

HOUSE / SENATE FINANCE COMMITTEE MINUTES - 1967-1982 2688

Tape #: H/S 78-1RECORDER LOGDate: 1/16/78Beg. #: 000Time: 9:02 a.m.End #: 421Page: 1

General Subject: Joint House/Senate Finance Committee meeting regarding
revenue projections.

Present: Representatives Rhode, Guy, Swanson, Meekins, Cowper, Haugen,
Duncan, Freeman and Buchholdt. Senators Meland, Sackett,
Hohman, Butrovich and Orsini. The following representatives
from the Department of Revenue: William L. Means, Bob Democh,
Vincent Wright, Shirley L. Woolf, John Messenger, Jim Edenzo.

Log #	Description
000	Chairman Sackett called meeting to order 9:02 a.m.
002	Presentation by Vincent Wright Re; FY 78-9 Revenue Projections.
	Explanation of materials presented.
012	Department will issue new forecast each quarter
016	Unrestricted Revenue for FY 79
019	Reserves Tax
022	Severance Tax
025	Questions by Reps. Rhodes & Meekins concerning tax credit.
030	Oil & Gas Property Tax
030	Sen. Orsini question -- is rebate to municipalities included in this. Answer: Yes
038	Individual Income Tax -- decreased because high-income wages from pipeline dropped. Chairman Sackett question concerning reliability of projections. Answer: New method for figuring used, called econometric model, results in not relying on outside agencies so much.
038	Corporate Income Tax -
061	Meekins question: Why tax revised downward.

General Subject: Joint House/Senate Finance: Revenue Projections

Log #	Description
064	Corporate Income Tax may be optimistic forecast.
069	Discussion on reduction. Meekins and Cowper questions.
074	Investment Earnings
075	Cowper question on what is included in this. Vetern loans, etc.
085	Business License Tax -- slight downward trend
092	Highway Fuel Tax -- sharp drop due to decrease in pipeline.
097	Alcohol Beverage Tax -- drop due to leveling off of economic activity.
102	Rep. Rhode question re: decline in population? no, but many who worked on pipeline are still here, but unemployed.
114	Cigarette Tax
119	Meekins question is this sale/use of tabacco products? Yes
130	Discussion on projections/population growth.
141	Freeman question How much estimated reduction due to pipeline pump station explosion. Answer \$118 million revised downward.
148	Discussion on explosion cost in income.
161	Haugen question net worth of each barrel of oil. Answer: Well-head value West Coast \$6.20; East Coast \$3.80; Severence Tax floor \$3.60.
177	Mr. John Messenger presentation regarding misc. items effecting individual income tax.
181	Tax credits (1) job credit; (2) elderly credit explained
192	Effect of Federal Standard Deduction on Alaskan tax-payer. Will require legislative action, ~~requiring~~ ^{deduction} legislation making automatic rebate.
224	Meekins question: Does standard ^{deduction} apply to everyone? Yes.
235	Freeman requested state-by-state comparison of individual income tax. Mr. Messenger will provide.
240	Mr. Jim Edenzo presentation regarding General Fund rates of return and average balance.

General Subject: Joint House/Senate Finance: Revenue Projections

Log #	Description
267	Meekins question: End of year surplus? ~~Goes~~ to next year's General Fund balance.
274	\$258 million total amount of loans as of Nov. 30, 1977 ~~broken-out.~~
284	Meekins question regarding Alaska Housing Finance Corporation. ~~Answer obligations of State corporation. Alaska State Housing Corporation \$10.3; Alaska State Development Corp. 553,000; Mortgage Insurance \$1 million; University of Alaska notes \$3.3 million.~~
291	Sackett question regarding liquid assets.
307	Meekins question: Did Vet loans increase as a result of AHFC problems? Answer: ~~Vet loans increasing regardless of what happened with AHFC.~~
315	Retirement System, Public Employees PERS & TRS.
336	Sackett question regarding reason for drop? Answer: reflects ~~condition of market. Security market not performing well.~~
343	Time-weighted average explained.
352	Actual net dollar amount earned PERS/TRS.
358	Expected size of Permanent Fund.
376	Amount in fund and where invested.
388	Meekins question concerning projections of Permanent Fund.
402	Freeman questioned projection for 1985 at 25%. Answer \$304.9 million is contribution only--does not represent total amount in fund. This is projected income for year. Roughly \$1.4 billion estimated total income 1985.
421	ADJOURN 10:16 a.m.

JOINT SENATE AND HOUSE FINANCE COMMITTEES

January 16, 1978

9:10 a.m.

The meeting was called to order at approximately 9:10 a.m. by Senator Sackett serving as Chairman for the Joint Senate and House Finance Committees. All members of the House Finance Committee were present with the exception of Representatives Gruening and Schaeffer, and all members of the Senate Finance Committee were present with the exception of Senator Tillion. Also in attendance were: Senator Ferguson, Representatives Miles and Anderson; John R. Messenger, Deputy Commissioner of Taxation, Dept. of Revenue; Jim Edenso, Deputy Commissioner of Treasury, Dept. of Revenue; Vincent Wright, Chief of Research, Dept. of Revenue; Dept. of Revenue representatives William L. Means, Bob Democh, and Shirley L. Woolf; Fiscal Analysts Bob Grogan and Milt Barker; Kay Brown from Senator Rader's Office; Royce Willen from Representative Malone's Office; and members of the press including Mr. LaRocca.

PRESENT

Chairman Sackett advised that the purpose of the meeting was to enable the Department of Revenue to present its financial forecast to both finance committees at one time.

PURPOSE
REVENUE
FORECASTS

Mr. Vincent Wright spoke first on behalf of the Department of Revenue, advising that he would address revenue projections for fiscal year 1978-1979, while Mr. Messenger would discuss tax issues, and Mr. Edenso would speak on performance during the last year for the Treasury Department as well as the permanent fund.

Mr. Wright referred to the yellow booklet distributed by Revenue, drawing specific attention to Section (E), second page (copy of that page attached). He added that Revenue customarily issues a forecast each quarter, the next one being due March 16, 1979. He stated that the bottom line figure Revenue is forecasting for FY 78 is \$759,084.8 in unrestricted revenues. For FY 79 Revenue forecasts \$928,483.7 in unrestricted revenues, and Mr. Wright added that the above figures are net (after Permanent Fund and Native Claim Settlement payments have been deducted). Mr. Wright next began his review of ranking revenue sources.

UNRESTRICTED
REVENUES

Reserve Tax

Mr. Wright referred to the Reserve Tax as a two-year tax collecting a total of \$493.7 during the two year period, adding that the tax would no longer apply from 1978 onward. This tax is to be credited against the Severance Tax until the entire Reserve Tax has been taken care of. Representatives Rhode and Meekins raised questions concerning the tax credit, Mr. Meekins advising that it was his understanding the tax credit would expire in approximately three years.

Oil and Gas Property Tax

Concerning the Oil and Gas Property Tax, Mr. Wright advised that Revenue forecasts \$168.3 for 1978 and \$170.6 for 1979, stating that this tax is a 20 mill tax levied against the pumping station. Revenue forecasts in this area do not take into consideration the gas pipeline. Senator Orsini asked whether rebates for municipalities would be subtracted from the above figures, and Mr. Wright replied, "yes."

Individual Income Tax

Revenue is forecasting a drop in individual income tax for 1977-78. The reasons for the drop: (1) overall average wage rate has dropped since completion of the pipeline, (2) employment is leveling off since completion of the pipeline project. Chairman Sackett questioned Revenue's forecast in this area, stating that for 1976-77 Revenue had to re-evaluate its findings because it did not know how many people were working on the pipeline. He asked what basis Revenue had used in determining that individual income tax would be extremely low for next year. Mr. Wright advised that forecasted figures for this year have been compared with what was actually taken in last year. He further stated that Revenue is currently using an econometric model and no longer has to rely on so much outside data.

Corporate Tax

Corporate income tax is projected to increase from \$35.8 to \$44.6 in 1978, and to \$65.6 in 1979. Representative Meekins referred to the Revenue Sources FY 77-79 publication, page 2, and asked why the budget estimate had been revised downward. Mr. Wright replied that the downward estimate was based on existing corporate income tax law which contains many loop holes, adding that the revised figure may actually be an optimistic forecast based on existing law. Representative Meekins then stated his understanding

of the foregoing to mean that the downward revision of corporate income tax did not represent a lessening of corporate activity within the state. Mr. Wright replied that this understanding was correct, the revision was due to existing tax law.

Investment Earnings

Mr. Wright advised that Revenue is forecasting an increase from \$34.9 in 1977, to \$44.9 in 1978, and \$51.1 in 1979. The increase is due to a combination of better performance in the Treasury Department and larger revenues in the General Fund as a result of oil activities. Representative Cowper asked if this investment area includes veterans loans, and Mr. Wright replied that it did. He added that the overall area has a rate of about 6-3/4 per cent, which is a good rate of return due to the fact that it includes loans that other banks would not take.

Business License Tax

Mr. Wright advised that Revenue forecasts a downward trend in this area from \$23.2 in 1977, to \$21.8 in 1978, and \$20.4 in 1979. He added that declining figures represent a slight drop compared to 1977, and that 60 per cent of these funds go back to the municipalities.

Highway Fuel

Revenues for 1977 amount to \$16.7. The Dept. of Revenue is forecasting \$13.2 for 1978, and \$12.8 for 1979. The primary reason for the drop is completion of the pipeline and related drop in pipeline activity.

Alcoholic Beverage Tax

From revenues of \$8.0 in 1977, Revenue is forecasting \$6.8 for 1978 and \$6.7 for 1979. Mr. Wright added that the forecast was generated by the econometric model, and advised that the drop was due to a decline in economic activity. Representative Rhode asked Mr. Wright if he believed there would be a decline in population, stating that he believed people would continue to drink as much as before. Mr. Wright advised that the department was forecasting no reduction in residential population, adding that a number of those employed on the pipeline have remained within the state collecting unemployment while awaiting construction of the gas pipeline. These population figures have been incorporated within the econometric model.

Cigarette Tax

From 1977 revenues of \$4.8, the department projects \$4.3 for 1978 and \$4.0 for 1979. The total drop is \$800,000 between 77 and 79. Mr. Wright directed committee attention to the 60 per cent that goes to the school fund. Referring to the Revenue Sources booklet, Representative Meekins questioned figures within the Sale/Use area of the revenue forecast. Mr. Wright advised that funds in this category were divided between the Special Fund and the General Fund.

Discussion ensued regarding population figures and alcohol revenues. Mr. Wright stated that due to the inelasticity of alcohol, as employment drops so do alcohol revenues. POPULATION & ALCOHOL REVENUES

Representative Freeman raised a question regarding reduction in the permanent fund balance as a result of the rump station explosion on the pipeline. Mr. Wright stated that originally Revenue revised its overall figures downward by \$118.0 as a result of the explosion, adding that it had later revised the figures upward because of individual income tax. At this time, Revenue is forecasting a short fall of \$60.0, and estimates \$90.0 for FY 79. When questioned as to what the estimated balance would be had the explosion not occurred, Mr. Wright replied that he did not know; he would have to calculate the figures to determine the effect upon royalties. In 1979 the department assumes that the pump station will be back on in March, so the effect would not be too much. He added that a majority of the permanent fund money comes from royalties. EFFECT OF PUMP STATION EXPLOSION

Responding to a question from Representative Haugen pertaining to the net cost of a barrel of oil pumped through Valdez, Mr. Wright replied that the well-head value on the West Coast is currently \$6.20, and \$3.80 for the Gulf Coast, while the Severence Tax floor is \$6.53. WELL-HEAD COST FOR OIL

At this time Mr. Wright turned the meeting over to John Messenger who spoke concerning tax regulations.

Mr. Messenger advised that during the past year three individual income tax measures have been passed by Congress which the state has not adopted. These measures will require specific legislation to incorporate them within state income tax functions. He added that two of the measures relate to credits which do not apply to state MESSENGER INDIVIDUAL INCOME TAX

income tax for a period of two years unless the legislature incorporates these measures.

New Jobs - The first change enacted by Congress is related to new jobs. An employer receives a credit for new employees hired for positions created during 1977-78.

Retirement Income - The second federal change applies to the elderly and is similar to retirement income credit. The new legislation simply makes the credit apply to a greater number of people.

Standard Deduction - The third federal change relates to standard deductions. The 1977 federal act eliminated standard deductions in the federal income tax code and plugged in equivalent tax deductions in the federal regulations themselves. It simply effected a change in the deduction from one place to another. The change has impact upon the state because while the state incorporated the deductions, it also incorporated the elimination. Because the state has separate tax rates, it did not pick up these amounts on the state tax return. Revenue proposes to correct this fluke resulting from federal law change by a bill which would adopt a standard deduction for Alaska taxpayers on a permanent basis. The department would prefer to issue an automatic refund or rebate which would be mailed to the taxpayer based on the standard deduction which he lost, rather than change the present state tax tables. Revenue would like to be able to do this automatically. The average amount which would be rebated will be approximately \$160.00 per return. Revenue will be introducing a bill effecting this measure during this legislative session.

Responding to a question from Mrs. Buchholdt regarding her concern that the federal level tax credit applies only for a two-year period, Mr. Messenger advised that the deduction change in federal regulations would be effective for more than two years; the two-year credit applies only to new jobs, while the standard deduction applies to everyone (both to standard deductions and to those who itemize, so everyone benefits).

Mr. Messenger turned the meeting over to Mr. Edenso to comment concerning the general and permanent funds.

EDENSO
GENERAL &
PERMANENT
FUND

Mr. Edenso advised that the rate of return received under the general fund fluctuates given market conditions and moneys in the fund for management. In 1973 the general fund earned a 5.4% rate of return; in 1974, 8.76%; and in 1977, 6.0% overall. Average balances for the earnings are not time weighted rates of return. The general fund earned \$38.8 in 1978, \$36.6 in 1975, and \$43.7 in 1975. At the present, investment opportunities can be taken advantage of on a monthly basis where before this could not be done. In the past, all investments were lumped together, but now Revenue is able to distinguish which amounts are general fund and which amounts are loans.

GEN. FUND
BALANCES
& RATE
OF RETURN

Referring to the state loan program, Mr. Edenso advised that the program includes investments such as \$420,000 in agricultural loans, \$9.7 in commercial fisheries loans, \$1.4 in fisheries enhancement, \$8.6 in small business, and \$175.2 in veterans loans, etc. These loans are not liquid assets but are included in the total fund balance. They are classified as part of the long-term portfolio. Replying to a question from Representative Meekings concerning funds in the Alaska Housing Authority, Mr. Edenso advised that the funds total \$19.6 as of the end of November, 1977, that \$10.3 is invested in the Alaska State Development Corp., \$1.0 in mortgage insurance, and \$1.3 in University of Alaska notes. Chairman Sackett questioned figures shown as illiquid assets against the \$300.0 projected in the forecast. Mr. Edenso replied that the largest loan program is veterans loans, and that income coming into the state will increase at a greater rate than the veterans loan program. Representative Meekins asked if the veterans loan program would increase dramatically should the Alaska Housing Finance Corporation be cut back, and Mr. Edenso replied, "no."

STATE
LOAN
PROGRAM

Retirement Systems

Mr. Edenso testified regarding the increase in fund amounts for both the Public Employees Retirement System and the Teachers Retirement System, setting forth the following figures:

	<u>Teachers Retirement</u>	<u>PERS</u>
1973	66.2	68.7
1975	157.5	166.4
FY 77	173.5	190.4
Dec. 1977 actual average portfolio size	192.0	216.0

Regarding rates of return for retirement investments, Mr. Edenso stated that in 1973 the Teachers Retirement Fund received 4.8%, while PERS received 4.9%. In 1977 there was a dramatic rise to 8.6% as a result of investment in mortgage loans in the State of Alaska which yield as much as 9% return. Time weighted percentages for 1977 are 10.5% for PERS and 11.5% for Teachers Retirement. Time weighted rates of return include the amount earned, plus appreciation, inflation, and change in the portfolio structure. Actual increase in dollar amounts earned:

RETIREMENT
FUNDS

	<u>Teachers Retirement</u>	<u>PERS</u>
1973	\$2.2	\$3.4
1977	\$13.6	\$12.6

Mr. Edenso next directed committee attention toward his chart displaying projected permanent fund balances, advising that the chart reports net royalty only, stating that royalties account for 90% of the amounts received.

PROJECTED
PERMANENT
FUND
EARNINGS

1978	\$207.2
1979	\$348.8
1980	\$447.0
1981	\$717.0
1982	\$806.0
1983	\$1,020.0
1984	\$1,118.0

Annual contributions at the 25% contribution level would be:

1978	\$ 51.8
1985	\$304.9

Annual contributions at the 50% level would be:

1978	\$103.0
1985	\$610.0

Annual contributions at the 75% level would be:

1978	\$155.4
1985	Amount would be just under a billion dollars

The present total balance of the permanent fund, \$25.0, is currently invested in corporate and U. S. Government securities, and savings accounts, averaging investment yield of 7.0%.

Representative Cowper asked whether or not both Prudoe Bay gas and oil have been included within Revenue projections. Mr. Edenso replied that department projections include both gas and oil production, and added that a portion of the increase in the fund is due to the fact that by 1984 the state anticipates having completely paid all Alaska Native fund moneys.

PROJ.
INCLUDE
GAS & OIL

Representative Meekins inquired concerning possible projections beyond 1985, asking if decreases in the permanent fund had been calculated as a result of oil production decreases. Mr. Edenso replied that future decreases has not been calculated; the department had only projected figures through 1985. Representative Meekins referred to the ISER report, stating that according to the report, projections beyond 1985 did not look very promising. Mr. Edenso stated that he believed ISER had carried projections beyond 1985, adding that if one were to believe ISER figures, "then heaven help the legislators and the person who is governor in 1990."

ISER
PROJ.

Representative Freeman requested clarification concerning annual contribution figures for 1985 at 25%. Mr. Edenso advised that yearly contribution figures for all percentages were cumulative, and the total projected figure for 1985 at 25% would be roughly \$1.4 billion dollars.

Representative Rhode raised a question concerning the tariff per barrel of oil, and Mr. Wright advised that he would calculate this amount and furnish the information at a later time.

The meeting adjourned at approximately 10:20 a.m.

ADJOURN

RELATIVE RANKING OF NET REVENUE SOURCES
COLLECTED BY THE DEPARTMENT OF REVENUE
FOR THE FISCAL YEAR 7/1/76 TO 6/30/77

CODE NUMBER	REVENUE SOURCE	NET TO FUND REVENUES FY 6/30/77	% OF TOTAL REVENUES COLLECTED	RELATIVE RANKING
006	Oil & Gas Reserve Tax	\$270,626,502.33	34.38	1
036	Individual Income Tax	210,377,894.14	26.72	2
001	Property Tax	139,140,712.33	17.67	3
038	Corporation Income Tax	35,772,119.01	4.54	4
575-577	Interest on Loans, Investments & Deposits	34,931,852.81	4.44	5
065-068	Oil & Gas Production Taxes	23,705,205.16	3.01	6
046	Business License Tax	23,252,151.71	2.95	7
021	Highway Fuel Tax	16,745,209.07	2.13	8
016	Alcoholic Beverage Excise Tax	7,977,716.68	1.01	9
017-018	Cigarette Tax	4,850,739.63	0.62	10
062	Raw Fish Tax	3,830,280.26	0.49	11
120-218	Sport Fishing & Hunting Licenses	3,104,291.66	0.39	12
057	School Tax	2,588,594.16	0.33	13
022	Aviation Fuel Tax	2,503,709.28	0.32	14
063	Cold Storage Tax	1,855,358.39	0.24	15
023	Marine Fuel Tax	1,358,152.59	0.17	16
020	Electric & Telephone Coop Tax	1,192,751.18	0.15	17
106-119	Liquor Licenses & Fees	949,287.87	0.12	18
126	Vessel & Gear Licenses	654,220.00	0.08	19
064	Freezer Ship Tax	517,427.28	0.07	20
625	Prepaid Tax	248,200.39	0.03	21
138-845	Comm. Fish Lic. - Non-Resident	230,100.00	0.03	22
137-844	Comm. Fish Lic. - Resident	200,735.61	0.03	23
052	Estate Tax	193,676.18	0.02	24
402	Miscellaneous Revenues	144,607.83	0.02	25
037	Fiduciary Income Tax	92,438.60	0.01	26
145	Amusement Device Tax	92,091.24	0.01	27
061	Mines & Mining Tax	65,247.02	0.01	28
066	Oil & Gas Conservation Tax	53,201.58	0.01	29
146	Lottery Permits	15,168.70	0.00	30
140	Commercial Fishing Extension Fees	10,260.00	0.00	31
102	Embalmers Fees	300.00	0.00	32
051	Inheritance Tax	(567.35)	0.00	33
Totals		\$787,279,635.34	100.00	

HOUSE FINANCE SUBCOMMITTEE
NATURAL RESOURCES
January 24, 1978
8:50 a.m.

