732
US Avg	$405	$666	$738
Ratio	0.64	1.17	2.35

Payroll Spending Per Capita



	1967	1977	1987
Alaska	$652	$1116	$1409
US Avg	$263	$396	$432
Ratio	2.48	2.82	3.26

Capital Spending Per Capita



	1967	1977	1987
Alaska	$794	$864	$697
US Avg	$253	$185	$186
Ratio	3.14	4.67	3.75

Note: U.S. averages are inflated by Alaska COLA

Higher Living Costs

Myth: Alaska's higher living costs largely explain why the state spends three times the average of other states.

Reality: As Figure 3 shows, the additional amount Alaska spent to buy the same level of government as in the U.S. as a whole made up only a small part of total Alaska spending each year.

Living costs here have historically been higher than the national average, particularly in rural areas. Today Alaska costs remain higher – but the difference has shrunk over the past 20 years as Alaska markets grew bigger and transportation became more efficient. This change has been reflected in an inflation rate lower than the national average for most of this time. Yet, despite these relative declines, Alaska spending per capita continued to grow rather than decline.

Unique and Expensive Programs

Myth: Alaska's state government provides the same services as other states.

Reality: Alaska provides many programs unlike those in any other state; it spends more for functions common to all the states; and it delivers services in more expensive ways. Together, those factors accounted for close to 40 percent of Alaska's extra spending per capita in 1987. (The sum of "Other Current Expenditures" and the Permanent Fund dividend categories in Figure 3.)

Most of Alaska's unique programs were created or expanded in the past decade. The most obvious of these is the Permanent Fund dividend program, which is so large we list it in a category by itself in Figure 3 and Table 1. Excluding the Permanent Fund dividend program – which alone accounted for 16 percent of extra spending – special Alaska programs, methods of delivery, and the "Alaska Factor" described below accounted for most of the "Other Current Expenditures" shown in Figure 3, which made up 25 percent of the extra Alaska spending in 1987.

In 1977, "Other Current Expenditures" accounted for about 19 percent of the extra Alaska spending, and in 1967 14 percent. The Permanent Fund dividend program didn't exist in those years.

The Alaska Factor

Myth: Alaska's higher spending is mainly the result of special Alaska conditions not captured in a cost-of-living adjustment.

Reality: The conditions that have historically driven up government costs here – Alaska's huge size, widely scattered communities, small population, and harsh climate – still contribute to high service delivery and construction costs in the 1980s. But we would expect these factors to play a smaller role in state spending than they used to, because capital spending as a proportion of total state spending has declined sharply while transfers to individuals have increased substantially.

The cost of the "Alaska Factor" is included in "Other Current Expenditures" in Figure 3.

Transfers to Local Governments

Myth: Alaska's local governments became financially more independent in the 1980s as their tax bases grew.

Reality: Tax bases of urban governments in Alaska did increase sharply in the first half of the 1980s, but at the same time they cut tax rates, expanded services, and became more dependent on state aid. Transfers to local governments accounted for 23 percent of Alaska's extra spending in 1987, as compared with 6 percent in 1977. In 1967 transfers to local governments were below the national average, and do not appear in Figure 3.

Figure 6 shows that real per capita local spending (minus the effects of inflation) quadrupled between 1967 and 1987. That big increase in spending was attributable to two major factors: fast growth in local tax bases, particularly in Anchorage and other urban areas, which boosted local property tax revenues even as tax rates were being reduced; and sharp increases in state aid.

Figure 6 also shows that in 1967 real per capita spending by Alaska local governments was 30 percent below the national average and by 1977 just 10 percent above. By 1987, however, per capita spending by Alaska local governments was nearly double the average of other local governments. The pie to the left of the 1987 bars in Figure 6 shows what the extra spending (above the national average) was for: half was for capital

projects; 25 percent was for payroll costs; 13 percent was for interest on bonded debt; and the final 11 percent was for a variety of other current expenses.

An increasingly expensive function for local jurisdictions in recent times has been elementary and secondary education. Prior to the 1970s, the costs of public education for Alaska's Native population were borne primarily by the federal government. Locally controlled Regional Education Attendance Areas (REAAs) were created to operate the dozens of new schools built throughout rural Alaska in the 1970s and 1980s, and the former Bureau of Indian Affairs (BIA) schools that were transferred to the state. The state pays all the costs of those rural districts, and more than two-thirds of the costs of urban ones. The state also reimburses school districts for 80 percent of the principal and interest costs on bonds sold to finance school construction. Finally, also adding to the increased cost of schooling in Alaska in the 1980s was the fact that school-age children made up an increasing proportion of the population.

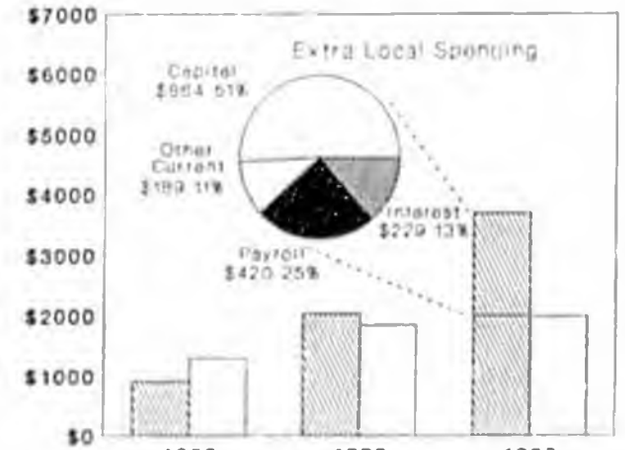
More Workers and Higher Pay

Myth: Alaska spending is high mainly because the government has too many workers who are paid too much.

Reality: Alaska's payroll costs – determined by the number of workers and their pay – accounted for 25 percent of Alaska's extra spending in 1987, which was less than the 36 percent payroll costs contributed in 1967 and 1977. That means fast growth in overall state spending outpaced growth in payroll spending.

Even though the *proportion* that payroll contributed to higher costs declined, the *per capita spending* for state payroll increased sharply from 1967 to 1987. (Figure 5.) Real per capita spending (minus the effects of inflation) for payroll costs more than doubled between 1967 and 1987. (The benefits portion of personnel costs appear in the "Other Current Expenditures" category in Figure 3.)

Figure 6. Local Spending Per Capita Alaska and U.S. Average (In 1988 Dollars)



	1967	1977	1987
Alaska	$906	$2036	$3693
US Avg	$1288	$1843	$1991
Ratio	0.70	1.10	1.86

Alaska US Avg

Note: U.S. averages are inflated by Alaska COLA

Myth: State employment is a lot higher than it used to be.

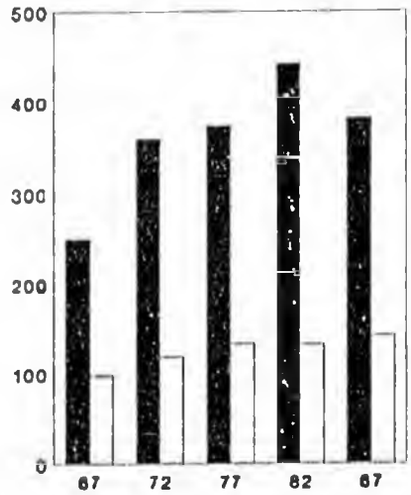
Reality: Yes and no. As Figure 7 shows, there were about 50 percent more state workers per resident in 1987 than there were in 1967 – 382 workers per 10,000 residents as compared with 250 per 10,000 residents. So yes, Alaska did add a lot of state workers over the past 20 years.

But notice that in 1987 the ratio of Alaska workers to the U.S. average was about the same as it had been in 1967. In both years, Alaska had about 2.6 times the national average of state workers per 10,000 population. State employment intensity peaked in the early 1980s at the height of the state spending boom, but declined about 14 percent between 1982 and 1987.

In part Alaska has always had more workers per capita because that is the nature of sparsely populated states; delivering services requires a certain number of government workers, whether the population is relatively larger or smaller. Also, the state government here has traditionally provided a number of services that in other states are provided by local governments. However, state employment per resident did not decline as local government employment increased, as we might have expected. Nor did economies of scale associated with the state's large population growth over the past 20 years become apparent.

Myth: Local government employment soared along with local government spending in the 1980s.

Figure 7. State Government Jobs* Per 10,000 Population



	67	72	77	82	87
Alaska	250	360	374	442	382
US Average	98	119	134	133	143
Ratio	2.55	3.02	2.79	3.32	2.67

Alaska US Average

*Jobs are full-time equivalent.

Reality: Local government employment did increase 70 percent between 1967 and 1987 (Figure 8.) But during the same period local spending quadrupled. (Figure 6.) So it's clear that much of the bigger local spending went into capital projects and other things that did not require as many new workers. Also, as we mentioned above, the rural school districts known as Regional Education Attendance Areas (REAAs) were established in the 1970s. Some of the new local employment in rural areas is school employment.

Notice that in 1967 Alaska local employment was 25 percent below the average for other states: Alaska had 217 local workers for every 10,000 residents, as compared with the national average of 287. By 1987, Alaska local employment—despite vigorous growth—was still just 4 percent above the national average: Alaska local jurisdictions had 368 workers per 10,000 population, as compared with the average of 353 for local governments elsewhere. Local employment intensity in Alaska was higher in the early 1980s, but declined about 3 percent between 1982 and 1987.

Part of the reason why Alaska local employment in the 1980s is so close to the national norm, while state employment is so much higher, is that even today many areas of rural Alaska have only minimum local government structures, and the state and federal governments provide numerous local services.

Myth: State government wages are just high enough to cover Alaska's higher living costs.

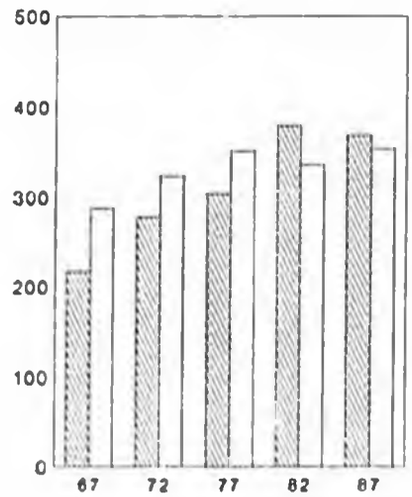
Reality: State government wages more than compensate for higher living costs. Figure 9 shows that in 1987, even after adjusting for Alaska's higher costs, state workers on average earned 25 percent more than state workers elsewhere.

In the 1960s, by contrast, when Alaska living costs were much higher relative to the national average, higher Alaska government wages did just about cover higher living costs. By 1977, real Alaska government wages had moved to about 8 percent above the national average.

Part of the reason why Alaska state wages in 1987 were above the national average is that there were substantial wage increases over the past 20 years. But those increases came mainly at two times: during the pipeline boom of the mid-1970s, and during the peak of the state spending boom in the early 1980s.

The severe Alaska recession in the late 1980s has held down government wages. But Alaska state workers are still doing better relative to state workers elsewhere because the recession also held down prices here. So in the past few years inflation in Alaska has been lower than the national rate, and buying power in Alaska has not

Figure 8. Local Government Jobs* Per 10,000 Population

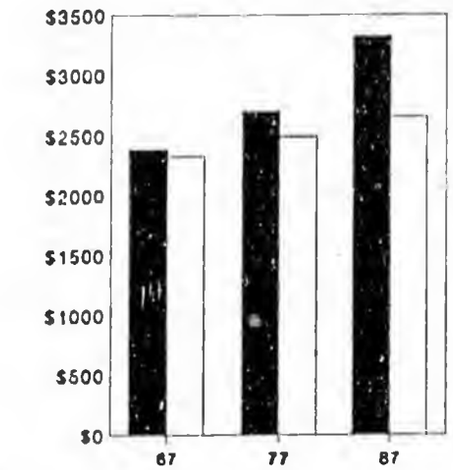


	67	72	77	82	87
Alaska	217	278	304	379	368
US Average	287	323	361	335	353
Ratio	0.76	0.86	0.87	1.13	1.04

Alaska US Average

*Jobs are full-time equivalent.

Figure 9. State Government Wage*
(In 1988 Dollars)



	67	77	87
Alaska	$2376	$2693	$3319
US Average	$2322	$2485	$2652
Ratio	1.02	1.08	1.25

Alaska US Average

*Average October earnings, full-time employees; excludes benefits.
Note: U.S. averages are inflated by Alaska COLA.

been eroded as much. Alaska's relatively high wages are of course not confined to government and are in large part the legacy of numerous economic booms.

Permanent Fund Dividend Program

Most Alaskans know that their annual dividends come from the earnings of the Permanent Fund.

What they may not realize is that in calculating the difference between Alaska and national average spending, the federal government counts the dividend payments as part of state spending. In 1987 those payments accounted for 16 percent of Alaska's extra spending. The program did not exist in 1977 or 1967. Whether we want to admit it or not, Permanent Fund dividends are a new and major source of state spending.

Capital Spending

Myth: Alaska can develop its infrastructure without adding to the costs of government.

Reality: Capital spending, like other kinds of spending, adds to Alaska's higher costs of government. It increases cash outlays and indebtedness, and usually adds other costs for operating and maintaining the new facilities and improvements.

In 1967, overall state spending was much lower than it is today, and at that time capital spending accounted for half of Alaska's extra spending per capita. By 1977 this capital spending accounted for about a third of the extra. But in 1987, a year when the state capital budget was smaller compared with the other spending components, capital spending added just 12 percent to Alaska's higher per capita costs. What does not show up here, but which we know did happen in the 1980s, is that capital spending by local governments—with state grants—replaced some state capital spending.

A less obvious cost of capital spending is operating and maintaining the new facilities after they're constructed. Since Alaska does not build the cost of operating and maintaining new and improved capital stock into the cost of construction, it is not surprising that those operation and maintenance costs also push up the state budget. Those higher operation and maintenance costs (unless they are deferred) show up as part of the growing "Other Current Expenditures" category in Figure 3 and Table 1.

Myth: Alaska paid as it went for capital projects, and therefore did not incur much new debt in the 1980s.

Reality: That would appear to be true, if we look only at the fact that interest on general obligation bonds contributed just 1 percent to Alaska's extra spending per capita in 1987, as compared with 4 percent in 1977 and almost nothing in 1967. (Figure 3.) We know that the state paid outright for hundreds of capital projects in the early 1980s.

