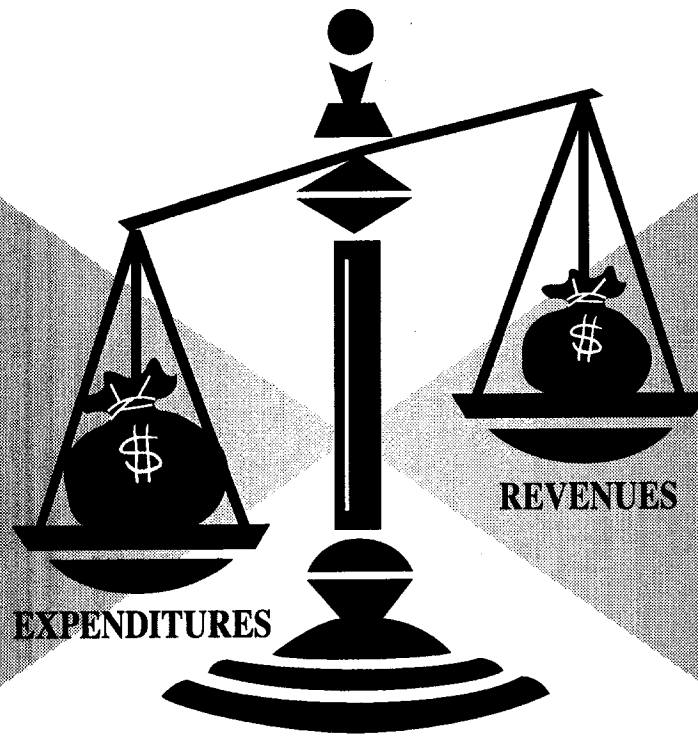


# COMMONWEALTH NORTH BUDGET CONFERENCE



# CLOSING THE GAP

October 20 - 21, 1993  
Anchorage, Alaska



February 1994

Dear Conference participant and Commonwealth North member:

I am pleased to present this summary of the proceedings and conclusions of the Commonwealth North Budget Conference held in October, 1993. Over 125 members and guests participated in the Conference. The findings and conclusions are the product of five work groups involving nearly 60 citizens. I commend the work groups for their interest and time in seeking solutions to one of the most critical issues facing Alaska.

On behalf of Commonwealth North, I want to thank Governor Walter Hickel, former Governors Jay Hammond and Bill Sheffield, the state officials, state legislators and other presenters who shared their views and valuable information with us. We are also indebted to the facilitators, resource people and recorders who worked with each discussion group.

Recent court rulings and falling oil prices have further heightened our awareness of the seriousness of our budget problems. But, these short-term crises and their short-term fixes should not deflect our view from the fundamental long-term "budget gap" and the need for hard choices in the future.

I recommend this budget conference summary to you as a thoughtful set of considerations and recommendations on how Alaska could confront and manage the serious fiscal problems associated with long-term declines in oil production.

Sincerely,

Lee Gorsuch  
President

*Founding Co-Chairmen Governor Walter J. Hickel and the late Governor William A. Egan*  
• Lee Gorsuch, President • H. L. "Skip" Bilhartz, Vice President • Jeff Lowenfels, Vice President  
• Perry Eaton, Vice President • Jane Angvik, Secretary • Marc Langland, Treasurer  
• Bill Allen • Robert B. Atwood • Richard F. Barnes • Judith M. Brady • Janna Brattain  
• Fuller Cowell • Governor Steve Cowper • Robert Hatfield Jr. • Judge Karen L. Hunt  
• Archbishop Francis Hurley • James Linxwiler • Loren H. Lounsbury  
• Jim McElroy • William McHugh • John Morgan • Susan L. Ruddy • Governor William Sheffield  
• William J. Tobin • Dr. F. Thomas Trotter

935 West Third Avenue • Anchorage, Alaska 99501 • 907-276-1414 • FAX 907-276-6350



## *Introduction*

Commonwealth North was founded with the goal of bringing together Alaska's business and civic leaders to learn about, discuss and make recommendations on major public policy issues facing our state. Perhaps no issue affecting the economic and social fabric of Alaska looms larger than the inexorable decline in production from the North Slope oil fields. Taxes and royalties from these fields account for nearly 85% of current revenues to state government.

It is clear that major public policy decisions must be made over the next 10 years to bridge "the gap" expected between current revenue sources and spending levels. UAA's Institute of Social and Economic Research (ISER) laid out five approaches to address this gap: 1) Budget reductions; 2) Use of reserves; 3) Implementation of new taxes; 4) Use of Permanent Fund earnings; and 5) Increased economic development. Each and all of these involve tough fiscal, economic and political choices.