Members present: Representatives, Swanson, Haugen and Loveseth. Officials from the Department of Fish & Game: Ronald O. Skoog, Commissioner; Rube Andrews, Director, Division of Sport Fish; Jeff Morrison, Director, Division of Administration; Carl Rosier, Director, Division of Commercial Fisheries. Also in attendance: Representative Rhode, House Finance Committee; Bob Grogan, Fiscal Analyst, Legislative Finance.

PRESENT

Chairman Swanson called the meeting to order at 8:50 a.m. and stated the purpose of the meeting is the presentation of the budget overview by the Department of Fish and Game.

Commissioner Skoog spoke about D-2 land legislation and the problems in protection of resources, fish and wildlife. He said the Department will depend on federal legislation for funds in the future. He stressed that more staff is needed to operate in rural areas to provide more public participation. He spoke of long and short range plans for reorganization. He said field personnel working with Public Safety Commissioner Burton will be run through course at Sitka for better understanding. He stated the Department is trying to change the regulatory system. He said the Department is holding public meetings now to establish five regions (individual regional councils). The advantage would be that the boards would be spread throughout the State and would provide more public output. He advised the next public hearing would be in Fairbanks in February.

PRESENTATION
BY MR. SKOOG

Representative Haugen stated he hated to see another regulatory agency. He was advised that, under the board, it is authorized by law. Discussion of advantages and disadvantages of forming another board, transportation of staff to these meetings, etc. Commissioner Skoog said there would be four Commercial Fisheries Board positions: Southeast, Prince Wales, Kodiak, Bristol Bay; and a fifth person, most likely a director.

Mr. Andrews presented the budget overview for Sport Fish. He stated the 1979 budget is of a maintenance type. He said there is a significant increase in revenues due to sport fish licensing. He advised the Department is a contributor with the University of Alaska, which now has approximately five graduate students. He said the Department assists these students in obtaining graduate degrees for possible future employment. He stated the sport fishermen in Alaska are increasing at a rate of 8-11% annually,

SPORT FISH

which makes it difficult to monitor these areas. He cited the Russian and Kenai Rivers and limited highways as being problem areas. He expressed concern over the detrimental impact and said the Department did not have enough manpower to handle this problem at present.

Representative Haugen asked from what federal act does the Department obtain its funds. He was advised the Pittman-Robertson and Dingle-Johnson on a matching funds basis of 3-1 and 1-1 (or 50-50). Discussion of use of general funds for sport fishing.

Mr. Morrison said his division's BRU includes the Office of the Administrator. They have asked for an administrative assistant, which will be of help particularly in the Southeast region. He stated the CETA program has been of great help and that the three CETA positions are reflected in the budget. CETA pays same dollar amount regardless of the position status, and the Department pays the balance. Administrative services only increase is inflationary. He said the Governor's budget does not provide for the Anchorage Children's Zoo. The housing program is separate BRU for current year. The vessels category of the budget provides for replacement of the 40-foot vessel "Shad" and one additional position in Petersburg. The vessel section is funded by transfer to Commercial Fisheries from Administration, effective next fiscal year. He said there would be a Board change; Executive Director and Assistant Executive Director. Staff funding is split (50-50) between the Board and Department of Fish and Game. He stated advisory boards travel budget remains the same as last year.

ADMINISTRATION

Discussion of cost to run State-owned vessels. Average daily cost between \$1,500-\$2,000. Representative Loveseth asked for a breakdown of owning and maintaining vessels as opposed to chartering them.

Mr. Rosier stated there was expansion in several areas in 1977, with considerable increases in herring and cod fish harvesting expected. He spoke about the Copper River program and a number of projects in BYK areas. He said there was need for positions in data processing. As more fisheries are developing, the Division is way behind in handling them. Updating data processing would help. He spoke of the drastic change in harvesting fish. What used to be a five-day week in harvesting king salmon is now down to three hours per week. New vessels (93-150 feet) will be available to fisheries September 1, 1978. Representative Loveseth asked how many outside vessels were involved at present. Mr. Rosier advised that, currently, 10% have interim permits to harvest salmon and herring.

COMMERCIAL FISHERIES

Representative Haugen brought up the subject of over-fishing, and a discussion followed on roll fisheries. Mr. Rosier asked that FB-4 agriculture planning funds be transferred into the general fund position created two years ago when the agricultural fund was set up for private agriculture. He said under the present situation, the agriculture program would become defunct June 30, 1978. He asked that funds for this division be transferred to the general fund.

The meeting adjourned at 10:00 a.m.

ADJOURN

HFC 78-3 #2067
78-4 #1066

HFC Subcommittee Meeting - Natural Resources

General Subject: Budget Overview by Department of Natural Resources

Present: Members: Rep. Swanson, Haugen, Loveseth. Officials from Dept. of Natural Resources: Fred Boness, Deputy Commissioner; Michael Smith, Assistant Commissioner/Director of Lands; Harry Aase, Administrative Officer; Allan Linn, Director, Div. of Agriculture; Ted Smith, Director, Div. of Land & Water Management; Terry McWilliams, Director, Div. of Parks; F.S. "Doc" Honsinger, DVM, State Veterinarian; Pat Conheady, Legislative Aid. Also in attendance: Rep. Freeman, HFC; Jay Hogan, Director, Legislative Finance; Bob Grogan, Fiscal Analyst, Legislative Finance.

Log #	Description
1172	Chairman Swanson called the meeting to order at 8:30 a.m.
1179	Introductions, Dept. of Natural Resources, by Mr. Boness.
1195	Presentation of budget overview by Mr. Boness.
1200	Increased activity in land disposals.
1212	Delta agriculture/homesite disposals.
1220	Permits: right-of-way leases, gravel permits
1228	Oil & gas leases; regulations to be revised; joint resale with federal government.
1238	Royalty oil & gas; specialized outside consultants.
1252	Pipeline surveillance areas: Alyeska, decrease; Alcan, increase.
1261	Oil & gas conservation; increase in personnel for monitoring pipeline areas, valve safety & inspection of wells, North Slope.
1273	Resources inventory; used to develop State's input to resources in Alaska to develop State's selection pattern with respect to D-2 matters (steering council).
1284	Rep. Swanson stated this year the Committee would not be denied the right to testimony of any witness it chooses to call, whether State employee or not. He said last year Department censored witnesses.
1302	Rep. Freeman asked how many people would have to be employed in the homesite program. Mr. Ted Smith answered a total of four full-time employees: two in Fairbanks, one in the central office and one in the classification section.
1326	Rep. Haugen wondered how the mental health lands would be affected and would it be resolved by trade. He was advised it is the opinion of the Attorney General's Office that a separate fund be set up for a Mental Health Advisory Board.

General Subject: Budget Overview by Department of Natural Resources

[illegible]

Tape #: HFC 78-11 #1485 to end
HFC 78-12 # 001 to end
HFC 78-13 # 001 to 103
Beg. #: _____
End #: _____

RECORDER LOG

Date: 2/14/78

Time: 8:30 a.m.

Page: 01

General Subject: Natural Resources Subcommittee -- Fish and Game (Hatcheries and Commercial Fish)

Present: All members of the Subcommittee. Also in attendance were the following persons from the Department of Fish and Game: Ronald Skoog, Commissioner; Carl Rosier, Director, Division of Commercial Fisheries; Jeff Morrison, Director, Division of Administration; Robert Rausch, Director, Division of Game; Bev Round, Division of Game; Steve Stenyor and Don Wannin, Division of Commercial Fish.

Log #	Description
1485	Chairman Swanson called the meeting to order 8:30 a.m. Mr. Bob Rausch stated they would answer questions that arose at previous meetings and review 76 and 78 bond issues.
1510	Mr. Rausch: chum salmon return/release chart
1521	Chum Salmon return against fry release chart
1536	Incubator product vs. square inch space
1564	Fred III Incubator
1586	Stated Division going through extensive reorganization due to last year's legislative intent. Break-down in front of budget document. Now have two major branches: operations and technology.
1638	Discussed location of hatcheries.
1676	Proposed hatchery expansion at Elmendorf/Fire Lake & Fort Richardson Snedersham/Juneau
1700	Additional locations for hatcheries South Central & Kuskokwim area
1764	Rep. Haugan asked question concerning the Good Pasture study and Mr. Rausch stated they have received the results of that study.

General Subject: NRMEC -- Fish & Game

Log #	Description
1815	Mr. Rausch: Sockeye Program
1830	Design Capacity Goals chart -- summarized in budget document
1889	Design capacity goals in value of adult returns.
1952	Recovery of operations costs. Stated they are developing analysis along these lines.
1993	Bev Round: Budget explanation by component
1996	Administration and Support -- no change
2002	Clerical Support -- 3 new positions; Sitka, Homer and Juneau
2011	Comprehensive Salmon Planning -- 1 new position
2081	Discussion on planning of new division. Mr. Rosier stated planning for the facilities (hatchery) is extremely important.
2099	Rep. Haugen commented on permits in areas where hatcheries are located.
2116	Discussion on private vs. government hatcheries.
2220	Rep. Swanson stated he believes the State is heading toward a confrontation between private and governmental hatcheries.
2303	Bev Round: Non-Profit Hatcheries -- seeking reinstatement of Clerk IV position
2316	Technical and Development; new component by reorganization. No increase in positions -- people were taken from other areas. The new position of Chief of Hatcheries was formerly a deputy director.
2343	Operations: total increase of 17 positions, primarily fish culturists.
2370	Typical Hatchery Staffing Pattern explained
2370	FY 78 personnel request over and above pattern -- 4 persons each hatchery plus 24-36 hr/month temporary personnel.

● al Subject: NRMEC -- Fish and Game

Log #	Description
2420	Bev Round: Next year division is looking to rounding out staff in existing facilities. On clerical side will be looking for one FT Clerk Typist. Will be requesting two pathologists that were denied this year.
2454	Total request of additional positions in 1980 will be approximately 18 positions; in 1981 request will be for 3-4 positions at most.
2477	Discussion on lapsing funds.
<u>TAPE CHANGE HFC 78-12</u>	
001	Bev Round: Total FRED increase is 15%.
070	Recess: 9:35; Recall to order 9:40 COMMERCIAL FISH
075	Mr. Rosier: Brief rundown of shellfish & salmon resource
126	Have been some misconceptions of salmon resource. Was a decline in 71-72. Projecting 63 million salmon statewide harvest this year.
170	Stocks fluctuate greatly.
260	forecasts for various areas of state
420	Shellfish predictions by areas of state.
619	Discussion on closing Kachemak Bay as a critical habitat area.
640	Mr. Rosier: Additional shellfish predictions by area
679	Exploratory interest in shrimp population in Prince William Sound
729	Commercial Fish budget submission is basically a maintenance level budget
766	Has been a substantial redirection of budget to bring in high priority items.
7	Bulk of positions requested are for specific capital projects.
808	Explanation of capital projects -- \$225,000.

General Subject: NRMEC -- Fish and Game

Log #	Description
830	Chairman Swanson asked if any positions were located in Kotzebue.
	Mr. Rosier stated positions were budgeted at the regional headquarters level. Positions will be assigned to programs in needed rural areas.
867	All approved positions are dedicated to ongoing capital projects.
878	Participation in FRED programs.
965	Representative Haugen commented on subsistence fishery program.
1063	Chairman Swanson commented on escapement in Lower Yukon and Kuskokwim.
	He asked why they don't fish just one-half the river during peak periods. Mr. Rosier commented this is an allocation question.
1206	Discussion on subsistence fishing and full chum runs.
1237	Discussion on timing of spawning.
1269	Steve Stenyor stated king salmon has gone through four cycles. Catches appear to be fairly stable.
1320	Comments on commercial fishing in Yukon and Kuskokwim.
1353	Chairman Swanson repeated his earlier comments concerning escapement.
	Mr. Rusier responded that if this type of program were implemented it would have a severe impact in terms of the number of permit holders.
1422	Rep. Haugen commented on Sheldon-Jackson hatchery.
1500	Discussion between Rep. Haugen and Mr. Rosier on permit system.
1529	Rep. Snyder questioned king crab indexing. Mr. Rosier stated this year's budget request dropped this development program because they couldn't justify funding.
1	Rep. Haugen commented on clam harvestings.
1654	Rep. Loveseth asked if razor clams had been considered as a sport fish.
	Mr. Rosier stated it depended on the area; but interest has been very small.

Real Subject: NRMEC -- FISH & GAME

Log #	Description
1607	Rep. Haugen commented that Fish and Game has had a number of revised programs before Legislative Budget and Audit and asked for further information concerning the one that takes existing fish and game personnel for observers on domestic troll fisheries. Discussion.
1745	Discussion of bottom fishery and halibut fishery.
1757	Chairman Swanson stated there has been discussion of "rolling" the Limited Entry BRU into Fish and Game. Commissioner Skoog stated Fish and Game endorses this concept. SB 100 refers to this. Discussion on limited entry.
1913	Mr. Rosier stated technicians in budget are all field workers; they are temporary positions.
1928	Discussion on data processing.
1950	Mr. Don Wanny explained the existing data processing system. He stated it currently takes from 8 to 9 weeks from the time the initial data is put on file and the time it is received back in final form. He explained the system they want to develop. He stated terminals would be put in regional offices. He advised they are asking for 3.5 positions to support the data collection.
2070	Explanation of transaction volume.
2089	Systems Analyst II requested. Explanation of why position is needed.
2145	Discussion of North Pacific Fishery Council Requests.
2240	Discussion on capital appropriations. Mr. Morrison stated these are capital funds and do not lapse each year.
2260	Discussion on computer system Fish and Game wants for collection data; problems with current system and how they plan to alleviate problems.

Book 1 - Pages 1 to 435
Book 2 - Pages 436 to 927
Book 3 - Pages 928 to 1119

INDEX

1979 HOUSE FINANCE COMMITTEE MEETING MINUTES

BUDGET:

BUDGET OVERVIEW 1-52, 53-62, 70

PUBLIC PROTECTION:

Overview/Department Testimony: 69, 70-74, 75-77, 83-85
89-91, 96-98

Close-Outs: 100-101, 102-103, 104-109, 110-116, 932-936,
1015, 1016, 1017

TRANSPORTATION:

Overview: 117-127, 131

Department Testimony: 128-130

Close-Outs: 885-896

DEVELOPMENT:

Overview: 136-137

Department Testimony: 147-150, 169-174, 175-177, 181-187,
928-929, 930-931

Close-Outs: 189-193, 194-195, 196-201, 917-981, 919, 931-932, 1018

NRMEC:

Overview: 189, 202-207, 215

Department Testimony: 228-231, 232-237, 238-239, 240-245, 246-248,
251-256, 257-261, 265-267, 268-269, 309-310

Close-outs: 283-297, 298-308, 897, 969-971, 1014-1015, 1018, 1039

HEALTH:

Overview: 310

Department Testimony: 321-353, 354-360, 361-408

Close-Outs: 496-503, 647, 904-905, 1015, 1016

SOCIAL SERVICES:

Overview/Department Testimony: 409-435, 436-452

Close-Outs: 504-505, 506-512; 913-914; 915-916; 981-982; 1015;
1016; 1018

(Continued)

Index (BUDGET):

GENERAL GOVERNMENT:

Overview: 514-516; 520-524
Department Testimony: 528-532; 536-555; 580-583; 584-599;
647-649; 650-651
Close-Outs: 665-666, 667-672; 897-898; 902-904; 972-973; 974-977;
983; 1014; 1016

EDUCATION:

Overview: 673-674
Department Testimony: 687-688; 689-694; 717-721
Close-Outs: 791-792; 811-816; 828-833; 836-839; 915; 958; 968-969;
979-981; 1016

JUSTICE:

Overview 729-732
Department Testimony 737-740; 840; 851
Close-Outs 978-979

UNIVERSITY OF ALASKA

Overview: 847-850
Department Testimony: 852-854; 856-863; 873-876; 877-884
Close-Outs: 955-967; 983-984; 1022

CAPITAL BUDGET:

984-993, 994-995; 996-1004; 1005-1010; 1011-1013; 1014; 1018;
1022-1023

Also see SB 53 For discussion of Budget. & HB 60.

INDEX

1979 HOUSE FINANCE COMMITTEE MEETING MINUTES

MISCELLANEOUS - BY SUBJECT:

Ketchikan Delegation regarding their priority projects 525-527

3/15/79 House/Senate Finance Joint Meeting 625-629
RE: Loan Program Problems

3/19/79 House/Senate Finance Joint Meeting
Alaska Association of School Administrators

3/27/79 Revenue Projections 736-737

4/2/79 Bethel Broadcasting-Martin Moore 855-856

4/3/79 Proposed High School-Klawock 872

INDEX

1979 HOUSE FINANCE COMMITTEE MEETING MINUTES

BILLS

HOUSE RESOLUTIONS

HCR 1	Directing Legislative Council to conduct a study relating to foreign investment in Alaskan fisheries.	605-606
HCR 2	Approving recommendations of the Salary Commiss.	281-282
HCR 5	Urging the Judicial Council to complete its review and make recommendations regarding judicial sentencing practices.	454-456
HJR 14	Enunciating the position of the Alaska State Legislature with respect to national interest lands in Alaska.	78-79, 80
HJR 30	Sale of Revenue bonds of the Alaska Power Authority for Terror Lake hydroelectric project at Kodiak.	602-604, 633

HOUSE BILLS

HB 2	Relating to mentally ill persons	714-717
HB 11	Creating a net income tax deduction for child adoption expenses; effective date.	1079-1080
HB 12	Relating to Northern Technology; effective date.	572
HB 17	Relating to the James Dalton Highway	630-632
HB 18	Increasing the benefits paid under territorial public employees' retirement system; effective date.	245, 271
HB 19	Relating to agricultural and industrial fairs.	600-601; 607-608; 610-611
HB 21	Supplemental Appropriation to the University of Alaska	453-454; 556-667
HB 25	Unemployment Insurance Coverage for employees of the state and its political subdivisions; ef. date.	558-559
HB 26	Insurance coverage for persons receiving benefits under PERS & TRS.	188; 208-209

HOUSE BILLS INDEX - Continued

HB 28	Providing for presidential party primary elections; effective date.	621
HB 32	Special appropriation to Department of Commerce & Economic Development; power project revolving loan fund of Alaska Power Authority; effective date.	215-218; 232; 280
HB 33	Relating to state land formerly under U.S. Forest Service special use permit.	615-616
HB 34	Preparation and distribution of taxpayers survey of the budget.	209
HB 36	Special appropriation for study of Alaska's fisheries taxation law; effective date.	606
HB 44	Supplemental appropriation to Legislative Affairs Agency; effective date.	559-560
HB 53	Special appropriation to Office of Governor for state's effort concerning federal withdrawal of Alaska land; effective date.	79-83
HB 55	Relating to employee suggestion award system; effective date.	279-280
HB 60	Appropriating for operating and capital expenses of state; effective date.	840-843
HB 65	Special appropriation to Department of Law; effective date.	270-271; 277-278; 578
HB 66	Providing an exemption for senior citizens from payment for land leased from state.	245; 272
HB 78	supplemental appropriation to DOT/PF for funding transportation programs during final quarter of FY 79; effective date.	131-135; 147
HB 81	Relating to trapping license receipts.	245; 272-273; 465
HB 84	providing for a refund of unused balance of personal leave upon termination of state employment.	245; 273; 275
HB 87	Special Appropriation to Legislative Council for conducting a study relating to the extent of foreign investment in Alaskas fisheries; effective date.	605-606
HB 89	supplemental appropriation to Office of Gov.; Tokyo Office; effective date.	608-609