However, Alaska's municipalities and school districts incurred a great deal of new bonded debt in the 1980s. The state government pays most of the costs of school debt. Figure 6 shows the extra debt burden of Alaska local governments; some of that debt is paid by state transfers.

And at the same time, the state's public corporations—particularly the Alaska Housing Finance Corporation—were taking on billions of dollars in bonded debt, on which they pay hundreds of millions of dollars a year in interest.

Those interest payments aren't reflected in Figure 3, because they come out of corporation funds rather than general fund revenues. Nonetheless, the good credit of the Alaska treasury stands behind those loans.

Free Government

Myth: Alaskans carry a heavy tax burden for the services we get.

Reality: Alaskans pay low state and local taxes relative to other Americans. Alaska has no state personal income or sales taxes, and local property tax rates—although they have risen in the past few years—are still often lower than they were in the 1970s. Also, Alaskans receive cash payments from the state under the Permanent Fund dividend and Longevity Bonus programs. In many cases, payments Alaskans receive outweigh the state and local taxes they pay.

Finally, the state widened eligibility for a number of programs in the 1980s—so that regardless of need or income, Alaskans could borrow money at below-market rates, get subsidized home mortgage loans, and qualify for a number of other special benefits. The fact that individual Alaskans paid little for government and received handsome benefits from it certainly encouraged big spending growth in the 1980s.

Between a Rock and a Hard Place

The discussion above reveals that there was no single culprit responsible for Alaska's higher spending in the 1980s. And it's apparent that the new and different ways the state spent its money in the past decade have become very important to local governments, school districts, and individual Alaskans, among others. Even if all Alaskans agreed on the necessity for reducing state spending (which not all do) we would still confront difficulties and complexities in deciding how to cut state spending or add taxes to close the projected state fiscal gap. Proponents of budget cuts must consider the following:

1. **Special Interests:** It may be no exaggeration to say that every state expenditure has its constituency and many have lobbyists and PACs (political action committees) as well. Each of these constituencies has very direct and often substantial economic interests in seeing particular kinds of state spending continued. These constituencies organize and devote time, effort, and money to protecting their interests. Collectively, these special interest groups tend to overpower any ill-defined or unorganized public interest in fiscal restraint, including legislative commitment to that restraint.

2. **Economic Dependence:** More than one in four jobs in Alaska can be traced to state and local government spending. Major cuts in state spending will inevitably reduce income and eliminate jobs. And depending on how the cuts are made, some regions of the state will feel the effects more than others. Last winter ISER analyzed for the governor's Office of Management and Budget the potential impacts on the economy of a $350 million across-the-board cut in the state's budget. That report documented the widespread effects of such a cut, and it had a chilling effect on legislative resolve to cut the budget.

3. **Economic Climate:** Alaska's severe recession in the late 1980s took a heavy toll on the economy. We lost jobs and population. Banks failed. Businesses and individuals went bankrupt in unprecedented numbers. Property values plummeted and thousands of homes went into foreclosure. Local governments realized heavy tax losses as property values fell. Having seen such losses in the past few years, Alaskans understandably are not receptive to either reduced aid and services or increased taxes—both of which will reduce income and employment.

4. **Financial Dependencies:** Municipalities came to rely on much higher state aid in the 1980s. The state has already begun to reduce some of that aid; between 1986 and 1988, for instance, the state cut municipal operating aid nearly 30 percent. And even as state aid began to decline, the 1985-88 recession slashed property values and reduced local tax bases. So urban local governments that expanded services and cut property taxes in the 1980s now find themselves with smaller tax bases, less state money, and voters who have refused to approve just about all proposed new taxes. Rural municipalities—most of which have very small or non-existent tax

bases—are in an even more precarious position as state aid drops.

Similarly, urban school districts also came to depend on more state money in the 1980s. The state's school foundation program, which pays most of the costs of urban schools, grew rapidly. Also, the state pays 100 percent of the capital costs of REAAs and reimburses the other school districts for 80 percent of the principal and interest payments they make on bonded debt. State reimbursement of school construction debt mushroomed from $38 million in 1982 to $109 million in 1988. That debt reimbursement is a policy that the state legislature can change any time it chooses. But to do so would transfer the legal obligation to repay that debt to local property taxpayers—who would certainly be unreceptive to such a move.

5. **Unwillingness to Pay:** Alaskans in the 1980s became used to paying low state and local taxes. The state personal income tax, which provided 24 percent of state revenues in 1977, was repealed in 1980, and property taxes were cut in many municipalities in the early 1980s. In the face of falling state aid and reduced tax bases, local governments have raised property taxes in the late 1980s. Still, in 1987 Anchorage residents paid the lowest state and local taxes among big city residents around the country. But coming out of a severe recession and having become accustomed to low taxes, voters have said no to virtually all moves to raise taxes.

6. **Increasing Demands:** Even though Alaska's population declined during the recession, ISER forecasts moderate population growth—one to two percent a year—in Alaska during the 1990s. A growing population will put increasing demands on a shrinking budget. Furthermore, the segments of the population expected to grow the fastest—school-age kids, the elderly, and residents of small, rural places—are also the most expensive to serve. So, while overall population growth will be moderate, groups that are expensive to serve will be growing fast, creating pressure to increase rather than decrease state spending.

There will also be new demands for state services unrelated to population growth. Some will be mandated by the federal government, as is the case under the federal welfare reform requirements. Others will result from developments we can't predict.

Even political pressure to reduce the federal deficit could shift federal program responsibilities on to state and local governments. In fact, such transfers of responsibility have been a fact of life over the past 20 years.

7. **Expensive Service Delivery:** The state in the past decade created some service delivery systems that give local residents more control, but which are also more expensive. For example, before the 1970s, rural Native students who wanted to attend high school had to leave their villages for regional boarding schools. But over the past decade, the state established a whole new system of rural school districts--the Regional Education Attendance Areas (REAAs). Those districts are directed by locally-elected boards but are paid for entirely with state money—and are of course a lot more expensive that the old rural school system. Similarly, creation of a host of local or regional offices and advisory boards for various state programs all contribute to an expensive system of delivering state services in rural areas. However, efforts to re-centralize these services is likely to encounter strong resistance from the affected regions.

8. **Sacred Cows:** The Permanent Fund dividend program, established in 1982, has become in its brief history an important force in the Alaska economy and, in the minds of many Alaskans, an entitlement program. ISER reported in 1989 that Permanent Fund dividends accounted for 7 percent of personal income in rural Interior areas and created more than 2 percent of all jobs in the Alaska economy. Aside from the economic force of several hundred million dollars going into the Alaska economy each year, the dividend program has become to many Alaskans an entitlement program akin to various traditional programs that are—unlike the dividend program—based on need or personal contributions. The Longevity Bonus program, which makes monthly payments to Alaskans over 65, irrespective of financial need, is another popular and entrenched state program. Legislative efforts to tamper with either the Permanent Fund dividend or the Longevity Bonus program have been met with anger and indignation. Other free or low-cost benefits include subsidized loans; capital projects

not financed by general obligation bonds but by direct state grants; and subsidized electric rates for rural residents.

In 1987 the dividend program and other special programs were responsible for something in the neighborhood of 40 percent of the extra spending per capita that Alaska does relative to the U.S. average. Reducing, much less eliminating, these sacred cow programs is likely to be regarded as political suicide.

9. **Contingent Liabilities:** Even while the state was paying outright for hundreds of capital projects, the state's public corporations (most notably the Alaska Housing Finance Corporation but others as well) were taking on billions of dollars in bonded debt. That debt is currently paid for through funds of the corporations. But should the corporations ever be unable to meet their obligations, the creditworthiness of the state would be affected. Eliminating the financial reserves of these corporations to raise current revenues could jeopardize their solvency. Municipal and school debt also represent contingent liabilities.

10. **Wage Reduction Resistance:** Alaskans—including both government workers and many in private industry—have grown used to wages that are higher than the national average, even after an adjustment for Alaska's higher living costs. Despite the downward pressure that the recent recession put on wages, in 1987 Alaska government wages remained 25 percent above the national average, after a cost-of-living adjustment. Even though higher payroll costs are responsible for about a quarter of Alaska extra per capita spending relative to the U.S. average, Alaska's public employees are well-organized and are not likely to willingly accept wage reductions to help reduce state spending.

11. **Easy Cuts Behind Us:** The state has already made what could be called the "easiest" budget cuts—largely cuts in capital spending. It has also cut back on aid to municipalities—which it had increased so much in the halcyon days of the early 1980s. The kinds of cuts the state must now consider are ones that will have a more direct effect on services or benefits.

To challenge the notion that Alaska need not cut state spending but simply raise revenues, the next paper in this series analyzes the history of state revenues and the capacity of the economy to support additional taxes for state and local government.

It is easier to make a suggestion than to carry it out.

Aesop's Fables

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Alaska's Potential Tax Revenues

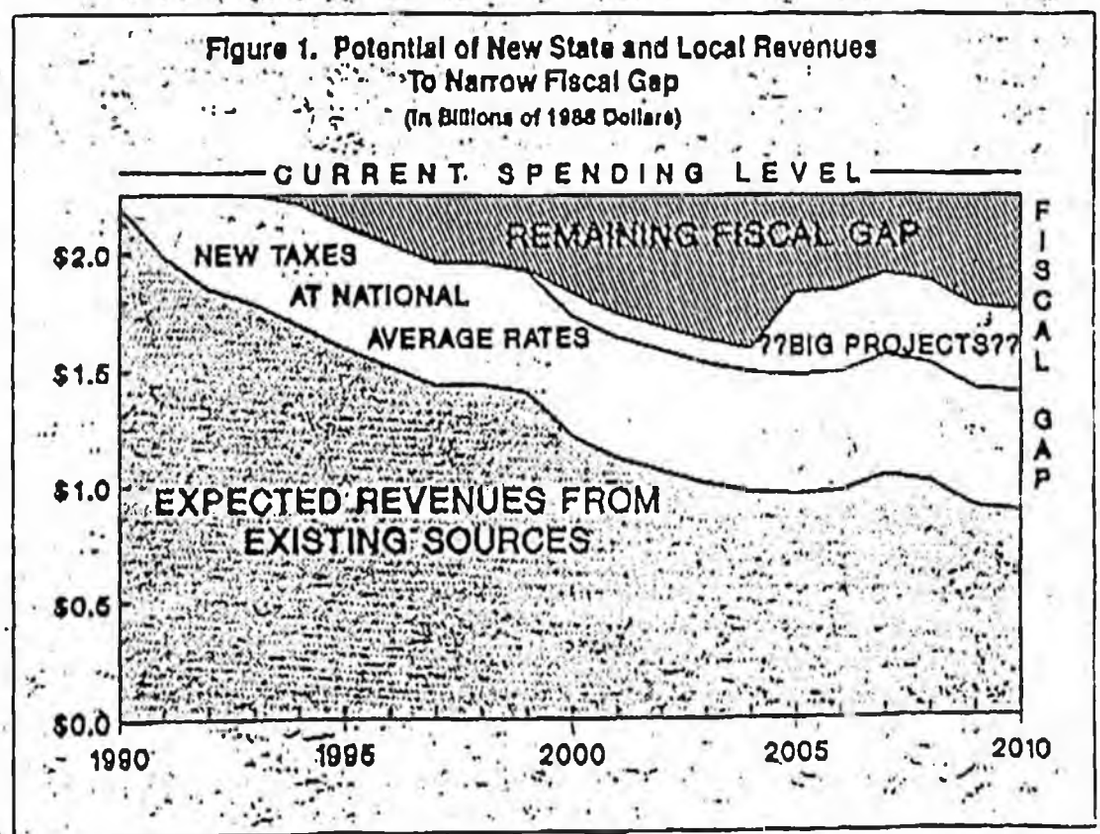
Spend more and tax less was the philosophy of Alaska's state and local governments in the 1980s. They spent two to three times more per capita than governments in other states, but taxed individuals and businesses only about half as much. They were able to do that because high petroleum revenues paid for most of state government and a lot of local government.

But in the 1990s we can expect to see them spending less and taxing Alaskans more. We estimate that Alaska's state and local governments could collect about $500 million more from the existing tax base, if they taxed individuals and businesses at national average rates.

The Alaska Legislature isn't likely to raise taxes this year, but interest in taxes is bound to grow in the 1990s, as declining production from the giant Prudhoe Bay field draws down state revenues. By 2000 falling petroleum revenues will leave a $1 billion gap in the state budget. (Figure 1.) Alaska's local governments will also feel the effects of the fiscal gap, because they rely heavily on the same source of money—dwindling state petroleum revenues.

Economic developments that are at best uncertain right now could, were they to occur, yield very substantial revenues by 2005. If the gas pipeline from the North Slope were built, and if oil were discovered and produced in the Arctic

Figure 1. Potential of New State and Local Revenues To Narrow Fiscal Gap
(In Billions of 1988 Dollars)



This is the third in a series of ISER Fiscal Policy Papers examining aspects of state government revenues and spending. We intend these papers to focus the attention of state officials and of Alaskans in general on the serious budget crisis we face, and on the necessity for dealing with it soon.

The authors are Oliver Scott Goldsmith, Matthew Berman, Lee Gorsuch, and Linda Leask. Alexandra Hill and M. L. Madden helped analyze the data. Teresa Hull prepared the graphics.

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National Wildlife Refuge, together developments could contribute in the neighborhood of $350 million a year (in 1988 dollars).

In 2000, if individuals and businesses were taxed at national average rates (rather than at current rates), those additional taxes would fill about half the projected fiscal gap. By 2005, if uncertain big developments were to occur, revenues from those developments and taxes at national average rates together could fill about 70 percent of the projected gap. (Figure 1.)

This paper analyzes potential revenues for Alaska governments, and is a complement to the spending analysis in Fiscal Policy Paper # 2. We hope policymakers will consider these analyses together as they decide how to balance spending cuts and revenue increases in the 1990s. Some Alaskans believe the state government should balance its budget just through spending cuts. But cutting $1 billion would reduce the state budget by 40 percent. It seems unlikely Alaskans would tolerate the drastic drop in services that would follow if the state cut its budget nearly in half.

