

Alaska's Budget Crisis Facing the Facts — Closing the Gaps

**A
Commonwealth North Report
December 1986**

ALASKA'S BUDGET CRISIS: FACING THE FACTS-CLOSING THE GAP

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The conclusions of this report are those of Commonwealth North.

COMMONWEALTH NORTH
STATE BUDGET TASK FORCE

In July 1986, the Board of Directors of Commonwealth North established a Special Task Force on the State Budget.

The charge:

- To review and make recommendations as to how to address the State of Alaska's immediate budget gap of almost \$1 billion for FY 87 and FY 88.
 - To address issues concerning the general direction and philosophy of State spending.
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INTRODUCTION

Alaska's budget crisis

Alaska's economy runs on oil. Depending on the year, from 70% to 90% of the revenues to the state come from the Prudhoe Bay oil field. At this time a \$1 drop in the price of oil means a \$150 million drop in income to the State of Alaska.

When the price of oil soared in 1979, so did Alaska's economy, and so did state spending. Revenues to the state jumped from \$764 million in 1978...to \$1...\$2...\$3...\$4 billion in 1982. Then the gradual drop began ...from \$4 billion in 1982...to \$3.6...\$3.3...\$3.2...\$2.6 in 1986.

Yet, even as the drop began and Alaska's revenue forecast showed expectations for additional decline, the spending level increased. The difference was made up in one-time revenues and expectations of another rise in oil prices.

The FY 87 budget was passed at \$2.5 billion...with oil at \$19 per barrel. By June, oil prices had deteriorated to \$10.09 per barrel - resulting in an estimated \$800 million shortfall between actual anticipated revenues and appropriations.

Governor Bill Sheffield ordered a 15% cut in spending - equivalent to about \$400 million - leaving the remaining cut for later.

The September revenue forecast of the Alaska Department of Revenue pegged oil prices at \$12.65 per barrel. Anticipated revenue for the FY 87 is \$1.4 billion. Anticipated revenue for FY 88 is \$1.273 billion.

- THE STATE OF ALASKA HAS A CURRENT \$300 MILLION TO \$400 MILLION SHORTFALL FOR FY 87.*
- REVENUES FOR FY 88 ARE EXPECTED TO BE ALMOST \$800 MILLION LESS THAN THE BUDGET LEVEL FOR FY 87.
- THE COMBINATION OF SHORTFALL AND DECREASED REVENUE LEAVES THE STATE WITH A BUDGET IMBALANCE OF \$1 BILLION.

* The actual shortfall will depend on whether the 15% cuts are actually acheived - and the price of oil.

KEY FINDINGS

- THE STATE DOES NOT HAVE CURRENT REVENUE SOURCES, FROM PERMANENT FUND EARNINGS, NEW TAXES OR THE CORPUS OF THE PERMANENT FUND, TO MAINTAIN ITS CURRENT SPENDING LEVELS THROUGH THE 1990'S.
- IT IS LIKELY THE STATE WILL HAVE TO PRIMARILY RELY ON CURRENT REVENUE SOURCES FOR THE NEXT 10 TO 14 YEARS.
- THE STATE DOES HAVE SUFFICIENT CURRENT REVENUE SOURCES TO ALLOW A GRADUAL REDUCTION IN SPENDING TO A SUSTAINABLE LEVEL.
- THE STATE HAS THE CAPABILITY TO OVERCOME ITS CURRENT \$1 BILLION SHORTFALL AND REACH A \$1.4 BILLION TARGETED SPENDING LEVEL THROUGH A COMBINATION OF REDUCING SPENDING AND USING THE NON-DIVIDEND EARNINGS FROM THE PERMANENT FUND.
- IF THE STATE DOES REACH A TARGETED SPENDING LEVEL OF \$1.4 BILLION BY 1991, IT CAN SUSTAIN THAT SAME LEVEL OF PURCHASING POWER TO THE YEAR 2000 WITHOUT INCREASING TAXES OR ELIMINATING THE PERMANENT FUND DIVIDEND.
- THE BUDGET RESERVE FUND PROVIDES THE SUREST ENFORCEMENT FORMULA TO REACH A SUSTAINABLE BUDGET TARGET.
- A STRONG ECONOMY IS JUST AS CRITICAL TO ALASKA'S FUTURE AS SPENDING REFORM. THE STATE MUST TAKE AN AGGRESSIVE, COMPETITIVE POSITION TO ENCOURAGE THE DEVELOPMENT OF NEW WEALTH.

