Study Group Report

The Role of State Government

Commonwealth North
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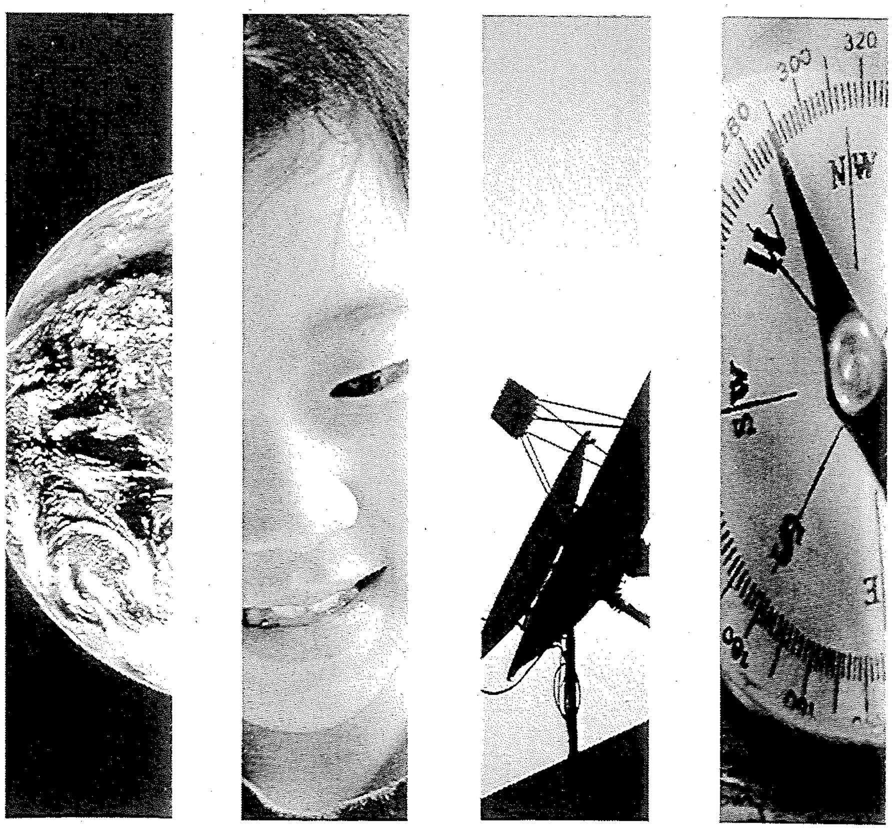

Commonwealth North

Balancing Responsibilities: The Role of State Government

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Balancing Responsibilities: The Role of State Government

> *"In 2015, Alaska will have a strong economy, well-educated population, a rich quality of life, and state and local governments which efficiently and effectively deliver appropriate services".*
>
> — Mission Statement
> Role of State Government Study Group

The basic responsibilities of a state government are defined by the principles established in its constitution. Subsequent laws and regulations further define how a government achieves those principles. Alaska's Constitution and laws have provided a solid foundation upon which our government has been built:

> What other state Constitution grants the state's wealth to its citizens through ownership of the state's natural resources?
>
> What other state Constitution creates a savings mechanism that will provide future generations with billions of dollars that could have been spent today, but instead Alaska chose to save for tomorrow?

The answer, of course, is no other Constitution gives its citizens such a solid foundation upon which to build their future. These provisions provide the means by which Alaskans may be able to achieve the quality of life we want not only for today, but the quality of life we want for future generations. But attaining that bright future is not guaranteed. It will require that thoughtful and responsible decisions be made by Alaskans and their state government along the way.

Government's role defined early in state's history

The late 1950s were important years in Alaska's history. Our Constitution was written and ratified in 1957. In 1959 Congress finally approved statehood and Alaskans overwhelmingly approved its terms. These events gave Alaskans the right—and responsibility—to govern their own affairs. But it was the lease sales in the 1960s when Alaska literally "struck it rich." The North Slope oil field lease sales brought $900 million to the state's treasury. Today this would be equal to the state receiving a $4 billion windfall. The $900 million was more money than the state had cumulatively spent since achieving statehood.

To decide how Alaska's new-found wealth should be spent, public hearings were held throughout the state. Because the state previously had little money, Alaskans identified many urgent social and economic needs including schools, medical services, safe water and sewer systems. Alaskans also said they wanted to use the money to diversify the state's economy so it would be less dependent on seasonal jobs. Expert advice was sought as part of these hearings. Outside experts urged Alaskans to rely on market-based solutions to diversify the economy. This advice was largely ignored and Alaskans defined government's role as one of intervention not only in providing services, but as a major player in Alaska's economy.

These decisions on how to spend the $900 million defined the role state government was to play. Contrary to the anti-government rhetoric of many, Alaskans continue to quickly turn to government to fund community improvements and to provide individual benefits without regard for economic need and to "fix" the economy. Such actions can be found in the what Alaskans have asked their government to do and in the decisions elected officials have made in spending the $51 billion the state has collected since 1970.[1]

During the first 15 years of "wealth", it was easy for government to say "yes" to just about every idea that came along. But reality hit in the mid-1980s when oil prices collapsed and the state was faced with the consequences of having said "yes" too many times. It faced the task of learning the difference between a "want" and a "need."

Similar challenges face state government today. Since 1990:

- The state's population has grown 10% increasing the demand for state services.[2]

- General fund revenues have declined 30%. These are the revenues that are "unrestricted," which means the Legislature is not limited in what programs or services are funded (contrasted with Federal funds which can only be used for specific purposes).

  — In Fiscal Year 1995, 77%, or $1.6 billion, in oil-related revenues were paid by the oil and gas industry to the state treasury. Five years earlier revenues from oil were 85% of the state's revenues. While some of this can be explained by a 3% decline in oil's nominal per barrel price, it primarily is the result of a 14% decline in oil production.[3]

- Earned personal income increased 19% between 1990 and 1994.[4] Because Alaska does not have a personal income tax, there is no link between population increase and wage growth from economic development, and the level of revenues that flow to the state.

- Total state spending has grown 30%.[5] To make up for less revenues, the state primarily has used savings accounts, such as the Constitutional Budget Reserve Fund which consists of one-time oil and gas tax settlements. The increased spending also includes an 18% increase in the amount paid out in Permanent Fund dividends.

Today, Alaska is at a crossroad. It faces the reality of state revenues continuing to fall because of the continuing decline in Prudhoe Bay oil production. The road we decide to take can lead to an Alaska with a bright future in which our children will want to raise theirs or a future that is clouded with uncertainty because we decided it was more important to satisfy the wants of today than meet the needs of tomorrow.