To estimate potential revenues, we need a standard against which to measure Alaska tax efforts. We use *national average tax rates*: we examine how much tax Alaska's state and local governments currently collect, and estimate how much different tax collections would be if tax rates were at national averages. We're *not* estimating the maximum amount government could squeeze out of taxpayers. Nor are we suggesting that national averages are the appropriate tax rates for Alaska. Policymakers here will have to make decisions about tax rates in the light of specific Alaska circumstances. (The box on page 14 further describes how we estimate Alaska tax levels and U.S. averages.)

In our analysis we look separately at taxes paid by individuals and businesses and by resource industries. Individuals and businesses in Alaska carry perhaps the lightest state and local tax burden in the nation. Comparing taxes paid by resource industries in Alaska with national averages for resource industries is complicated by the difficulty of measuring the appropriate tax base. But we roughly estimate that Alaska's two biggest resource industries – petroleum and commercial fishing – pay just about the same rates in Alaska as they do nationwide. For petroleum that national average is about 12 percent of its *value added* (the petroleum industry contribution to the ing in the
industry's value added. Alaska's
ber industries, however, appear to be taxed considerably below national averages.

These are rough estimates, intended to give readers an idea of the relative level of taxes on resource industries. How to measure the taxes paid by and the tax capacity of resource industries in Alaska has been and will continue to be bitterly debated. We're not suggesting that our method shows the appropriate level of taxation. Our analysis provides a method of comparing resource industries that is consistent with comparisons of individuals and businesses. It is not meant to serve as a substitute for a detailed analysis of the specific circumstances of each resource industry in the state.

Small changes in our estimates of the percent of value added each industry pays in taxes would make little overall difference to Alaska revenues, except for changes in the petroleum estimate. But as time goes on, changes in the petroleum estimate will make less difference to revenues. That is true because the Alaska petroleum tax base is shrinking and therefore reducing petroleum revenues.

Regardless of differences of opinion about the size of the resource tax base, one point remains clear: individuals and businesses in Alaska pay a lot less state and local tax than they do in other places, and governments here are going to look at individual and business taxes to help balance the budget in the 1990s.

Before we move into our analysis we'd like to emphasize one more point. Alaska is not only a

What Fiscal Gap ?

Many Alaskans don't believe the state faces a fiscal crisis. They note that current state revenue projections put annual revenues at or above $2.3 billion (the current level of spending) for the next five years. But those projections assume revenues will remain at that level because inflation will push up the price of oil. To be consistent, forecasters must also assume that inflation would likewise push up the cost of government. Using the state's assumptions about inflation in oil prices, we calculate that by 1995 the government would need almost $2.9 billion to maintain today's purchasing power. While no one has a crystal ball to predict future oil prices, even relatively optimistic forecasts suggest the state will confront major revenue shortages within a few years.

tax collector but also a resource owner. When Alaska became a state, the federal government recognized that it had a small tax base as compared with more industrialized states, so it granted Alaska ownership of 104 million acres and the resources on those lands. Part of Alaska's resource revenue therefore comes from taxes, and part—in the case of petroleum, a very substantial part—comes from royalties and other payments it collects as a resource owner. It's important to keep that distinction in mind when we talk about U.S. and Alaska tax rates. Whether Alaska collects a fair return on its ownership of resources is a separate issue from how its tax rates compare with those of other states.

The next section of this paper briefly describes state and local revenues since Alaska became a state, and the following section compares existing Alaska state and local tax levels with national averages. Then comes our analysis of potential new revenues. Finally, we look at some of the economic, political, and social issues that will make raising taxes difficult.

History of Revenues

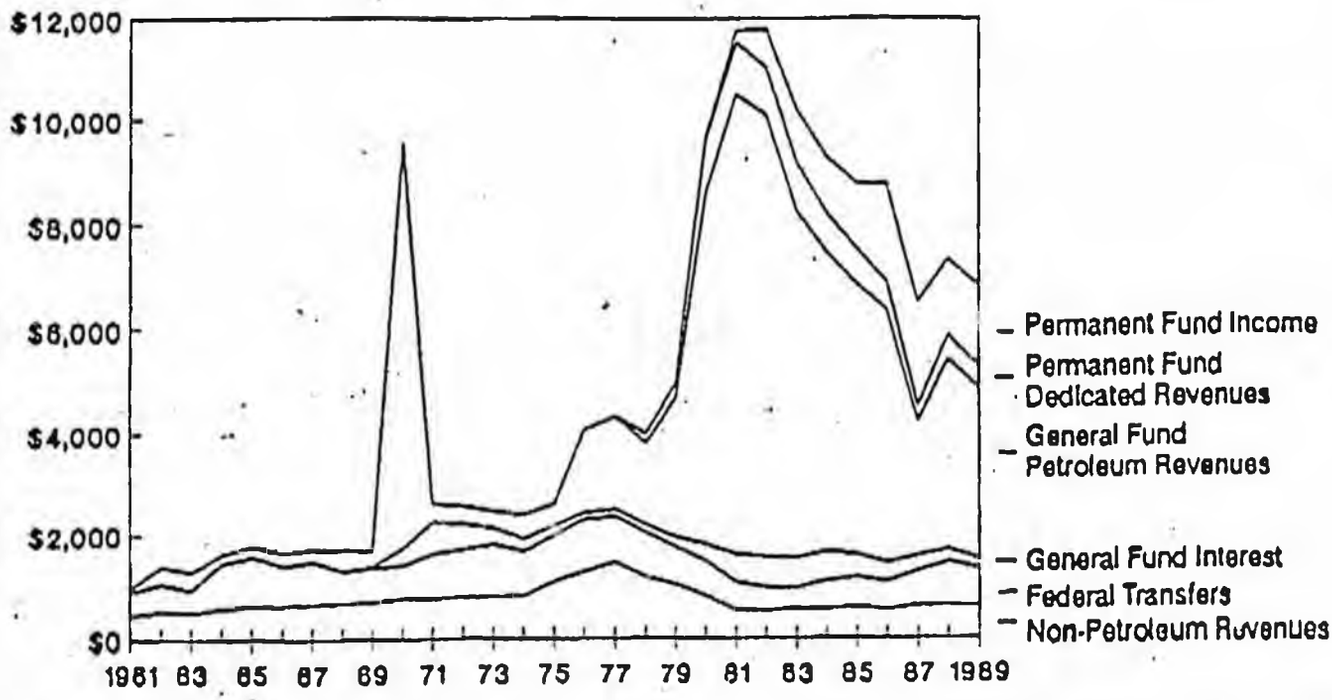
Figures 2 and 3 show historical per capita state and local revenues, in 1988 dollars. Putting all the figures in constant dollars per capita reveals the real changes over time in levels and sources of revenues, independent of changes in prices and population.

The two figures illustrate the growing importance of petroleum revenues to Alaska's state and local governments, and the volatility of those revenues.

Before the discovery and development of North Slope oil, federal tranfers made up close to half of the state's relatively modest revenues, and taxes and other charges paid by individuals and businesses made up most of the rest. In the past 15 years, petroleum revenues multiplied state income, but also made it subject to sudden shifts up and down. Petroleum revenues have been declining since the early 1980s, but by the end of the decade real per capita state revenues were still about seven times larger than they had been when Alaska became a state.

Local government revenues also grew dramatically over the past 15 years, with the biggest source of growth being state aid—which was fueled by petroleum revenues. Taxes on oil property also became a big source of income for the North Slope Borough and Valdez and a

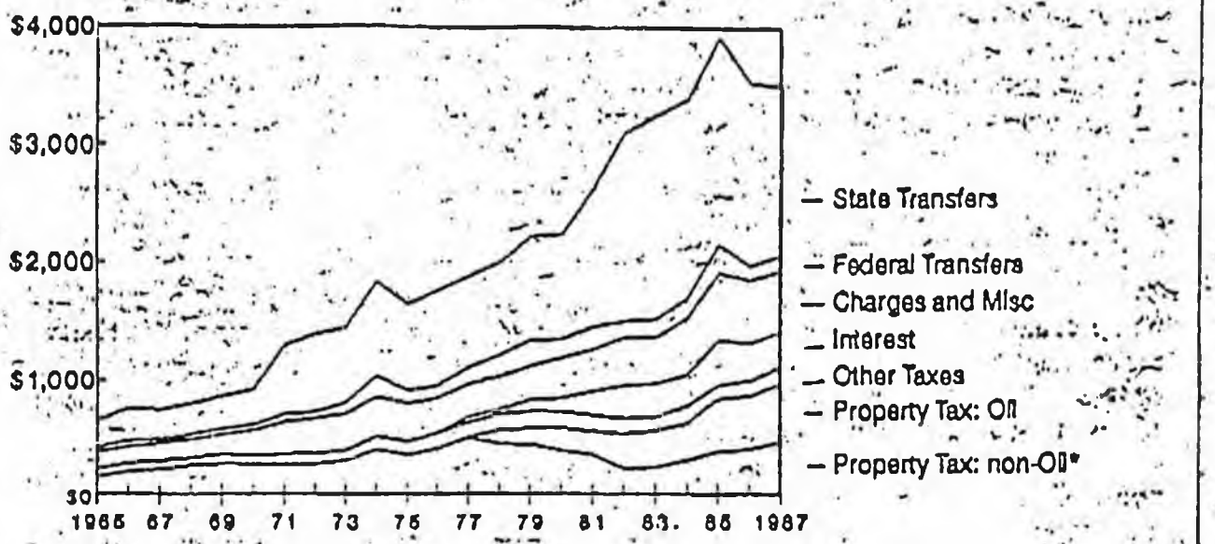
Figure 2. Alaska State Revenues Per Capita
(In 1988 Dollars)



* Non-petroleum revenues include taxes and other charges paid by Alaska individuals, businesses, and resource industries other than petroleum.

Figure 3. Alaska Local Revenues Per Capita

(In 1988 Dollars)



* Including taxes on Cook Inlet petroleum prior to 1977.

smaller but still significant source for the Fairbanks North Star Borough and the Kenai Peninsula Borough. Local revenues began dropping with declining state aid in the late 1980s. (The most recent figures available for local revenues are from 1987; figures from the two most recent years would likely show further drops.) Still, as of 1987 real per capita local revenues were about four times larger than they had been in the mid-1960s. But because non-petroleum taxes fell as petroleum revenues rose, municipal budgets are very vulnerable because they now rely so much on non-sustainable revenues.

Tax Burdens: Alaskans and Other Americans

In this section we look at how state and local taxes Alaskans paid compare with what other Americans paid in 1967, 1977, and 1987. We picked those three years because they represent very different economic periods in Alaska: the early years of statehood, before North Slope oil discoveries; the economic boom time accompanying construction of the trans-Alaska oil pipeline; and the period of high petroleum revenues.

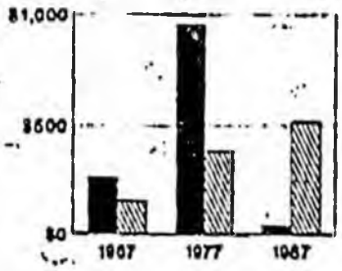
By comparing Alaska state and local taxes with taxes elsewhere we're not implying that national averages ought to be the model for Alaska. But these kinds of comparisons do give us a measure of relative tax burdens. We look first at comparative state taxes, then at comparative local taxes, and finally at combined Alaska state and local tax effort as compared with U.S. averages. Remember that we are talking only about state and local taxes. The other major taxes are of course federal taxes. Because the federal income tax is progressive—that is, it taxes higher incomes at higher rates—and Alaskans generally have high nominal incomes, Alaskans pay about 10 percent more federal income taxes than the national average. (However, that difference used to be much larger, when the federal tax structure was much more progressive than it is now.)

State Government Comparisons

Figure 4 compares taxes, federal transfers, and resource revenues collected by Alaska's state government and state governments nationwide on average in 1967, 1977, and 1987. The numbers are in 1988 dollars per capita—a comparison that adjusts for both price changes over time and population differences. The U.S. figures are also inflated by an Alaska cost-of-living adjustment; that adjustment puts the purchasing power of a dollar in Alaska and nationwide on par. (See box on page 6.)

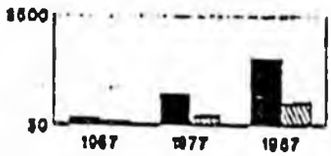
Figure 4. State Revenue Per Capita
Alaska and U.S. Average
(In 1988 Dollars)

Income Tax [a]



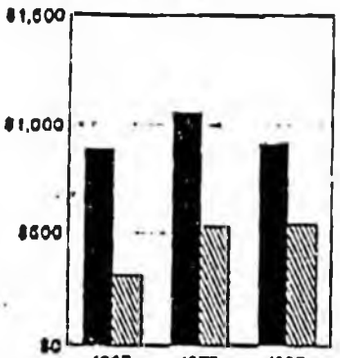
	1967	1977	1987
Alaska	$266	$948	$39
US Average	$156	$383	$513
Ratio	1.70	2.48	0.08

Interest



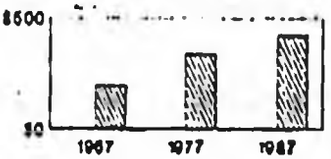
	1967	1977	1987
Alaska	$30	$134	$302
US Average	$19	$38	$100
Ratio	1.61	3.49	3.01

Federal Transfers



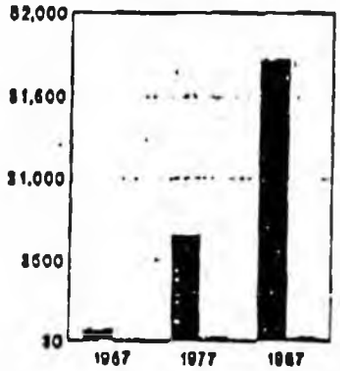
	1967	1977	1987
Alaska	$666	$1,056	$913
US Average	$313	$528	$643
Ratio	2.83	2.00	1.68

General Sales Tax



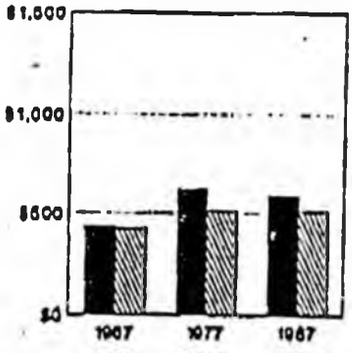
	1967	1977	1987
Alaska	$0	$0	$0
US Average	$195	$341	$423
Ratio	0.00	0.00	0.00

Resource Taxes [b]



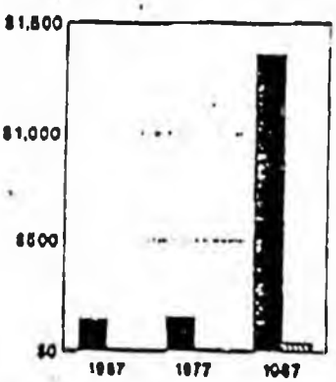
	1967	1977	1987
Alaska	$70	$662	$1,721
US Average	$13	$24	$21
Ratio	5.38	27.17	81.95

Other Taxes, Charges and Miscellaneous



	1967	1977	1987
Alaska	$439	$620	$569
US Average	$426	$515	$513
Ratio	1.03	1.21	1.11

Resource Ownership Revenues



	1967	1977	1987
Alaska	$137	$148	$1,360
US Average	$7	$11	$38
Ratio	19.67	13.46	36.79

Alaska US Average

Note: U.S. averages are inflated by Alaska COLA.