BACKGROUND INFORMATION

SOURCE:

The estimates in this report use the Department of Revenue 30% projections, September 86 Revenue Sources, Quarterly Update.

NOMINAL DOLLARS:

All dollar figures in this report are in nominal dollars, unless otherwise specified.

Basically, if inflation is 5% each year, a \$1.4 billion budget today would be a \$1.8 billion budget by FY 92...a \$1.7 billion budget today would be a \$2.3 billion budget by FY 92...and a \$2.1 billion budget would be a \$2.7 billion budget by FY 92.

INFLATION:

This report assumes a 5% annual inflation factor, as do State projections. While forecasted inflation varies from 2.95% in 1987 to 5.58% in the year 2000, the longrange average is expected to be about 5% per year.

DIVIDEND OR PERSONAL INCOME TAXES?

For the purposes of this report, it is assumed that, in terms of actual revenue to the State, elimination of the dividend or the reimposition of personal income tax would yield about the same level of revenue. The decision as to which to do first will undoubtedly involve a number of decisions other than actual revenue produced.

USE OF THE PERMANENT FUND:

It is recognized that use of the inflation-proofing from the Permanent Fund may affect the future of the Fund.

The key to using the Permanent Fund earnings to sustain purchasing power of a \$1.4 billion budget is discipline. In the early years, the Permanent Fund earnings will be more than is necessary to maintain purchasing power...but these monies will be needed later on as the gap grows between dwindling oil revenues and a budget of constant purchasing power.

PART I

MEETING THE SHORT TERM BUDGET CRISIS

FACING THE FACTS

Solving the budget shortfall now with an eye to the future

The choice as to how to manage today's budget crisis depends on three considerations:

- (1) How much "new" revenue is immediately available, or can be made available to make up the difference between falling revenues and current budget levels?
- (2) How soon will new sources of long-term wealth be developed in Alaska to "rescue" the economy?
- (3) Is the public satisfied with how public money is now being spent so they will agree to give up their Permanent Fund dividend or tax themselves to fund government?

● IMMEDIATELY AVAILABLE "NEW" REVENUE SOURCES

Finding 1: The State cannot sustain a spending level of \$2.5 billion into the 1990's on current income sources.

Under current Department of Revenue forecasts, a budget level of \$2.5 billion could be sustained to 1989 before starting to invade the corpus of the Permanent Fund - and - only if, in the interim the State eliminated the Permanent Fund dividend and reimposed personal income taxes.

Finding 2: The State of Alaska does have revenues - in dividends from the Permanent Fund - and could have revenues - from reimposed income taxes or higher oil taxes - that would allow the Governor and the State Legislature to set a budget level over the next four years from \$1.4 to \$2.2 billion.

The decision as to which budget level to adopt will depend upon many factors, including:

- (a) the price of oil;
- (b) how soon Alaskans are willing to give up the Permanent Fund dividend or to accept a reimposed personal income tax to operate government;
- (c) the willingness of Alaskans to use the non-dividend earnings of the Permanent Fund to operate government.

● EXPECTATIONS OF NEW SOURCES OF LONG-TERM WEALTH

Finding 1: Alaska now faces the start of a permanent decline in revenue from existing fields in Prudhoe Bay.

Decline from existing fields in Prudhoe Bay will begin in 1989. North Slope production, on average, will only be one-half the current level in 1998.