Commonwealth North's vision

Basic to charting a course for the kind of Alaska Commonwealth North wants to leave future generations, was identifying the elements basic to a solid economy and society. These include a:

- Strong economy;
- Well-educated population;
- Rich quality of life; and
- State and local governments which efficiently and effectively deliver appropriate services.

A well-educated community that enjoys a rich quality of life will mean a state in which our children, and their children, will want to live and prosper. It will mean safe neighborhoods and an educational system that competently prepares them to meet the future's challenges. But none of this can be realized unless Alaska has an economy that allows the state to generate sufficient revenues to provide the infrastructure that can provide the opportunities by which they will be able to realize their hopes and dreams.

The role of state government—today and in the future

State government today plays an important role in the day-to-day lives of all Alaskans. Whether it is the public radio show that your clock radio plays when the morning alarm goes off, the school bus driver that picks up neighborhood children, or ensuring the pump at your local gas station is accurate—all involve state government.

But in the early 1970s, it was a far different Alaska. There was a relatively small private sector. Government was the only organized delivery system—and it had little money. Today is different. Alaska has developed a private sector capable of delivering many services—even services that government currently provides. State government needs a process by which it can re-think what services it should provide—and those services it should not. We therefore recommend that:

The Governor and Legislature immediately initiate a process by which it strategically identifies the current role of state government, and defines what government's role should be by the year 2000. In developing this strategic plan, it is important Alaskans from throughout the state have the opportunity to testify. The process should:

- *Inventory the services the state currently provides;*
- *Determine if each is appropriate for a state government to provide;*
- *If it is appropriate, determine if there are alternative ways in which this service can be delivered such as contracting with the private sector or shedding it to local governments; and*
- *If a service is not appropriate for state government to deliver, a phase out program will be recommended.*

We further recommend that during this process, government agencies, under the Governor's direction and Legislature's cooperation:

- *Develop a system by which the effectiveness and quality of programs and services can be measured. The emphasis should be on <u>outcomes</u>—the quality of service and the efficiency by which it is provided. This contrasts with the current emphasis on "inputs," how much money is spent, and "outputs," the amount of a program's activity.*

This qualitative outcome information will also provide a framework to associate a program's costs with its benefits and better evaluate a program's efficiency and effectiveness.

An outcome measurement system and a strategic plan that identifies what the state should do, will assure Alaskans that what their government is doing is appropriate and that services are being delivered efficiently and effectively. This will give Alaska's elected officials a blueprint to redesign the services state government should provide in the future.

The state's responsibilities: owner, regulator, and partner

Because of the importance of the state's economy in Alaska's future, Commonwealth North's study group on "The Role of State Government" primarily focused on state government's role and responsibilities in promoting economic opportunities.

State government's role as an owner of Alaska's vast resources means it holds the key to unlocking their development. Whether it is building the transportation infrastructure necessary to get products to market or approving permits to drill a well, all require actions by government agencies.

These more traditional funding and regulatory responsibilities are balanced against the State of Alaska's unique responsibilities of ownership. Alaska's state government represents the state's resource owners—Alaska's citizens. Representing the interests of owners means state government must have two different and often opposing public policy priorities—regulatory and ownership. Just like a corporation's responsibilities to its shareholders, Alaska's elected officials and policy makers are entrusted with getting the best return to the state from its assets. Revenues to the state could be one way to look at the state's "profit" by which to measure success. Using revenues alone, however, would be incomplete because the state also views job creation as a "return," especially in non-oil resource development.

The dual role of regulator and owner can often conflict. Regulators and employees with ownership responsibilities often work side-by-side in the same state agency, both reporting to the same commissioner who is charged with making both regulatory and ownership decisions. To minimize conflict, it is important clear assignment of responsibilities be made.

Responsibilities as an owner

Article VIII (Natural Resources) of Alaska's Constitution states:

> Section 1. It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.
>
> Section 2. The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters for the maximum benefit of its people.

One of the greatest challenges for the framers of Alaska's Constitution was writing the articles that would govern management of Alaska's natural resources. Upon statehood 103 million acres would be transferred from federal to state ownership. The new state would receive ownership of all mineral resources and have control over commercial and sport fisheries and wildlife. It would gain title to submerged lands in contiguous waters and to lands under inland navigable waters. Congress also granted Alaska 90 percent vested interest on Federal land. The pending ownership of these vast resources was unparalleled in any other state in the Nation.[6]

Sections one and two of the Constitution's Natural Resources Article spell out the state's resource management goals. The Article further defines the state's policies in management of its resources. While broad, these words have served as a solid foundation for the adoption of subsequent laws through which these goals are being achieved.

As the history of Alaska's development has unfolded, "maximum benefit of its people" has served as a guide in managing the state's natural resources and is the constitutional basis for the Permanent Fund dividend program.[7] It has given the state unique responsibilities—representing the ownership interests of the people of Alaska. As such, the state not only has a responsibility to manage Alaska's resources in the interest of its "owners," but protect the "owners" interests as it initiates and advocates for development of its resources.

As owner, the state is key in making its resources available to the private sector for development. We recommend that:

> *The state inventory and catalog the state's natural resources and make these resources available for use and development to the maximum benefit of its people" on a timely and predictable basis.*

There will be competing interests for many of these resources and the challenge facing government will be implementation of consistent and clear policies to govern development. Ironically, the decision to not adopt a clear policy can be a conscious decision intended to impede development. For this reason, it is important policies necessary to guide agency approval processes be made early and monitored to assure consistent application by all government agencies involved.

Government owns nearly 90% of the land in Alaska. The Federal government is the largest land holder with 60%; the state owns 29%; and native corporations own 12%. Less than 1% is in private ownership. While it is recognized that under the Statehood Act Alaska cannot sell or give away its resources, increasing the amount of privately owned land will provide the private sector access with an important factor of production and generate increased property tax revenues to local governments.

To get land into private ownership, the state could again conduct land lotteries. While reductions in funding for Division of Lands programs has meant an inability to conduct lotteries, we recommend that:

> *The Division of Lands evaluate the feasibility of again conducting land lotteries by instituting an "entry fee" sufficient to cover the lottery program's costs.*

As an owner, policy makers must be pro-active in setting the Federal government's agenda to ensure the state's interest are well represented. We recommend that:

> *The state place a high priority on the aggressive pursuit of the state's RS 2477 rights against the Federal government in order to provide historical access to the state's land.*

It is also important the state stand firm in defending the promises the Federal government made to Alaskans at the time of statehood. Recognizing that Alaska did not have the economic base to support itself, Congress agreed and Alaskans voted that the state would be entitled to 90% of the revenues from lease sales in Alaska. In 1995 the Federal government reneged on this commitment in negotiations over the opening of the Arctic National Wildlife Refuge by cutting the state's share to 50% from the promised 90%. Alaska has challenged this action in court. The state has also challenged the lock-up of

Federal land, asserting that this action constitutes a "taking" and the Federal government must compensate Alaska. The lawsuit's outcome is important in clarifying the state's future relationships with the Federal government. While the Ninth Circuit Court ruled against the state, the decision has been appealed. We recommend that:

> *The state continue to vigorously challenge the authority of the Federal government and Congress to break arbitrarily the revenue sharing terms stipulated in Alaska's statehood compact and to "take" Alaska's land without compensation.*

While the state's current political strength at the Federal level is one way to bring focus on the state's priorities, it is important to remember political power and its corresponding leverage can change over time. As a result, it is important state government also work within the federal government's established processes so Alaska can benefit from both political strength and administrative process expertise. Alternatives for working with Federal agencies include partnering and Memorandums of Understanding. Both mechanisms can provide ways for Alaska to clearly define the Federal government's role.