[a] Excludes petroleum corporate income tax.

[b] Includes petroleum corporate income tax and property tax.

The Alaska Cost-Of-Living Adjustment

All our numbers are in 1988 dollars, except as noted. That adjustment eliminates the effects of inflation so we can assess real changes in taxes collected over time.

Also, in Figures 4, 5, and 6 we've added an Alaska cost-of-living adjustment (COLA) to the U.S. average numbers, which takes into account Alaska's higher living costs and shows what the U.S. averages would be at Alaska prices.

Our cost-of-living adjustment takes into account both the higher cost of living in Anchorage relative to the U.S. average, and the higher cost of living in other Alaska regions relative to Anchorage. The 1988 COLA is based on a 15 percent differential between Anchorage and U.S. average prices, multiplied by another differential between Anchorage and other Alaska prices. The differential is 8 percent for state government revenues and 11 percent for local government revenues, reflecting a greater concentration of state government activity in lower cost areas like Anchorage and Juneau and more local government activity in higher cost areas. So, a commodity that costs $1.00 in the U.S. as a whole will cost $1.24 in a typical location of state government and $1.27 in a typical local government area. We calculated the Anchorage-U.S. differential with U.S. Bureau of Labor Statistics information. Our calculation of the differential between Anchorage and the rest of the state is based on the regional cost-of-living indexes reported in the *Alaska Geographic Differential Study* (prepared for the Alaska Department of Administration in 1985 by The McDowell Group), weighted by the proportions of state and local government employment in each region.

Income Tax: Until 1980, Alaska had both a personal and a corporate income tax; the personal income tax was eliminated in 1980. Alaska's per capita income taxes were high as compared with the national average—70 percent higher in 1967 and two and a half times as high in 1977, when non-residents working on the trans-Alaska pipeline paid substantial Alaska income taxes. The income tax was high in part because it was tied to the federal income tax—which at that time taxed higher incomes at much higher rates than is true today. Also, Alaska has historically had a large number of seasonal, non-resident workers who paid state income taxes.

Across the country 40 states tax personal income and 3 more states tax a portion of personal income. The income tax rates start as low as 1 percent and range as high as 12 percent on higher incomes. Alaska and 45 other states tax corporate income, at rates also ranging from 1 to 12 percent of net income.

Federal Transfers: Alaska's per capita federal transfers have always been higher than average—because of minimum entitlements for some programs, substantial grants for highways, and shared revenues from federal lands. In sharing revenues from federal lands, Congress recognized that high federal land ownership in Alaska and other western states reduces the states' tax capacity.

But the difference between per capita transfers to Alaska and to other states narrowed a great deal over the past 20 years. In 1967 (a year when federal highway grants were high), Alaska's per capita federal money was nearly three times the national average; by 1987 it was just 68 percent above the national average.

Other Taxes, Charges, and Miscellaneous Revenues: This category includes selective sales taxes, user fees, and other kinds of charges for state services. Alaska has always collected somewhat more than the national average per capita in such revenues. The state government here provides a number of services other states don't, and pays for them partly through user charges. Alaska's state ferry system is a good example. Since different states provide different services, the comparative per capita level of these kinds of charges is not particularly meaningful as a measure of relative burdens.

Interest: Alaska's per capita interest on the general fund balance has always been somewhat higher than the national average. Alaska's general fund is bigger (per capita) than that of other states, and a bigger balance earns more interest.

General Sales Tax: Alaska's state government has never imposed a general sales tax. Nationwide, 45 state governments have sales taxes, with rates varying from 3 to 7.5 percent. State sales tax burdens nationwide have roughly doubled in the past 20 years—moving from about $200 per capita to more than $400 per capita (in 1988 dollars, with an Alaska cost-of-living adjustment).

Resource Taxes: We would expect Alaska's per capita severance taxes to be higher than the national average, because Alaska is a resource-rich state with a small population. And we would expect the national average severance tax per capita to be low, because the relative value of resource

production in most states is low as compared with Alaska's. Alaska has many natural resources but less industrial infrastructure than most states. More industrialized states, by contrast, have factories and other business property in their tax bases.

Even in the 1960s, when Alaska's only oil production was in the Cook Inlet area, state severance taxes here were considerably higher than the national average. In 1987 severance taxes in Alaska were about $1,700 per capita, as compared with about $20 nationwide.

Resource Ownership Revenues: This category includes royalties, rents, and bonuses Alaska receives because it owns resources under terms of the statehood act. Almost all of these revenues are from petroleum, but small amounts are also from timber and land sales. Alaska per capita ownership revenues in 1987 (a year of low oil prices) were about $1,400, as compared with about $40 nationally.

Local Government Comparisons

Figure 5 compares revenues collected by Alaska's local governments and local governments around the country in 1967, 1977, and 1987. Again, the comparisons are in per capita 1988 dollars, with the U.S. figures inflated by an Alaska cost-of-living adjustment.

State Transfers: State transfers have always made up a substantial share of revenues for Alaska's local governments. But in the 1960s, when the state government had just a modest income, per capita state aid to local governments in Alaska was only about half the national average. In 1977 state aid to Alaska local governments was a bit above the national average. By 1987, local governments in Alaska received nearly twice the state aid that other local governments in the U.S. did.

Property Taxes: Alaska's per capita property taxes were below the national average in the 1960s and 1970s, and are still about 20 percent below the national average today, if we exclude taxes the North Slope Borough collects on petroleum property. Although several local governments in Alaska collect taxes on petroleum property, only the North Slope Borough has the combination of small population, high mill rates, and extremely valuable petroleum property that would distort the per capita comparisons in Figure 5. Part of the reason Alaska's per capita collections are lower than the average is that mill rates are lower, but the small or non-existent tax bases in certain areas of Alaska also bring down the per capita average.

Charges and Miscellaneous Revenues: Because the services local governments pay for with user fees vary substantially around the country, per capita user fees don't reflect relative tax burdens. The miscellaneous revenues in Figure 5 include charges and user fees of various kinds; these kinds of charges went up much faster in Alaska than in other states in the 1980s. In 1987 local governments in Alaska collected about 50 percent more per capita in miscellaneous revenues than did local governments elsewhere.

Federal Transfers: There's no clear pattern in federal transfers to Alaska local governments as compared with the national average; in 1967 and 1977 Alaska governments got less than the national average and in 1987 somewhat more. Because federal transfers to local governments are relatively small, transfer levels from year to year may vary substantially.

Other Taxes: This category includes mainly sales taxes, but in several states also income taxes. Local governments in 29 states impose general sales taxes, and in 11 states local jurisdictions levy income taxes. Selective sales taxes are also common at the local level.

Per capita sales taxes levied by Alaska governments have always been below the national average, but the gap widened over the past 20 years. In 1987 per capita sales and other taxes nationally were about 35 percent higher than in Alaska—while in 1967 the difference was around 20 percent.

Interest: Alaska's local governments didn't have big enough fund balances to earn much interest in the 1960s. They did better—slightly above the national average—in the 1970s. But in 1987 per capita interest collected by local governments in Alaska was three times the national average. Part of the reason interest was high in the mid-1980s was that many municipalities were collecting earnings on unspent capital grants and other cash balances.

Combined State and Local Taxes on Individuals and Businesses

Figures 4 and 5 show that petroleum taxes lightened the tax burden on individuals and businesses in Alaska in the 1980s. To make that change

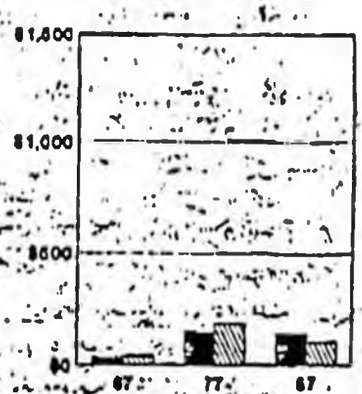
Figure 5. Local Government Revenue Per Capita - Alaska and U.S. Average

(In 1988 Dollars)

State Transfers

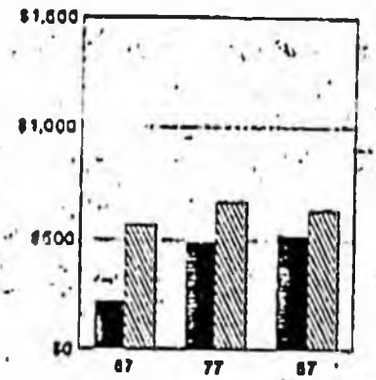
	67	77	87
Alaska	$256	$778	$1,429
US Average	$415	$671	$746
Ratio	0.62	1.16	1.92

Federal Transfers



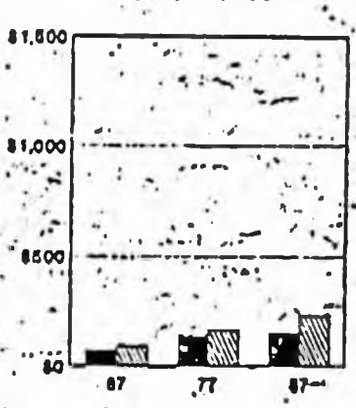
	67	77	87
Alaska	$33	$147	$140
US Average	$39	$188	$106
Ratio	0.83	0.79	1.31

Property Tax*



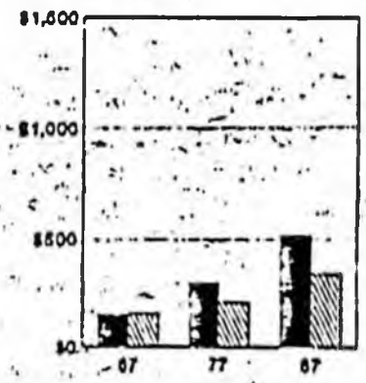
	67	77	87
Alaska	$215	$468	$520
US Average	$562	$671	$636
Ratio	0.38	0.70	0.82

Other Taxes



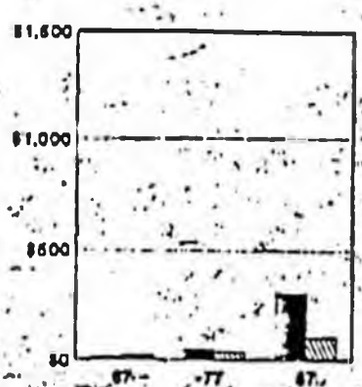
	67	77	87
Alaska	$66	$132	$143
US Average	$87	$162	$226
Ratio	0.76	0.82	0.63

Charges and Miscellaneous



	67	77	87
Alaska	$145	$294	$616
US Average	$152	$206	$337
Ratio	0.95	1.41	1.83

Interest



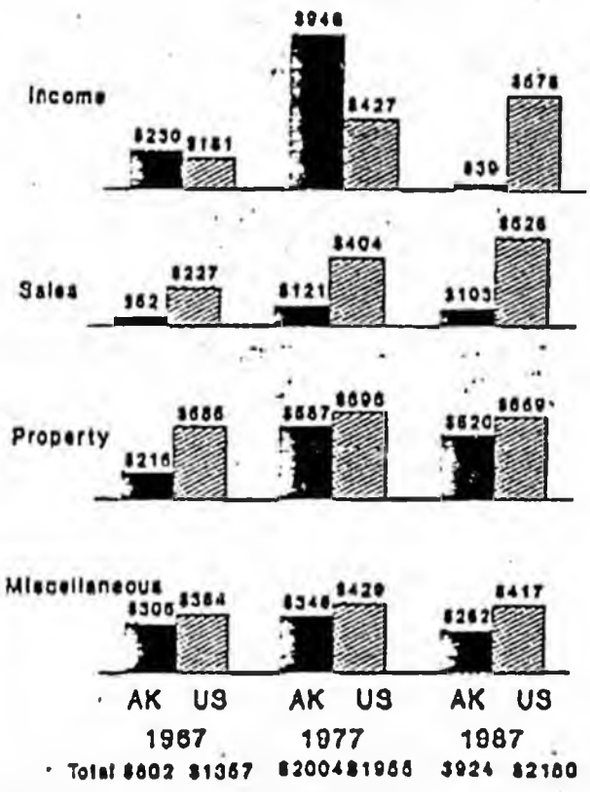
	67	77	87
Alaska	$13	$46	$306
US Average	$21	$37	$96
Ratio	0.63	1.26	3.19

Alaska US Average

*Excludes North Slope Borough oil property tax revenues.

Note: U.S. averages are inflated by Alaska COLA.

Figure 6. Combined State and Local Taxes per Capita Excluding Resource Taxes*
Alaska and U.S. Average
(In 1988 Dollars)



Note: U.S. averages are inflated by Alaska COLA.
*Excludes petroleum corporate income, state property and severance taxes; fisheries taxes; and North Slope Borough oil property taxes.

more clear, in Figure 6 we combine state and local taxes paid by individuals and businesses and exclude resource industry taxes (which we examine separately below). We also exclude user fees and charges, because services provided vary from state to state. Again, the figures here are in 1988 dollars, and the U.S. figures have been inflated by an Alaska cost-of-living adjustment, so we're looking at equivalent buying power across the years and between Alaska and other states.