HOUSE BILLS INDEX - Continued

HB 90	Supplemental appropriation to Department of Community and Regional Affairs; division of local government assistance; effective date.	573
HB 91	Supplemental appropriation to Department of Law; effective date.	563-564; 622-623
HB 92	Supplemental appropriation to Department of Labor; effective date.	633
HB 93	Supplemental appropriation to Office of Governor, supervisory bargaining unit contract; effective date.	209-212
HB 94	supplemental appropriation to Department of Education; Division of vocational rehabilitation; effective date.	92-96; 130
HB 107	Supplemental appropriation for payment of miscellaneous claims; effective date.	245, 578-579; 600
HB 108	Relating to functions and organization of state library distribution and data access center.	575-577
HB 110	Special appropriation to DOT/PF, realignment of port of Skagway.	278-279
HB 116	Relating to steering Council for Alaska Lands.	88-89
HB 119	Special Appropriation to Department of Fish & Game, implementation of game management plan for bison in Delta Junction; effective date.	~~456~~ 453
HB 133	Special appropriation to Department of Fish & Game, establish a resident fisheries biologist position in Dillingham; Nannek; effective date.	457
HB 136	Special appropriation to Department of Fish & Game to purchase a sonar fish counter at Nushagak; effective date.	456-457; 460-461
HB 141	Limited Engrly Study Commission; effective date.	645-646
HB 142	Special Appropriation to Legislative Affairs Agency for limited entry study commission.	645-646
HB 143	Supplemental appropriation to Department of Health & Social Services; division of public assistance; effective date.	212-214

HOUSE BILLS INDEX - Continued

HB 147	Relating to registration fees for special request personalized license plates.	273-274
HB 153	Legislative Budget & Audit Committee, establishing a joint budget subcommittee.	245; 275-277
HB 155	Relating to competitive bidding	458-460; 577-578; 622
HB 157	Supplemental appropriation to Department of Revenue, treasury management; effective date.	604-605
HB 158	Supplemental Appropriation to Department of Community and Regional Affairs for special municipal services account; effective date.	464
HB 161	Special appropriation to DOT/PF for construction of 'Tustumena' class ferry; effective date.	573-574; 633-634
HB 164	Special appropriation to Department of Education, sheldon museum and cultural center; effective date.	278
HB 174	Relating to participation of elected officials in PERS; effective date.	635
HB 177	Relating to unemployment insurance.	453
HB 185	Authorizing state aid to municipalities for construction and development of cultural facilities.	618-619
HB 187	making technical amendments relating to oil and gas taxes; effective date.	642-643, 649
HB 188	supplemental appropriation to Department of Health and Social Services, office of alcohol and drug abuse; effective date.	1046-1047
HB 192	Equalization of tax resources of municipalities, continuing portion of program of state aid; and providing minimum entitlements.	565-571
HB 193	Relating to regional fish and game councils; effective date.	644-645; 817-819
HB 195	Providing advisory committee on judicial sentencing practices.	454-456
HB 196	Special appropriation to judicial council; effective date.	454-456
HB 199	establishing the division of subsistence hunting and fishing.	644

HOUSE BILLS INDEX - Continued

HB 210	Supplemental Appropriation to Department of Health and Social Services, medical services; effective date.	1047-1048
HB 214	Relating to unemployment insurance; effective date.	643
HB 216	Supplemental appropriation to Department of Health and Social Services; public health assistance; effective date.	1048
HB 217	Supplemental appropriation to Department of Health and Social Services; effective date.	1025, 1049
HB 218	Supplemental appropriation to Alaska Court System; effective date.	1026
HB 220	Relating to compensation for certain state officers and employees; effective date.	640-642
HB 224	Creating a special utility consumer counsel; effective date.	636-637
HB 229	Fee permit system for king salmon and steel-head trout sport fishing.	280-281
HB 233	Supplemental appropriation to University of Alaska for laboratory equipment on Anchorage campus; effective date.	556-557
HB 235	Special appropriation to DOT/PF for surfacing roads; effective date.	616
HB 237	Supplemental appropriation to Department of Natural Resources for Iditarod Trail Race; effective date.	559
HB 238	Special appropriation to DOT/PF for construction of float plane ramps at Akhiok & Larson Bay; effective date.	616-617
HB 239	Special Appropriation to Legislative Affairs Agency for gas liquids line feasibility study and instate royalty gas and gas liquids line feasibility study; effective date.	464-465
HB 241	Relating to state bonding.	245; 277-579
HB 243	Relating to teachers' and public employees' retirement; effective date.	620
HB 261	Supplemental appropriation to Department of Law for training program on revised criminal code; effective date.	557

HOUSE BILLS INDEX - Continued

HB 262	Special appropriation to Department of Law for training program on revised criminal code; effective date.	557-558
HB 266	Increasing the number of superior court judges; effective date.	637, 638-639
HB 281	Relating to nonrenewable resource revenues; to legislative oversight; effective date.	1101-1102; 1104
HB 291	supplemental appropriation for telecommunications; effective date.	644
HB 294	relating to mobile homes.	638
HB 296	Making transfers between appropriation items for Department of Administration, pioneers' home; effective date.	461
HB 297	Providing for establishment of Alaska State Office in Copenhagen.	621-622
HB 299	Special Appropriation to Department of Community & Regional Affairs for study of effects of landslides and tsunamis on Kodiak Island; effective date.	617
HB 303	Special appropriation to Department of Community and Regional Affairs for erosion control along Delta River; effective date.	635-636
HB 307	Making transfers between appropriation items FY 79 appropriations, and making supplemental appropriations to Department of Natural Resources, division of parks; effective date.	606-607
HB 308	Supplemental appropriation to Department of Health & Social Services; division of public health; effective date.	638
HB 309	Relating to construction of power projects.	646
HB 337	Special Appropriation to Department of Education to reimburse Kawerak, Inc. for utility payments to Nome school.	513-514
HB 352	Relating to state income tax returns; effective date.	609-610; 611-612; 637
HB 365	Making capital appropriations to the University of Alaska; effective date.	556-557, 643

HOUSE BILLS INDEX - Continued

- HB 367 Supplemental appropriation to Office of Gov. 639-641
for labor, trades and crafts employees nego-
tiated salaries; effective date.
- HB 368 supplemental appropriation to Office of Gov. 639-641
for general government, public safety, and
confidential employees salaries; effective date.
- HB 376 exemption from state individual income tax of 639
certain unemployment benefits subject to federal
taxation; effective date.
- HB 377 Making FY 79 transfers of appropriation items 633
for Department of Labor; effective date.
- HB 381 Supplemental appropriation to cover salary 640-641
increases for state employees not covered
by collective bargaining agreement; effective
date.
- HB 387 Relating to the student loan program. 623-624
- HB 430 Supplemental appropriation to Department 1048-1049
of Health and Social Services; effective date.
- HB 446 terminating board of psychologists and psychol- 1083-1086
ogist examinations; effective date.
- "Sunset Bills" 1081 to 1865

SENATE RESOLUTIONS:

- SCR 13 Directing DOT/PF to secure possession of 1117
buildings at Aniak White Alice Site for
educational purposes.
- SJR 25 Uring U.S. government to release its interest 1116
in improvements of Aniak White Alice Site to
State of Alaska.

SENATE BILLS:

- SB 4 Worker's compensation for volunteer ambulance 245, 279, 1092,
attendants and police. 1097, 1103
- SB 5 Relating to agricultural loans under the 1086
agricultural loan act; effective date.
- SB 11 Relating to purchasing by state agencies; 1066, 1068-1969;
effective date 1098; 1106

SENATE BILLS INDEX - Continued

SB 14	Relating to agriculatural development; effective date.	1103-1104; 1108
SB 22	Extending benefits of group insurance to certain temporary employees of state and governmental units; effective date.	1092-1093; 1096-1097 1106
SB 25	Relating to withdrawl from federal social security system; effective date.	1078-1979
SB 26	Relating to credited service under PERS; effective date.	1086-1087
SB 53	Relating to operating and capital expenses of state government; effective date.	1027; 1044-1045
SB 62	Supplemental appropriation to special projects office, office of governor, to continue funding for Delta agricultural development project; effective date.	117
SB 63	Special appropriation to Alaska Power Authority for Susitna hydroelectric project; effective date.	1104-1105; 1116
SB 80	Making transfers between general fund appropriations affecting University of Alaska for FY 77 & 78; effective date.	1076-1078
SB 81	Supplemental appropriation to Office of Gov. division of budget and management; effective date.	1041-1042; 1082; 1097
SB 83	Supplemental appropriation to Department of Fish and Game and Office of Governor; effective date.	1066-1067
SB 86	Requiring fiscal notes to be prepared for regulations having fiscal impact.	1103
SB 87	supplemental appropriation to DOT/PF, aviation design and construction; effective date.	1068
SB 90	Supplemental appropriation to University of Alaska for acquisition of library books; effective date.	556-557, 643
SB 91	supplemental appropriation to Department of Administration, ASHA payments; effective date.	462-463; 644
SB 115	Relating to civil liability of lawful providers of alcoholic beverages.	1117-1118

SENATE BILLS INDEX - Continued

SB 116	Participation by employees of Alaska State Office in Tokyo in PERS; effective date.	1075-1076
SB 130	Relating to Student Loan Program; effective date.	1111-1112
SB 132	Relating to fisheries tax; effective date.	1117
SB 134	Special Appropriation to Department of Community and Regional Affairs for grants to municipalities and other recipients in place of entitlements under program of state aid to local governments; effective date.	1108
SB 142	Supplemental appropriation to Department of Health and Social Services; effective date.	1049, 1066
SB 143	Supplemental appropriations to Department of Health and Social Services; effective date.	1042-1043; 1045-1046
SB 202	Special appropriation from international airport construction fund to Fairbanks International Airport; effective date.	1024-1025
SB 202	Authorizing issuance of sale of additional \$8,500,000 in revenue bonds for international airport; effective date.	1024-1025
SB 234	Relating to materialmens and mechanics liens; effective date.	1107-1114
	("Sunset Bills" pages 1081 to 1086) ✓	
SB 240	Continuing the existance of the state medical Board; effective date.	1082
SB 241	Continuing the existance of the Board of Nursing; effective date.	1083-1086
SB 242	Continuing the existance of Board of chiropractic examiners; effective date.	1083-1086
SB 243	continuing the existance of Board of examiners in optometry; effective date.	1083-1086
SB 244	Continuing the existance of board of examiners in pharmacy; effective date.	1083-1086
SB 245	Continuing the existance of board of dispensing opticians; effective date.	1083-1086
SB 246	Continuing existance of board of dental examiners; effective date.	1083-1086

SENATE BILLS INDEX - Continued

SB 247	Continuing existence of Board of veterinary examiners; effective date.	1083-1086
SB 248	Continuing existence of State Physical therapy board; effective date.	1083-1086

HOUSE FINANCE COMMITTEE

January 24, 1979

1:30 p.m.

Members of the Committee in attendance: Representatives Meekins, Duncan, McKinnon, Smith, Rogers, Moss, Guy, Haugen, Montgomery and Freeman. Representative Schaeffer was not in attendance. Also present were the following members of the Legislative Finance Division staff: Jay H. Hogan, Bob Schroeder, Milt Barker, Dave Scott, Alison Farnan and Bob Grogan. PRESENT

Chairman Meekins called the meeting to order and stated he would like to explain how the Finance Committee would operate, and then have Mr. Hogan explain the responsibilities of the Finance Division staff.

COMMITTEE
ORGANIZATION
AND
SCHEDULE

Chairman Meekins advised that Representative Freeman is Vice-Chairman of the Committee, and will act as chairman in his absence. Chairman Meekins advised that Representative Dunan will be a Free Conference Committee member, and it is important that he be involved in all discussions on the budget.

Chairman Meekins advised the Committee will meet on the budget as a Committee of the Whole. He explained that the fiscal analysts would first explain the budget, and then the agencies would appear before the Committee to testify on their budgets. There was brief discussion.

Chairman Meekins stated that he will be assigning bills referred to the Committee to individuals. Representative Freeman asked if that individual would then be responsible for defending the bill on the floor of the House. Chairman Meekins stated this was correct, unless the individual did not agree with the position adopted by the Committee.

Chairman Meekins stated that one of the problems that occurs with the budget is that the limits on the budget can be ruined by special appropriation bills that are passed, and the Committee is not aware of how these bills are affecting the budget. He advised he intends to consider these bills as part of the budget in terms of how they affect the budget.

Chairman Meekins stated he intended to have the Committee meet during "normal" working hours. He stated the Committee would meet from the time to floor session adjourned until noon, and again from 1:30 p.m. to 5:00 p.m. He stated they would not work nights or weekends until it became necessary.

Chairman Meekins advised that John Crandahl is his personal administrative assistant, not an aide to the Committee. He stated that Mr. Crandahl would be happy to help Committee members in any way he can, but he does not work for the Committee.

Representative Rogers asked if he intended to use teleconferencing to aid the Committee in obtaining testimony, and Chairman Meekins stated he did.

Chairman Meekins stated that in the past there has been a problem with attendance at Finance Committee meetings. He stated that it was important that Committee members attend meetings. Representative Freeman emphasized this point.

Chairman Meekins advised that in the next few days they would be going through the numbers in the budget; that the Department of Revenue will come in and explain revenue and long term projections, and then the staff fiscal analyst would look at the budget history and long term relationship of revenue expectations and budget goals. Chairman Meekins advised that after this Ron Lind, Division of Budget and Management, would come to explain the Governor's budget. He stated after this the Committee would start going through the budget categories.

Chairman Meekins stated that Committee members could expect the members of the Free Conference Committee to defend their requests in the budget.

Mr. Hogan introduced the members of the staff and explained their positions. He explained the documents the Committee would be working with. There was brief discussion. Chairman Meekins suggested that new members of the Committee might want to meet privately with the fiscal analysts for further information.

Mr. Hogan explained the Finance Division staff worked with both the House and Senate Finance Committees. He stated that the analysts treated any requests made to them by legislators with strict confidence. There was brief discussion.

Mr. Hogan explained how the computers worked and stated that staff members would be happy to explain the computers further with Committee members on an individual basis.

The meeting adjourned at 3:00 p.m.

ADJOURN

Tape HFC 79-1 Side 1 #001-end
Side 2 #001-643

HOUSE FINANCE COMMITTEE
January 25, 1979
10:50 a.m.

All members of the Committee were in attendance, with Representatives Scaeffler and Duncan arriving later in the meeting. Also in attendance: Commissioner Sterling Gallagher, Vince Wright and John Messenger, Department of Revenue; John Crandall, Administrative Assistant to Chairman Meekins; Milt Barker, Legislative Finance Division.

PRESENT

Chairman Meekins called the meeting to order and stated the purpose of the meeting was for the Department of Revenue to present a brief overview of the revenue picture for the new Finance Committee members. He explained a more detailed overview by the Department of Revenue would follow at a later date in joint session with the Senate.

Commissioner Gallagher presented to Committee members a Revenue Source book and a document containing tax charts.

REVENUE
OVERVIEW

[Representatives Schaeffer and Duncan arrived at this time.]

Commissioner Gallagher discussed long-range revenues. He stated it takes 6-8 years to develop an oil field and that it must produce 1-2 million barrels per day to be economical. He talked about tariffs and exports. He stated he is in favor of pushing exports because it provides an incentive to locate more oil. In answer to a question regarding exporting oil, he stated the West Coast is No. 1, with Japan being second. There was brief discussion on the tariff structure. Commissioner Gallagher ended his presentation by advising decisions have to be made now about not "getting into a box" economically in the late 1980's.

At this time, Mr. Wright gave a presentation on tax estimates. He commented briefly on the following charts: Corporate Income Tax; Individual Income Tax; Business License Tax; Total Commercial Fish Tax; Cold Storage & Freezer Ship Tax; Commercial Fish Tax, Raw Fish; Oil & Gas Production Tax; Property Tax; Alcoholic Beverage Control Tax; Aviation Fuel Tax; Highway Fuel Tax; Marine Fuel Tax; Tobacco Tax and School Tax; Cigarette Tax, Special Fund Portion; Federal Mineral Rents & Royalties; Oil, Gas, Coal Royalties.

Mr. Wright stated all the figures are in current dollars, including inflation. In answer to a question, he informed Committee members the figures were revised January 1.

There was a question on how royalty is calculated. A brief discussion followed, with Mr. Messenger advising royalty is valued and calculated at Pump Station No. 1. Further discussion followed on differences of royalty being calculated at Pump Station No. 1 as opposed to wellhead.

Commissioner Gallagher advised the figures they were looking at were budget numbers and that he would now briefly discuss cash flow. He presented a chart on why the loan programs were cut off. He stated the General Fund currently has more loans on the books, with the exception of National Bank of Alaska and that the State is catching up fast.

At this time, Chairman Meekins stated the Committee would meet again at 1:30 p.m. and continue with a presentation by Mr. Messenger.

The meeting adjourned at 12:00 noon.

ADJOURN

Tape 79-1 Side 2 #643 - End
79-2 Side 1 #001 - End
79-2 Side 2 #001 - #323

HOUSE FINANCE COMMITTEE
January 25, 1979
1:34 p.m.

All members of the Committee were in attendance except Representative Duncan. Present to testify were John Messenger and Vince Wright, Department of Revenue.

PRESENT

Chairman Meekins called the meeting to order and stated the Committee would continue to hear testimony from John Messenger, Department of Revenue. Mr. Messenger stated he would briefly explain the tax changes enacted by the Legislature last year and also relate the federal tax changes that were made.

TESTIMONY
FROM
DEPT. OF
REVENUE

Mr. Messenger stated the three main changes enacted by the Legislature last year were: (1) individual income tax credits; (2) repeal of the gross receipts tax and change in revenue sharing; and (3) a new corporate income tax. He advised there are now two corporate income tax standards -- one for corporations engaged in oil and gas production, and one for other corporations. There was brief discussion.

Mr. Messenger then explained the changes in the federal tax laws. He stated the state individual income tax is tied closely with the federal income tax. He stated in most cases, when federal changes are made they apply to the state income tax as well. He advised the only time the State doesn't pick up changes automatically is when changes apply to credits or exemptions from taxes. Mr. Messenger advised that last year Congress made changes in the Federal Tax Code (Revenue Act 1978), and that most of those provisions have been automatically included in the state income tax law. He said that one credit not included is the "targeted jobs credit". He explained this credit gives employers up to a 50% credit on the first \$6,000 in wages paid to qualified employees (mostly economically disadvantaged individuals). He stated that if the Legislature wants to adopt this credit it would need to introduce special legislation.

Mr. Messenger stated a change in the investment credit was also made. He advised the State already adopted that.

Representative Meekins asked if Administration planned to introduce a bill on the "targeted jobs credit". Mr. Messenger stated they weren't opposed to adopting this credit, so they could submit a bill.

Representative Haugen asked if the energy credit adopted by Congress applied to the State. Mr. Messenger stated the State has already adopted a special energy credit which is now on the books. He advised this credit applies through 1981. There was brief discussion.

The meeting adjourned at 2:00 p.m.

ADJOURN

HOUSE FINANCE COMMITTEE
January 26, 1979
11:15 a.m.

All members of the Committee were in attendance except Representatives McKinnon and Guy. Also in attendance was Milt Barker, Fiscal Analyst, Legislative Finance Division.

PRESENT

Chairman Meekins called the meeting to order and stated the Committee would hear from Fiscal Analyst Milt Barker who would provide budget projections. Mr. Barker stated the projections he will be presenting today will be rough figures, but he will have better figures later.

BUDGET
PROJECTIONS

Mr. Barker handed out four items to committee members. He explained what was contained in these hand-outs. He stated the Memorandum (attached) outlines what the historical growth rates have been in state general fund expenditures. He explained the tables attached to the memo. There was discussion on the tables.