Responsibilities as a regulator

While government's role as owner means it must protect the state's interests, state government's role as a regulator means it must also write and enforce the rules by which resources will be developed by the private sector. As the day-to-day managers of development's future, these regulators' role is important in determining whether future activity will—or will not—occur.

The process by which regulations are promulgated and enforced is just as important as the process by which laws are made. The current process is governed by the Administrative Procedures Act. Agencies receive guidance in the 214-page "Drafting Manual for Administrative Regulations" published by the Department of Law. Current steps[8] in the process include:

Step #1: Agency develops draft regulations, public notice, and fiscal note, in consultation with the agency's attorney.

Step #2: Agency publishes and distributes public notice, additional information, agency cost to comply, and proposed regulations requesting written comment; may also conduct an oral hearing.

Step #3: Agency adopts regulations.

Step #4: Final regulation package is submitted to the Department of Law for review and approval; Office of the Governor also conducts a review.

Step #5: Agency attorney reviews the regulations;

Step #6: Department of Law's regulations attorney approves or disapproves regulations.

Step #7: Unless returned by the Governor, the Lt. Governor's office files approved regulations which are effective in 30 days.

Step #8: Agency sends a summary of the regulations to the Alaska Administrative Journal.

Step #9: Lt. Governor's office sends regulations to the Administrative Regulation Review Committee and publishes them in the Alaska Administrative Code.

Unlike the public nature of legislative law-making, the process as outlined above is more closed. Concerns with the current process include:

- Drafting regulations is often delegated to program managers or other support-level staff. These individuals, while well-intentioned in protecting their program and/or clients, may not be as open to broader public policy concerns surrounding the legislation prompting the regulations. These individuals are also not as accountable to the public as elected or appointed officials;

- Because there is no centralized rule-writing, there is an increased probability that a new regulation may conflict with an existing regulation;

- If it is found a regulation conflicts with another, or the Legislature believes it violates the law's intent, the only way to repeal or amend the regulations is for the department that initially proposed the regulation again go through the same process by which the original regulation was proposed, or the Legislature must pass a new law to clarify its intent to demonstrate how the regulations conflicts. If an agency is intent with its interpretation of what a regulation should say, coupled with the fact that the Governor can veto a new law passed by the Legislature, means that state agencies (and its employees) have tremendous power in the state's rule-making process—without corresponding accountability to citizens;

- The current process does not require agencies to consider the cost of compliance to the private sector or local governments. While a statement of fiscal impact is prepared, it only addresses the cost to a state agency; and

- There is no systematic requirement to review and repeal out-dated and unnecessary regulations.

To address these issues, we recommend that:

1. The state designate a central authority in the Executive and Legislative Branches to be responsible and accountable for the regulatory process.

<u>*Executive Branch*</u>

1. Central authority and responsibility for drafting and promulgating regulations should be the Office of Lt. Governor.

— Central management will ensure consistency and clarity in writing regulations because a centralized staff can have a broader awareness not restrained by a department's boundaries

— Will minimize new proposals conflicting with existing regulations;

— Central source of information—one-stop" shopping—about regulatory requirements will also help reduce a company's cost of doing business in Alaska.

2. Require involvement of stakeholders and an opportunity for public comment in developing proposed regulations.

Involvement of stakeholders, which includes government officials and those that will have to comply with the regulations, will ensure regulations are clear, workable and consistent with legislative intent.. This replaces the current practice of inviting public comment after proposed regulations have been written—and agency's position developed.

3. *Establish specific timeframes for agency action and Department of Law review.*
   This will give more "certainty" to the process—especially for those that will have to comply. In the current process, time frames primarily govern public notice, comment, and when regulations go into effect.

4. *Require a cost-benefit analysis be prepared by departments, in consultation with those that will have to comply, as regulations are being written. The analysis should also be included in the public comment process on the proposed regulation.*

5. *Establish a sunset review process for regulations.*
   A periodic review of regulations should be conducted every three to five years to identify obsolete regulations or those in need of amendment. The review's results should be reported to the Legislature and include the executive branch's proposed plan of action. (It would also be beneficial to undertake a similar review of existing laws).

6. *Issue a "user-friendly" manual on the regulatory process.*
   Such information will help all stakeholders—and not just state employees—operate from the same base of information about this important process.

Legislative Branch
The central authority should be the Administrative Regulation Review Committee, an existing joint committee, to ensure active, centralized legislative oversight of state agency rule-making. The committee's roles and responsibilities should include:

1. *Monitor agency development of regulations.*
   This will ensure compliance with the Legislature's intent. The committee can help clarify legislative intent where it is unclear or confusing.

2. *Work with the Executive Branch to identify conflicting and obsolete regulations.*
   The committee should be the Legislature's lead advocate in this process and in working with other legislative standing committees to identify statutory changes that may be necessary in order to repeal regulations.

3. *Challenge vague legislation while it is being considered by the Legislature.*
   The political nature of the legislative process can result in compromises necessary to get a bill passed. Legislators may find it necessary to be vague because the broader a bill is worded, the fewer points for opposition. The result can be a poorly worded law that does not provide a state agency with

sufficient guidance about how to write regulations consistent with the law's purpose. This can also lead to litigation in which the Court must clarify the Legislature's intent or the Legislature amending the original law.