Figure 6 shows that per capita individual and business taxes in Alaska were lower than the national average in 1967 and 1987. In 1987, the most recent year for which we have figures, per capita state and local taxes nationwide were about $2,200, as compared with less than half that amount—about $900 per capita—in Alaska.

In 1977, however, Alaska per capita taxes were slightly higher than the national average. That happened in part because non-residents working in Alaska paid substantial state income taxes that year.

Sales, property, and other taxes per capita have historically been lower in Alaska. Income taxes were considerably higher than the national average before the personal income tax was repealed in 1980—and that repeal accounts for the drop in total Alaska taxes between 1977 and 1987.

Looking for Money: Potential Revenues

State and local officials will have to fill the pending fiscal gap by cutting their budgets and finding new sources of revenues. We don't know yet how much of each they'll try to do, or when, but in this section we look at how much new revenue they might be able to realize.

State revenues increase for two reasons. New or expanded development can increase the tax base. If the government taxes that expanded base, revenues will increase. Or the government can increase taxes—by adding new taxes, raising existing tax rates, or taxing parts of the base that haven't been taxed before. A third but smaller potential source of new revenues is state assets not currently managed to maximize general revenues.

Finally, four other factors that are not entirely predictable right now could ease the future fiscal crisis, if they were higher than we anticipate: settlement payments from litigation; earnings of the Permanent Fund; oil prices; and federal aid. Unfortunately, these factors could also worsen the crisis, if they were lower than we anticipate. Below we'll first briefly discuss those four variable factors, then broadly assess the potential for state assets to generate revenues. Then we'll look at potential revenues from higher taxes and new development.

Up or Down Factors

Settlement Payments: In the last four years the state received between $71 million and $419 million annually ($227 million average) in settlements of disputes with oil companies and the federal government. Over the next decade the state expects to collect a substantial portion of the more than $5 billion currently in dispute. The amount and timing of future payments is extremely uncertain. Our revenue projections (shown in Figure 1) assume that the state will receive $1.7

billion (in 1988 dollars) over the next 10 years. If those payments turn out to be larger or we receive them sooner than we assume, the budget crisis would be eased—but if for some reason the payments are smaller or we receive them later, the fiscal gap would be wider.

Permanent Fund Earnings: Our projections assume real (adjusted for inflation) earnings of the fund will average 3 percent annually over the next 20 years, which is consistent with the target of the Permanent Fund Corporation. So far the fund has enjoyed an average real return of 5 percent a year, but earnings in individual years have ranged from zero to 11 percent.

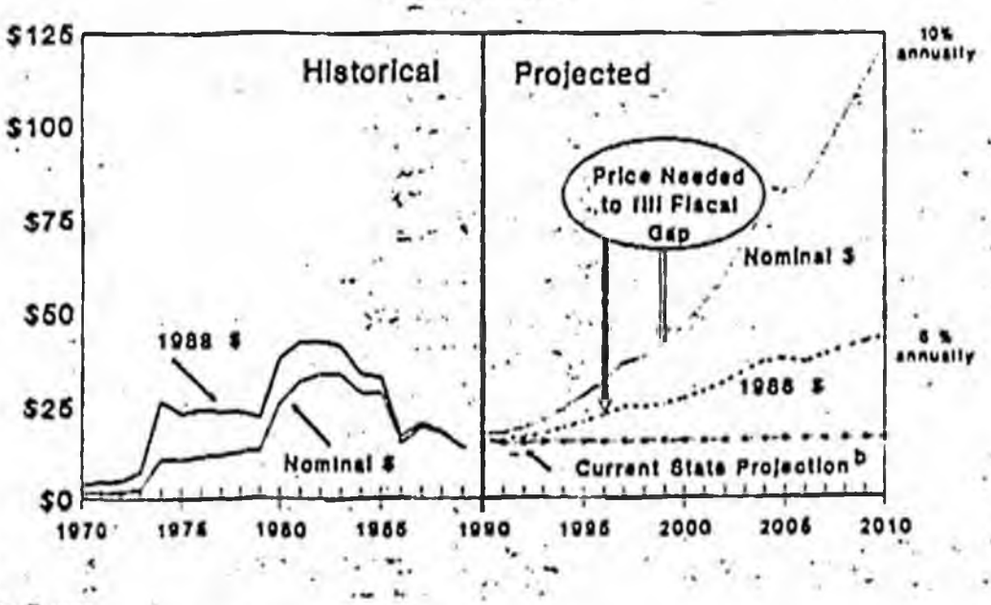
Oil Price: Our projections assume a constant real (adjusted for inflation) price of $15 a barrel for North Slope crude delivered to the U.S. Gulf Coast, which is approximately equal to the official State of Alaska estimate. Oil prices in 1989 were extremely volatile, ranging from $12 to $20 per barrel.

Oil production levels are more predictable than prices. North Slope production has already started to decline, and will continue to do so over the next 20 years. To compensate for falling production between now and 2010, the nominal oil price (before subtracting inflation) would have to rise 10 percent a year and the real price (in 1988 dollars) 5 percent annually. (See Figure 7.) Oil would have to sell for $47 a barrel in 2000 and $122 a barrel in 2010—or, in 1988 dollars, $27 a barrel in 2000 and $44 a barrel in 2010.

Federal Government: Before the days of high petroleum revenues, Alaska relied heavily on federal aid. Some Alaskans see increased federal aid in Alaska as a means of easing the coming state fiscal crisis. But given the federal government's own large budget deficit and the trend toward less federal assistance nationwide, it seems unlikely that Alaska could increase its share of aid. Even maintaining current levels in such programs as highway assistance or keeping our current share of federal resource royalties will be difficult. In our projections we assume little future change in federal aid; if in fact federal aid declined substantially, the state budget would be under more pressure.

The federal government could, however, improve the state's revenue picture by lifting the ban on the export of North Slope crude oil and repealing the Jones Act, which requires cargoes being shipped between U.S. ports to be carried in American ships. Those changes in federal law—which are not under active consideration—would increase the wellhead value (the market value minus transportation costs) of North Slope oil by $2 to $4 per barrel, thus increasing both the state's tax base and its owner interests in oil.

Figure 7. World Oil Price [a]
Historical and Projected
(Dollars per Barrel)



[a] Saudi Light at Ras Tanura.
[b] Alaska Department of Revenue, Fall 1989 middle case projection, in 1988 $.

Using State Assets

The Permanent Fund is only the largest of a number of state assets that potentially could produce annual revenues to support government services. The state currently reports $3.1 billion of equity in public corporations and state enterprise funds. The biggest of these by far is the Alaska Housing Finance Corporation. Others include the Alaska Railroad Corporation, the Alaska Industrial Development and Export Authority, the Commercial Fisheries Revolving Loan Fund, the Power Development Fund, the Student Loan Corporation, the International Airport Fund, the Agricultural Loan Fund, and the Housing Assistance Fund.

Right now the income produced by those assets is largely earmarked for continuation of specific programs. Many of these assets earn below-market rates of return, because they are intended primarily to create non-monetary benefits – such as lowering the cost of doing business, expanding the economic base, and better educating Alaska's work force. Although we are not advocating such a policy, the state could sell these assets and invest the proceeds in ways that would maximize returns to the state. Before doing so, the state would need to determine what benefits would be lost.

The potential sustainable income from sale of these assets is difficult to predict, because their market value may differ from values reported in state financial documents. But it's unlikely that it would exceed $100 million annually. Less radical shifts in management of these public corporations and enterprise funds could, however, divert a portion of the income from their activities to the general fund.

Taxes: How High?

Types and rates of state and local taxes vary a great deal around the country. Every state makes political decisions about the benefits of government spending versus the loss in private purchasing power and economic disincentives created by taxes. But to make some assessments of Alaska's ability to generate taxes as compared with current tax collections we need some standard measure of comparison.

We estimate how much more tax Alaska might be able to generate by applying the average tax rates among state and local governments nationwide to Alaska's tax bases. (See the box on page 14.) Calculating the difference between what Alaska now collects and what it could collect at national average tax rates gives us an estimate of potential new tax revenues. Notice that we are using *national average rates* as a measure of comparison: the potential tax revenues we discuss below are representative rates and not maximums. A number of states of course have taxes substantially above the average, just as others are below.

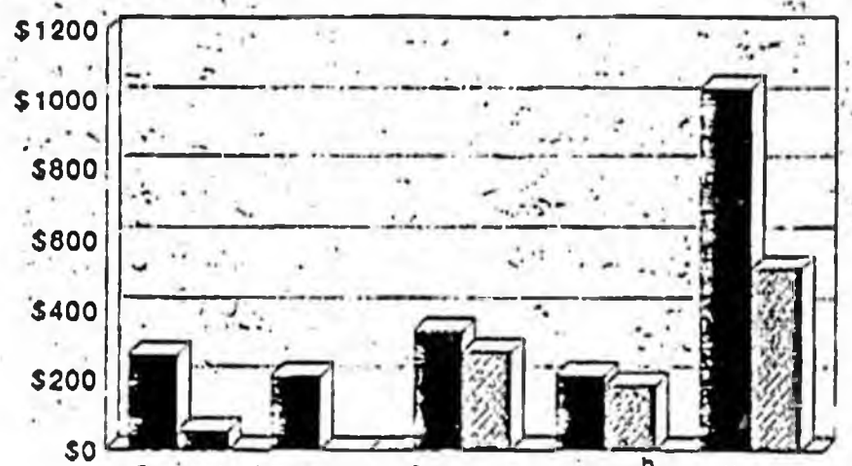
We're not advocating that the state and local governments here suddenly raise tax rates to national averages. Changes in Alaska's tax scheme in the coming years will depend on political realities at the state and local levels and must be tailored to specific Alaska conditions. National averages simply serve as a benchmark to give Alaskans an estimate of how much of the fiscal gap taxes could fill, if state and local governments here raised taxes to those averages.

In making these estimates we did not explicitly consider how increased tax rates might shrink the tax base or how restructuring of the tax schedule might make the burden more equitable. Also absent from our estimate is any consideration of current tax evasion and foregone revenues from tax credits. Notwithstanding these tax issues we didn't examine, we are confident that our estimates provide a good overall picture of potential revenues from taxes.

Individual and Business Taxes: Figure 8 shows that individual Alaskans and businesses (excluding resource production) pay about half the national average in overall state and local taxes. (The black bars show how high Alaska taxes would be at national average rates, and the striped bars show actual tax payments.) However, the figure also reveals wide differences among the various types of taxes. Property taxes and those in the "other" category, which includes selective sales taxes and non-petroleum corporate income taxes, approach the national tax averages. In contrast, general sales taxes in Alaska are only about one-fifth the national average, mainly because we have no state general sales tax. Most apparent is Alaska's lack of a personal income tax at either the state or local level.

Altogether, imposing state sales and income taxes at national averages and increasing property and local sales taxes to national averages would generate about $515 million for state and local governments each year. That would virtually

Figure 8. Alaska State and Local Taxes Paid by Individuals and Businesses Actual and at Estimated U.S. Average Rates[a]
(In Millions of 1988 Dollars)



	General Sales	Personal Income	Property	Other[b]	Total
At US Avgs	$271	$210	$340	$214	$1036
Actual	$55	$0	$280	$185	$520
Difference	$216	$210	$60	$29	$516

[a] Based on 1985 tax base calculations. Excludes taxes paid by petroleum and other resource producers.
[b] Other taxes include selective sales taxes and non-petroleum corporate income tax.

double current tax collections. (We don't include charges and user fees here because those kinds of charges support different services in different locations, making comparisons meaningless. Also excluded are the potential net proceeds of a state lottery, which we estimate could be $10 million annually.)

Resource Production Revenues: Alaska collects both taxes on and ownership payments from resource extraction. In this section we compare the rate of taxation of the resource base across states and specifically exclude ownership payments. Our estimates are necessarily rough approximations, given the difficulties in valuing each resource base.

Figure 9 compares tax rates on resource industries in Alaska and nationwide in 1987 (the most recent year for which we have figures) by showing the approximate percentage of their value added (the industry contribution to gross national product) paid in taxes, excluding income taxes. (The box on page 14 provides further discussion of our tax base calculations.)

Figure 9 shows that some resources are taxed at much higher rates than others nationwide. For instance, mining (which is primarily coal mining) nationally paid about 14 percent of its value added in taxes in 1987. The oil and gas industry paid the next highest rate nationally, or about 12 percent of its value added. The other industries paid in the neighborhood of 4 to 5 percent of their value added in taxes nationally.

In Alaska, petroleum, far and away our most important resource, paid just about the same percentage of its Alaska value added in taxes as it did nationally—about 12 percent. (The Alaska Legislature in 1989 changed the formula for calculating severance taxes on petroleum—the Economic Limit Factor, or ELF. Although the change increased 1989 tax collections by about $150 million over what they would have been, the legislature essentially restored 1989 tax rates to their 1987 levels. So the tax percentage we show is still a valid approximation.)

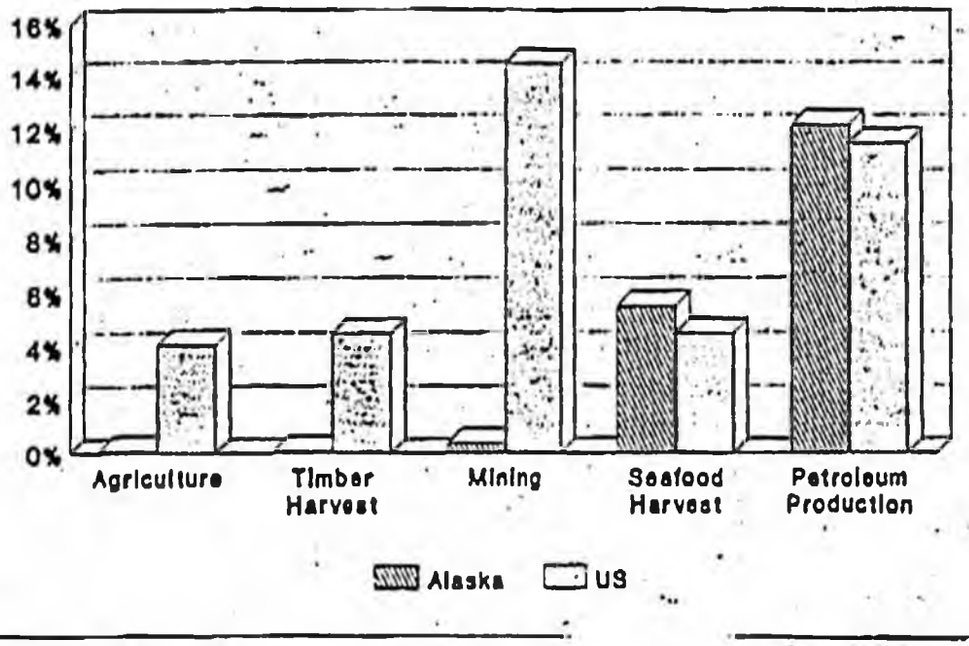
Alaska's next most important resource, commercial fishing, also was taxed roughly as much in Alaska as nationally in 1987—around 5 percent of its value added. Other resource industries in Alaska paid little tax. Mining in Alaska paid less than 1 percent of its value added in taxes in 1987, as compared with 14 percent nationally. Agriculture and forestry in Alaska paid much less than 1 percent in taxes, as compared with about 4 percent nationally. (We weren't able to make comparisons for tourism because of the difficulties in identifying taxes paid and tax base.)

