

Mid-Session Report from *Joe Hayes*

Moving Alaska Forward: Creating a Solution



Joe meeting with Fairbanks constituents in Juneau

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1. Why is Alaska Short of Money?

Today, 32% of the state's total budget comes from oil revenue, which is a major difference from 78% in 1982. This year's general fund budget was based on \$22.35 per barrel of oil but, because of reduced oil production, we have an almost \$860 million budget shortfall from the Legislature's \$2.3 billion General Fund budget. Despite the Legislature's five-year budget reduction plan, which decreased state spending by \$250 million.

During the oil boom of the early 80's, oil revenues exceeded \$7 billion a year; they are now \$1.5 billion. Oil production has dropped from 2 million barrels a day to 1 million barrels a day and, even with new fields coming on line and slightly increased production, is not expected to exceed 1.1 million barrels a day through the remainder of the decade. Alaskans must decide on a responsible long-term plan for Alaska's future or face a future that will be harmful to the next generation.

3. How Can We Balance the Budget?

There are a variety of different tools the legislature can use to address the fiscal crisis.

The \$21 billion principal of the Permanent Fund cannot be used without a vote of the people, but the earnings reserve account could be used to help fund portions of state government. The earnings reserve account is money left over after all dividends are paid and the permanent fund is inflation-proofed. With this option, the PFD check would not be "capped," but growth would be slower. The current Earnings Reserve contains \$4 billion. Representatives of the Department of Revenue estimate that \$650-700 million from the Reserve could be used to balance the budget.

Dear friends and neighbors,

In 1999, the State faced a \$1 billion shortfall with oil prices at \$8 a barrel. Now, in 2001 we are facing the same problem once again: a \$1 billion dollar shortfall, this time with oil prices at \$21 a barrel. It is becoming apparent that budget problems will continue to plague the state unless adequate long-term solutions are sought. I'm dedicating this newsletter to informing you of what our problem is and what the options are for closing the budget gap. I appreciate any input you may have as we weigh the different alternatives. **I will be holding a constituent meeting at Randy Smith School on March 30th from 12-2 pm.** Please fill out the survey and return it as soon as possible. I look forward to hearing from you.

Sincerely,

2. What Happens If We Don't React?

The magnitude of the budget gap is greater than most people want to acknowledge. If we cut the entire budgets for the Departments of Community & Economic Development, Labor & Workforce Development, Transportation & Public Facilities, Military & Veterans Affairs, Natural Resources, Fish & Game, Revenue, Public Safety, Law, Corrections, Courts, Legislature, the Governor, and the University of Alaska system, we would still have more than a \$63 million gap. The Constitutional Budget Reserve could be used, but

at \$2.4 billion, the account could be empty by 2004. If we don't act now, we leave the legislature with no flexibility other than to enact huge taxes or eliminate the PFD checks. This session we have the ability to examine and implement a long-term fiscal plan to avoid long-term damage to our communities and the entire state.

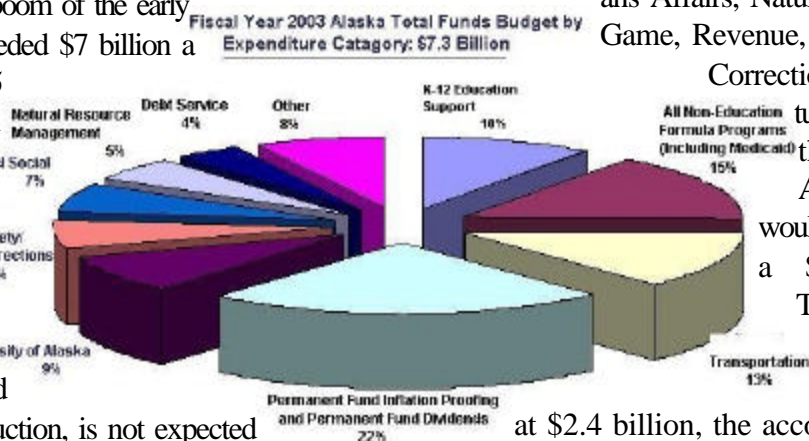
An alcohol tax at 10 cents a drink brings in \$30 million, or at 5 cents, \$15 million a year. A \$30 cruise ship head tax would also bring in roughly \$30 million.

A statewide income tax would not solve our budget problem, but it could generate \$270 - \$360 million in new revenue.

A statewide sales tax at one to five percentage rate would generate anywhere between \$70 million to \$350 million.

The latter four items would not solve the budget problems, but could be used in combination with the earnings reserve account to close the gap.

Any long-term solution will require some use of the earnings that is generated by the Permanent Fund.





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How Should We Close The Budget Gap?

1. Should we institute a long range fiscal plan this year?
Definitely Yes Unsure No Definitely Not
2. Should the plan include sales tax or income tax?
Sales tax Income Tax Neither
3. Should the plan include alcohol tax at 10 cents or 5 cents?
10 cents 5 cents Neither
4. Should the plan include a 5 cents gasoline tax?
Yes Unsure No
5. Should the plan include a \$30 cruise ship head tax?
Yes Unsure No
6. Should the plan include a constitutional spending cap limit or a tax cap at 5%?
Spending cap limit Unsure 5% Tax Cap
7. Should the plan include earnings from the Permanent Fund?
Yes Unsure No
8. Should the legislature continue cutting the budget, or have we cut enough?
Yes Unsure No
- Additional Comments:**

Other Comments?

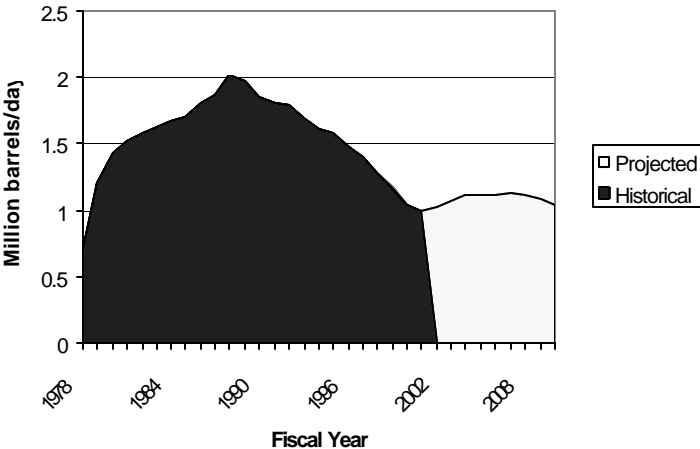
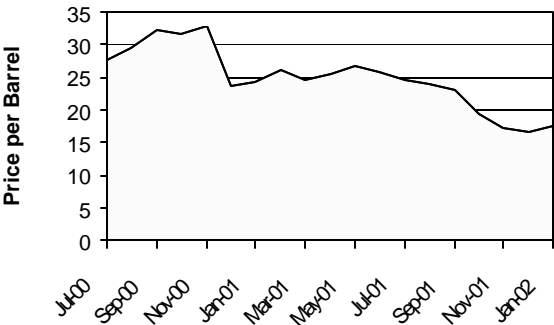
Please attach a letter or use the following space to add any comments you may have.

Thank you for your input. If you would like regular updates please include your name and e-mail address.

Optional
Name:
Address:
E-mail:

Fact: In 1979 the state spent \$5,300 per person, today the state spends \$3,835 per person.

These graphs depict the decline of both oil prices and oil production in Alaska



Courtesy of the Department of Revenue 2002.