Finding 2: The major sources of new revenue - those capable of replacing a significant portion of the Prudhoe Bay Revenue - are oil from the coastal plain of the Arctic National Wildlife Refuge and marketing of North Slope natural gas.

Finding 3: It may be 10 to 14 years before either North Slope natural gas or new oil reserves from ANWR "come on line".

● PUBLIC SATISFACTION WITH HOW STATE REVENUES ARE SPENT

Finding 1: Alaskans believe that state spending levels are too high.

Over 70% of the voters approved retention of the Constitutional spending limit in the November 3, 1986 election. The vote was directed toward the principle of a spending limit since it is widely known that the present amendment is inoperative.

Finding 2: Political public opinion polls taken in recent months indicate that Alaskans will not agree to give up their dividend or to tax themselves to prolong a government spending spree.

Finding 3: The Commonwealth North Budget Task Force Committee concludes that Alaskans want government spending "brought into line", but in a way that has the least disastrous effect on the economy.

ALASKA'S REVENUE PICTURE
WHERE WE'VE BEEN - WHERE WE'RE GOING
(\$ Millions)

<u>Fiscal Year</u>	<u>Total General Fund Unrestricted Revenues</u>	<u>Percentage Derived From Oil</u>
1971	220	21
1972	219	22
1973	208	24
1974	254	31
1975	333	27
1976	709	55
1977	874	55
1978	764	58
1979	1,133	73
1980	2,501	90
1981	3,718	89
1982	4,108	87
1983	3,631	83
1984	3,390	84
1985	3,260	84
1986*	2,681	84
1987**	1,408	72
1988	1,273	78
1989	1,262	82
1990	1,352	
1991	1,289	
1992	1,265	
1993	1,255	
1994	1,201	
1995	1,163	
1996	1,139	
1997	1,196	
1998	1,155	

* Preliminary Actual

** Begins Estimated

Revenue sources FY 1986-89, Quarterly Update, September, 1986.
Alaska Department of Revenue.

Note: These projections are risk adjusted based on a 30% probability that revenues will not exceed these levels. They are expressed in nominal dollars.

SOURCES OF INCOME FROM THE PERMANENT FUND

(\$ Millions)

Income from the Permanent Fund

<u>Fiscal</u> <u>Year</u>	<u>Net</u> <u>Income</u>	<u>Dividends</u>	<u>Inflation</u> <u>Proofing</u>	<u>Reserves</u>
1987	782	362	138	282
1988	767	393	357	300
1989	815	423	505	187
1990	867	446	545	63
1991	921	436	548	
1992	982	457	525	
1993	1046	486	560	
1994	1113	518	596	
1995	1183	551	632	
1996	1256	586	670	
1997	1332	623	710	
1998	1412	661	751	

"Fiscal Projections", Alaska Permanent Fund Corporation,
as of October 31, 1986.

THE OPTIONS

What are the choices for meeting the budget shortfall?

(1) MAINTAIN A CURRENT SPENDING LEVEL OF \$2.1 BILLION

- Immediately use all one-time nonrecurring revenues.
- Immediately eliminate the Permanent Fund dividend and divert all Permanent Fund earnings into the General Fund.
- Immediately reimpose personal income taxes.
- Be prepared to begin using the corpus of the Permanent Fund within the next 3 years.

(2) CUT BACK SPENDING IMMEDIATELY TO MATCH REVENUE FORECASTS OF \$1.2 BILLION

- Cut an additional \$300 to \$400 million from the FY 87 budget to wipe out the immediate shortfall between revenue and appropriations.
- Set the budget for FY 88 at the forecasted revenue level - \$1.273 billion - which will require cutting \$800 million from the FY 87 budget level.