Figure 10 shows actual taxes paid by Alaska's resource industries in the late 1980s and estimates of what taxes would be at U.S. average rates. Modest changes in the national rates have an insignificant effect on collections, except of course for petroleum.

At national average rates, the petroleum industry in Alaska would pay about $1.2 billion in taxes. (We make that estimate by applying the national average rate for petroleum in Figure 9 to the industry's Alaska tax base). The seafood harvesting industry would pay about $31 million at the national average rate for that industry.

The severance tax, property tax, and special income tax on petroleum, and the raw fish tax, are the primary resource taxes in Alaska. Resource taxes collected from these industries in Alaska are consistent with national rates.

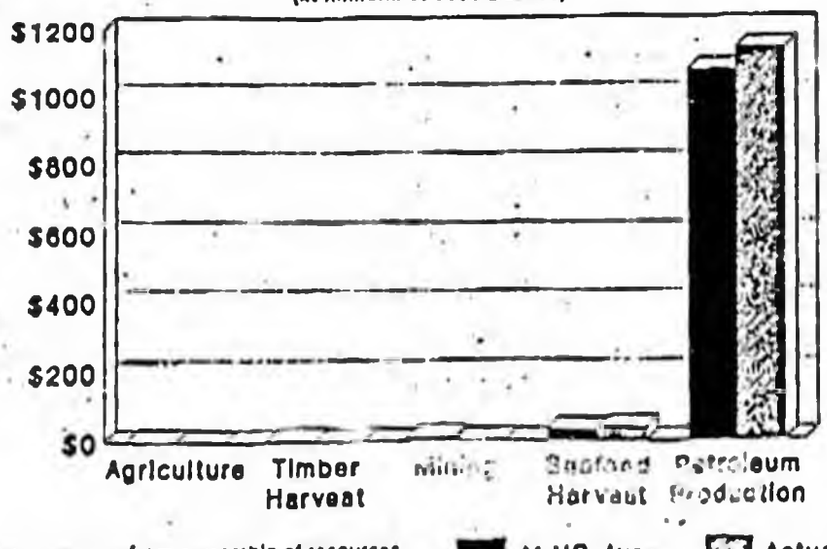
Figure 9. Alaska and U.S. Resource Industries
Taxes as Percent of Value Added (1987)



Alaska's mining, timber harvesting, and agriculture industries have much smaller tax bases than petroleum and fishing, and those smaller tax bases are taxed at rates considerably below the national averages. Alaska has no production tax on timber harvesting. Instead of a production tax on mineral extraction, Alaska has a mining license tax on net operating income. Were these industries to pay taxes at national average rates, the state would collect (at current production levels) approximately $10 million more annually.

As an owner of resources (as distinct from a tax collector), Alaska receives considerable revenues — again, mostly from the sale of oil and gas, but also smaller amounts from timber, minerals, and land sales. These payments to the state are

Figure 10. Alaska State and Local Taxes
Paid by Resource Production Industries
Actual and at Estimated U.S. Average Rates
(In Millions of 1988 Dollars)



Note: Excludes revenue from ownership of resources.

Estimating Alaska Taxes and U.S. Average Rates

To calculate taxes Alaska's state and local governments collect as well as average collections of other state and local governments we use the U.S. Department of Commerce's *Governmental Finances*, unpublished data from the U.S. Bureau of Economic Analysis, and ISER's MAP database.

To estimate revenues Alaska's state and local governments might collect from tax changes we apply *national average tax rates* to Alaska's tax bases. This measure of tax potential does not reflect some preferred amount of taxes, or the maximum amount, or the level taxes could reach before they began to create economic disincentives. Rather it's a standard for comparing Alaska's tax effort with that of other states, taking into account the tax bases of each state as well as taxes collected.

We derive our estimates of additional tax potential using published and unpublished data from the U.S. Department of Commerce, the ISER MAP database, the Advisory Council on Intergovernmental Relations (ACIR), and the research agency of the Alaska House of Representatives.

At the heart of our estimates of tax potential are of course estimates of Alaska's tax bases. In our analysis we use one set of tax bases for individual and business taxes and another for resource industry taxes. (We exclude resource ownership revenues since they are generally paid to private owners).

Individual and Business Taxes: Our calculations of Alaska's bases for individual and business taxes are modifications of ACIR estimates, and reflect the specific base for each tax, such as retail sales, property values, corporate income, or gasoline consumption. We then apply national average tax rates to each tax base.

Resource Industry Taxes: For the tax bases of resource industries we use the amount of value each industry contributes to the gross national product—what economists call "value added". Value added consists of wages, depreciation, rents, interest, and payments to other factors that add value to production, as well as profits received and taxes paid. The national average tax rate for each industry is the ratio of all taxes paid (except income taxes) to value added as reported by the U.S. Department of Commerce. We estimate the additional tax potential of Alaska resource industries by applying the national average rate to the Alaska value added of each industry, based on ISER calculations. So, for example, if an industry pays 5 percent of its value added in taxes nationally while in Alaska it pays 3 percent, Alaska governments could collect 2 percent more of the industry's value added in taxes to reach the national average.

Our method of measuring the tax base is not meant to serve as a guide to the appropriate level of taxation of any resource. Such a determination would require a much more detailed analysis that is beyond the scope of this paper.

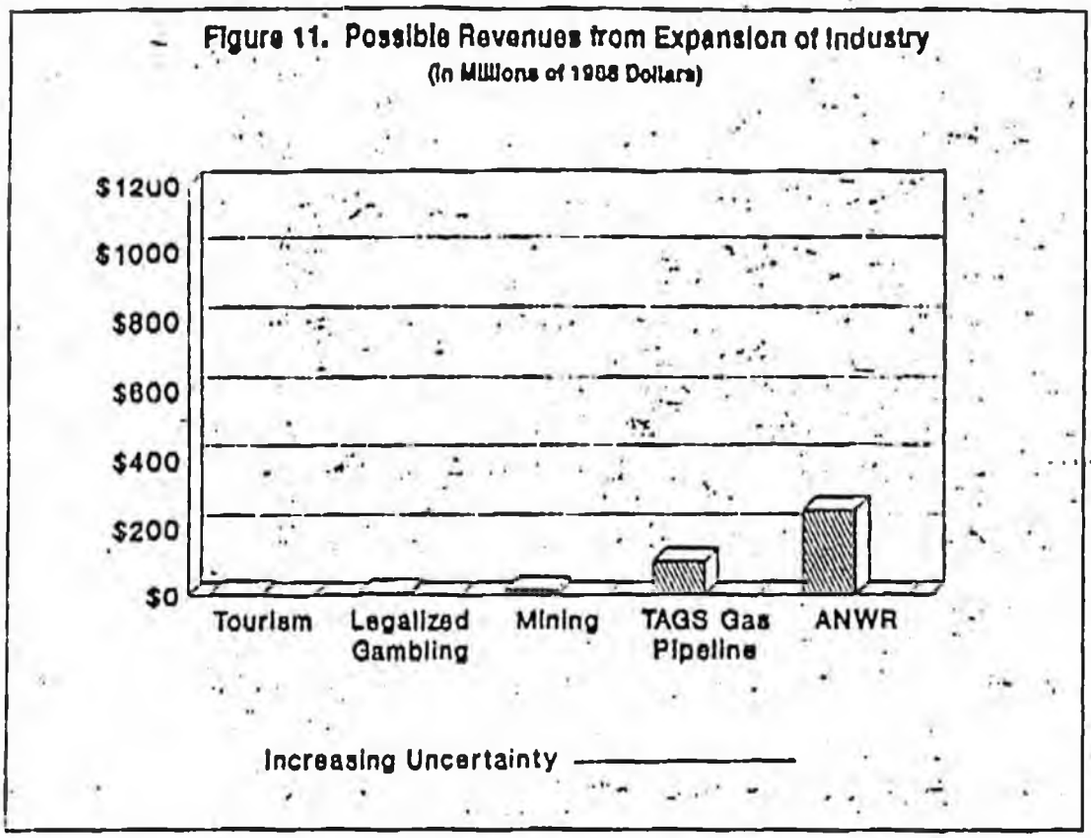
similar to those private owners of resources would require from developers. Only petroleum royalties, which came close to $1 billion in fiscal 1988, are large enough to supply a significant share of the state's budget needs. In contrast, the state gets no ownership return from the commercial fisheries. The market value of ownership of that resource is reflected in the value of limited entry permits for the fisheries, which exceeds $1 billion. If the state taxed the value of those permits, which are a form of property, at the same rate as oil property, it could collect about $20 million annually.

Economic Development

Economic development—both expansion of existing activities and new developments—has the potential to generate revenues to help fill the state fiscal gap as well as create jobs and income for Alaskans. For example, in our analysis of the fiscal gap, we assume the state will collect petroleum revenues from production greater than the current official estimates, because of technological advances and further discoveries. Figure 11 shows some estimates of possible revenues from new or significantly expanded activities not already included in our projections because they are less certain. The less certain developments are further to the right in the figure. The estimates are intended to convey a sense of the order of magnitude of potential new revenues, not to serve as precise predictions.

Growth in the tourism industry in the next decade (with no changes in industry taxes) could add $5 million annually to the state treasury in fees and ownership payments as well as local property and sales taxes. Legalized gambling (not including a state lottery) could produce $5 to $10 million in state amusement and local property taxes. (We're not advocating that gambling be legalized; it's one of the possible revenue sources that have been discussed, so we include an estimate of its revenue potential.)

New mines could generate $15 million annually through license and income taxes and local



property taxes (again, with no changes in existing tax laws). We will have better estimates of mining revenues over the next couple of years, as two big new mines begin producing.

These revenues would be divided between state and local governments, with local governments collecting property taxes and the state government collecting resource taxes. The revenue potential of these developments is somewhat restricted because Alaska has no personal income tax.

The developments that could produce the biggest revenues are petroleum-related but they are very uncertain right now. Two such developments (but by no means the only possible ones) would be construction of a gas pipeline to transport North Slope natural gas, and the discovery and development of large oil reserves in the Arctic National Wildlife Refuge east of Prudhoe Bay. In 2000 North Slope gas could be contributing about $100 million (in 1988 dollars) annually to the state treasury. However, the gas pipeline won't be built until the gas producers find buyers for North Slope gas.

A discovery in the wildlife refuge one-third the size of the Prudhoe Bay field could be generating $250 million (in 1988 dollars) in annual state revenues by 2005. (The estimated probability of a commercial discovery in the refuge is 19 percent.) The Arctic National Wildlife Refuge is not open to petroleum exploration right now and it's uncertain when it will be. Should Congress open the refuge, the oil companies would have to find commercial fields and undertake the development necessary to transport oil from the refuge before the state could realize a sustained flow of tax revenues.

In summary, if all the likely and less certain developments shown in Figure 11 were to occur, state and local governments might be collecting about $380 million (in 1988 dollars) in additional revenues by 2005.

Between a Rock and a Hard Place

None of us is eager to pay more taxes. Many Alaskans believe that a combination of higher oil prices, spending cuts, and new revenue sources will make it unnecessary to raise taxes as petroleum revenues drop. But because we are facing a $1 billion shortfall within the next 10 years, we regard that view as unrealistic. After all, $ 1 billion is three times more than all the individuals, businesses, and non-petroleum resource industries currently pay in state taxes every year.

It seems inevitable, given the small likelihood that resource development will raise enough revenues to fill the fiscal gap in the near future, that we'll have to fill some of that gap by raising taxes. Of course there are political and social as well as economic issues involved in raising taxes. In Fiscal Policy Paper #2 we outlined a number of reasons why cutting the budget would be tough. Some of the same factors, plus others, will make raising revenues as tough or tougher than cutting the budget:

1. Economic Disincentives: Alaska is an expensive place to do business, independent of state and local tax levels. Developers come to Alaska, or expand their operations here, only when the profits from development outweigh the costs. Although tax levels are of less significance to firms than are many other market factors, higher taxes are nevertheless a real addition to the cost of doing business, and raising taxes on businesses or individuals reduces Alaska's competitiveness in national and world markets.

2. Economic Climate: Alaska is still emerging from a severe recession that cost the state jobs and population, forced down property values, and pushed thousand of individuals and businesses into bankruptcy. Alaskans are understandably not receptive to tax increases – which will reduce income and employment in the private sector and, in the minds of many, slow the pace of economic activity.

3. Special Interests: For every tax paid or proposed there is a constituency with an economic interest in keeping rates low or non-existent. These interest groups are well-organized and well-financed to fight tax increases or new taxes.

4. Unwillingness to Pay: Alaskans have grown accustomed to low state and local taxes. Even though individual Alaskans carry the lightest state and local tax burden in the nation, many Alaskans believe they're already paying more than enough for government services.

5. Tax the Other Guy First: Just about everyone is convinced that he's already paying his fair share of taxes, and that if taxes have to be raised somebody else should pay. We have a natural tendency to try to devise taxes that would be paid by non-residents – but this method of "tax exporting" has its limits, and even non-residents can respond to the disincentives created by taxation by taking their business elsewhere.