Chairman Meekins provided the following figures for Table 2: 333 to 379 is a 13.7% increase; 379 to 451 is a 18.98% increase; 451 to 590 is a 30.8% increase; 590 to 692 is a 17.28% increase; 692 to 819 is a 18.31% increase; and 819 to 1071 is a 30.84% increase. He pointed out that the last figures included the \$1.10 million appropriation to rural schools. Representative Rogers stated that without that figure, the increase is 17.2%. There was brief discussion.

Mr. Barker stated the second item he handed out (see attached) was a computer print-out in which they tried to take the revenues and compare it with the various growth rates in the budget. He stated these projections were done in current dollars. In answer to a question from Chairman Meekins, Mr. Barker stated these were "middle-of-the-road" assumptions, subject to the criteria listed on the top of the print-out. Chairman Meekins pointed out that the budgets don't take into account any unexpected contingencies, i.e., pump station #8 blowing up. He commented that the State is in a dangerous situation with so much of our revenue coming from one source. He stated they should have a savings account which could be drawn on when unexpected events occur.

Representative Haugen commented on appropriations the Legislature makes which are intended as one time appropriations but the agency turns them into a full time part of the budget.

The meeting adjourned at 11:55 a.m.

ADJOURN

Tape HFC 79-2 Side 2 #692 to end
79-3 Side 3 #001 to 624

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: January 23, 1979

TO: Honorable Russ Meekins, Chairman
House Finance Committee

FROM: Milt Barker, Fiscal Analyst
Legislative Finance Division

SUBJ: Real Per Capita Budgets

One of the most crucial variables in making long range projections in State general fund balances is the rate of growth in the State budget. I am, therefore, forwarding some information to assist you in judging what growth rates seem reasonable.

One can analyze the growth of the State budget in terms of three factors -- increases due to inflation, population growth, and growth in real per capita budget expenditure. In Table 1, the annual compound growth rates for these factors are presented. Real per capita changes are the net changes after factoring inflation and population growth out of budgetary growth. Table 1 is derived from the data in Table 2.

The years 1960-1978 have been subdivided into before and after Prudhoe periods. Alaskan inflation before Prudhoe was at a low rate below even that of the U.S. as a whole because growth provided for economies of scale, increased competition, and local production and services. However, pipeline construction impact on top of accelerated nationwide inflation produced much higher rates in the 1970's. See Table 3.

The long run outlook for inflation is not especially good. Many economists think a return to the low rates of the early 60's unlikely because of increased extractive costs and scarcity of resources, smaller productivity gains in a service based economy, the spreading of indexing and escalators, and increasing economic concentration.

January 24, 1979

Population probably won't grow over the long run at the 3.5%+ rate experienced during pipeline construction. Even a similar project (gas line) would not show as great a percentage increase if only because the population base is larger. One might project population growth at 3.0-3.5% depending on how rapid one expects development to continue. Attached are two tables from an ISEGR publication which show that even the 3.0% rate of the 1960's was well above the national average, though only half the Alaskan rate for the period 1940-1960. However, it would be hard to maintain the 1940-1960 rate as the base expands.

In looking at growth rates for the budget and the real per capita budget, there is a problem. The FY 71 budget of \$314.1 million was a doubling of the prior year's \$154.1 million. Thus, the growth rates for the post-Prudhoe period vary significantly, depending on whether this one year of budgetary growth is included. If it is not (the 1970-1978 figures), one could argue that it should be included in the earlier period, making these rates even higher.

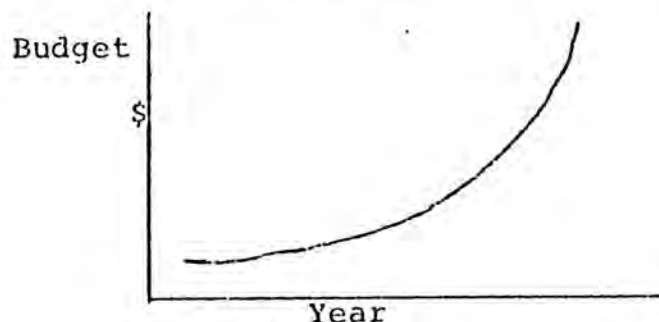
This was an unusual event that is not likely to occur again; on the other hand, it represents part of the real post-Prudhoe commitment to increased spending. Therefore, to get away from the undue effect on numerical growth rates this produces simply because such rates are dependent on the beginning and ending figures for the period in question, it seems reasonable to spread this increase over at least a two year period, especially considering that there was a \$17.7 million lapse and \$36.4 million capital appropriation in the \$314.1 million. This "normalized" post-Prudhoe period would then show budgetary growth of 20.94% and real per capita growth of 8.54%.

After selecting expected growth rates for prices, population, and real per capita spending, one multiplies them together to get the growth rate in the actual budget. For example, growth rates of 8.0% for inflation, 3.0% for population, and 5.0% for real per capita spending means a growth rate of 16.8% ($1.08 \times 1.03 \times 1.05$) in the budget. If one wants to assume there will be no growth in real per capita spending, owing to a new constitutional prohibition or whatever, one might forecast an 11.2% growth in the actual budget (1.08×1.03).

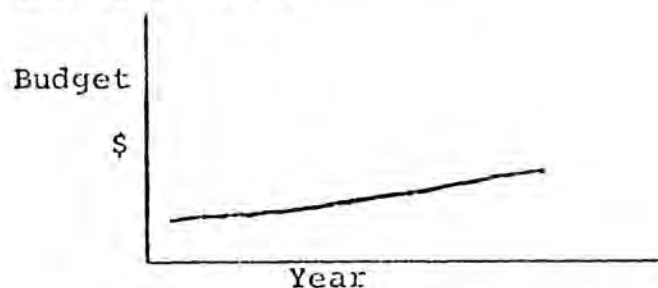
1/26/79

January 24, 1979

One problem with projecting compound growth rates over long periods of time is that unrealistic values may be reached. The general shape of such an exponential curve is



On the other hand, increases of a constant amount as obtained through linear regression probably under-estimate Alaska's growth in the near future



There is no physical constraint on long term compound growth of prices, and the rates and base for population are low enough that compound growth over even a 30 year period does not become unrealistic. A 400,000 population growing at 4% per annum reaches 1,297,359 after 30 years. However, real per capita increases in spending at rates of 10% per annum result in 17 times as much real spending per person after 30 years. There are real physical constraints against this -- mainly, Alaska's oil reserves cannot support such growth, as the computer projections clearly show.

It would be more realistic to project a higher rate of growth in the near future and lesser rates later on as oil income begins to decline, if one wants to map out where we may actually be going. However, for illustrating the implications of current rates of growth, it is useful to project these historical rates.

1/26/79

TABLE 1
ANNUAL COMPOUND PERCENTAGE GROWTH

<u>Period</u>	<u>Anchorage Consumer Price Index</u>	<u>Alaska Pop.</u>	<u>General Fund Appropriations</u>	<u>Per Capita General Fund Appropriations in Constant Dollars</u>
1960-1978	42.5%	3.26%	19.13%	10.67%
1960-1969	1.72%	3.03	16.23	10.91
1969-1978	6.85	3.49	24.05	12.18
1970-1978	7.22	3.66	16.58	4.89
"normalized" 1970-1978	7.22	3.66	20.94	8.54

TABLE 2

<u>Calendar Year</u>	<u>Anchorage Consumer Price Index October 1967-100.0</u>	<u>Alaska Pop²</u>	<u>General Fund Appropriations (\$ millions)³</u>	<u>Per Capita General Fund Appropriations in Constant Dollars \$</u>
1960	92.0	226,167	45.9	220
1961	92.9	238,000	52.3	236
1962	92.6	246,000	65.8	289
1963	93.3	256,000	82.9	347
1964	93.9	263,000	79.1	320
1965	94.2	271,000	86.1	337
1966	97.9	271,000	93.8	354
1967	100.0	278,000	113.1	407
1968	102.6	285,000	124.1	424
1969	107.3	296,000	154.1	485
1970	111.5	302,361	314.2	932
1971	114.4	312,930	292.1	816
1972	116.9	324,281	333.5	880
1973	123.8	330,365	379.3	927
1974	140.0	351,159	451.3	918
1975	157.4	404,634	590.3	927
1976	167.6	413,289	692.3	999
1977	177.3	411,211	819.1	1123
1978	194.8 ¹	403,000	1071.7	1365

1. 1978 figure is Anchorage price index for urban wage earners and clerical employees.
2. 1960 and 1970 figures based on April 1st census; 1961-1969 figures refer to estimated July 1st population contained in U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 460, June, 1971; 1971-1977 figures refer to July 1st population estimates of the Alaska Department of Labor, Research & Analysis Section; 1978 estimate, U.S. Bureau of the Census.
3. The figures are for the fiscal year following the listed calendar year, e.g. in 1960 the fiscal year 1961 appropriations act of \$39.8 million in general funds was signed into law. 1960-1972 figures from Governor's Budget Document; 1973-1978 figures from Free Conference Committee Report on the Budget.

TABLE 3
INFLATION RATE IN CONSUMER PRICE INDEX

<u>YEAR</u>	<u>ANCHORAGE</u>	<u>U.S.</u>	<u>DIFFERENCE</u>
1961	.98%	2.28%	-1.30%
1962	-.32	1.34	-1.66
1963	.76	1.10	-.34
1964	.65	1.20	-.55
1965	.32	1.61	-1.29
1966	3.93*	3.91	.02
1967	2.15	2.64	-.49
1968	2.60	4.55	-1.95
1969	4.58	5.59	-1.01
1970	3.92	5.83	-1.91
1971	2.60	3.81	-1.21
1972	2.19	3.27	-1.08
1973	5.91	7.90	-1.99
1974	13.09*	12.01	1.08
1975	12.43*	7.59	4.84
1976	6.48*	5.29	1.19
1977	5.79	6.47	-.68
1978	9.87*	8.89	.98

*Anchorage rate greater than U.S. for these years.

TABLE 5.
Alaska's Population Growth Compared with Total
United States, Far West and Mountain States

Year	Alaska	Far West ^a	Mountain ^b	United States ^c
1880 (June 1)	33,426	1,176,844	450,848	50,155,783
1890 (June 1)	32,052	1,935,689	918,055	62,917,714
1900 (June 1)	63,592	2,459,027	1,314,081	75,994,575
1910 (Apr. 15)	61,356	4,274,179	2,019,987	91,972,266
1920 (Jan. 1)	55,036	5,644,278	2,564,182	105,710,630
1930 (Apr. 1) ^d	59,278	8,285,491	2,751,811	122,775,016
1940 (Apr. 1) ^d	72,524	9,733,262	3,008,677	131,669,275
1950 (Apr. 1)	128,643	14,646,610	3,481,141	150,697,361
1960 (Apr. 1)	226,167	22,624,000	4,317,000	178,464,236
1970 (Apr. 1)	302,647	25,915,000	5,005,000	203,185,000

NOTES:

^aFar West includes the states of Washington, Oregon, California and Nevada.

^bMountain includes Montana, Idaho, Wyoming, Utah and Colorado.

^cUntil 1970, population figures were for Continental United States, excluding Alaska and Hawaii.

^dThe census dates in Alaska were Oct. 1, 1929 and Oct. 1, 1939.

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957*, (Washington: U.S. Government Printing Office, 1960), Series A 17-21 and Series A 1230180; U.S. Department of Commerce, Bureau of the Census, *Statistical Abstracts of the United States, 1961*, (Washington: U.S. Government Printing Office, 1961) pp. 5, 12 and 13; and U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-25, No. 460, June, 1971.

TABLE 6.

Decennial Rates of Population Change -- Alaska, Far West,
Mountain States and Total United States

1880-1970

Decennial Period	Alaska	Far West	Mountain	United States
1880-1890	-4.1	64.5	113.1	25.5
1890-1900	98.4	27.0	43.1	20.7
1900-1910	1.2	73.8	53.7	21.0
1910-1920	-14.5	32.1	26.9	14.9
1920-1930 ^a	7.7	46.8	7.3	16.1
1930-1940 ^a	22.3	18.8	9.3	7.2
1940-1950	77.4	48.8	15.8	14.5
1950-1960	75.8	55.5	23.9	18.4
1960-1970	33.8	14.7	15.9	13.8

NOTE:

^aFor Alaska, as of Oct. 1, 1929 and Oct. 1, 1939.

SOURCE: Calculated from data in the first part of Table 2.

6/9/79

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

1

26-JAN-79

COMMENTS

NO GAS PRODUCTION
NO EXPORTS
6.5% INFLATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
\$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 10.00%

-14-

YEAR	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE- MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM- ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR G.F. BAL OF \$500 MIL
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	86.5	1481.3	1133.0	0.0	0.0	195.8	1328.8	152.5	364.7	784.3	0.0
1982	1559.9	110.0	1669.9	1246.3	0.0	0.0	219.1	1465.4	204.5	507.6	988.8	0.0
1983	1681.7	136.6	1818.3	1370.9	0.0	0.0	243.7	1614.6	203.7	665.5	1192.6	0.0
1984	1810.3	164.3	1974.6	1508.0	0.0	0.0	270.2	1778.2	196.4	842.7	1389.0	0.0
1985	1944.7	194.6	2139.3	1658.8	0.0	0.0	240.9	1999.8	239.5	1037.2	1629.5	0.0
1986	2089.8	229.5	2319.3	1824.7	0.0	0.0	214.1	2038.8	280.5	1251.2	1909.0	0.0
1987	2243.2	266.9	2510.1	2007.2	0.0	0.0	235.0	2242.2	267.9	1486.3	2176.9	0.0
1988	2407.8	305.0	2712.8	2207.9	0.0	0.0	257.4	2465.3	247.5	1743.7	2424.4	0.0
1989	2593.2	343.6	2936.8	2428.7	0.0	0.0	281.3	2710.0	226.8	2025.0	2651.2	0.0
1990	2788.6	382.2	3170.8	2671.6	0.0	0.0	306.7	2978.2	192.6	2331.7	2843.8	0.0

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

6/26/79

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

1

26-JAN-79

COMMENTS

NO GAS PRODUCTION
NO EXPORTS
6.5% INFLATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
\$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 10.00%

-14-

YEAR	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE- MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM- ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR G.F. BAL OF \$500 MIL
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	84.5	1481.3	1133.0	0.0	0.0	195.8	1328.8	152.5	364.7	784.3	0.0
1982	1559.9	110.0	1669.9	1246.3	0.0	0.0	219.1	1465.4	204.5	507.6	988.8	0.0
1983	1681.7	136.6	1818.3	1370.9	0.0	0.0	243.7	1614.6	203.7	665.5	1192.6	0.0
1984	1810.3	154.3	1974.6	1508.0	0.0	0.0	270.2	1778.2	196.4	842.7	1389.0	0.0
1985	1944.7	194.4	2139.3	1658.8	0.0	0.0	240.9	1999.9	239.6	1037.2	1628.5	0.0
1986	2089.8	229.5	2319.3	1824.7	0.0	0.0	214.1	2038.8	280.5	1251.2	1909.0	0.0
1987	2243.2	266.9	2510.1	2007.2	0.0	0.0	235.0	2242.2	267.9	1486.3	2176.9	0.0
1988	2407.8	305.0	2712.8	2207.9	0.0	0.0	257.4	2465.3	247.5	1743.7	2424.4	0.0
1989	2593.2	343.6	2936.8	2428.7	0.0	0.0	281.3	2710.0	226.8	2025.0	2651.2	0.0
1990	2788.6	382.2	3170.8	2671.6	0.0	0.0	306.7	2978.2	192.6	2331.7	2843.8	0.0

1/26/79

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

2

26-JAN-79

COMMENTS

NO GAS PRODUCTION
NO EXPORTS
6.5% INFLATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
\$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLERCHIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
% OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
% OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
ANNUAL % INCREASE IN BUDGET APPROPRIATION = 15.00%

-15-

YEAR	NON INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE	BUDGET APPROPRIATION	SUPPLE- MENTALS	DEBT SERVICE	PAYMENTS TO FUNDS	TOTAL EXPENDITURE	SURPLUS OR DEFICIT	PERM- ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GF BAL OF \$500 MIL
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	85.4	1480.2	1184.5	0.0	0.0	195.8	1380.3	99.8	364.7	731.7	0.0
1982	1559.9	103.7	1663.6	1362.2	0.0	0.0	219.1	1581.3	82.3	507.6	814.0	0.0
1983	1681.7	119.7	1801.4	1566.5	0.0	0.0	243.7	1810.2	-8.8	666.5	805.2	0.0
1984	1810.3	129.8	1940.1	1801.5	0.0	0.0	270.2	2071.6	-131.5	842.7	673.7	0.0
1985	1944.7	135.9	2080.6	2071.7	0.0	0.0	240.9	2312.6	-232.0	1037.2	500.0	58.4
1986	2089.8	148.4	2238.2	2382.5	0.0	0.0	214.1	2596.5	-358.3	1251.2	500.0	358.3
1987	2243.2	169.2	2412.4	2739.8	0.0	0.0	235.0	2974.8	-562.5	1486.3	500.0	562.5
1988	2407.3	192.2	2600.0	3150.8	0.0	0.0	257.4	3408.2	-808.3	1743.7	500.0	808.3
1989	2593.2	217.6	2810.8	3623.4	0.0	0.0	281.3	3904.7	-1093.9	2025.0	500.0	1093.9
1990	2783.6	245.8	3034.4	4166.9	0.0	0.0	306.7	4473.6	-1439.2	2331.7	500.0	1439.2

STATE OF ALASKA
LEGISLATIVE FINANCE WORKING DOCUMENT
BUDGET FORECASTING MODEL

26-JAN-79

COMMENTS

NO GAS PRODUCTION
NO EXPORTS
6.5% INFLATION
NATIVE CLAIMS INCLUDED
EDIC INCLUDED
\$500 MIL ILLIQUID LOAN PORTFOLIO
NO LEASE BONUS
SADLEROCUIT & COOK INLET PRODUCTION ONLY

ASSUMPTIONS

ANNUAL RATE OF INTEREST ON GENERAL + PERMANENT FUNDS = 7.00%
 % OF CURRENT YEAR EXPEND. IN G.F. CASH BAL = 20.00%
 % OF ROYALTIES LEASES AND BONUSES DEPOSITED IN PERMANENT FUND = 30.00%
 ANNUAL % INCREASE IN BUDGET APPROPRIATION = 20.00%

YEAR END	NON			BUDGET APPROPRIATION	SUPPLE- MENTALS	DEBT SERVICE	PAYMENTS		SURPLUS OR DEFICIT	PERM- ANENT FUND	GENERAL FUND END OF YEAR	REVENUE REQ FOR GP BAL OF \$500 MIL
	INVESTMENT REVENUE	INVESTMENT INTEREST	TOTAL REVENUE				TO FUNDS	TOTAL EXPENDITURE				
1979										128.9	578.5	
1980	1179.5	69.6	1249.1	1030.0	0.0	0.0	165.7	1195.7	53.4	237.0	631.9	0.0
1981	1394.8	84.2	1479.0	1236.0	0.0	0.0	195.8	1431.8	47.2	364.7	679.1	0.0
1982	1559.9	97.2	1657.1	1483.2	0.0	0.0	219.1	1702.3	-45.2	507.6	633.9	0.0
1983	1681.7	105.7	1787.4	1779.8	0.0	0.0	243.7	2023.5	-236.1	666.5	500.0	102.2
1984	1810.3	117.7	1928.0	2135.8	0.0	0.0	270.2	2406.0	-477.9	842.7	500.0	477.9
1985	1944.7	136.7	2081.4	2563.0	0.0	0.0	240.9	2803.9	-722.5	1037.2	500.0	722.5
1986	2089.8	158.2	2248.0	3075.6	0.0	0.0	214.1	3289.6	-1041.7	1251.2	500.0	1041.7
1987	2243.2	182.5	2425.7	3690.7	0.0	0.0	235.0	3925.7	-1500.0	1486.3	500.0	1500.0
1988	2407.8	210.1	2617.9	4428.8	0.0	0.0	257.4	4686.2	-2068.4	1743.7	500.0	2068.4
1989	2593.2	241.3	2834.5	5314.6	0.0	0.0	281.3	5595.9	-2761.3	2025.0	500.0	2761.3
1990	2788.6	276.8	3065.4	6377.5	0.0	0.0	306.7	6684.2	-3618.8	2331.7	500.0	3618.8

HOUSE FINANCE COMMITTEE

January 26, 1979

1:35 p.m.