(3) ESTABLISH A SPENDING LEVEL THAT CAN BE SUSTAINED UNTIL NEW SOURCES OF REVENUE ARE DEVELOPED AND INITIATE A SPENDING REDUCTION PLAN TO REACH THAT LEVEL

- Use revenue forecasts to establish a spending level that can be sustained until the state develops additional sources of revenue.
- Establish a Spending Reduction Plan that allows a guaranteed, but gradual cut back in state spending.
- Use portions of available revenues to ease the size of annual spending reductions necessary to reach the sustainable level.

WHAT ARE THE TRADEOFFS FOR VARIOUS BUDGET LEVELS?

To maintain purchasing power,/1
these events must occur at these years

Targeted Budget Goal for 1991 (billions \$)	Begin Using Non-Dividend Permanent Fund Earnings/2	Begin Using the Perman- ent Fund dividend to operate government	Reimpose Personal Income Tax	Begin Using the corpus of the Permanent Fund
\$1.4	1987	2000	2002	2008
\$1.7	1987	1988	1999	2001
\$2.2	1987	1988	1991	1994
\$2.6	1987	1988	1988	1989

1/ All dollar figures are in nominal dollars, as are projections from the State Department of Revenue, and reflect an assumption of 5% annual inflation. While State forecasts on "expectation for inflation" vary from 2.95% in 1987 to 5.58% in the year 2000, 5% is used in this model as an average in the long haul.

2/ Non-dividend Permanent Fund earnings are the inflation proofing as well as the reserves (also called undistributed income). In the Commonwealth North model, these earnings are only used in FY 87 and FY 88 to reach a targeted budget level of \$1.4 billion in 1991. To continue to maintain purchasing power, the non-dividend earnings would have to be used again from 1991 on.

SUSTAINABLE BUDGET LEVELS

How long can various targeted budget levels be maintained...and what are the trade offs?

With no new substantial revenue sources expected within the next 10 to 14 years, the state will have to rely on existing revenue sources to meet its expenses.

How long can specified budget levels be maintained before the State:

- must eliminate the Permanent Fund dividend?
- reimpose personal income taxes?
- or begin using the corpus of the Permanent Fund?

The following are four scenarios that provide a framework for decision-making. In each case, the goal will be to step down to the targeted budget level by 1991. The question is how long the State can sustain the purchasing power of each target level.

I. A TARGETED BUDGET LEVEL OF \$1.4 BILLION

From FY 88 to FY 91

A budget target of \$1.4 billion can be reached by combining annual budget reductions with non-dividend earnings* from the Permanent Fund.

From FY 91 to FY 00

The purchasing power of that \$1.4 billion budget can be maintained through continued use of the non-dividend earnings of the Permanent Fund.

* The term "non-dividend" earnings from the Permanent Fund means inflation proofing and reserves (undistributed income).

FY 00 to FY 02

The purchasing power of a \$1.4 billion budget can be sustained, if in addition to the above:

- the Permanent Fund dividend is eliminated in FY 00;
- personal income tax is reimposed in FY 02.

II. A TARGETED BUDGET LEVEL OF \$1.7 BILLION

FY 88 TO FY 91

A budget target of \$1.7 billion can be reached and maintained if:

- all one time revenues are placed in the General Fund, including the Budget Reserve Fund (\$430 million);
- the Permanent Fund dividend is eliminated in 1988.

FY 91 - FY 00

The purchasing power of a \$1.7 billion budget can be sustained if, in addition to the above:

- personal income tax is reimposed in 1999.

FY 00 - FY 02

The purchasing power of a budget level of \$1.7 billion can be sustained, if in addition to the above:

- beginning in FY 01 the corpus of the Permanent Fund is used for the operation of government.

III. A TARGETED BUDGET LEVEL OF \$2.2 BILLION

FY 88 to FY 91

A budget target of \$2.2 billion can be maintained if:

- all one time revenues are placed into the General Fund, including the Budget Reserve Fund (\$430 million);
- the Permanent Fund dividend is eliminated in 1988;
- personal income tax is reinstated in 1991.

FY 91 - FY 00

The purchasing power of a \$2.2 billion budget can be maintained past 1994 only if, in addition to the above, the corpus of the Permanent Fund is used for the operation of government.