Earlier we recommended the Executive Branch incorporate a cost-benefit analysis into the regulation process. We further recommend that:

> *The Legislature require a cost-benefit analysis for all proposed legislation. This would be in addition to the current agency statement of fiscal impact ("fiscal note") which only addresses a bill's cost or savings to state government. This new analysis would identify a cost or savings to the private sector, individual Alaskans, and/or local governments as a result of the legislation.*

Responsibilities as a partner: with the private sector

As an owner, the state has the responsibility to ensure a return to the state from the private sector's development of the state's resources. This is balanced with the state being a partner in the development of its resources. With oil development, the "owner's" return has been up-front through lease sales and bonus payments. This arrangement was appropriate for earlier market conditions but it may be time for the state to review the structure of the lease sale process as well as lease terms for opportunities more similar to a partnership. We recommend that:

> *The state review current mineral lease policies to determine if they are still appropriate given today's market conditions. As an example, the current oil and gas royalty/bonus system ensures the state gets a minimum return up-front, it also means the private sector bears all the risk. An alternative could be a risk allocation policy in which the state shares some of the private sector's risk, as well as receives increased benefits from success.*

Alaska's state government has played a financial role in promoting businesses. Whether it was subsidizing commercial fishing loans or creating financing mechanisms for a zinc mine, the state's role—and its success— has been mixed. Alaskans have grown skeptical about the government getting too involved in activities that are customarily found in the private sector. As revenues have declined, so have the "free lunches" in which government approval was given with little regard to financial viability. The Alaska Industrial Development and Export Authority's (AIDEA) decision in 1995 to disapprove an airline's re-financing request would likely have been different if it had been made in the early 1980s.

One successful model for the state's financial participation is the public/private partnership that financed and built the Red Dog zinc mine. The zinc is owned by NANA, the native corporation for northwest Alaska. The mine operation was owned by Cominco. A port and 52 mile road were necessary to export the mineral. The state, through AIDEA, sold $102 million in tax exempt bonds to finance construction of the port. The Legislature crafted another mechanism to pay for the road's construction. The port and road are owned by the state. Cominco annually pays a minimum assessment of approximately $12 million to AIDEA for use of the road and port. These receipts are used to pay the bond holders and provide AIDEA with a nominal rate of return on its investment.

AIDEA's current Development Finance Program can be key to developing infrastructure important to resource development. It's a good model which merits discussion of its criteria for financing large scale projects. The program is available for roads, ports, airports, utilities, infrastructure for tourism destinations facilities or other public-use facilities which are essential for the economic well-being of an area. Other projects financed through this program include Unalaska marine center dock, Federal Express aircraft maintenance facility, and the Healy clean coal project.

To be eligible, a project must also be able to produce adequate revenues to repay the bonds sold to finance the project. Other criteria for AIDEA's participation in the project include:

- The project must be economically advantageous to the state and must contribute to the state's economic growth;
- Increased demand on public facilities that might result from the project will be provided for; and
- The project will create employment opportunities reasonably related to the amount of AIDEA's financing.

In approving a project, AIDEA undertakes its own economic analysis and financing plan for the project. The study includes not only development cost estimates, but also maintenance and operation cost projects, market analysis, and sources and uses of funds. Components that can be included in the benefit calculation include:

- Annual taxes paid to state and local government;
- Value-added from in-state construction, including construction employment and Alaska fabricated components;
- Annual operating payroll
- Consequential benefits, such as other related payroll and other in-state goods and services.

On a smaller scale, AIDEA also has a Business Assistance Program by which it can guarantee up to 80 percent of a bank-originated loan of an Alaskan business, up to $1 million. It also offers a streamlined approval process for guarantees on unsecured loans of $100,000 or less which are aimed at assisting entrepreneurs in rural areas, but are available to all Alaskans.

AIDEA's programs provide good models of how government can assist the private sector's efforts to develop Alaska's economy. Its loan guarantee programs provide access to capital for smaller business. This is especially important since Alaskan banks have shorter amortization timeframes because Alaska investors are reluctant to tie up capital in long term investments regardless of interest rate cycles. With AIDEA's Development Finance Program, the bond market protects the viability of a project from political influence. We therefore recommend:

> *AIDEA's current ability to assist in financing economic development projects be sustained, including its ability to use the bond market to finance large scale development. Efforts to access AIDEA's capital for other purposes should be done carefully so its bond rating is not jeopardized.*

Jobs created by development are important because of the economic opportunities they bring to employees and their families. This priority, however, has narrowed the role expanded economic development customarily plays in generating revenues to a state's treasury. These revenues enable a government to pay for increased demands for state services as a result of development-related population shifts. While other states reduce taxes when their private sector economy is doing well, in Alaska strong economic growth in the non-oil and gas sector means a drain to the state's treasury.

Alaska's non-traditional definition of "return to the state" means we must not only recognize the jobs that development creates, but also acknowledge the obligations and responsibilities government officials have to make certain that all factors are considered and all obligations responsibly met.

When the state's revenues were plentiful, the absence of a correlation could be overlooked. But as revenues continue to decline, it is important that policy makers consider all relevant impacts in making decisions intended to grow Alaska's economy. We recommend that:

The state develop an analytical framework, similar to that used by AIDEA, by which elected officials and policy makers can effectively evaluate the impact of major economic development projects on state and local economies. This framework shall:

1. Identify the project's economic benefits and to whom they will flow (i.e. private sector, local governments, individual employees, etc.).

2. Identify a project's direct and indirect costs to state and local governments. This includes additional costs or lost revenues due to a change in population.

3. Identify how any costs will be paid.

Alaska should also re-examine its policy of spending public funds to promote certain industries, such as tourism, in which little is returned to the state's treasury to offset the industry's costs to the state and its use of the state's infrastructure. While this growing industry continues to provide significant financial benefits to the private sector, few revenues flow to the state's treasury to offset the state's cost to develop and maintain infrastructure used by the industry, such as docks, harbors, roads, parks, airports, and visitor facilities. We recommend that:

The state and tourism industry identify mechanisms by which the tourism industry can provide a financial return to the state's treasury to offset the state's costs to maintain and develop the state's infrastructure that supports tourism.

Other states recently have developed different mechanisms which offset a state's cost in promoting tourism and which assist the industry in its marketing. These include:

- A California law by which the tourism industry can assess itself to pay for marketing efforts.

- Florida's establishment of the Florida Tourism Industry Marketing Corporation. The state contributes to the corporation part of the revenues collected from a tax on rental cars. After three years, the corporation is required to match the tax funding.

- Oregon's creation of a tourism commission primarily funded by proceeds from the state's lottery. It also can collect contributions from private companies.

Responsibilities as a partner: with local governments

Part of being "open for business" includes stable governments, especially in Alaska's smaller communities. State and local governments each have a role in promoting and protecting the qualities that attract businesses to a community and that make them want to remain.