Despite these arguments against taxes, in the typical state taxes and user fees paid by individuals and businesses necessarily represent the cost of public services the government provides. But in the past decade, when petroleum revenues paid for almost everything, Alaska lost the link between what residents pay in taxes and what they receive in services. When citizens aren't aware of the cost of services, public spending is no longer restrained by a sense of the value of services provided. To regain the balance between taxes and spending, citizens must gradually shoulder more of the cost of government. Higher taxes will quickly focus attention on those aspects of government spending that taxpayers feel aren't worth the price.

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HB

386

HOUSE COMMITTEE REPORT

4/6

(7)
Date Referred: January 8, 1990 FURTHER REFERRALS: JUDICIARY
FINANCE

Date of Committee Action: __________

The STATE AFFAIRS Committee considered: HB 386

HOUSE BILL NO. 386 ELIGIBILITY FOR PERMANENT FUND DIVIDENDS

"An Act relating to eligibility for permanent fund dividends; and providing for an effective date."

RECOMMENDATIONS:
[ ] be replaced with ______________ [ ] the same title / [ ] a new title
[ ] have attached amendment(s)
[X] do pass
[ ] do not pass
[ ] no recommendation
[ ] individual recommendations
[ ] additional referral to the __________ Committee

ADOPTS: __________ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)
2 [X] fiscal impact DOR
[ ] zero fiscal note ______
[ ] zero with analysis ______

APPROVES PREVIOUS: (Date/Dept)
[ ] fiscal note(s) ______
[ ] zero fiscal note(s) ______
[ ] zero fn/analysis ______

SIGNING DO PASS:
[signature] Boucher
[signature] Menard
[signature] Zawacki
[signature] Finkelstein

SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend
[signature] Hanley		✓	

[signature]
Chairman's Signature

HOUSE COMMITTEE REPORT

(7)
Date Referred: April 6, 1990 FURTHER REFERRALS:

FINANCE

Date of Committee Action: _____

The JUDICIARY Committee considered: HB 386

HOUSE BILL NO. 386 ELIGIBILITY FOR PERMANENT FUND DIVIDENDS

"An Act relating to eligibility for permanent fund dividends; and providing for an effective date."

RECOMMENDATIONS:

[ ] be replaced with _____ [ ] the same title [ ] a new title

[ ] have attached amendment(s)

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)

[ ] fiscal impact_____

[ ] zero fiscal note_____

[ ] zero with analysis_____

APPROVES PREVIOUS: (Date/Dept)

[ ] fiscal note(s) _____

[ ] zero fiscal note(s)_____

[ ] zero fn/analysis _____

SIGNING DO PASS:

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SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend
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Chairman's Signature

HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF
HB 386

Eligibility for Permanent Fund Dividends

Received January 8, 1990
by Rep. Finkelstein

Heard March 14, 1990
Heard April 5, 1990

Passed Out of Committee April 5, 1990
4 Do Pass
1 No Recommendation

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HB 386: Eligibility for Permanent Fund Dividends

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HOUSE COMMITTEE REPORT

(7)
Date Referred: January 8, 1990 FURTHER REFERRALS: JUDICIARY
FINANCE

Date of Committee Action: _____

The STATE AFFAIRS Committee considered: HB 386

HOUSE BILL NO. 386 ELIGIBILITY FOR PERMANENT FUND DIVIDENDS

"An Act relating to eligibility for permanent fund dividends; and providing for an effective date."

RECOMMENDATIONS:
[ ] be replaced with _____ [ ] the same title [ ] a new title
[ ] have attached amendment(s)
[X] do pass
[ ] do not pass
[ ] no recommendation
[ ] individual recommendations
[ ] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)
2 [X] fiscal impact DOR
[ ] zero fiscal note
[ ] zero with analysis

APPROVES PREVIOUS: (Date/Dept)
[ ] fiscal note(s) _____
[ ] zero fiscal note(s) _____
[ ] zero fn/analysis _____

SIGNING DO PASS:

SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend
Pegge Hanley		✓	

Chairman's Signature

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HB 386 Item 2
PUBLISH DATE:

FISCAL NOTE

REQUEST

Revision Date:
Title: An Act relating to eligibility for permanent fund dividends
Sponsor: FINKELSTEIN
Requestor:

Agency Affected: Revenue
BRU: Commissioner's Office

Components: Commissioner's Office

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	-0-	636.7	636.7	636.7	636.7	636.7
TRAVEL	-0-	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	-0-	50.7	50.7	50.7	50.7	50.7
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	112.1	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	804.5	692.4	692.4	692.4	692.4
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER (PFD)	-0-	804.5	692.4	692.4	692.4	692.4
TOTAL	-0-	804.5	692.4	692.4	692.4	692.4

POSITIONS:

FULL-TIME	-0-	13	13	13	13	13
PART-TIME	-0-	-0-	-0-	-0-	-0-	-0-
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See attached.

Prepared By: Deborah Vogt
Division: Commissioner's Office
Phone: 465-2300
Date: March 13, 1990

Approved by Commissioner:
Date: 3/14/90
Agency: Revenue

See Letter

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Department of Revenue
Commissioner's Office
Fiscal Note Analysis
HB 386
March 13, 1990

Analysis:

If this bill becomes law, it is estimated that approximately 5,500 additional applicants will appeal to the formal hearing level as a result. Since there are often several applicants in a household, 5,500 applications means approximately 2,400 cases to be reviewed. Discretionary decisions by the division result in a higher (90%) percent rate of appeal.

Summary judgment motions would not be appropriate and would not be utilized. This means that in each case, a formal hearing would be held. In the interest of economy, most hearings would be by correspondence or by telephone, but would be long distance.

If the hearing officer is expected to do actual review of the specific facts to determine practicality in each case, it is my estimate that a hearing officer could complete a caseload of approximately 230 cases per year. This fact alone renders the situation ridiculous. We would need approximately 10 hearing officers and a staff of 1 paralegal assistant and clerical support to keep up with the volume on a year to year basis without impacting our ability to hold hearings on other Permanent Fund Dividend cases, Child Support cases, and more importantly, tax cases.

1. Personal Services		FY 91	FY 92
10 Hearing Officers, R19 @ $4,445.52/mo including salary and benefits for 12 months	=	-0-	$533.5
1 Paralegal Assistant II, R16 @ $3,683.96/mo including salary and benefits for 12 months	=	-0-	$44.2
1 Clerk IV, R9, @ $2517.60/mo including salary and benefits for 12 months	=	-0-	$30.2
1 Clerk Typist III, R8 @ $2,397.48/mo including salary and benefits for 12 months	=	-0-	$28.8
Total Personal Services		-0-	$636.7
2. Travel			
To hold a limited number of hearings in Anchorage.	=	-0-	$5.0

3.	Contractual Services			
	a) Telephone Costs for long distance	=	-0-	$40.7
	b) Westlaw legal research	=	-0-	$10.0
	Total Contractual Services		-0-	$50.7
4.	Equipment			
	a) System furniture for 13 employees @ $4,000/each employee	=	-0-	$52.0
	b) Telephone system upgrade	=	-0-	$25.0
	c) Computer Equipment:			
	13 Wang PC 240 terminals for employees @ $2,700/each	=	-0-	$35.1
	Total Equipment		-0-	$112.1
	TOTAL COST		-0-	$804.5

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HB 386
PUBLISH DATE:

FISCAL NOTE

REQUEST

Revision Date:
Title: An Act regarding eligibility for a permanent fund dividend
Sponsor: FINKELSTEIN
Requestor:

Agency Affected: Revenue
BRU: Permanent Fund Dividend Division
Components: Permanent Fund Dividend Division

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
OPERATING						
PERSONAL SERVICES	157.2	920.1	920.1	920.1	920.1	920.1
TRAVEL	2.0	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	28.2	28.2	28.2	28.2	28.2
SUPPLIES	5.0	5.0	5.0	5.0	5.0	5.0
EQUIPMENT	249.8	-0-	-0-	-0-	-0-	-0-
LANDS & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	-0-	-0-	-0-	-0-	-0-
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	414.0	953.3	953.3	953.3	953.3	953.3
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER (PFD)	414.0	953.3	953.3	953.3	953.3	953.3
TOTAL	414.0	953.3	953.3	953.3	953.3	953.3

POSITIONS:

FULL-TIME	4	28	28	28	28	28
PART-TIME	6	6	6	6	6	6
TEMPORARY	-0-	-0-	-0-	-0-	-0-	-0-

ANALYSIS: See attached.

Prepared By: Ervin Jones
Phone: 465-2323
Division: Permanent Fund Dividend Division
Date: March 13, 1990

Approved by Commissioner:
Date: 3/14/90
Agency: Revenue

See letter

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 386
March 13, 1990

Analysis:

The two-year return rule [AS 43.23.005(a)(3)], is a good law. It is a workable law because it is a test which can be met and which can be measured.

The proposed modification in HB 386 requires the department to make a decision on a question which is not subject to reasonable standard setting: is it "practical" for an individual to return to the state?

In 1989, approximately 8,000 individuals were not eligible for the dividend because they had been gone from Alaska for over two years. Those are people who would otherwise claim to be Alaskan residents, but who had not seen Alaska since at least July 1, 1987. We have heard from many of these individuals claiming that it would be cost-prohibitive to visit their "home state" for the value of two years worth of dividends (three years if they visit in June and July). Some have argued that they cannot get away from school or their job during the two year period. The point is, given the opportunity to claim hardship, impracticality, financial drain, etc., most people will make the claim. We believe we will see an increase of approximately 10,000 claims.

Once this bill becomes law, the division would be inundated with calls and letters from all over the world, wanting advance determination by the division on their particular hardship reason. We do not give advance approval on eligibility because the circumstances always seem to turn out a little different than first described, and then the public is outraged that "we changed our mind." Nonetheless, there would be a great deal of pressure for this type of determination. We now know what we always suspected, that the vast majority of persons who leave the state on allowable absences do not return, at least not in two years. The pressure on the division by the applicants and by all the national, state, and local officialdom whom they will recruit as allies and character witnesses will be intense.

In the initial document processing, the applications which claim such hardships will have to be identified and sorted for further review. This incremental effort is expected to require six seasonal permanent part-time document processors during the three month filing period.

There is no standard provided in the bill which will allow the department to resolve these claims easily. Like most hardship type programs, each case will have to be examined on its own merits, with the final judgment being perceived as arbitrary.

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 386
March 13, 1990

The current caseload for a PFD Specialist is approximately 1,500 cases. Adding hardship determinations for another 10,000 cases will require another eight specialists plus two clerical staff to get out the determination letters and keep the computer records up to date. This results in a doubling of our current review staff, and will result in expanded equipment and space needs. It is likely that the Permanent Fund Dividend Division will have to move from the State Office Building to private leased space to accommodate the increased staff.

I estimate that 7,000 will be denied with approximately 6,300 appealing. Our experience has shown that where the public perceives the decision as one based on judgment, and as discretionary, they almost always appeal all the way to formal hearing. The increase of 6,300 cases to the informal conference staff will result in a tripling of current workload. We will need an additional eight conferees, two clerk typists, and related equipment and space. These conferees also represent the division at formal hearings of which we expect approximately 5,500 per year. Again, experience has shown that the public will take advantage of a free appeal process when the decision is perceived as discretionary. There would be no motions, so each hearing would result in preparation and an actual hearing, a very time-consuming process. Since most of these hearings would be telephonic, we can expect our long-distance contractual costs to go up as well.

In summary, there are two factors which will drive the costs of administering this change.

1. The test to be applied is one which cannot be standardized. Each case will represent a unique set of family, job, transportation and financial problems which will have to be weighed.

2. The decision by the division will naturally be seen as one which involves a great deal of discretion, leading to a high percentage of appeals.

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 386
March 13, 1990

1. Personal Services		FY 91	FY 92
Public Information			
4 PFT Document Processor II's, R8 @ 2,397.48/mo including salary and benefits for 12 months	=	$115.1	$115.1
These positions, assigned to the Dividend Information Offices in Anchorage, Fairbanks, and Juneau, will field general questions from the public about the applicability of the new hardship clause to their particular set of circumstances.			
Document Processing			
6 PPT Document Processor I's, R7 @ 2,340.37/mo including salary and benefits for 3 months	=	$42.1	$42.1
These positions will assist in the initial identification and selection of the hardship cases. They will also mail questionnaires to the applicants, and process the responses before assignment to the PFD Specialists for review.			
Review			
8 PFT PFD Specialists I, R13 @ $3,086.97/mo including salary and benefits for 12 months	=	-0-	$296.3
These positions will review the hardship claims and make the initial determination on eligibility.			
1 PFT PFD Specialist III, R18 @ $4,230.65/mo including salary and benefits for 12 months.	=	-0-	$50.8
This position would become the supervisor of the 8 new PFD Specialists I, above.			