All members of the Committee were in attendance, except Representatives Guy and McKinnon. Representatives Smith and Rogers arrived later in the meeting. Also in attendance: John Crandall, Administrative Assistant to Chairman Meekins; Milt Barker, Fiscal Analyst, Legislative Finance Division.

PRESENT

Chairman Meekins called the meeting to order and stated Mr. Barker would continue with his presentation on budget projections.

[Representative Smith arrived at this time.]

Mr. Barker referred to the Legislative Finance Working Document, Budget Forecasting Model (see attachment to previous meeting), and briefly answered questions from Committee members. In answer to a question, Mr. Barker stated according to the projections, deficit spending would the winter of 1982.

BUDGET
PROJECTIONS

AHFC loans were discussed. In answer to a question, Mr. Barker stated there will be reserve funds to take care of those payments. Chairman Meekins added AHFC has a reserve for bad debts.

Representative Moss brought up the subject of operating costs for the REA schools and how they are budgeted. There was brief discussion. Chairman Meekins stated he would schedule a special meeting on rural schools regarding the operating costs and capital improvement projects. He added he felt it necessary to have a long-run on life-cycle costs.

Mr. Barker then referred to a booklet, entitled "Alaska's Revenue Forecasts and Expenditure Options", funded by the Department of Revenue, Office of the Governor and Legislative Affairs Agency (see attached). He briefly explained the charts contained therein. In answer to a question, he advised the estimates have not been updated to include the tax credits and that these projections are much lower than in the past.

Mr. Barker then referred to his memorandum (attached) regarding the concurrent resolution which sets a budget ceiling on total appropriations by the 45th legislative day. Representative Haugen asked if this wasn't contingent upon adoption by both Houses. Chairman Meekins answered that it was and that he has scheduled Tuesday, January 30, as the time this concurrent resolution

BUDGET
CEILING

will be taken up. He stated the Committee would meet on the resolution, then go into caucus. He advised it was not his intention to pass the resolution at that time. He also mentioned the Committee would be hearing from the Governor's budget people on Monday, January 29.

Last year's budget limit was reviewed by Mr. Barker. He advised the operating budget was set at current revenues and that limit was kept in the Senate. In answer to a question, he stated special provision could be made for special capital projects.

[Representative Rogers arrived at this time.]

Representative Freeman stated he disagreed with the concurrent resolution because the limit was not kept anyway. He added he felt it was premature because "you can't put a figure on the budget until you know what the expenses are." Discussion followed with Chairman Meekins commenting he feels it is good to have a goal to shoot for. He stated the agencies set the priority for the State and that the Legislature does not have any control. He added he feels strongly that it is necessary for the Legislature to set its own priorities.

There was further discussion on setting the budget ceiling. Representative Freeman brought up the Department of Transportation's being funded at 75% last year, with them coming back to the Legislature this year with a supplemental for the additional 25%. This method was explained to new Committee members. In answer to a question, Representative Freeman advised supplementals aren't guaranteed, but added they serve a purpose if there is a critical need as sometimes happens when program budget estimates are low.

Representative Smith brought up the subject of Legislative intent and expressed her concern over having this ignored by certain departments. There was further discussion on this subject.

The meeting adjourned at 2:50 p.m.

ADJOURN

Tape 79-3 Side 1 #624 - End
79-3 Side 2 #001 - End
79-4 Side 1 #001 - #269



REVIEW OF
SOCIAL AND ECONOMIC
CONDITIONS

UNIVERSITY OF ALASKA, INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH, JULY 1978, Vol. XV, No. 2

ALASKA'S REVENUE FORECASTS AND EXPENDITURE OPTIONS

INTRODUCTION

Can Alaska's state government continue to increase the level of services it provides? In an era of prosperity, when oil and associated revenues are forecast to contribute billions of dollars to the state treasury over the next 15 to 20 years, the answer would appear to be an unqualified "yes." However, recent research by the Institute of Social and Economic Research has revealed that even modest increases in the level of services provided by the state could result in a state operating deficit as early as 1987 and an absolute deficit by 1991.

How could a fiscal crisis be a possibility in light of recent predictions of revenue growth? The fiscal problem arises because of the state's increasing dependence on petroleum revenues to finance operations. This dependence is increasing with time in spite of the fact that petroleum revenues cannot continue to grow indefinitely and will likely decline significantly, in absolute terms, in the late 1980s.

This *Review* examines the historic pattern of state expenditure growth and shows how this growth has been affected by growth of petroleum revenues. It shows that, combined with various estimates of future revenues, past expenditure practices, if continued in the future, will result in a very large general fund surplus during the early 1980s, but a total dissipation of surplus revenues by the end of the decade. Should this happen, it will leave the state the alternatives of either severely reducing the level of

state services or significantly increasing taxes. Several fiscal options, including the use of the permanent fund, are discussed as methods for dealing with this long-run fiscal problem.

THE GROWTH OF STATE EXPENDITURES

Since statehood, Alaska has experienced nearly two decades of substantial economic growth. The resident population has grown at the rapid rate of 3.8 percent per year from 226,200 persons in 1960 to an estimated 413,300 persons in 1977. Accompanying

This research was partially funded by the Department of Revenue; the Division of Policy Development and Planning, Office of the Governor; and the Legislative Affairs Agency.

The future financial health of Alaska's State Government is one of the most crucial, and least understood, challenges facing Alaskans. It is hoped that publication and distribution of this study will encourage further thought, research, and discussion of this subject.

It should be noted that these estimates have not as yet been updated to include the recent tax changes enacted by the second session of the tenth Alaska Legislature (e.g., changes in oil taxation, personal income taxes, and the business license tax). Further, the projections given in this paper represent official state estimates of revenues and expenditures only when so noted.

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FEATURE

O. Scott Goldsmith 1 Alaska's Revenue Forecasts and Expenditure Options

BOOK REVIEWS

Arthur E. Hippler 22 *The Eskimos and the Aleuts*, By Don E. Dumond

*People from Our Side: An Eskimo Life Story in Words
and Photographs*, by Peter Pitseolak and Dorothy Eber

O. Scott Goldsmith is an assistant professor of economics and Arthur E. Hippler is an associate professor of anthropology. Both are staffmembers of the Institute of Social and Economic Research in Anchorage.

Alaska's population growth has been an even more rapid growth in state spending. This spending growth, shown in Table 1, has been continuous, from a level of \$36.6 million in 1960 to \$895.1 million in 1977. While population growth combined with inflation accounts for a substantial portion of the growth in state spending, particularly in the high inflation years of 1973 to 1977, it obviously does not account for the doubling of state spending that occurred between 1969 and 1971, following the discovery of oil at Prudhoe Bay.

To understand and assess past state expenditure behavior, one must examine it in light of: (1) total expenditures, (2) population, and (3) the rate of inflation. Based on this information, one can determine state expenditures per capita as well as real expenditures per capita (which take into account the impact of inflation). Thus, if a policy goal were to maintain a given level of service to all citizens, real spending per capita would be the appropriate measure, and constant real spending per capita would

approximate a constant level of government services to individuals. A growth in real spending per capita would imply an increased level of service, and a decline would imply a diminished level of service.

As shown in Figure 1, between 1961 and 1976, both per capita state expenditures and per capita income grew substantially; however, while per capita income grew at an annual rate of 8 percent, per capita state expenditures grew at nearly twice that rate, or 16 percent. As a result, state spending, expressed as a percentage of personal income, grew from 8 percent in 1961 to 20 percent in 1976.

It is apparent on examination of the historical series in Table 1 that since statehood, Alaska has experienced three distinct patterns of spending over three periods of time. These periods are:

- 1961 to 1969.
- 1969 to 1972.
- 1972 to the present.

Between 1961 and 1969, prior to the Prudhoe

Table 1
State of Alaska Operating Budget Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Year	Total Operating Expenditures ^a (million \$)	Expenditure Per Capita ^b (\$)	Real Expenditure Per Capita ^c (1967 \$)	Ratio of Expenditures to Real Income Per Capita ^d (%)	Real Personal Income Per Capita (\$)	Real Personal Income ^e (millions of 1967 \$)	Anchorage Consumer Price Index ^f (1967=100)	Population (thousands)
Pre - Prudhoe								
1960	36.6	162	-	-	-	-	-	226.2
1961	51.4	217	235	8	2,981	705.6	92.3	236.7
1962	63.2	260	281	9	3,024	734.2	92.5	242.8
1963	80.3	321	345	11	3,053	762.9	93.1	249.9
1964	82.1	324	347	10	3,372	853.8	93.4	253.2
1965	88.4	333	354	10	3,459	917.3	94.2	265.2
1966	100.5	370	378	11	3,515	954.3	97.9	271.5
1967	113.6	409	409	11	3,750	1,042.2	100.0	277.9
1968	129.3	454	443	11	3,853	1,097.8	102.6	284.9
1969	152.1	516	487	12	4,058	1,195.4	105.9	294.6
Post - Prudhoe								
1970	199.0	658	600	14	4,353	1,316.3	109.6	302.4
1971	315.8	1,009	894	20	4,459	1,395.2	112.9	312.9
1972	366.5	1,128	973	21	4,620	1,500.5	115.9	324.8
1973	421.8	1,276	1,063	21	5,051	1,670.0	120.0	330.6
1974	482.3	1,373	1,025	20	5,108	1,793.9	133.9	351.2
1975	597.6	1,477	970	18	5,394	2,182.5	152.3	404.6
1976	778.9	1,885	1,149	20	5,618	2,321.8	164.1	413.3
1977	895.1	-	-	-	-	-	-	-
78(est)	1,047.0	-	-	-	-	-	-	-
Annual Rate of Increase, %								
61-76	19.9	15.5	11.2	-	4.3	8.3	3.9	3.8
61-69	17		10					
69-72	34		26					
72-76	19		4					

^aAlaska, Office of the Governor, Division of Budget and Management, *The Executive Budget*, Annual issues 1961 through 1978.

^bDerived by dividing column 1 by column 8.

^cDerived by dividing column 2 by column 7.

^dDerived by dividing column 3 by column 5.

^eU.S. Department of Commerce, Bureau of Economic Analysis, unpublished data, deflated by Anchorage consumer price index.

^fU.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index—Pacific Cities and U.S. Average," (bulletin), various issues 1960 through 1978.

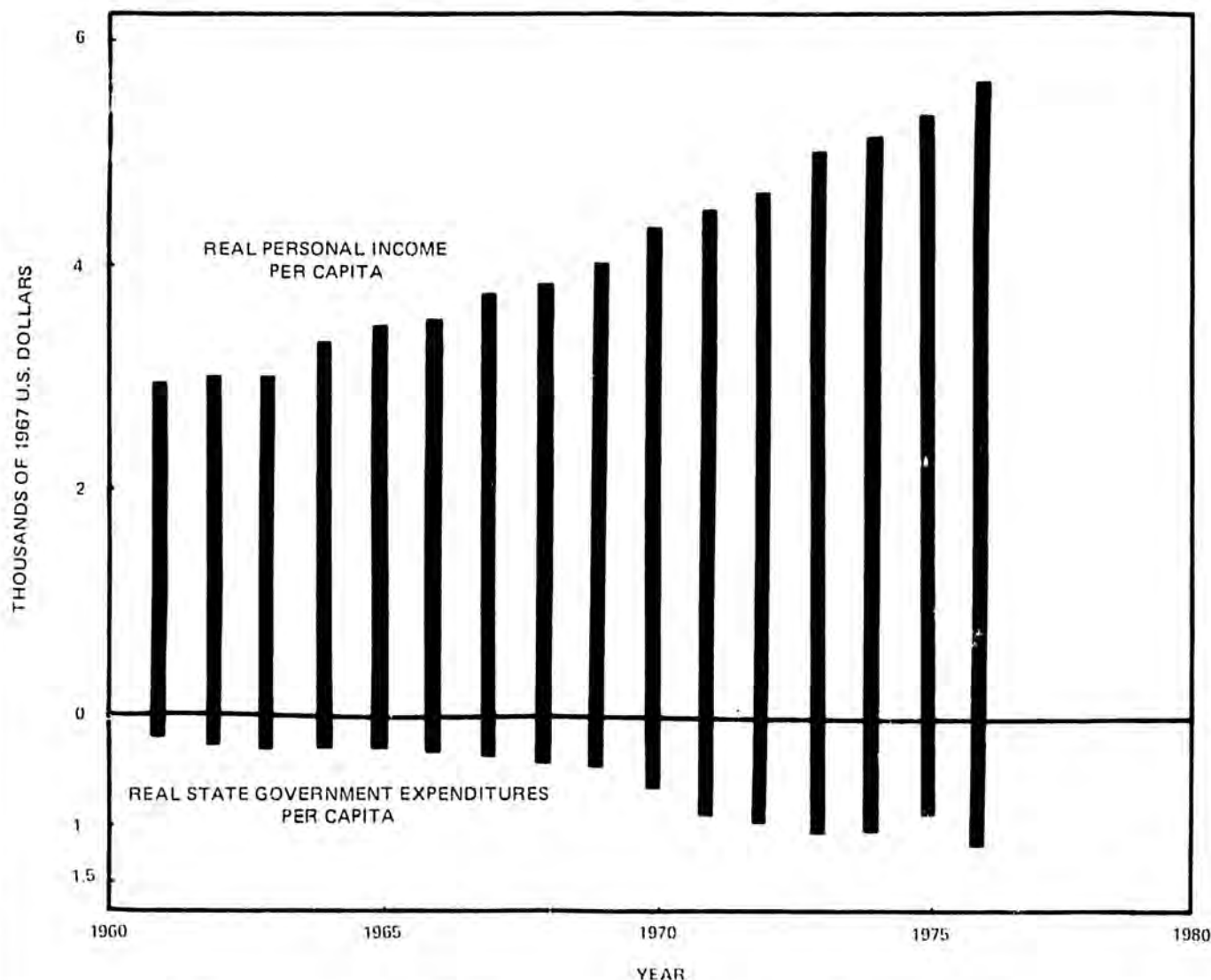


Figure 1. The Growth of Government Expenditures and Personal Income.
(in Real Per Capita Terms)

Bay lease sale, the operating budget grew at a 17-percent annual rate. After correcting for price level changes and population growth, this is equivalent to 10 percent in real per capita terms. This period of expansion of state government services resulted from the requirements of transition to statehood. State expenditures, as a percentage of personal income, rose from 8 percent to 12 percent. Historically, the growth of state expenditures has closely followed that of personal income in most states. This is because personal income is an indicator of the tax base of the state, which is the state's ability to pay for services, and also of the demand for state services, which typically rises with income. During this period, expenditure and revenue growth

matched, leaving neither a surplus nor deficit in the general fund.

In contrast, between 1969 and 1972, total operating expenditures grew at an annual rate of 34 percent. This rate, adjusted for inflation and population, equaled 26 percent in real per capita terms. The operating budget doubled in less than 3 years, and state expenditures as a percentage of personal income nearly doubled, increasing from 12 percent to 20 percent in 2 years. This jump in expenditures, which was made possible by the revenues the state derived from the 1969 Prudhoe Bay lease sale, severed the close relationship between increases in Alaskan personal income and state expenditures. During this period, the \$900 million

general fund surplus derived from the lease sale was heavily drawn upon and significantly reduced.

Contrary to conventional opinion, growth in the state budget has moderated since 1972 and has, in real per capita terms, grown at the slowest rate the state has experienced since statehood. Between 1972 and 1978, the budget increased at a rate of 19 percent annually, which, corrected for population growth and the exceptionally high inflation rate during the period, equals only 4 percent in real per capita terms.¹ Despite moderation in growth of real spending per capita, the size of the budget has grown more rapidly in recent years than in the immediate post-statehood period. This experience highlights the significant effects that inflation and population have on the state budget. Because a large part of recent budget growth has merely reflected an attempt to keep pace with population and price increases, the ratio of state expenditures to personal income has remained at the 20 percent level it reached in 1971.

The possibility of an increasing level of government services in the future will ultimately depend upon the availability of revenues; thus, the pattern of future expenditures may bear little resemblance to the past. However, it is the historical growth rate of expenditures that conditions expectations of future growth. Historically, expenditures have grown steadily as personal income has grown, except when revenues have increased suddenly. When that occurred between 1969 and 1972, expenditure growth far exceeded the growth of personal income. This rapid growth resulted in a much higher ratio of state expenditures to personal income, which has subsequently been maintained.

COMPOSITION OF STATE REVENUES

Given that state spending for the past 17 years has increased at an annual rate of almost 20 percent and that the ratio of state spending to personal income has grown from 8 to 20 percent during this period, it is important to understand the sources of revenue growth in the past and the potential for growth in the future.

Figure 2 shows one possible pattern for the growth of state revenues between the present and the year 2000. In this projection, rapid growth of total revenues in the 1980s is followed by a long period of decline in the later 1980s and the 1990s. Between 1977 and 1986, revenues increase from \$1107.1 million to approximately \$2800 million (1977

dollars). This is an annual growth rate of 10.9 percent in real terms or about 16 percent in nominal terms. Subsequently, revenues fall in each year, declining to \$1700 million by the year 2000 (1977 dollars).

The main components of revenues are also shown in Figure 2. Because the components exhibit different growth patterns, each component requires separate analysis. The four main revenue components are:

1. Petroleum revenues.
2. Nonpetroleum revenues (taxes, licenses, fees, and miscellaneous revenues).
3. Earnings on fund balances.
4. Federal grants-in-aid.

Figure 3 shows the distribution of total revenues among these sources for selected years and Table 2 provides a more detailed historical summary of revenue sources.

Petroleum Revenues

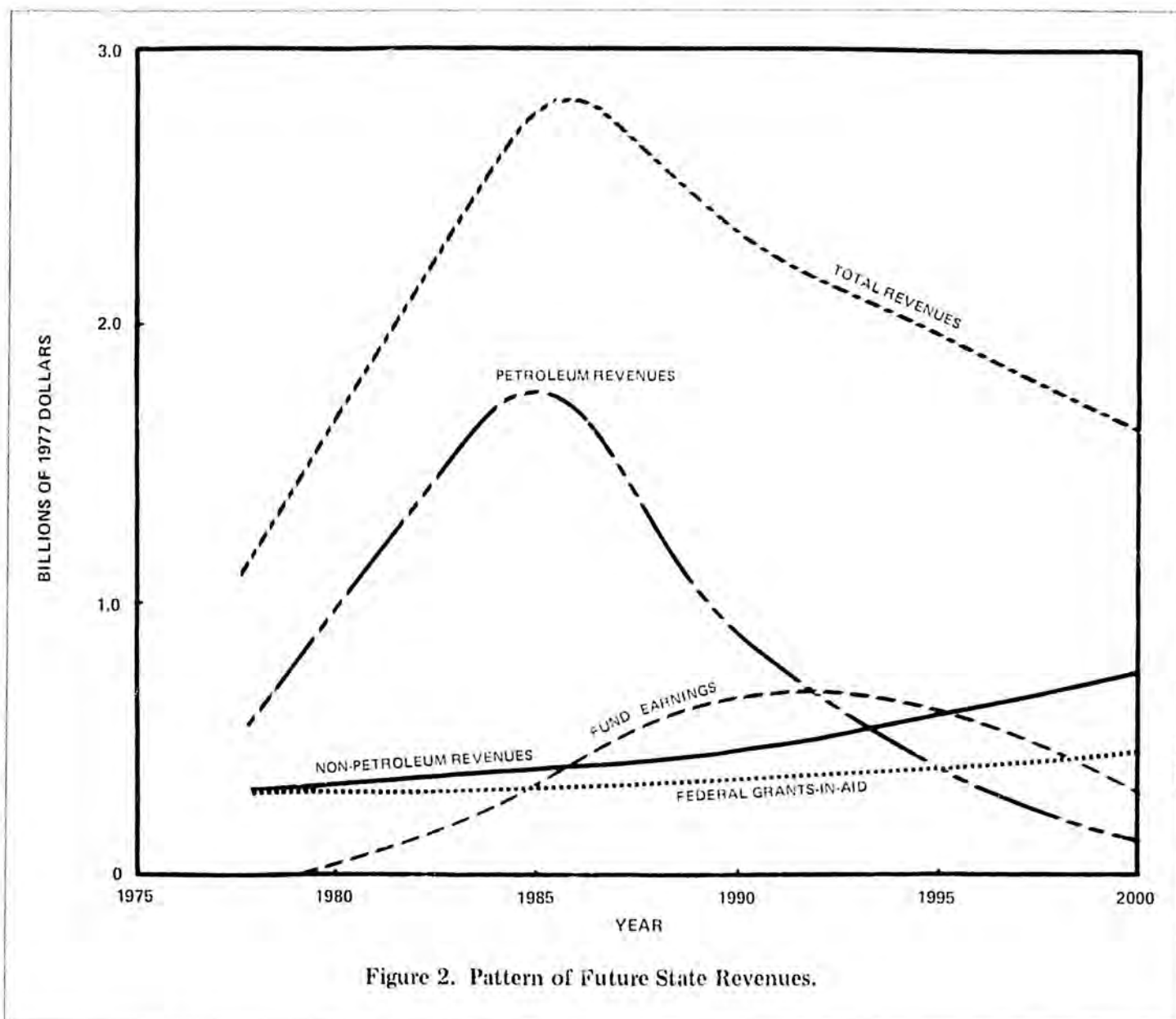
Typical of the early years of statehood, petroleum revenues, consisting primarily of production taxes and royalties, accounted for little more than 11 percent of general fund revenues in 1965 (Figure 3). In more recent years, large bonus payments, property taxes on oil- and gas-related production facilities, and reserve taxes on the amount of producible oil and gas in the ground have caused the amount and percentage of petroleum revenues to increase substantially. In 1977, 42.7 percent of general fund revenues were derived from petroleum. This increase has not been smooth, as the annual contribution of petroleum to the general fund has varied considerably. In future years, petroleum revenues will continue to contribute significantly to the general fund, although there is a large degree of uncertainty concerning the level of those revenues. Among the factors upon which this level depends are:

- Alaska recoverable oil and gas reserves.
- The refinery price of crude oil.
- The market price of gas.
- Market locations for Alaska oil and gas.
- Oil and gas transportation costs.
- Federal energy policy.
- Alaska tax policy.