Local communities must take the lead in helping themselves. A community's basic infrastructure not only includes accessible transportation and reasonable utilities, it also includes stability in government administration and provision of services. Turnover of city administrators is a significant problem in rural Alaska which leaves many community governments without adequate administrative oversight and follow-through. Progress in bringing telecommunications to rural Alaska has the potential of providing needed support and assistance to village government administrators. As the state works on implementation of a statewide telecommunications plan, we recommend that:

> *The Department of Community and Regional Affairs develop a plan by which rural communities will have access to the information resources that will become available once the telecommunication infrastructure is in place. It is important this plan include adequate training to ensure maximum benefits are achieved.*

Another way to improve the ability of a small community to govern its affairs is for the state to re-evaluate the reporting and paperwork requirements of small local governments. One of the reasons small communities organize is so they can receive grants and other state funds. Problems in meeting government reporting and other requirements are often encountered, however, because these governments lack administrators experienced in the diverse demands of a village. Often a typical day could include collection of taxes, oversight of the water and sewer system's operation, and local health clinic's administration. In the past, the Department of Community and Regional Affairs had local government specialists who traveled to villages to provide technical assistance with these responsibilities. Budget cuts, however, have limited this level of assistance and have meant many communities are "on their own."

Failure to meet government requirements can have significant consequences. For example, local governments are required to pay social security withholding taxes to the Department of Administration. If a local government is delinquent, no other state funds can be paid to them until their payments are brought current. Withholding state funds can have tremendous consequences on a small community's economy. We recommend that:

> *The Department of Community and Regional Affairs examine all state agency reporting and other requirements of local governments to identify opportunities for streamlining paperwork requirements that will assist in their administrative stability while not minimizing their accountability. This can be facilitated by a "how to" manual on state and federal program reporting requirements. Through telecommunications, it may be possible to simplify reporting through an interactive program.*

It is also appropriate to review the mechanisms by which state revenues are shared with local governments. All states have similar revenue-sharing mechanisms. They are, however, based on the state's collection of sales and/or income taxes from residents in communities throughout a state. The state then "shares" part of these revenues with local governments. Alaska is the only state that does not have a state personal income tax or statewide sales tax.

While Alaska's revenue collection differs from other states, the state still has a responsibility to provide some revenues to local governments. The decline in state revenues, and the corresponding decline in what is shared with local communities, means local communities will also have to learn to decide between their "wants" and "needs." As part of this process, we recommend that:

> *The award of state funds should be tied to a local community's assuming responsibility of providing government services. Communities that are unwilling to assume such responsibilities should not receive funds.*

Such responsibilities include programs protecting a community's public health. The state should work with communities to develop local mechanisms to meet their health needs. Implementation of tele-medicine is one way in which rural communities will be able to routinely benefit from the medical expertise found in larger communities without having to travel elsewhere.

The change in management of Indian Health Service medical care will play a significant role in achieving healthy communities by bringing the decision-making close to home. In communities where the IHS has been the only provider, it will be important that the reconfigured medical care be available to all local residents. By caring for all, it will mean improved health for the entire community.

It is also important the state not unfairly burden local governments with mandates that are unfunded. An example is the state's requirement that homes of senior citizens be exempt from paying property taxes on the first $150,000 in assessed value. If this is a public policy priority for state government, it should reimburse local governments for the lost tax revenues. The state, however, no longer provides any reimbursement to local governments. We recommend that:

> *The state review its mandates on local governments for which no reimbursement is made. If state policy makers believe the mandate is a priority, local governments should be reimbursed for the cost of compliance. If the state is not willing to provide funding, at a minimum, it should be an option of the local government to comply.*

While state officials are quick to fight against Federal unfunded mandates on states, it is unfair to impose the same requirements on local governments.

Taxation: predictable, stable, and diversified

A state's taxation policies can make-or-break a business' decision of where to locate. They are clear signals of how "open-for-business" a state really is.

Alaska's history with taxation of the oil industry has been mixed. When revenues got low and appetites for state services were high, Alaskans looked to the oil industry to make up the difference. There have been 16 statutory changes in the industry's taxes between 1973 and 1990. In addition, the interpretation and application of state tax laws and regulations have been inconsistent which results in additional tax assessments. Stability and clear rules are important in all business decisions. We therefore recommend that:

> *The state and oil and gas industry work to adopt consistent interpretation of tax laws and regulations, including a method to determine valuation before making assessments for the future.*

But as will be discussed throughout this paper, the oil industry has and is the state's primary source of revenues. While Alaskans in the early 1970s were concerned about seasonal employment, Alaskans today are concerned about the state's reliance on one industry to provide revenues. Because of the oil industry's "ability to pay," policy makers reduced the tax burden paid by every other sector of the state's economy. The result is the continued decline in state revenues and little public discussion or acceptance of assuming some of the burden to pay for government services.

Alaska needs to broaden its tax base beyond oil. In deciding how, it is important to remember the power that taxation has as an incentive—or disincentive—for a desired behavior. For example, a lower tax on fish processed on-shore was seen as a way to bring more jobs into rural communities. As state revenues shrink, there is increasing scrutiny of non-state residents working in Alaska and not paying any taxes to the state. As the state's road system deteriorates, some policy makers believe Alaska's motor fuel tax, the lowest in the Nation, should be increased and the dollars earmarked for road improvements.

While there is recognition that the state's sources of revenues need to be broadened, nearly all elected officials back off from serious consideration. Some are concerned that more revenues will only mean more spending. Others believe government services must be significantly cut back before any other business or individuals are expected to pay anything toward its costs. The challenge is identifying when government has been cut "enough" in order to know when it is appropriate to consider new revenues.

As these issues are being sorted out, it is appropriate that Alaska's public policy makers examine ways to diversify the state's revenue sources. We recommend that:

> *A thorough review of current business and individual taxes be done to provide a foundation for future public policy debate. The review should:*
>
> - *Discuss the tax's structure, how it works, and a profile of current payers;*
> - *Describe the "public policy basis" for the tax, including the Legislature's intent at the time of its imposition;*
> - *Identify taxes that other states impose on individuals and industries that may be applicable to Alaska; and*
> - *Identify expenditures of public resources that support certain segments of Alaska's economy, and the corresponding return to the State's treasury and local and state economies.*

Foundation for future partnerships: the Permanent Fund

The idea of saving some of the state's revenues was discussed in 1970 as Alaskans decided how the state should spend the $900 million from the Prudhoe Bay lease sale. That year Governor Keith Miller introduced legislation to establish the "Alaska Resources Permanent Fund" and proposed a deposit of $500 million. His proposal called for the Fund to be placed in income-producing investments in Alaska and the earnings would be used to pay for state services. The legislation did not pass because the House Special Monetary Committee decided the full $900 million was needed to meet the more immediate needs of the state.[9]

In the mid-1970s another boom hit Alaska with the construction of the trans-Alaska pipeline. Having had time to reflect on how the first $900 million seemed to have "vanished," discussions focused on how some of the benefits from the state's new found wealth could be more permanent. This idea became the basis for the legislation approved by the 1976 legislature placing a constitutional amendment before the voters to create the Alaska Permanent Fund. Supporters of the fund argued that:

- The Permanent Fund would create an investment base from which to generate future income to the state. When oil revenues declined, the Permanent Fund would be a source of revenues to pay for state services.
- By requiring deposit of 25% of the all the royalties from oil development, it would prevent the Legislature from spending it.