IV. A TARGETED BUDGET LEVEL OF \$2.6 BILLION

FY 88 to FY 91

A budget target of \$2.6 billion can be maintained if:

- all one time revenues are immediately placed in the General Fund, including the Budget Reserve Fund (\$430 million);
- the Permanent Fund dividend is eliminated in 1988;
- personal income taxes are reinstated in 1988;
- beginning in 1989 the corpus of the Permanent Fund is used for the operation of government.

RECOMMENDATIONS FOR A TARGETED BUDGET LEVEL

What is the "best bet"?

(1) ESTABLISH A SPENDING REDUCTION PLAN WITH A TARGET OF A \$1.4 BILLION BUDGET IN 1991.

- The State of Alaska has the capability, with current revenue sources, to reach a target budget of \$1.4 billion over the next four years without imposing new taxes or eliminating the Permanent Fund dividend.
- The Governor should propose a Four Year Spending Reduction Plan aimed at meeting the \$1.4 billion target in 1991.
- Annual reductions should be no less than \$150 million per year, and depending on what formula is used, should average \$200 million per year over the next four years.
- The Spending Reduction Plan must be guaranteed, either through a formula in existing law, such as the Budget Reserve Fund, or in a newly proposed law.

(2) USE THE NON-DIVIDEND EARNINGS FROM THE PERMANENT FUND TO EASE THE TRANSITION FROM A \$2.1 BILLION BUDGET TO A \$1.4 BILLION BUDGET.

- Use of the Undistributed Income account and Inflation Proofing will allow a transition from the \$2.1 billion level to \$1.4 billion without imposing taxes or giving up the dividend over the next four years.

THE OPTIONS FOR MAKING A SPENDING REDUCTION PLAN

(1) ESTABLISH A FLAT REDUCTION RATE OF \$200 MILLION ANNUALLY.

- Fill in the difference between the reduced budget target and actual revenue with one-time nonrecurring revenues and the non-dividend portion of the Permanent Fund earnings.

The Advantages:

- It's simple and, factually, it works.

The Disadvantages:

- While there are available revenues, it is unlikely that the Legislature will act to reduce spending on an annual basis without some enforceable plan.
- Without an enforcement mechanism, the Legislature is likely to use all the Permanent Fund earnings plus reimpose personal taxes and raise oil taxes to avoid reducing spending.

(2) USE AN EXISTING FORMULA AS THE MECHANISM TO ENFORCE SPENDING REDUCTION AND SPENDING REFORM.

- Alaska already has a law on the books intended to allow for a "soft landing" during hard times and to act as a check on spending during good times. That law is the Budget Reserve Fund.

Under the formula contained in the Budget Reserve Fund, up to 25% of the Fund can be used to bridge the gap between spending and income while at the same time, spending increases are limited to 5% of the preceding year's appropriations plus changes in population and inflation.

The Advantages

- The Fund has both short-term and long-term purposes that meet Alaska's fiscal management needs:
 - (a) It acts as a way of transferring funds, in measured amounts, to ease the transition from high spending levels to moderate spending levels as revenues fall.
 - (b) It limits the annual increases in spending allowed in any one year when revenues go up again.

The Disadvantages:

- A series of legislative actions will be necessary to make the Budget Reserve Fund a workable tool to meet the immediate budget shortfall.

When the Fund was adopted last session, the intent was to use the next four years to build the Fund, so that as Prudhoe Bay production declined, the Fund would be large enough to ease the spending reduction over the following 10 years.

The fall in oil prices precipitated the \$1 billion shortfall before the Fund had the opportunity to grow sufficiently.

As a result, the formula must be adjusted to meet immediate demands.

FINDINGS ON IMPLEMENTING A SPENDING REDUCTION PLAN

- It is concluded that the Budget Reserve Fund concept meets both the short-term and long-term fiscal management needs of the State and should be used to implement the State's Spending Reduction Plan.