In November of 1992 Governor Hickel hosted an Economic Summit which brought together leaders from all over the state to review state revenue and spending projections, discuss the ISER fiscal tools and to make recommendations for future actions. Some things have changed since then, but the critical problem created by declining revenues still lies largely unaddressed.

This conference was designed to follow the format of the Governor's Economic Summit. Participants were asked to review and discuss the Summit recommendations, the ISER strategy and events following the Summit. Commonwealth North members and invited guests were asked to develop recommendations for actions needed over the next 10 years. It is believed that the views and recommendations of concerned citizens and civic leaders can influence our public policy makers and shape Alaska's future.

## *Proceedings*

Over 125 members of Commonwealth North and invited guests participated in at least part of the two-day conference held October 20 and 21, 1993. Approximately 60 people participated in one of the five small discussion groups which formulated recommendations (see Appendix I for a list of group participants).

The conference began on October 20 with a two-hour budget and revenue briefing by Shelby Stastny, Director of the Office of Management and Budget, and Chuck Logsdon, Petroleum Economist for the Department of Revenue. A view of future revenues by Tom Williams of BP Exploration (Alaska) and legislative perspectives by Rep. Mark Hanley and Rep. Kay Brown were also presented.

The following morning, October 21, a breakfast briefing was held with Governors Hickel, Sheffield and Hammond who gave their experiences and views on needed budget actions. Following the Governors, the following presentations were made:

- Operating budget overview and reserves, Shelby Stastny, Director OMB
- Revenues and taxes, Darrel Rexwinkel, Commissioner Dept. of Revenue
- The Permanent Fund, Jim Kelly, Alaska Permanent Fund Corporation
- Economic development, Paul Fuhs, Commissioner Department of Commerce and Economic Development
- Defining the “gap” and putting the pieces together, Scott Goldsmith and Lee Gorsuch, UAA ISER

After the presentations people broke into five discussion groups. Members were preassigned groups in an effort to create diverse group memberships. Each group had 11-13 members including a facilitator, a recorder and at least one resource person having budget expertise.

The groups were to review the information presented by the speakers, the results of the Governor’s Economic Summit and subsequent legislative actions. Each participant was given a notebook with written materials tracking the presentations on spending, revenues, taxation, the Permanent Fund, economic development and the ISER strategy. The groups had approximately four and one-half hours to discuss the issues and make recommendations as to actions needed to meet the projected budget “gap.” Each group presented a summary of its recommendations to all the reassembled groups at the end of the day.

Appendices II and III illustrate the projected “gap” and major fiscal tools suggested in the ISER strategy. See Appendix IV for summaries and comparisons of the Governor's and other economic summits.



---

# Budget Conference Summary

## *Areas of General Agreement*

- **The “Gap.”** All the working groups agreed that there was a fiscal “gap” now, that it was growing, that it will be substantial in the near future and that actions need to be taken now.
- All the groups felt that no single action was sufficient to meet the “gap”, but that most, if not all, the fiscal tools identified in the ISER strategy must be implemented by 2005.
- **Spending.** Most groups recognized the real political and programmatic problems of further large budget cuts. However, various approaches were suggested to find efficiencies, re-prioritize and hold the line on future spending increases. Most assumed that savings in real dollars could accrue over time if programs were not allowed to increase with inflation and population growth. No specific programs were consistently targeted for cuts or reductions.
- **Reserves.** All groups recognized the need to use liquid reserves but felt that better mechanisms were needed to capture and husband reserves and non-recurring revenues for future use, rather than spending them as they become available.
- **Taxes.** All groups recommended new taxes for meeting the “gap”, and all suggested the reimposition of the personal income tax as the preferred form. It was felt that the income tax was the most progressive (least impact on those with lowest income), could capture non-residents’ income earned in Alaska, and was the best method for the state to pay for and benefit from economic developments.
- **Permanent Fund.** All groups recommended that the Permanent Fund principal and inflation-proofing monies not be used. No group recommended eliminating the dividend. However, a majority recommended that the dividends be capped, and that earnings beyond dividends and inflation-proofing be used for general government or deposited in the Permanent Fund to generate future earnings.
- **Economic Development.** Most groups felt that any new economic developments would be based largely on market conditions and economic decisions outside the control of the state. However, a stable tax policy and removal of regulatory hurdles by the state would be helpful. No group believed that large-scale economic development would result in revenues substantially reducing the budget “gap” by 2005.