- The Fund was a way to take a portion of revenues from non-renewable resources and transform them into a renewable source of wealth for future generations.

Voters approved the constitutional amendment by a 32% margin (75,588 to 38,518). On February 28, 1977 the first deposit of $734,000 from dedicated oil revenues was made.

From 1976 to 1980, Alaskans debated how the Permanent Fund should be managed. Options discussed included:

- Treat the Permanent Fund as a savings trust for the future.

- Use the Fund as a development bank to provide business loans or grants as a way to provide jobs, diversify Alaska's economy and make it less dependent on oil.

- Manage the Fund as a public trust with the primary purpose of protecting its principal. This meant that such a fund would follow the "Prudent Investor Rule" by which all investments should be of trust-grade quality and made at market rates.

In 1980, the Alaska Legislature decided that the Permanent Fund should be managed as a public trust. Investments in Alaska would only be made when the risk level and potential returns were comparable to other available investment opportunities. The legislation also provided that the Fund's earnings would be available for appropriation by the Legislature (unlike the Fund's principal. which could not be accessed without a constitutional amendment approved by the voters). The Legislature then made a special deposit of $900 million into the Permanent Fund.

In 1980 the Legislature also enacted legislation that created the Permanent Fund Dividend program. This program based the amount of each Alaskan's dividend on the number of years lived in Alaska. Using residency as a basis for the dividend was later ruled unconstitutional by the U.S. Supreme Court.

In 1982 the Legislature created a constitutionally-acceptable dividend program and set the first dividend amount at $1,000. The Legislature also adopted a proposal by the Fund's Board of Trustees to establish a mechanism to protect the Fund's purchasing power by inflation-proofing the Fund. In Fiscal Year 1996 the Permanent Fund generated $1.8 billion in earnings; $645 million (35%) was distributed in dividends; $406 million (22%) was re-deposited in the Fund for inflation-proofing; and $765 million in earnings was left over.[10]

Today the Permanent Fund principal's balance is $19.1 billion. Twenty years after the Fund's creation its role and expenditure of its earnings continues to be debated. The Fund's earning goals are set by its six-member Board of Trustees. These goals are guided by the statutory requirement that the prudent-investor rule be applied in the management and investment of Fund (AS 37.13.120). Outside of inflation-proofing, state law does not define the earning expectations for the Fund.

The continuing decline in oil revenues to the state's treasury gives further rise to examining the Permanent Fund's role in not only financing government services, but its role in other sectors of Alaska's economy. It is important Alaskans begin a thoughtful discussion of the Fund's potential role, including definition of the public policy underlying use of its earnings, including payment of dividends. We recommend that:

A statewide program be initiated to engage Alaskans in a discussion about the Permanent Fund's role and use of its earnings to provide a basis for legislative decision-making on the Fund's role in resolving the growing gap between the state's revenues and expenditures. The program should:

— Educate Alaskans about the Fund's history which includes the Legislature's intent when it was created and the discussion at the time of passage;

— Explain the mechanics of how the Permanent Fund works, including management principles, and current distribution of earnings;

— Explain the options that have been suggested to date on the Fund's role;

— Examine options on how the Fund's earnings could be used in the future. As part of this discussion, we recommend that:

- *Individual Permanent Fund dividends be capped. Excess earnings could be used for purposes such as:*

  — Investment in revenue-generating economic development opportunities. This includes infrastructure that will result in a return to the state's treasury. It is important a mechanism be created to ensure projects selected meet sound investment principles.

  — A program that distributes a "dividend" to communities for local infrastructure priorities. Community "dividends" should require a local match, similar to the state's capital matching grant program. After inflation-proofing the Fund, earnings could be split between payment of individual and community dividends.

While the dividend program has led to solid support for the Permanent Fund, it has also polarized public policy makers against serious public discussion of using excess earnings to meet other public policy goals. It is important that Alaskans be slowly "brought along" through educational efforts that the Permanent Fund should be less about the short-term "how much will the next dividend check be" but more about building an Alaska for future generations.

Government responsibility: infrastructure

A traditional role for government is to fund and maintain infrastructure basic to the function of its economy. Expanded and well-maintained transportation systems, affordable utilities, and telecommunications will be of critical importance to the development of Alaska's economy.

Infrastructure: Transportation

As discussed throughout this report, safe and efficient transportation infrastructure will be important to Alaska's future economic opportunities. Few state dollars currently pay for construction of roads and airports. Instead, the state is able to leverage Federal funds with a 7% match. Alaska receives six dollars for every dollar Alaskans pay in gasoline tax.

In recent years Congress changed the Federal highway program. It required states to go through an extensive planning process, including local governments' nominating their priorities. The Department of Transportation and Public Facilities (DOT/PF) prioritizes national highways based on its condition. Previous to this process, legislative power or the noisiest special interest group often determined which road project got funded. The Legislature is to be commended for following the priorities identified in the Statewide Transportation Improvement Plan.

With the competition for limited dollars so strong, it is especially important DOT/PF take the lead in advocating for projects that will bring future statewide economic benefits. We recommend:

> *The Alaska Department of Transportation make construction of transportation routes that will enhance economic opportunities one of its highest priorities. Project selection and potential funding mechanisms should involve both the public and private sectors.*

Alaska's infrastructure needs far outweigh the amount of state and federal funds that reasonably can be expected. It is important to consider other financing alternatives. Some state and local governments have built toll roads, including some toll roads which have been built and operated by the private sector. While toll roads may not be appropriate in Alaska because we lack alternative routes (therefore no "competition"), this arrangement suggests the emergence of a new relationship between the private sector and government in meeting one of government's primary responsibilities.

Another potential financing option is general obligation bonds. It is important, however, that projects included in a G. O. bond package be based on their potential contribution to the state's economic development—and not be projects that survive the political jockeying between legislative districts. A package focused on projects that emphasize future economic development will provide the broad base of support important to gaining voter approval. This contrasts with trying to politically balance a bond package between regions of the state by including smaller projects with narrow constituencies.

Building new infrastructure, however, will only exacerbate the problem with adequate road maintenance. Federal dollars are used for construction while state dollars pay for maintenance. Budget cuts have meant reduced dollars for road maintenance at the same time roads are widened or built and the population is increasing.