A SPENDING REDUCTION PLAN USING THE BUDGET RESERVE FUND

How to move from a \$2.1 billion to a \$1.4 billion state budget in 4 years

(1) THE FIRST GOAL IS TO MAKE UP THE \$300 MILLION SHORTFALL FOR THE FY 87 BUDGET.

- The Budget Reserve Fund balance is currently \$430 million.
- The Legislature would increase the balance by appropriating the non-dividend earnings from the Permanent Fund FY 87...\$420 million...to the Budget Reserve Fund.
- The Legislature would appropriate 25% of the Budget Reserve Fund...\$215 million...to meet the current shortfall.
- The Legislature would cut the remaining \$75 million from the FY 87 budget.
- The FY 87 budget appropriation, when the adjustments are made, will total \$2.1 billion.

(2) THE SECOND GOAL IS TO SET A \$1.8 BILLION BUDGET LEVEL FOR FY 88.

- Revenues for FY 88 are forecast at \$1.273 billion.
- The goal for FY 88 is \$1.8 billion.
- The shortfall from the FY 87 budget level is \$800 million, which the legislature would meet by cutting \$150 million from the FY 87 budget level and adding \$650 million in revenues through the Budget Reserve Fund.
- Balance in the Budget Reserve Fund, prior to any withdrawals, would be \$644 million.
- The Legislature would increase the balance by appropriating non-dividend earnings from the Permanent Fund for FY 88...\$657 million...for a total balance of \$1.3 billion.

- 25% of the Budget Reserve Fund...\$325 million...would be insufficient to meet the shortfall.
- The Legislature would amend the Budget Reserve Fund to allow a 50% withdrawal...\$650 million...to meet the shortfall.
- The Legislature would cut \$150 million from the previous year's budget.

3. THE THIRD GOAL IS TO SET A \$1.6 BILLION BUDGET FOR FY 89

- Revenues for FY 89 are forecast at \$1.262 billion.
- The goal for FY 89 is \$1.6 billion. The shortfall from the FY 88 budget level is \$538 million, which the Legislature would meet by cutting \$200 million from the FY 88 budget level and adding \$329 million from the Budget Reserve Fund.
- Balance in the Budget Reserve Fund, prior to any withdrawals, would be \$650 million.
- The Legislature would appropriate 50% of the Budget Reserve Fund...\$329 million...to meet the shortfall.
- The Legislature would cut \$200 million for the FY 88 budget level.

4. THE FOURTH GOAL IS TO SET A \$1.5 BILLION BUDGET FOR FY 90

- Revenues for FY 90 are forecast at \$1.352 billion.
- The shortfall from the FY 89 budget level is \$238 million which the Legislature would meet by cutting \$74 million from the FY 89 budget level and adding \$164 million from the Budget Reserve Fund.
- Balance in the Budget Reserve Fund, prior to any withdrawals, would be \$329 million.
- The Legislature would appropriate 50% of the Budget Reserve Fund...\$164 million...to meet the shortfall.
- The Legislature would cut \$74 million from the FY 89 budget level.

5. THE FIFTH GOAL IS TO SET A \$1.4 BILLION BUDGET FOR FY 91

- Revenues for FY 91 are forecast at \$1.289 billion.
- The shortfall from the FY 90 budget level is \$211 million which the Legislature would meet by cutting \$129 million from the FY 90 budget level and adding \$82 million from the Budget Reserve Fund.
- Balance in the Budget Reserve Fund, prior to any withdrawals, would be \$164 million.
- The Legislature would appropriate 50% of the Budget Reserve Fund...\$82 million...to meet the shortfall.
- The Legislature would cut \$129 million from the FY 90 budget level.

THE 'BOTTOM LINE'

Will it be worthwhile to reduce spending to a \$1.4 billion target level?

What will the State have to show by 1991 if it uses the Budget Reserve Fund combined with a Spending Reduction Plan to reach a \$1.4 billion budget?