A reasonable set of assumptions extrapolated from present conditions would result in petroleum revenues accounting for 38.7 percent of revenues in 1990. This extrapolation is based on the following assumptions:

1. Prudhoe Bay oil is assumed to sell at the refinery for \$13.75 per barrel in 1978, and

¹Real spending per capita actually declined between 1973 and 1976, but increased again in 1977.



its price to increase 5 percent annually. A \$4.90 pipeline tariff and an additional charge for shipping from Alaska tidewater to the lower 48 of \$1.50 (increasing to \$2.50 by 1980) determines the wellhead price, which begins at \$7.35 and will rise to \$11.95 in 1985 and approximately 6 percent annually thereafter.² The 8 billion barrels of recoverable oil in the field and maximum throughput of the pipeline of 1.7 million

²Because of the state's inability to market all of the Prudhoe Bay crude oil on the U.S. West Coast and the ongoing litigation over the proper level for the pipeline tariff, the actual wellhead value in FY 1978 has been substantially below this estimate.

barrels daily dictate that production will begin to decline in 1986, and state revenues from Prudhoe Bay oil will begin to decline in the following year if the present tax structure continues in force.

2. Prudhoe Bay gas production will begin on a large scale in 1983, with the completion of a pipeline capable of transporting approximately 2.5 billion cubic feet of gas daily. For purposes of calculating state revenues from royalties and production taxes, the wellhead value of the gas is assumed to be \$1.00 per thousand cubic feet.
3. Cook inlet production of oil and gas will gradually decline from its present level.

In spite of the uncertainty surrounding future levels of petroleum revenues, the state should conduct policy analysis on the basis of the best available information at hand. As new information becomes available, the above assumptions should be modified and the revenues re-estimated, resulting in a continuous process of policy and fiscal analysis.

The petroleum industry is actively exploring prospects in Alaska on federal, state, and private lands. New discoveries of economically recoverable petroleum reserves would lead to substantial revenues to the state only if discoveries occurred on state or private lands. At this time, any attempt to estimate state revenues from unproved fields would be highly speculative. Furthermore, in defining a feasible strategy for long-run state spending, it is inappropriate to use such a speculative estimate for revenues. A more satisfactory method would be to use a conservative estimate of petroleum revenues based on known reserves. This would minimize the problems that could result from overestimating state revenues. If such an estimate proved to be too low, the level of spending would be easy to increase.

Despite uncertainties over the amount of future oil-related revenue that will accrue to Alaska because of fluctuating prices, production, and tax rates, the pattern of future petroleum revenues can be anticipated. Revenues will rise as production increases, reach a plateau, and finally decline as petroleum is depleted. Figure 2 shows that petroleum revenues, according to the assumptions outlined above, will reach a peak of \$1.75 billion (in 1977 dollars) in 1985 and then decline as the resource is depleted. In 1990, projected revenues would be \$.9 billion. Different assumptions about reserves, prices, and taxes can change the level of revenues over time, but not the basic pattern.

Nonpetroleum Revenues (Taxes, Licenses, Fees, and Miscellaneous Revenues)

Most other sources of revenue are unrestricted general fund revenues generated as taxes, charges for services, license receipts, and resource revenues. Figure 3 indicates that these nonpetroleum revenues accounted for almost the same percentage of revenues in 1965 as in 1977: 31.8 percent in 1965 and 33.2

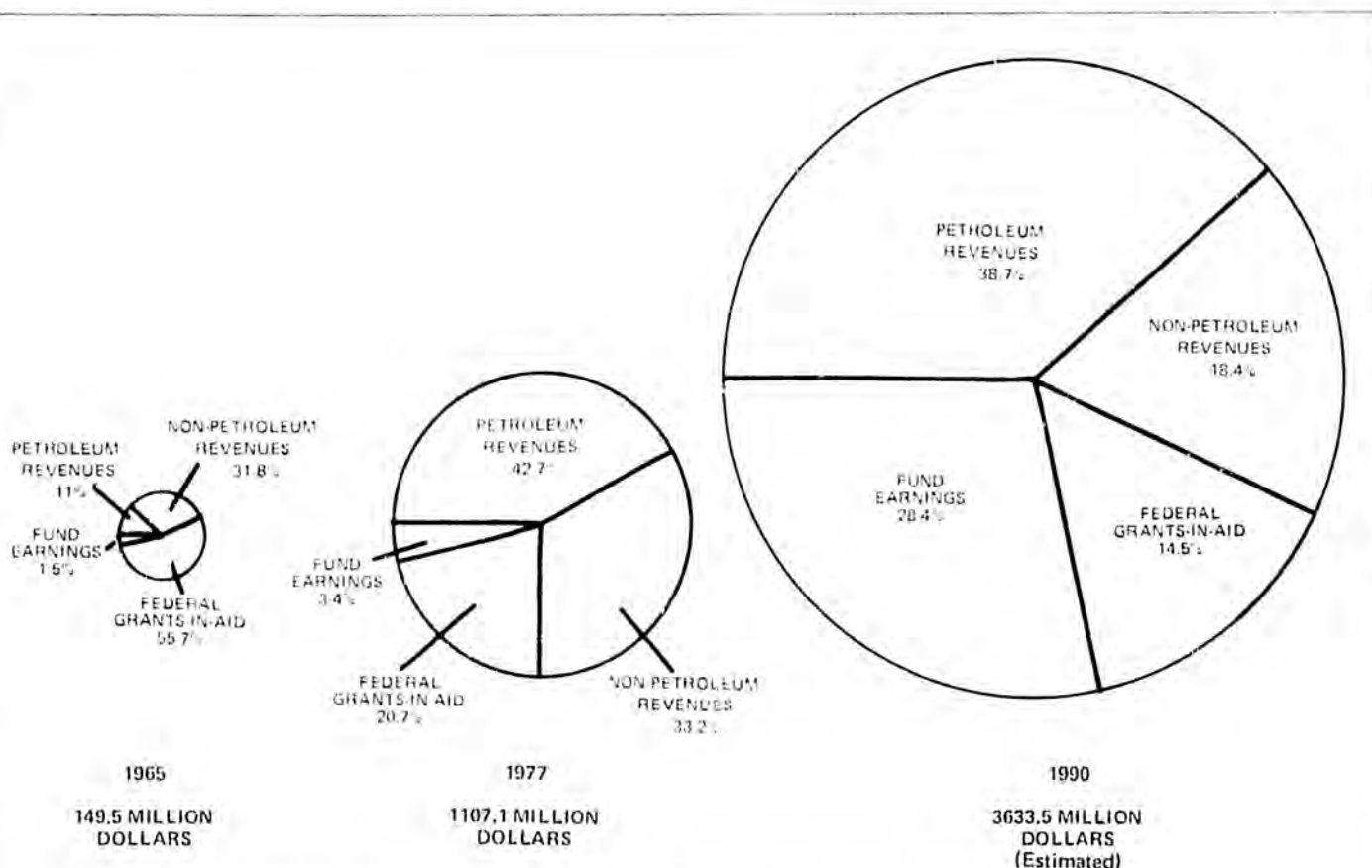


Figure 3. Distribution of Sources of State Revenue in Nominal Dollars.

Table 2
Historical Summary of Alaska State Revenues
(million \$)

Year	Total General Fund Revenues	Petroleum Revenues ^a (unrestricted)	Petroleum Revenues as Percentage of Total	Nonpetroleum Revenues ^b (unrestricted)	Nonpetroleum Revenues as Percentage of Total	Federal Grants-in-Aid (restricted)	Federal Grants-in-Aid as Percentage of Total	Non-Federal Restricted Revenues ^c	Non-Federal Restricted Revenues as Percentage of Total
1964	131.452	14.905	11	43.931	33	71.259	54	1.357	1
1965	150.987	16.473	11	49.738	33	83.305	55	1.471	0
1966	152.564	21.601	14	60.060	39	69.418	46	1.485	1
1967	168.507	21.466	13	65.044	39	79.204	47	2.793	1
1968	177.628	42.967	25	69.740	39	61.717	35	3.204	1
1969	188.119	32.841	17	79.805	42	73.449	39	2.024	2
1970	1,146.220	936.182	82	131.073	11	76.513	7	2.453	0
1971	355.991	47.702	13	175.549	49	110.529	31	22.211	7
1972	376.236	45.308	12	181.836	48	124.157	33	24.935	7
1973	385.462	51.249	13	150.587	39	145.589	38	38.037	10
1974	424.578	76.838	18	165.703	39	141.312	33	40.725	10
1975	588.820	87.490	15	246.182	42	186.205	32	68.615	11
1976	1,017.834	385.756	38	319.739	31	240.703	24	71.636	7
1977	1,186.505	472.596	40	404.866	34	229.624	19	79.455	7
average annual growth rate (64-77)	18%	31%		19%		9%			

^aIncludes production, property and reserves taxes, mineral leases, bonuses and royalties, and federal royalty sharing with the state.

^bIncludes general fund earnings.

^cNon-federal restricted revenues consist primarily of interagency receipts and as such are not considered revenue generated by the private economy.

SOURCE: Alaska Department of Administration, *Annual Financial Report*, annual issues 1964 through 1977.

percent in 1977. They exceeded petroleum revenues each year before 1976 (except in fiscal year 1970, the year of the Prudhoe Bay lease sale); but now, of the two sources, petroleum provides a larger percentage of revenues to the general fund.

Generally, the past growth of these nonpetroleum revenues has traced a smoothly rising path that roughly parallels the rising level of personal income in the state, which is the major source of these revenues. Anticipating the future level of these revenues is easier than projecting future levels of petroleum revenues because of the close relationship between nonpetroleum revenues and personal income. The largest component of the nonpetroleum revenues, for example, is the personal income tax, which is directly related to personal income. Thus, the level of future nonpetroleum revenues (shown in Figure 2), which increases steadily, reflects steadily rising personal incomes in Alaska.

Earnings on Fund Balances

This category consists of interest and other earnings on balances in the general and permanent funds. In the early years after statehood, this was a very small source of revenues. In 1965, 1.5 percent of revenues came from earnings of the general fund. This percentage increased significantly when the general fund was augmented by the Prudhoe Bay lease sale, rising to 3.4 percent of revenues in 1977.

In future years, earnings on fund balances will become a much more important source of revenue as both the permanent fund and the general fund grow from the receipt of petroleum revenues in excess of current expenditure requirements. It is possible that by 1990, 28 percent of revenues could derive from fund earnings.

Figure 2 shows the pattern of these revenues over time. They increase as fund balances are built up from petroleum revenue receipts. After petroleum revenues peak and begin to decline, fund earnings continue to grow for 7 additional years. They then begin to decline as withdrawals from the fund balances exceed contributions.

Federal Grants-in-Aid

During the period immediately after statehood, federal grants-in-aid typically accounted for over 50 percent of state revenues. Although the percentage has declined over the years, it is still considerable; in 1977, federal funds accounted for 20.7 percent of general fund revenues. However, the dominant position that federal aid occupied in the composition of revenues in the early years has been partially taken over by petroleum revenues, which have emerged as the primary revenue source.

Federal grants will continue to grow slowly as state population increases. Presently, Alaska receives more federal dollars per capita than any other state. This is partially explained by (1) the small population, (2) the high cost of living, and (3) the federal programs intended to benefit Alaska's Native population. However, as the state grows, these factors that set Alaska apart from the rest of the nation will become less important.

Total Revenues

Total revenues, as shown in Figure 2, will rise and fall in response to changes in petroleum revenues, and the post-1986 decline in total revenues will be a direct result of the decline in petroleum revenues. The increases in nonpetroleum revenues, federal transfers, and fund earnings will not be sufficient to maintain the previous levels of total revenues as the petroleum component declines. Thus, if the state chooses to spend revenues as it receives them, expenditures—and with them overall economic activity—will follow the cyclical pattern of petroleum revenues, with a period of large expenditures followed by a long period of substantial cutbacks.

CAN THE LEVEL OF STATE SERVICES INCREASE IN THE FUTURE?

Case 1: Moderate Growth in Expenditures

By combining revenue projections with expenditure behavior assumptions, one can simulate long-run growth patterns of state expenditures and examine the implications of the results.³ In this case, total state government operating expenditures are assumed to continue to increase at a rate of 15 percent annually. Since the rates of population and price increase are accounted for within the simulations, this represents a 4.3-percent annual increase in the level of real services per capita.

Because petroleum revenues will increase in future years, it is possible that state spending will grow in response to these increases, just as state spending grew in response to the revenues derived from the Prudhoe Bay lease sale. This simulation however, assumes that such a response does not occur, since the 15-percent growth rate is slower than the rate observed over any period since statehood.

In addition to assuming an increase in the level of state government services, this simulation assumes substantial growth in the basic sectors of the economy including mining and petroleum,

³These simulations employ the Man-in-the-Arctic (MAP) econometric model of the Alaskan economy, developed by the Institute of Social and Economic Research under a grant from the National Science Foundation.

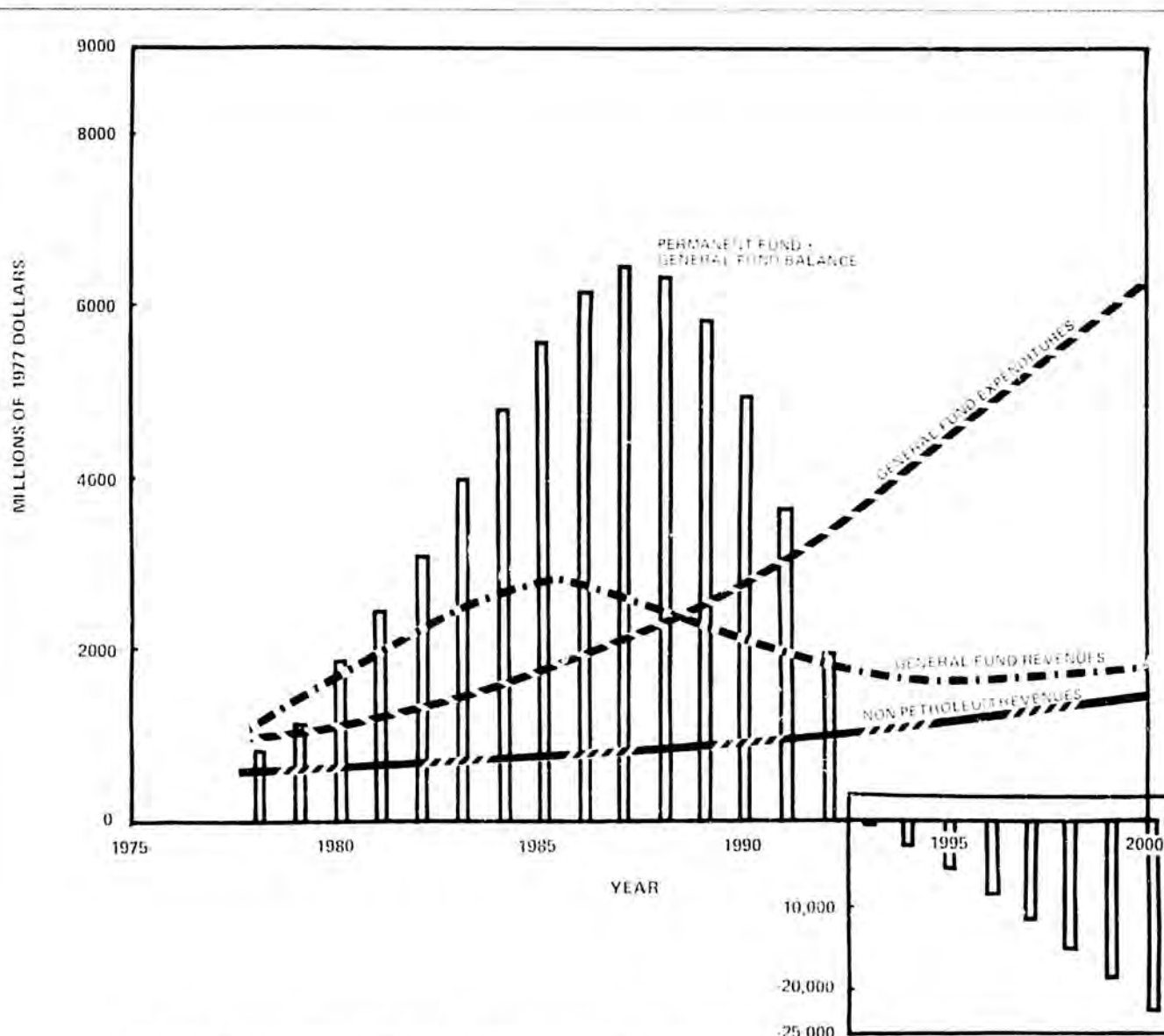


Figure 4. State Fiscal Pattern if Operating Expenditures Grow 15 Percent Annually.
(1977 Dollars)

manufacturing, and agriculture-forestry-fishery. This growth would generate substantial revenues through income taxes and other revenues related to income and population. The level of petroleum revenues would be the same as assumed in the previous section, with 30 percent of petroleum royalties and bonuses going into the permanent fund; here they would be invested conservatively in high-quality securities. All other excess revenues in the general fund would also be invested in high-grade securities until needed.

Figure 4 reveals that simulating with these assumptions, the level of state government services would continue to expand only until 1992. In that year, the general fund would be eliminated. This would occur only 5 years after the permanent fund

and the general fund peak in 1987. When the general fund balance is eliminated, state government must turn to alternative sources of revenue to support further growth. One such source would be the permanent fund. However, in only 1 year, the \$3.4 billion which would have accumulated in the fund would be eliminated. For descriptive purposes, the simulation is allowed to continue by letting the general fund assume a negative value. The negative value corresponds to the revenues needed from new sources to sustain the desired pattern of growth. In reality, a situation in which the general fund became negative could, of course, not exist.