One way to associate users with paying for road maintenance is the motor fuel tax. In 1961 the rate was set at 8 cents per gallon and it hasn't changed since. This is the lowest in the Nation (the median rate is 17.4 cents per gallon). Some suggest the tax be increased as long as the new revenues are dedicated to road maintenance. Unlike many other states, Alaska's Constitution prohibits dedicated revenues. The framers of Alaska's Constitution considered earmarking of funds for special projects as a "fiscal evil" because dedicating, or earmarking, funds for one group's special project made it difficult to deny a similar request from another group. They were concerned the end result would be a budget over which the Governor and Legislature had little, if any, discretion and spending priorities would be set by the noisiest and most powerful special interest groups.[11] We recommend that:

> *The Governor and Legislature favorably consider:*

- *An increase in the motor fuel tax with proceeds designated for maintenance of state roads;*

- *An increase in the marine fuel tax with proceeds designated for maintenance of state ports and harbors.*

Designating the funds for these purposes does not require a constitutional amendment. While it may provide the security of a dedication, it allows the Legislature to abide by the intent of using these revenues for maintenance but also protects the flexibility of using these revenues to meet other critical needs if ever required.

Infrastructure: utilities

Just as ensuring the public has safe and reliable transportation routes is an important role for state government, so is ensuring the public and private sector have access to safe and affordable power. This important regulatory responsibility is assigned to the Alaska Public Utilities Commission.

In the absence of a private sector or competition, government's role is different. Traditionally government enters when it is not economically feasible for the private sector to meet the desired needs. Health and safety concerns cause government to use public resources to provide services. When there is a competitive market, however, government must be prepared to orderly withdraw its involvement. To this end, it is recommended government create a process by which it conducts a periodic re-evaluation of utility infrastructure requirements and the private sector's ability to meet that need. The results of such an analysis can provide a basis by which government can shift the role it plays and create an opportunity to redistribute public resources to meet other needs.

A sub-element in this evaluation is keeping a close watch on technological changes to ensure that incentives are in place for the private sector to meet utility demands. This contrasts with current government practices which are guided by past policy decisions such as subsidizing utility consumption without regard to private sector advancements. Another policy option for consideration is a model used in rural Canada where utility expansion and operation subsidies are limited to regional hubs and not individual villages.

Infrastructure: telecommunications

The current Administration is developing a Telecommunications Plan for the State of Alaska. The Plan will serve as a road map so Alaskans and the private sector can better understand the state's telecommunication goals. Following the plan's adoption, it will be important the state and private sector work together to explore and develop ways by which these goals can be achieved.

It is also important the plan recognize that an integrated information system is an important sub-part of any telecommunications plan and that it may be necessary to consider changes to the Alaska Public Utilities Commission's regulatory role in order to respond to changing markets and technologies.

For the state to adequately bring the state into the information age, it is important to recognize that a historical roadblock to the state maximizing technology opportunities has been the state's procurement practices. To help state agencies be more responsive to market conditions, it will be important to consider changes in the state's procurement rules that enable departments to capture opportunities and protect the public's interest as well.

Alaska's future economy: diversify—but remember the basics

While the future potential for development of Alaska's vast resources is tremendous, so are the challenges. To put the discussion into perspective, it is appropriate to review recent shifts in Alaska's economy. Recent job loss has dominated industries that have been viewed as Alaska's basics: oil and gas development, government, military, and fishing.

Job growth in Alaska has slowed. In 1995, Alaska added 2,800 jobs which is the smallest job gain in the 1990s. Previously, Alaska annually has added about 5,000 jobs. In 1995, the oil industry laid off employees and oil field service companies consolidated, causing ripples throughout other oil and gas support industries. The Federal government's downsizing caught up to Alaska and resulted in the loss of 1,000 jobs.[12] Overall job growth for 1996 and 1997 is projected at less than 1%, which is half of what Alaska saw in the preceding five years.[13]

Service-sector: 1995's "growth industry"

In 1995 service-producing jobs were Alaska's "growth industry." New jobs were added in hospitals and health care facilities, social service agencies (especially job training and vocational rehabilitation service), and in engineering and architect services that support the construction industry. Outsourcing added jobs in data and computer processing. Retailers, with the influx of new chain stores, and restaurants were the second largest contributors to job growth.

Alaska's largest employer: government

Government employment continues to be the economy's single largest employer. In 1995 it employed 28 percent of working Alaskans, compared to 28.5 percent in 1994. Changes in government employment between 1994 and 1995 were:

	1994	1995	Change
Federal	25.3%	24.3%	-1,000 jobs
State	29.2%	29.5%	- 100 jobs
Local	45.3%	46.2%	+ 200 jobs

The Federal government's loss of 1,000 jobs was the result of downsizing. Troop drawdowns and base closures meant a drop in the number of defense-related employment. The Bureaus of Land Management, Indian Affairs, and Mines in the Interior Department also saw reductions, as well as the Department of Transportation, Postal Services, and Federal Aviation Administration.

State and local government employment has been fairly steady. The increase in local government jobs was primarily the result of new Federal funds for additional police officers. Higher school enrollment and the opening of new schools increased the number of local school district employees.[14]

Resource development's bright spot: Mining

Hard rock mining was 1995s bright spot in resource development. While a placer mine shut down, Red Dog and Alaska Gold mines expanded, the Nixon Forks mine opened, and the Greens Creek, Kensington, and Fort Knox mines ramped up. While 1995 mining activity did not result in job growth, new jobs are expected in the coming years.

It is however appropriate to examine other ways to increase the mining industry's contribution to the state's economy. For example, all the mining companies currently operating in Alaska are from out-of-state. For the most part, personnel decisions and purchasing are made by departments located out-of-state. The result is a tendency to hire non-Alaskans and the purchases made from non-Alaskan vendors. For example, Fort Knox purchased a large conveyor to carry rock to its washing facility from an out-of-state vendor and shipped it to Alaska instead of buying it in Alaska. We recommend that:

> *When the state provides an incentive to an industry, in exchange the state should require that the business participate in a program that promotes purchase of Alaskan-manufactured products (such as BUY ALASKA) and require that the business participate in an on-going audit of its Alaska purchases.*

An example is Coeur Alaska Inc.'s participation in the BUY ALASKA program for its mining projects in Southeast Alaska.

Manufacturing

In 1995 manufacturing employed 16,900 Alaskans which was a growth of 300 jobs over 1994. Much of this employment was in the seafood processing industry, but low salmon prices and stiff competition from pen-reared fish may significantly impact future employment opportunities. The wood products industry also faced significant challenges with the shutdown and cutbacks in sawmills. Residential construction, however, was a bright light. Many of the 600 new construction-related jobs were fueled by public sector spending: public housing construction and remodeling, Anchorage schools and hospitals, rural water and sewer projects, the Healy clean coal facility, and road improvements. Private sector construction activities included Fort Knox gold mine and hotels in Fairbanks, new dock facilities and a tramway in Juneau.

What is not yet reflected in these manufacturing statistics is the job growth potential from small-scale manufacturing. Unfortunately, Alaskans are quick to dismiss the value-added opportunities because manufacturing typically is perceived as too expensive. It is important Alaskans re-think its potential and recognize that Alaska is not too far, labor is not too expensive, raw materials can be economically imported, and finished products can be economically exported.