- \$82 million left in the Budget Reserve Fund
- \$250 million left in the reserve, or undistributed income account of the Permanent Fund earnings
- Only two years - 1987 and 1988 - of the "inflation proofing" diverted to the General Fund
- A budget level that can be maintained, in terms of purchasing power, over the next decade, without using the Permanent Fund dividend or reimposing personal income taxes to operate government.

THE CHOICES TO IMPLEMENT THE BUDGET RESERVE FUND

The model developed by the Commonwealth North Budget Task Force uses only two years of non-dividend earnings from the Permanent Fund to supplement the Budget Reserve Fund between now and 1991.

Obviously, other combinations or choices of revenue are available.

The message is that the targeted budget level determines how much new revenue will be needed...and if annual reductions in spending are not made over the next four years, Alaska will have spent itself out of options for the 21st century.

PART II

TOWARD A NEW DIRECTION IN STATE SPENDING

GUIDELINES FOR FUTURE FISCAL MANAGEMENT

THE CAPITAL BUDGET:

The State capital budget should never be less than \$200 million, or the level required for federal matching funds.

ONE TIME REVENUES:

One time, nonrecurring revenues and windfalls should not be used directly for the operating budget because they inflate the budget to a level that cannot be sustained. Such revenues should be considered for the Budget Reserve Fund, the capital budget, or capital investment projects.

PERMANENT FUND EARNINGS:

Earnings from the Permanent Fund should never be considered part of the current unrestricted earnings of the State. They should always be treated as a special account, requiring annual appropriation by the Legislature.

PRIORITY FOR REVENUE SOURCES:

After spending reduction, if the need arises for additional revenue, a priority should be established that takes into account effect on the development of new revenues, effect on the general economy, and the maintainance of the Permanent Fund in perpetuity.

The following priority is recommended:

- Permanent Fund Earnings
 - Inflation-proofing
 - Dividends
- Personal Income Tax
- Sales Tax
- Oil and Resources Industry Tax
- Cap the Permanent Fund and divert the 25% royalties into the General Fund
- Divert the corpus of the Permanent Fund into the General Fund

THE KEY TO SUCCESSFUL BUDGET REDUCTION: NO SACRED COWS

The goal is to provide top quality public service on a \$ for \$ basis.

- All State programs should be reviewed in light of established criteria:
 - Is it an essential public service?
 - Is it delivering the service at a reasonable cost?
 - Can the service be better performed by the private sector?
- All State departments and programs should be reviewed for standards of performance and excellence.
- All State programs should be reviewed to determine if it would be appropriate to return the cost of the service or program to the private sector, either in whole, by discontinuing the service, or in part, by charging fees.
- All loan programs, previously supportable at a highly subsidized interest rates because of high oil revenues, should be reviewed for phase-out, capping, conversion to market rates, or conversion to a revolving loan fund. This includes the student loan program, AIDA, AHFC.
- All blanket distribution programs, previously supportable because of high oil revenues, must be reviewed for phase-out, capping, or conversion to loan or need basis. These programs include the Longevity Bonus and Power Cost Equalization.

SETTING NEW TRENDS FOR FUTURE SPENDING CHOICES

Ideas for cutting back the budget

The following ideas are included from the dozens that were discussed during the review of the Budget Task Force, because each began to show up repeatedly from other groups concerned with the budget, including state employee groups.

IN THE AREA OF COMPENSATION

- Reduce overtime by better planning.
- Change the work week back from 37 1/2 hours to 40 hours.
- Eliminate Merit Pay increases because they have become automatic.
- Discontinue COLA (Cost of Living Allowances).
- Eliminate regional pay differentials.
- Bring salaries in line with actual responsibility and productivity.
- Modernize the classification system.
- Reassess position upgrades.
- Reduce salaries.
- Conform leave and state holidays to national norms.
- Conform retirement packages to national norms.