The diagram in Figure 4 clearly shows what happens in this case. Expenditures continue to

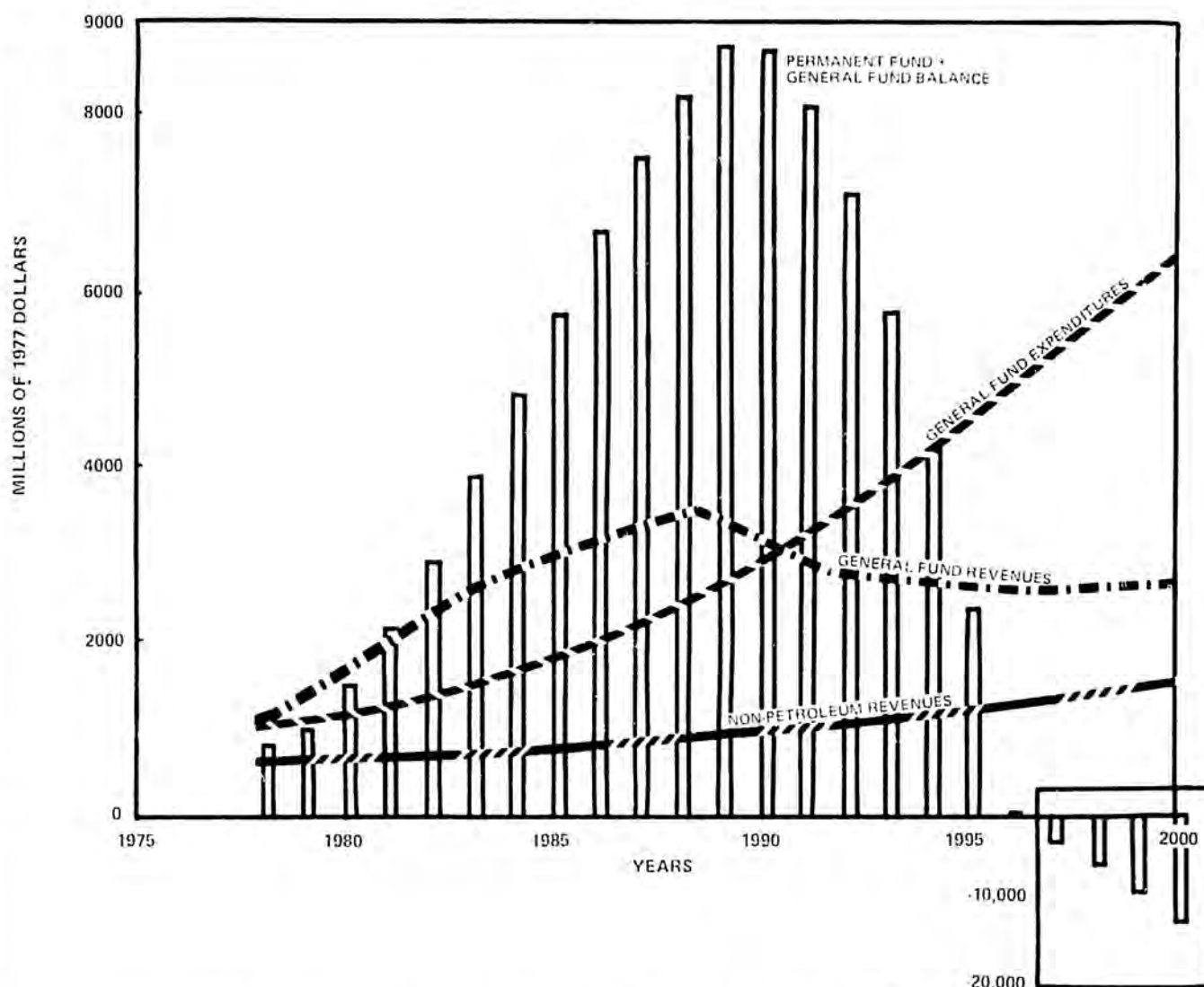


Figure 5. State Fiscal Pattern if Operating Expenditures Grow 15 Percent Annually and Petroleum Revenues are Large. (1977 Dollars)

increase without regard to projected revenues, and revenues, because of their large Prudhoe Bay petroleum component, decline beginning in 1986. The general fund, which is augmented by excess petroleum revenues in the early 1980s, is rapidly drawn down in the late 1980s to sustain continued growth. Thus, a 15-percent annual growth rate for state expenditures is not feasible, given current expected levels of petroleum revenues.

Nor does a more optimistic set of assumptions regarding petroleum revenues change the basic result. Figure 5 shows that assuming a scenario which results in approximately \$20 billion in additional petroleum revenues between 1980 and 2000 (because of a higher level of discoveries and higher energy prices) simply

postpones the time when the general and permanent funds would be eliminated.⁴ At the 15-percent annual rate of growth, the combined balance in the permanent and general funds would peak in 1990, but 6 years later, the balances would be eliminated; by 2000, there would be a deficit twice the size of general fund expenditures.

Case 2. Slow Growth in Expenditures.

A second case of interest is to allow state expenditures to increase annually at 1 percent in excess of increases in population and prices. This

⁴This petroleum revenue scenario is based upon a recent unpublished Department of Revenue projection.

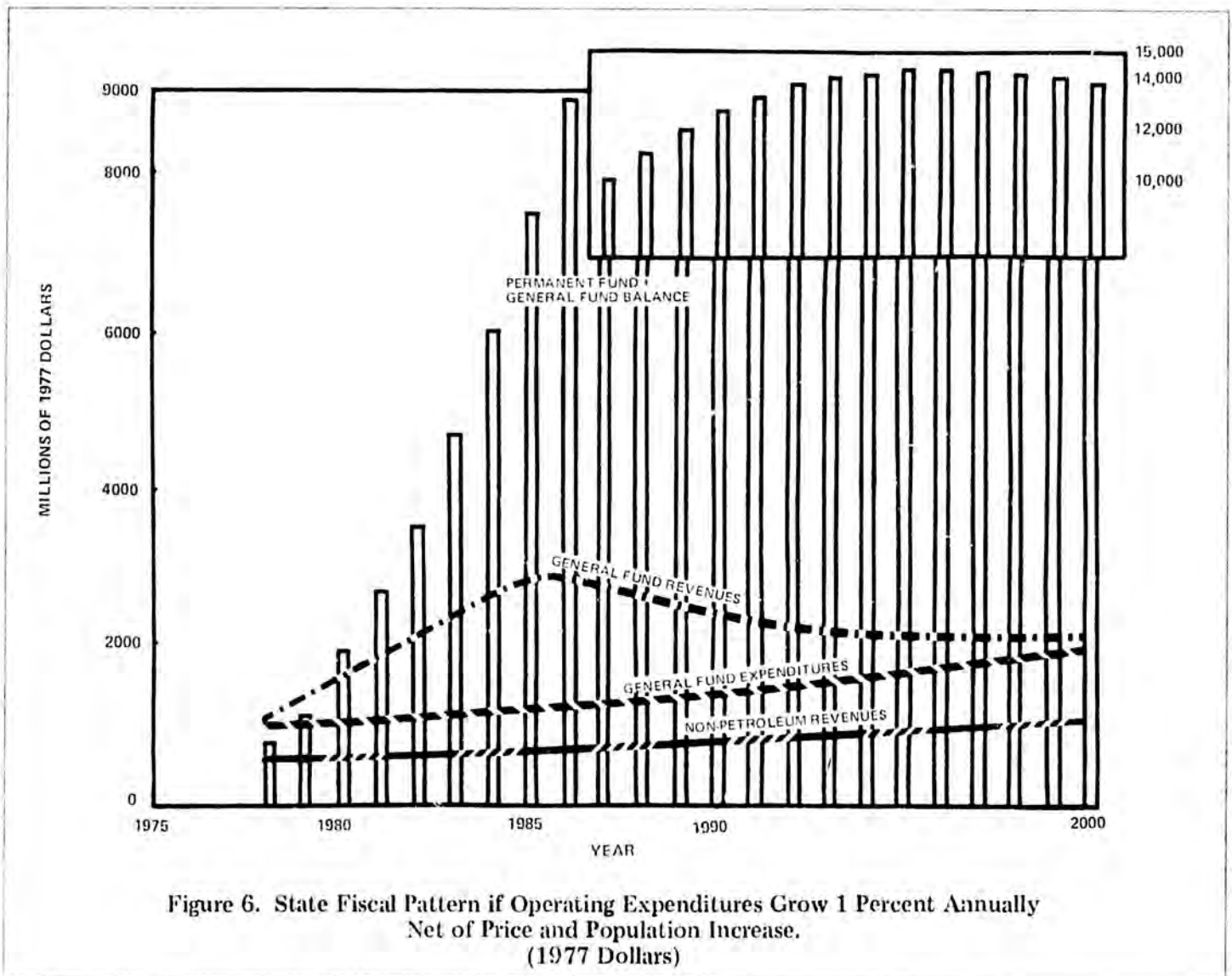


Figure 6. State Fiscal Pattern if Operating Expenditures Grow 1 Percent Annually
Net of Price and Population Increase.
(1977 Dollars)

would allow for a very small annual increase in government services on a per capita basis; however, it would be much slower growth than has taken place in the past, because now, unlike the trend since statehood, the ratio of expenditures to personal income would be declining. This would also differ from the experience in other states, where expenditure growth has generally been at least proportional to income growth.

Figure 6 shows what happens in this case. By targeting expenditures to increase by only 1 percent annually in real terms, the state would be able to maintain a positive balance in both the general fund and the permanent fund throughout the period analyzed. Slower growth of state government would reduce the overall growth rate of the economy and this would slow the rate of growth of nonpetroleum revenues. The general fund balance would grow much higher and for a longer time than if expenditures were

assumed to grow at 15 percent annually. Its subsequent decline would be slower, and in 2000, the level of the fund would be seven times the level of general fund expenditures. (In 1969, immediately after the Prudhoe Bay lease sale, the balance in the general fund was six times general fund expenditures.) This large terminal balance in the fund suggests that the state could support a 1-percent annual increase in the level of state services for more than 20 years.

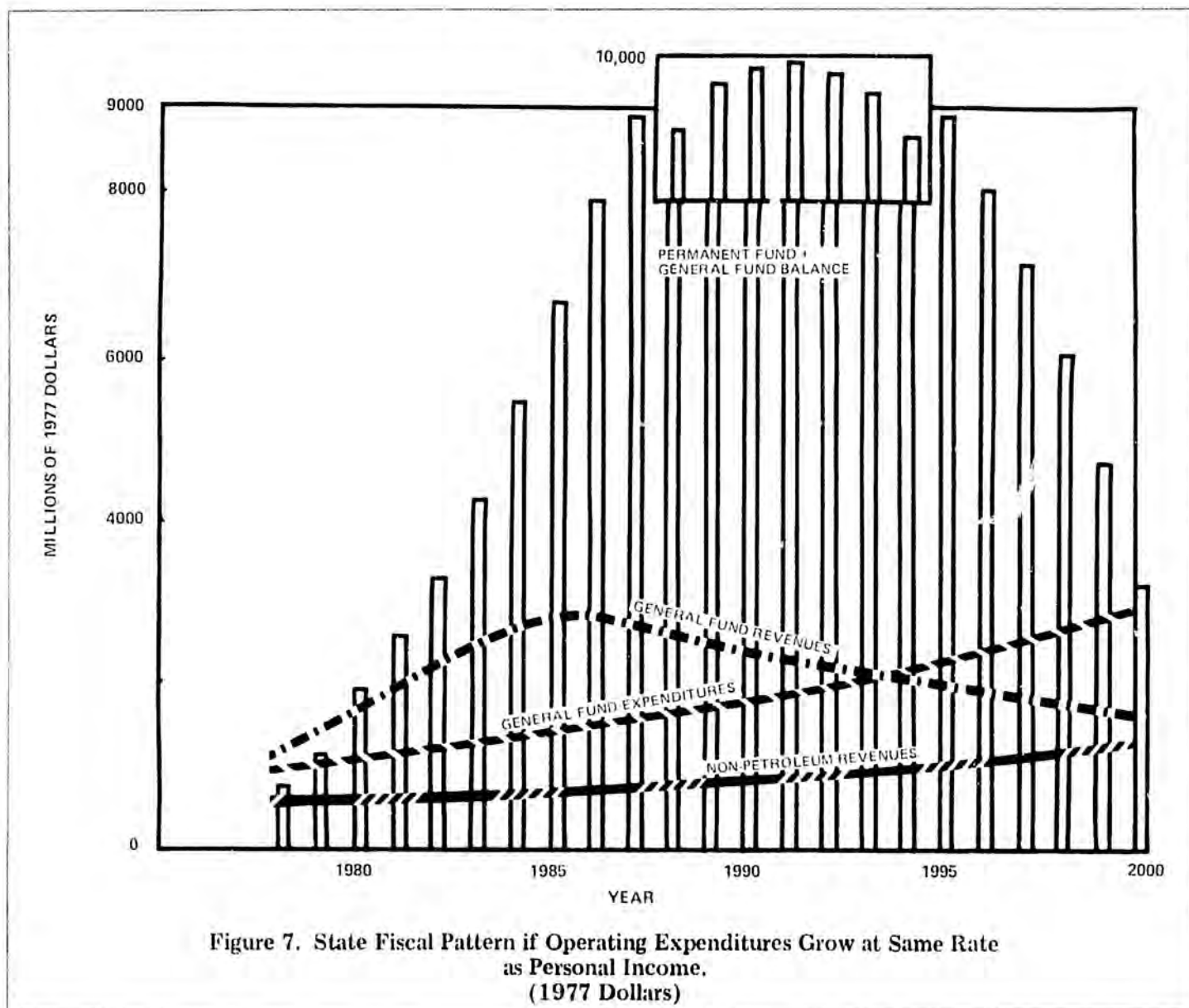
Beyond 2000, it is not clear for how much longer the 1-percent growth rate could be sustained. The large earnings generated by the general fund balance would begin to decline, and nonpetroleum revenues would still be much less than expenditures. Could general fund earnings continue to support the growth in state expenditures long enough to allow nonpetroleum revenues to catch up with state expenditures?

In the final year of this simulation, nonpetroleum revenues and earnings from the general fund and the permanent fund would pay for about 100 percent of total expenditures. In subsequent years, however, withdrawals from the principal of the general fund would occur, because even though expenditures would be growing very slowly, they would grow more rapidly than revenues. The gap between nonpetroleum revenues and expenditures would thus actually be wider at the end of the period than it was in 1980. Nonpetroleum sources would finance 60 percent of expenditures in 1980 and only 57 percent in 2000.

Case 3. Growth in State Expenditures that is Proportional to Personal Income.

Figure 7 shows the case of a somewhat more

rapid growth rate in state services, which would maintain a constant proportion of state expenditures to personal income over time. Such a growth rate is clearly not feasible in the long run, however, given the revenue assumptions used here. Not only would the more rapid rate of increase in state services put pressure directly on state government's financial resources, but the growth in state spending would cause more rapid population growth resulting from in-migration. This would put additional pressure on the state's limited financial resources, because the additional population would contribute only to an increase in nonpetroleum revenues. As a result, the combined permanent and general fund balances, which would grow continuously to \$10.3 billion by 1991, would precipitously fall to \$3.2 billion by 2000. Also, because of the more rapid rate of



expenditure growth in this case, the state would make no progress toward independence from petroleum revenues. In 2000, 40.8 percent of expenditures would be financed from nonpetroleum revenues, about 10 percent from earnings on the funds, 4.5 percent from petroleum revenues, 15.5 percent from federal grants-in-aid, and the remaining 29.2 percent from the principal of the general fund. It is clear that in a few years the general fund balance would be eliminated, and at that time the substantial state operating deficits would result in general-fund deficits.

THE PERMANENT FUND

The permanent fund has been established to prevent the rapid dissipation of the state's petroleum revenues. It is presently set up to receive 25 to 30 percent of petroleum royalty and bonus revenues. The permanent fund balance can be allowed to increase through the reinvestment of earnings in early years. Subsequently, the earnings of the fund could be annually transferred to the general fund and used to sustain the level of operating expenditures.

Use of the fund in this way would marginally contribute to the state's ability to sustain any given level of government services but would not provide the necessary revenues to significantly alter the pattern developed in the simulations described above. The problem with such an approach is that when petroleum revenues begin to decline, growth of the fund will also taper off. When additions in the form of petroleum revenues are no longer being made, further additions will consist only of earnings. In order to provide an annual contribution to the general fund which is constant in real per capita terms, the sustained earnings of the fund must increase faster than the growth in population and in the price level. It is unlikely that earnings can grow this rapidly, so they will provide a declining proportion of the revenues necessary to maintain a constant level of government services.

Figure 8 illustrates the relation between the sizes of the permanent and general funds, assuming a 30-percent permanent fund contribution rate and the same expenditure behavior as described in Case 3 above. The permanent fund growth is rapid in early years but levels off about 1990. Without reinvestment of earnings, the real value of the fund will then begin to decline as the rate of inflation exceeds the rate of new additions to the fund. In 2000, it is less in value than the operating budget for that year.

The general fund grows much more rapidly than the permanent fund in the 1980s. At its peak, it

contains about \$8 billion (1977 dollars), which is four times the balance in the permanent fund. In succeeding years, the general fund balance is drawn upon heavily to finance state operating expenditures and is essentially eliminated by the year 2000.

The nature of the permanent fund does not allow for withdrawals when fund balances are needed to maintain state operating expenditures. The advantage of the permanent fund is that it does channel a considerable amount of revenues away from the current spending stream. The general fund conversely allows withdrawals when they are needed to pay for operating expenditures but does not shelter revenues from the current spending stream when large balances are being built up.

Clearly, the potential growth of the general fund balance to \$8 billion (1977 dollars) in 10 years and subsequent rapid depletion requires that measures be taken to ensure the proper investment of the funds. Measures are also required to shield the large balance from the temptation to spend the balance prematurely. At a later time, as shown in all three of the previous simulations, the balance will be called upon to meet projected operating expenditures.

Increasing the contribution rate to the permanent fund would be one way of insulating some state revenues from spending pressure. This option would have two advantages. First, it would shield a larger portion of the projected general fund balance from the temptation to increase the operating budget when revenues are increasing rapidly. Second, it would also potentially provide larger fund earnings in later years which could be contributed to the general fund. As indicated above, however, it is probable that the fund earnings would be decreasing in real per capita terms as price and population increases erode its value over time. The principal disadvantage of a higher permanent fund contribution rate would be the inaccessibility of these additional revenues when they might become necessary to maintain a desired level of state services or a smooth pattern of state spending. In addition, the general fund balance could generate earnings comparable to the permanent fund if the state adopted an investment policy for the general fund balance which was predicated upon longer-term investments.

Although the permanent fund provides a potent constraint against state spending, it cannot, in its capacity as a savings account, eliminate the situation caused by the cyclical nature of petroleum revenues. It can play a significant role in the state's long-term fiscal health, but only insofar as other state fiscal policies aimed at smoothing out the state's long-term expenditure pattern are concomitantly initiated.

Some of these policies are examined in the next section.