There are many smaller-scale success stories:

> <u>Fields of Ice</u>
> A facial using glacial silt is being processed, packed and shipped from Southcentral Alaska. Focus is primarily Asian and Alaskan tourism markets.
>
> <u>Pure Alaska Birch Syrup</u>
> Starting with an Alaska Science and Technology grant, the manufacturer has developed the birch syrup industry in Alaska. Marketed through its own direct mail catalog, birch syrup, candy, marmalade, and salad dressing is being produced, packaged, and shipped throughout the United States. The Matanuska-Susitna Valley has the largest birch stand in the northern Hemisphere and competes with a well-established industry in Scandinavian and Asian countries.
>
> <u>Colony Gourmet Kitchens</u>
> Commercial fishers found a way to add value to the reduced price for the fish they caught. A fish processing plant was created at which they pack smoked salmon in glass jars and design custom labels for private labeling or special orders. Contacts in the bulk fish industry have enabled Colony Gourmet Kitchens to break into the Japanese market.

To identify how to promote manufacturing opportunities, we recommend that:

The state work with representatives from the private sector and state and local governments to identify barriers to manufacturing and recommend ways in which these barriers can be overcome.

There are several ways in which small-scale manufacturing can be supported. It is recommended the proposed commission consider:

• Financing Availability
Alaska's banking community needs to be more receptive to small-scale manufacturing loans (the state could serve as a secondary lender). Private bank involvement would assure a project's financial viability (versus the potential of political influence on a government agency decision). The state, serving as a secondary lender, could share in the risk. The benefits include jobs and new tax revenues for local governments.

• Long Term Access to Natural Resources
The state should establish processes that can provide long-term contracts for access to natural resources. Without such assurances, the private sector will be unwilling to make the up-front investment required in value-added production.

• Infrastructure Improvements
It will be important that Alaska's transportation infrastructure be improved in order to provide cost-effective and efficient routes to import raw materials and export finished products. Reasonably-priced energy is also important to a successful manufacturing. Public/private partnerships should be considered to achieve these improvements. As discussed earlier, Permanent Fund earnings may also be a source of funding for this infrastructure.

To recognize accomplishments such as these and as a way to highlight the viability of manufacturing in Alaska, we recommend that:

The state create an annual "Alaska Manufacturer of the Year" award, similar to awards currently given to small business owners by the Federal Small Business Administration and the Governor's award for the exporter of the year.

Encouraging entrepreneurship

Entrepreneurs are a fast growing niche in today's economy. They are a different type of business owners—more mobile and less focused on the bottom line. Deciding where to locate is less about costs and more about a potential community's quality of life. Alaska has the potential of fulfilling this niche very well.

According to "Entrepreneurial Hot Spots, the Best Places in America to Start and Grow a Company," David Birch writes there are both "hard" and "soft" determinants that attract entrepreneurs. The "hard" determinants include:

1. Universities. They provide a source of new ideas, creative people and technology upon which many new companies base their growth.

2. Airports. Because clients and suppliers are rarely in the same local area, access to convenient and frequent air transportation is important.

3. Telecommunications. There is a high correlation between corporate growth and the use of sophisticated, non-basic telecommunications. Entrepreneurs will avoid a place which does not offer such telecommunications.

4. Nice Place to Live. While difficult to describe, factors affecting where people, including entrepreneurs, want to live include climate, density of living, quality of education, recreational and cultural opportunities. "Nice" also means low crime, access to shopping, single-family homes, and free parking.

The final determinant, which Mr. Birch describes as "soft," is less tangible. It's a community's tolerance and recognition of new and different people doing new and different things. Given the entrepreneur's mobility and therefore location options, a community's willingness to embrace an individual who may be sometimes unorthodox is important to the entrepreneur. For these reasons, state and local governments are encouraged to also be "open for business" for entrepreneurs who may not bring high profile, large corporations but who can bring some jobs and make our neighborhoods and communities better places to live.

Creating a business-friendly environment

Making government small business-friendly

Telecommunications can provide opportunities to provide readily available information to potential business. The State of Alaska "home page" can be effective at enhancing communication between state agencies, citizens, and businesses—whether it be requests for state information, browsing state documents, or state employee e-mail accessibility. It can also be an important mechanism through which the state can communicate information important to potential businesses, including a data base which details reasons to do business in Alaska. We recommend that:

The State of Alaska periodically review the home pages of other states to monitor "competition," especially for information that is relevant to a business' decision to relocate or do business in a state.

Day-to-day government decisions are also important to the future of many of Alaska's small businesses. State government is a major buyer from small business. Their business' success can depend, in large part, on a government's decision of whether to buy their products or services. While "low bid" may fuel the illusion of saving public dollars, extraordinary administrative expenses, cost over-runs and/or change orders with out-of-state contracts can result in a final effective expense which is significantly more than the original bid price. Just as in resource development, it is important procurement decisions also consider job creation potential of an in-state purchase.

Given the volume of state government purchases, its procurement laws and regulations are important in developing or hindering Alaska's small businesses. There are a number of ways state government procurement practices can protect the public's interests and also encourage small business success. We recommend that the state:

- *Establish a vendor payment system similar to the Federal government's "FAST PAY" program by which small businesses agree to give a discount if the government agrees to make payment within a shorter timeframe.*

- *Establish a mechanism that sets level of participation in certain bids so small businesses can compete. This would be similar to the Federal government's small business set-asides by which agencies limit competition on certain contracts to qualified small businesses. Since federal law requires that awards be made at* *competitive prices, set-asides are applied only when enough small businesses are expected to bid that adequate competition will be assured.*

- *Require a bidder who is not going to use an Alaskan-manufactured product (distinguished from Alaskan-supplied), to explain why not.*

- *Do a long-term cost/benefit analysis in determining bid specifications for construction projects to identify long-term costs and savings. Such an analysis may find that some specifications may achieve short-run savings, but increased costs in the long-run.*

- *Establish a "Labor Surplus Area" set-aside program. The Federal government's program restricts competition to firms that agree to perform most of the contract work in areas having higher than average unemployment, even if the headquarters is not located in these areas. Contracts are set aside when enough qualified firms are expected to bid so that awards will be made at fair and reasonable prices.*

- *Require contractors to include in a bid information about the number of jobs that will be created and how they will be filled. To the degree legal, the potential number of Alaskans to be hired should be a variable in awarding a bid.*

- *Provide systematic opportunities for vendors to brief state employees involved in procurement so they remain current on appropriate technologies and other advances. This will better ensure employees who write bid specifications are current on trends and products so state purchases are the most appropriate.*

- *Develop incentives for state agencies to buy services or products manufactured in-state.*

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