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
HB 386
March 13, 1990

1. Personal Services (continued)		FY 91	FY 92
Appeals			
8 PFT PFD Specialists I, R13 @ $3,086.97/mo including salary and benefits for 12 months	=	-0-	296.3
These positions will hold informal conferences on all denied applicants who appeal the initial decision, and will represent the divisions and the formal hearing requested by approximately 5,500 applicants. They will be part of the Dividend Appeals Unit in Juneau.			
1 PFT PFD Specialist III, R18 @ $4,230.65/mo including salary and benefits for 12 months.	=	-0-	$50.8
This position would become the team leader for the 8 new PFD Specialists I holding appeals, and the current PFD Specialist III would continue to supervise the 8 PFD Specialists as currently staffed.			
1 PFT PFD Specialist IV, R20 @ $4,771.19/mo including salary and benefits for 12 months	=	-0-	$57.3
This position would oversee the expanded Dividend Appeals Unit.			
Clerical support			
4 PFT Clerk Typist IIIs, R8 @ $2,397.48/mo including salary and benefits for 12 months	=	-0-	$11.4
Two of these clerical positions will provide clerical, word processing and computer support for the new initial review team. The other two will serve as support for the new informal conferees in the Dividend Appeals Unit in Juneau.			
Total Personal Services	=	$157.2	$920.1

Department of Revenue
Permanent Fund Dividend Division
Fiscal Note Analysis
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March 13, 1990

			FY 91	FY 92
2.	Travel			
	Administrative Travel by the Field Services Manager to oversee the initial start-up of this new function in Anchorage	=	$2.0	-0-
3.	Contractual Services			
	a) Telephone Costs:		-0-	$28.2
	All of the contacts with this class of applicant will be out-of-state and many will be overseas. Telephone costs will rise dramatically.			
	b) VERY IMPORTANT NOTE: The cost of providing leased space in Anchorage and Juneau is not included at this time (see analysis).			
4.	Supplies			
	General office supplies will increase due to increase in staff. Form letters, questionnaires, etc. will be used in this process.		$5.0	$5.0
5.	Equipment			
	a) System Furniture for 31 employees @ $4,000/employee including desks, chairs, partitions, file cabinets, etc.	=	$124.0	-0-
	b) Computer Access:			
	4 Wang PC 240 computer terminals with emulator boards for the additional clerk typists who will be doing both word processing and file maintenance.	=	$13.2	-0-
	27 Telex or equivalent dumb terminals for file look-up with no word processing requirement.	=	$23.0	-0-
	One time costs of providing access to mainframe at $1,600 per address for 31 addresses	=	$49.6	-0-
	c) Telephone System Upgrade, in both Anchorage and Juneau	=	$40.0	-0-
	Total Equipment		$249.8	-0-
	TOTAL COST		$414.0	$953.3

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX S
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300
TELEFAX: (907) 465-2389

March 14, 1990

The Honorable David Finkelstein
Alaska State House
P.O. Box V
Juneau, AK 99811

Dear Representative Finkelstein:

The department estimates that HB 386 will cost reduce the size of the average dividend check by about $8.00 to $10.00 (estimating 8000 non-returnees outside Alaska will be receiving checks under the bill at say $1000 per check is $8 million. Administrative costs will cut about another million dollars from the amount available in the dividend fund to pay to people here in Alaska).

In addition, the administrative difficulties raised by the bill are severe. There is no good way of estimating the costs of administering the proposal, but there is no doubt that the effort will meet no one's satisfaction, creating a perception of unfairness in the program.

The legislation requires the department to be able to read folk's minds, which is not always an easy task (for this reason the fiscal notes are a very rough "blue-sky" estimate, but I think they do reflect the practical problems involved).

The present law is straight-forward. Extended absence from the state requires that a person forgo the benefits available to people who live here.

I would recommend that it be maintained.

Sincerely,

Hugh Malone
Commissioner

HM:mll
SC-58

04-02LH

Item 3

Alaska State Legislature

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Representative Red Boucher
Chairman, House State Affairs Committee

FROM: Rep. David Finkelstein

DATE: February 27, 1990

RE: HB 386, Eligibility for Permanent Fund Dividends

I hope you will be able to schedule HB 386 at your earliest convenience.

HB 386 would allow persons with legitimate reasons for extended absences from the state to remain eligible to receive permanent fund dividends. Individuals could be determined to have allowable absences by the Commissioner of Revenue in cases where a military absence, particular ailment treatable only outside Alaska, or other valid reason for absence is found to exist. All other requirements regarding the dividend application including civil and criminal penalties are unaffected by this bill.

HB

394

HB 394

STATE OF ALASKA
HOUSE OF REPRESENTATIVES
Box V, Juneau, Alaska 99811
(907) 465-2487 • 465-2498

REPRESENTATIVE CLIFF DAVIDSON • DISTRICT 27 • Box 746, Kodiak, Alaska 99615 • (907) 486-8250

TO: Distribution

FROM: Jay Nelson
Staff to Representative Cliff Davidson

DATE: December 18, 1989

SUBJECT: Proposed pollock roe stripping legislation

As most of you are aware, it was pointed out at the last NPFMC meeting that the emergency rule prohibiting roe stripping would have no effect on shore-based roe stripping operations. The Council discussed the possibility of state legislation to compliment the Council's roe stripping emergency rule.

Attached is proposed pollock roe stripping legislation drafted for Representative Davidson. The legislation would prohibit pollock roe stripping in Alaska. Please review the proposed legislation for both the concept and the specifics. (For example, perhaps a generalized prohibition on roe stripping of all fish species would be preferable in order to eliminate future problems in other fisheries.)

I will be in Anchorage only through Tuesday, December 19th (561-4962, FAX 562-4376). Any comments sent after that time would be better sent to our Juneau office, (465-3715, FAX 463-5661). I will be in the Juneau office on January 3rd. It is Representative Davidson's intent to prefile the legislation by January 5th absent any unforseen problems. Senator Zharoff will also be considering the possibility of introducing this in the Senate.

Thank you for your assistance.

cc: Chris Blackburn
Tim Blott
Larry Cotter
Demming Cowles
Oscar Dyson
L. John Iani
Earl Krygier
Ric Lauber
Henry Mitchell
Larry Nicholson
Karl Ohls
Clarence Pautzke
John Sevier
Jeff Stephan
Dave Woodruff
Joe Plesha
Denby Lloyd

HB 31-

PACIFIC ASSOCIATES

December 18, 1989

From: Larry Cotter
Re: Proposed Pollock Roe Stripping Legislation

Thanks very much for sending me a copy of the draft legislation. I think it is very important that legislation such as this be passed as quickly as possible. The Secretary of Commerce will soon be in the process of determining whether or not to implement the North Pacific Council's emergency prohibition on roe stripping: action, or lack thereof, by the state could have an important impact on that decision.

With one exception, I think the draft is fine. That exception is the definition of "waste". The definition allows pollock flesh to be reduced to meal as an acceptable form of processing. I would prefer that reduction of flesh to meal be allowed only in the event the flesh is damaged or otherwise unfit or unmarketable for fillets or surimi.

The definition of processing is one the Council is grappling with and will deal with at the April meeting. It is a significant definition since some mothership and factory trawlers have meal plants on board and could more rapidly process the flesh into meal than into fillets or surimi. The result would be a waste of food protein and an increase in the speed with which the pollock quota is taken.

I would suggest language similar to the following:

> (3) "waste" means the failure to use the flesh of commercially taken pollock for human consumption OR SCIENTIFIC OR EDUCATIONAL PURPOSES, ALTHOUGH reduction to meal AND production of food for domestic animals or fish~~, or scientific or educational purposes~~, IS ALLOWED IN THE EVENT THE FLESH IS DAMAGED OR OTHERWISE UNFIT OR UNMARKETABLE FOR FILLETS, SURIMI OR OTHER COMMERCIAL FOOD PRODUCTS FOR HUMAN CONSUMPTION. "WASTE"~~, but~~ does not include normal, inadvertent loss of flesh associated with processing that cannot be prevented by practical means.

I hope this is helpful to you. Please contact me if you have and questions. I would be more than happy to testify at any hearing on this bill, and otherwise work for its adoption.

119 SEWARD STREET · SUITE 9 · JUNEAU · ALASKA 99801 907 · 586-3107

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CSHB 394(Res)
PUBLISH DATE: HOUSE 1/12/90

FISCAL NOTE

REQUEST:

Revision Date:
Title: Utilization of Pollock

Agency Affected: Fish and Game
BRU: Commercial Fisheries

Sponsor: Davidson
Requestor: Governor

Components: All

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0					
TRAVEL	0					
CONTRACTUAL	0					
SUPPLIES	0					
EQUIPMENT	0					
LAND & STRUCTURES	0					
GRANTS, CLAIMS	0					
MISCELLANEOUS	0					
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Will be ZERO for 1990

Prepared by: Bob Clasby
Division: Commercial Fisheries
Phone: 465-4210
Date: 01/10/90

Approved by Commissioner:
Agency:
Date: 1/11/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CSHB 394 (Res)
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: Prohibiting Waste of Pollock

Sponsor: Rep. Davidson, et al.
Requestor: House Judiciary

Agency Affected: Public Safety
BRU: Fish & Wildlife Protection

Component: Marine Enforcement

EXPENDITURES/REVENUES: (Thousands of Dollars) (Inflation not included)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	24.8	24.8	24.8	24.8	24.8	24.8
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	9.4	9.4	9.4	9.4	9.4	9.4
SUPPLIES	16.1	16.1	16.1	16.1	16.1	16.1
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	50.3	50.3	50.3	50.3	50.3	50.3
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	50.3	50.3	50.3	50.3	50.3	50.3
FEDERAL FUNDS	0	0	0	0	0	0
OTHER/PROG RCPT	0	0	0	0	0	0
TOTAL	50.3	50.3	50.3	50.3	50.3	50.3

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)
Passage of CSHB 394 (Res) would prohibit the waste of commercially taken pollock. Enforcement coverage for this fishery is not currently budgeted. This fiscal note reflects the cost for the Department of Public Safety to provide up to three weeks of additional vessel patrol sea days in the Shelikof Straits area. (Continued on Page ..)

JAR 1/22/90

Prepared by: Captain Conrad G. Seibel
Division: Fish & Wildlife Protection
Phone: 269-5509
Date: 1-19-1990

Approved by Commissioner: J.A.H. for Arthur English
Agency: Department of Public Safety
Date: 1-22-90

Analysis con't: As for enforcement in the Gulf of Alaska and Bering Sea, it would not be feasible to provide patrol coverage in these areas without a significant increase in personnel and vessels because the timing of the pollock fisheries would also conflict with patrol coverage of existing fisheries and the vast areas to be patrolled.

FUNDING FOR FY 90

Funding required for FY 90 would depend on the effective date of this bill. To provide three weeks enforcement coverage in the Shelikof Straits in FY 90, utilizing existing personnel and vessels, and assuming there would not be any conflicts for using existing personnel and vessels for other fisheries, the amount of funding required would be as follows:

Operating	(Thousands of Dollars)
Personal Services	$24.8
Travel	0
Contractual Services	9.4
Supplies	16.1
Equipment	0
Total Operating	$50.3
Capital	0
Revenue	0
Funding	
General Fund	$50.3
Federal Funds	0
Other	0
Total	$50.3
Positions:	
Full-time	0
Part-time	0
Temporary	0

HOUSE COMMITTEE REPORT

(7)
Date Referred: January 12, 1990 FURTHER REFERRALS:

Date of Committee Action: 1-31-90

The JUDICIARY Committee considered: HB 394

HOUSE BILL NO. 394 PROHIBITING WASTE OF POLLOCK

"An Act relating to utilization of pollock."

RECOMMENDATIONS:
[X] be replaced with CSHB 394 (JUD) [ ] the same title
[X] a new title
[ ] have attached amendment(s)
[X] do pass
[ ] do not pass
[ ] no recommendation
[ ] individual recommendations
[ ] additional referral to the _____ Committee

ADOPTS: [redacted] letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)
[ ] fiscal impact _____
[X] zero fiscal note Pub. Safety
[ ] zero with analysis _____

APPROVES PREVIOUS: (Date/Dept)
[ ] fiscal note(s) _____
[ ] zero fiscal note(s) _____
[ ] zero fn/analysis _____

SIGNING DO PASS:

Peter Jaros
[illegible]
Cliff Davidson
[illegible]

SIGNING: (Check approp. column)

	Do Not Pass	No Rec	Amend
Terry Martin		✓	
Michael W. Hill		✓	

[illegible] Peter Jaros
Chairman's Signature

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CSHB 394 (Res)
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date: 2/01/90
Title: Prohibiting waste of pollock

Agency Affected: Public Safety
BRU: Fish & Wildlife Protection

Sponsor: Rep. Davidson, et al.
Requestor: House Judiciary

Component: Enforcement & Marine

EXPENDITURES/REVENUES: (Thousands of Dollars) (Inflation not included)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER/PROG RCPT	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact is anticipated because of Federal prohibition against waste of pollock and the Federal requirement that observers be on board floating processors, catcher-processors, and at the on-shore processing plants.

JNL 2/1/90

Prepared by: Captain Conrad G. Seibel
Division: Fish & Wildlife Protection
Phone: 269-5509
Date: 2-1-90

Approved by Commissioner: D. Arthur English
Agency: Department of Public Safety
Date: 2-1-90

Original sponsor(s): REP. DAVIDSON, Grussendorf, Hudson, Jacko, Leman, Navarre, Goll

IN THE HOUSE BY THE JUDICIARY COMMITTEE

CS FOR HOUSE BILL NO. 394 (Judiciary)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to utilization of pollock and prohibiting the waste of pollock taken in a commercial fishery."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. LEGISLATIVE FINDINGS. The legislature finds

(1) extensive and valuable populations of pollock are available for harvest in the water of and off Alaska;

(2) commercial markets are available for pollock processed in several forms including both roe and flesh;

(3) the biology of pollock results in the tendency of pollock to gather in large spawning aggregations during specific times of the year so that large quantities of female pollock are easily harvested by commercial trawl fisheries;

(4) the trawl fleet is a highly efficient fishery;

(5) trawl fleets targeting on spawning aggregations of pollock generate management difficulties for state and federal fisheries managers, and could cause serious conservation problems for the pollock resource;

(6) one processing technique presently employed involves stripping roe from female pollock and then discarding the carcasses of both male and female pollock;

(7) profitable markets for fish roe have promoted roe stripping in commercial fisheries for salmon, herring, and pollock, however roe stripping is now prohibited in the salmon and herring fisheries; recent events have demonstrated the need to prohibit the wasteful practice of roe

stripping in the pollock fishery.

* Sec. 2. AS 16.10 is amended by adding new sections to article 3 to read:

Sec. 16.10.164. POLICY ON UTILIZATION OF POLLOCK. The legislature declares that stripping roe from pollock without utilizing the flesh is wasteful and does not constitute utilization of this resource for the maximum benefit of the people. Therefore, it is the policy of the state that

(1) roe stripping be eliminated to the fullest extent possible; and

(2) pollock taken in a commercial fishery should be utilized for human consumption to the fullest extent practicable.

Sec. 16.10.165. UTILIZATION OF POLLOCK TAKEN IN A COMMERCIAL FISHERY. (a) Unless otherwise provided by law, a person may not recklessly waste or cause to be wasted pollock taken in a commercial fishery.

(b) The Board of Fisheries may adopt regulations under the Administrative Procedure Act (AS 44.62) it considers necessary for implementation of this section. The board may delegate its authority under this section to the commissioner.

(c) A person who violates this section is guilty of a class A misdemeanor.

(d) Each day on which a violation of this section occurs is a separate violation.

(e) In this section

(1) "flesh" means all muscular body tissue surrounding the skeleton;

(2) "person" includes a joint venture;

(3) "waste" means the failure to use the flesh of pollock