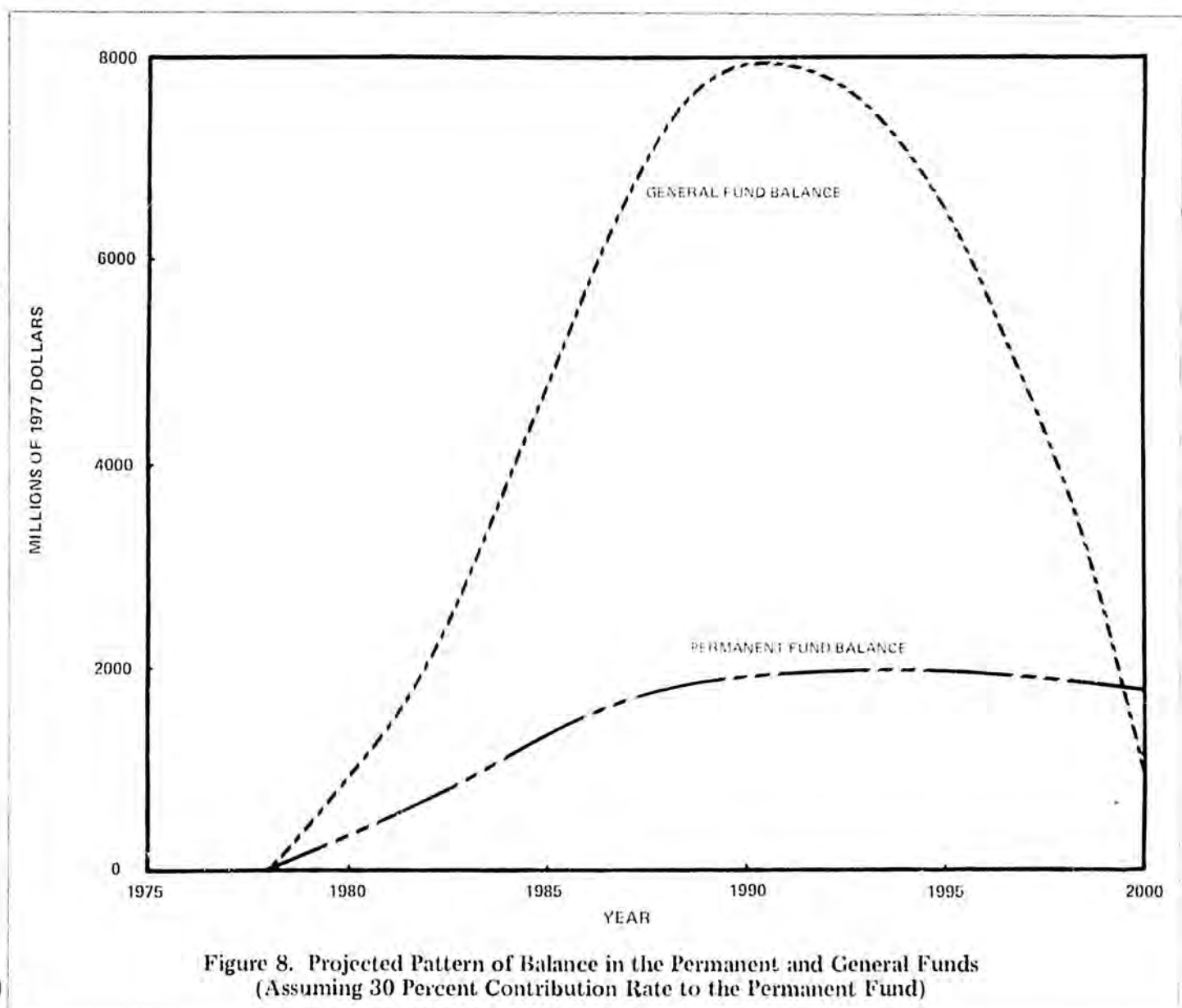
OPTIONS FOR THE FUTURE

The simulations presented above are not predications of what will happen in the future, rather they are projections of the future that are designed to be a part of an ongoing fiscal planning process. As conditions change and as the assumptions used in the models are modified or the models themselves altered, the projected pattern of the state's response will also change. Notwithstanding the conditions imposed on these projections, one constant finding persists in all simulations run to date and that is, continued growth of state services depends heavily

upon growth in petroleum revenues.

The state cannot completely eliminate its dependence on petroleum revenues simply because a significant portion of the activity in the private economy is the direct result of petroleum development. A reduction of petroleum activity would slow economic growth and demands for government services would decline. It is clear, however, that serious thought must be given even today to the eventual transition of the state government from primary dependence on petroleum revenues.

The basic dynamics of the problem of transition can be simply stated and are illustrated in Figure 9. The present level of state expenditures is heavily influenced by the availability of petroleum revenues.



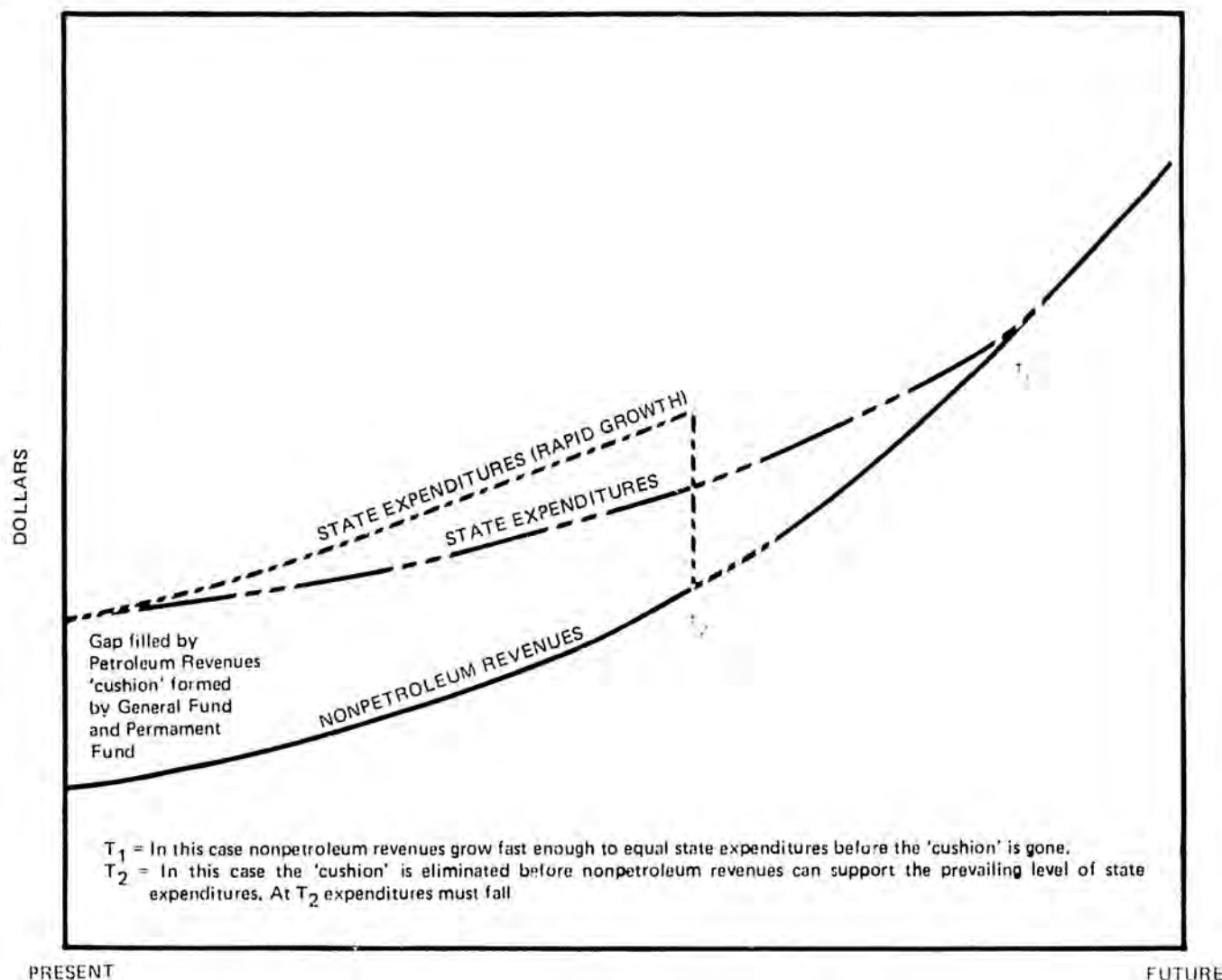


Figure 9. Possible Growth Paths for State Services.

These revenues allow state spending to be at a much higher level than would be the case if nonpetroleum revenues were paying for all services. Over time, the state economy will grow, and this growth will cause revenues derived from nonpetroleum sources to increase. For example, personal income tax receipts will grow as personal income increases. This source of revenue will grow at approximately 8 to 10 percent annually.

Simultaneously, this economic growth will generate a demand for state services. The growth rate of these services will be determined by growth in the size of the budget. At some time in the future, nonpetroleum revenues will have to pay a much larger percentage of the cost of state government than they do presently. This will become necessary when the

decline in petroleum production on state-owned and private lands leads to a decline in petroleum revenues. When that occurs, the earnings and principal of the important state funds—the permanent and general revenue funds—will be the only “cushion” filling the gap between expenditures and nonpetroleum revenues and preventing expenditures from immediately falling to the level of nonpetroleum revenues. When the cushion is exhausted, state expenditures must decline to the level of nonpetroleum revenues.

Two cases are shown in Figure 9. In the first, state expenditure growth is slower than that of nonpetroleum revenues. At time “T₁” nonpetroleum revenues equal total expenditures, and state government is independent of both petroleum

revenues and earnings from the general and permanent funds. This is a feasible situation if, at "T₁," the general fund is not in a deficit position. If the fund is negative at "T₁," the level of state services depicted is not feasible.

In the second case, the rate of growth of state expenditures exceeds that of nonpetroleum revenues. As a result, the difference between state expenditures and nonpetroleum revenues increases over time. As before, this difference is made up by petroleum revenues and the cushion provided by the permanent and general funds. The size of the cushion is limited and cannot expand indefinitely so that at some point such as "T₂," it is eliminated, and expenditures must abruptly decline to the level of nonpetroleum revenues.

A strategy for dealing with the problem of transition from petroleum revenue dependence will consist of many components since there exists no single solution. The permanent fund is an important component. Several other possible components of a strategy are briefly examined below.

1. **Do nothing.** A continuation of past spending behavior would result in a rapid increase in state expenditures when revenues increase and substantial resistance to expenditure reductions when revenues decline. The period after the Prudhoe Bay lease sale is indicative of this behavior. If state government followed this pattern, it could face the necessity of making a substantial absolute reduction in the level of state services in a decade. This strategy implies that it is preferable to provide a higher level of services in the present in exchange for a significant reduction in the level of services at some future time.

2. **Increase petroleum revenues.** Because of additional discoveries on state or private lands, higher tax rates and royalties, or higher wellhead values, petroleum revenues received by the state may exceed present expectations. Analysis indicates that in order to make a significant difference, petroleum revenues would need to be larger by many billions of dollars. In any event, the essential cyclical pattern of the revenues would occur regardless of their size.

An increase in petroleum revenues could either reduce or intensify the problem of the gap between expenditures and nonpetroleum revenues. If the additional revenues were temporarily insulated from the spending stream, they would provide additional time for the economy to wean itself from dependence on petroleum revenues. If, on the other hand, the additional revenues resulted in an immediate expansion of the budget, then dependence on petroleum revenues would actually increase.

3. **Increase nonpetroleum revenues.** Additional sources of revenue which have not been anticipated in this study will probably become available to the state in future years. However, because of the magnitude of petroleum revenues, it seems unlikely that alternative sources would be able to generate revenues sufficient to replace those supplied by petroleum.

For example, to replace the \$709 million of petroleum revenues expected in 1979,⁵ one of the following would have to occur:

- The state personal income tax would have to be increased to nearly five times its present level.
- The commercial fish taxes would need to produce over eighty times their predicted revenues.
- At a royalty of \$0.20 per ton, 3,545 million tons of Alaskan coal would need to be produced. (In 1975, total U.S. production of bituminous and lignite coal was 640 million tons.)

4. **Reduce the growth rate of state services.** Reducing the growth rate of state expenditures by even 1 percent would increase the lifetime of the permanent fund and general fund cushion. However, there are limits to how much the rate of growth in the budget can be reduced, although it is not known what those limits are for Alaska. In most states, expenditures grow at about the same rate as personal income, and for political reasons, slower growth may be very difficult to achieve, particularly during a period in which the state may have several billion dollars of surplus revenue.

5. **Establish a target growth rate for state expenditures based upon long-run revenue projections.** The establishment of a realistic target rate of expenditures growth that is independent of the cyclical fluctuations inherent in petroleum revenue receipts would serve two purposes. It would reduce the overall growth rate and thus postpone the time when the fund cushion would be depleted. Second, it would reduce the tendency for state expenditures to increase in a discontinuous fashion when petroleum revenues increase.

6. **Stimulate investment in Alaska.** The permanent fund and other resources can be used to accelerate the rate of investment in Alaska. This could increase tax revenues from nonpetroleum sources. New investments would increase the demand

⁵Alaska Department of Revenue, *Revenue Sources FY 77-79*. This figure includes the production and property taxes and rents and royalties accruing to the general, permanent, and renewable resources development funds.

for state services because of induced population growth, at the same time that they would broaden the economic base of the state. Accelerated investment is, thus, a two-edged sword—increasing financial resources while increasing demands on those resources.

Because of the state's large dependence upon petroleum revenues for the financing of services, it is difficult for new investments to narrow the gap between expenditures and revenues. It is more likely that population additions would increase pressure on the limited resources of the general fund.

The dependence of state expenditures on petroleum revenues means that a new basic industry would be required to provide revenues on the same order of magnitude per employee as the petroleum industry to prevent a negative impact on the general fund.⁶ In addition, any new basic activity, such as a petrochemical refinery, would result in an increase in economic activity in the support sectors of the economy. To avoid a negative net fiscal impact, revenues from not only the basic activity but also from the support services activity must exceed the costs of new government services.

These points are illustrated in Figure 10, which shows state revenues per employee in the petroleum industry, in all other industries, and the average for all Alaskan industries as well. It is extremely unlikely that new industry could match the revenues generated by petroleum, but it could directly provide more revenue per employee than the statewide average. Basic industry growth would engender support sector growth, and support sector revenue potential is comparable to that of the nonpetroleum sector. Since the employment resulting from this growth would partially come from outside the state, government services would need to expand to provide for this additional population. If per capita services were to remain constant, a negative net fiscal impact on the general fund would result.

Net fiscal impact is not the only criterion by which the state should measure a potential

investment using the permanent fund or other state resources. Within this framework, however, it is difficult to see how state investment in new industry can close the fiscal gap which petroleum revenues have opened, both because of the size of the gap and the fact that industrial expansion also leads to expansion of government services.

7. Moderate the rate of population increase. Population in Alaska will continue to grow not only because of natural increase but also because of in-migration. The availability of jobs and the high level of personal income in Alaska are powerful factors drawing new people into the state. This population growth puts an additional burden on the state's limited financial resources at the same time that the growth helps to broaden the base of the economy. One way to minimize this financial burden is to maximize the use of the existing labor force in Alaskan jobs rather than relying on additions to the labor supply from outside Alaska.

Since the historic unemployment rate for the state has remained at about 9 percent independent of the growth of the Alaskan economy, a potential exists to use Alaska's unemployed human resources. At the same time, this constant level indicates that the problem of unemployment is not solved simply by the creation of new jobs. New jobs increase the labor force by increasing the number of people who come into the state looking for jobs. A reduction of the unemployment rate requires that the number of jobs increase more rapidly than the number of people looking for work.

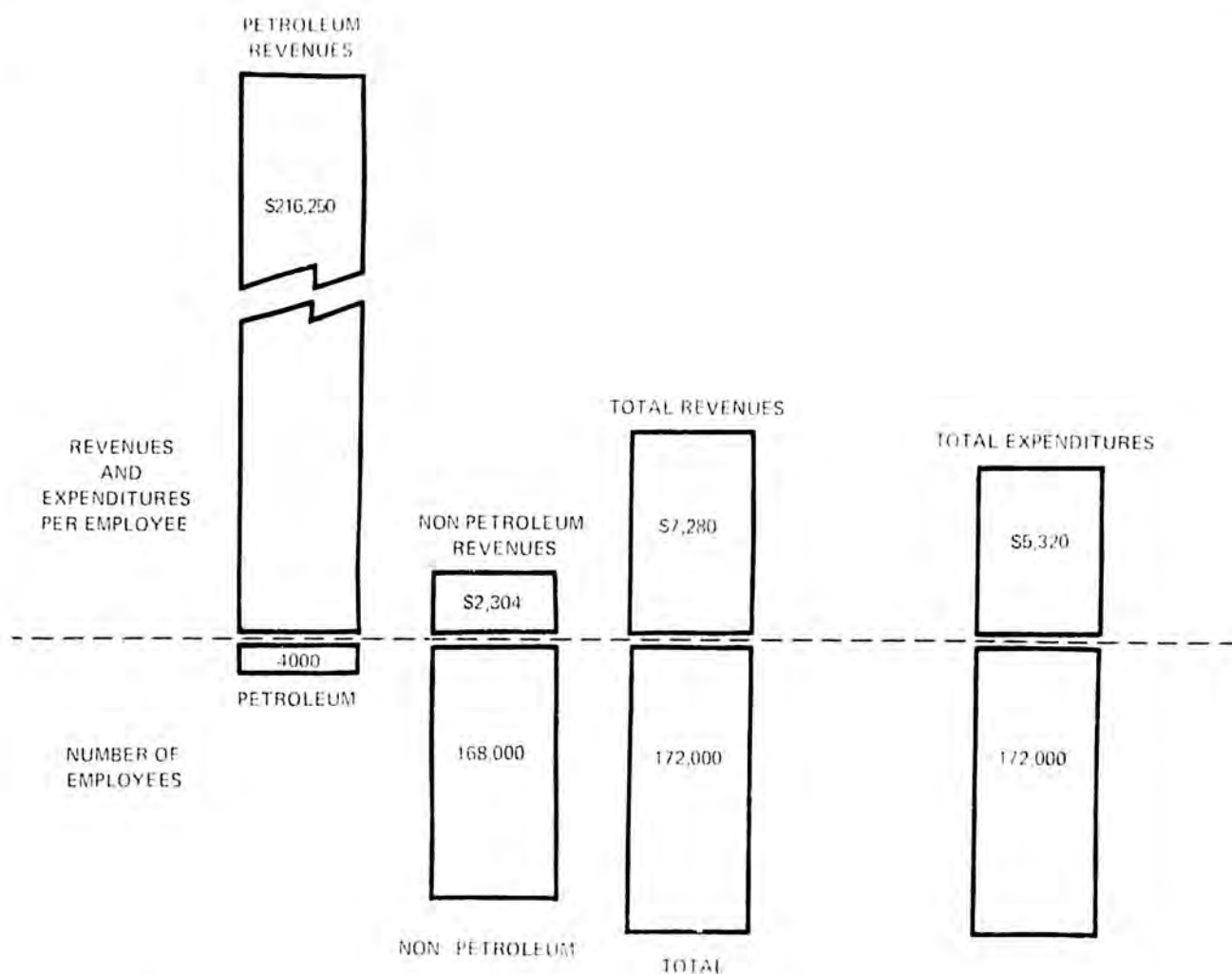
CONCLUSION

Alaska faces a period of unprecedented growth in state revenues resulting from the development of its significant petroleum resources. This growth may last only a decade before a decline in petroleum revenues will require that state expenditures be financed increasingly from nonpetroleum sources.

In order to effectively respond to the inevitable situation when transition from dependence on petroleum revenues must occur, long-range fiscal planning must begin immediately. It is encouraging that a step in that direction was taken by the legislature when it attempted in the most recent legislative session to establish a target expenditure growth rate.

The process of planning for the transition will be an evolutionary one involving a continuous review of all options available to the state. A major purpose of this *Review* is to help provide direction for that process.

⁶To eliminate the gap expected in 1979 between expenditures and nonpetroleum revenues would require the combined corporate tax receipts collected in 1975 from 20 states—with no increase in state services—to support the level of economic activity that implies. Those states, with 1975 corporate tax receipts of \$545 million, were Alaska, Arizona, Arkansas, Delaware, Hawaii, Idaho, Maine, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, Oklahoma, Rhode Island, South Dakota, Utah, Vermont, and West Virginia. U.S. Department of Commerce, Bureau of the Census, *State Tax Collections in 1975*, p. 7.



SOURCES: Revenue estimate for 1979 from Department of Revenue, *Revenue Sources FY 77-79*. Petroleum revenues includes production taxes, property tax, royalties, contribution to permanent fund, and oil reserves tax refunds. This totals \$865 million out of \$1,252 million revenues. Employment is actual 1976 totals from Department of Labor, *Statistical Quarterly*. Average annual mining employment (mostly petroleum) was 3,865. Expenditures from Division of Budget and Management, *Executive Budget, 1979*. General fund expenditures estimated at \$914.8 million in 1979.

Figure 10. State Revenues and Expenditures per Employee by Industry.