IN THE AREA OF PROGRAM REDUCTION

- Prioritize programs according to the mandate of each department.
- 100% defunding of all boards and commissions scheduled for sunseting.
- Eliminate programs normally financed by the private sector.
- Eliminate funding for programs or groups that, as a matter of practice, sue the State of Alaska.
- Eliminate programs that are duplicative.
- Eliminate funding for non-profit groups funded by direct legislative action that are performing services already being performed by other agencies or groups or go to competitive bidding for these services.

INTO THE FUTURE - CHANGING THE DIRECTION OF STATE SPENDING

Using the budget crisis as an opportunity.

I. THE STATE OF ALASKA SHOULD USE THE NEXT FOUR YEARS TO STREAMLINE STATE SPENDING.

- Budget preparation should be shifted to an "essential" or core program concept.
- The Governor should establish a BUDGET REDUCTION TASK FORCE of knowledgeable Alaskans from both the public and the private sector to review State programs for effective delivery.
- The BUDGET REDUCTION TASK FORCE should establish criteria to begin the process of separating out core programs and in rating efficiency and effectiveness of delivery.

II. THE STATE OF ALASKA SHOULD SUBSTANTIALLY SHIFT THE FOCUS OF STATE SPENDING FROM THAT OF SUPPORTING MORE GOVERNMENT TO THAT OF BOOSTING THE GROWTH AND DIVERSITY OF THE PRIVATE SECTOR.

- Services that can be provided more efficiently, and at less cost by the private sector should be provided by the private sector. In areas with a proven track record in other parts of the nation, the State should "privatize" services now being provided by government.

The goal should be to move government from being a provider of public services to that of acting as a facilitator, on behalf of the public, for quality service by the private sector.

- To generate a broader employment base and stretch the public dollar while still retaining a fair wage rate, the Legislature should revise the Little Davis-Bacon Act, as well as modify the Collective Bargaining Act.

III. THE STATE SHOULD RESTORE CREDIBILITY TO CAPITAL SPENDING BY FOCUSING ON NEED, EFFICIENCY, AND GIVING PRIORITY TO PROJECTS THAT ARE REVENUE-PRODUCING.

- The estimated \$1 billion in the unspent capital appropriations account must be reviewed and re-evaluated.

The practice by individual legislators of viewing unspent revenues as "their" money, even if other projects have greater merit, must stop.

- All future capital projects must be evaluated on a "need" basis.
- The capital spending program should be focused on revenue-producing projects that will help revitalize Alaska's economy.
- 20% to 30% of the State's budget should be targeted for capital spending.

NEW SPENDING GOALS...NEW DECISIONS

Spending reform is just part of the solution to a vital Alaska future.

- A STRONG ECONOMY IS JUST AS CRITICAL TO ALASKA'S FUTURE AS SPENDING REFORM.

- THE STATE MUST TAKE AN AGGRESSIVE, COMPETITIVE POSTURE TO ENCOURAGE THE DEVELOPMENT OF NEW WEALTH.
 - (a) The State of Alaska must actively compete for world market share of resource sales by encouraging responsible development of its own resources.

 - (b) The State of Alaska must place a priority on the development of the two known sources of new revenue most likely to determine the future health of the economy:
 - marketing of North Slope natural gas
 - development of the coastal plain of the Arctic National Wildlife Refuge

 - (c) The State of Alaska must take an active role in encouraging all levels of economic activity so new wealth can be generated as Prudhoe Bay wealth declines.

- SPENDING PRIORITIES SHOULD BE DIRECTED TOWARD THOSE ACTIVITIES, SERVICES, AND PROGRAMS THAT WILL ASSIST IN THE GENERATION OF NEW WEALTH FOR ALASKA.

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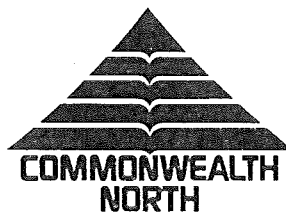
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