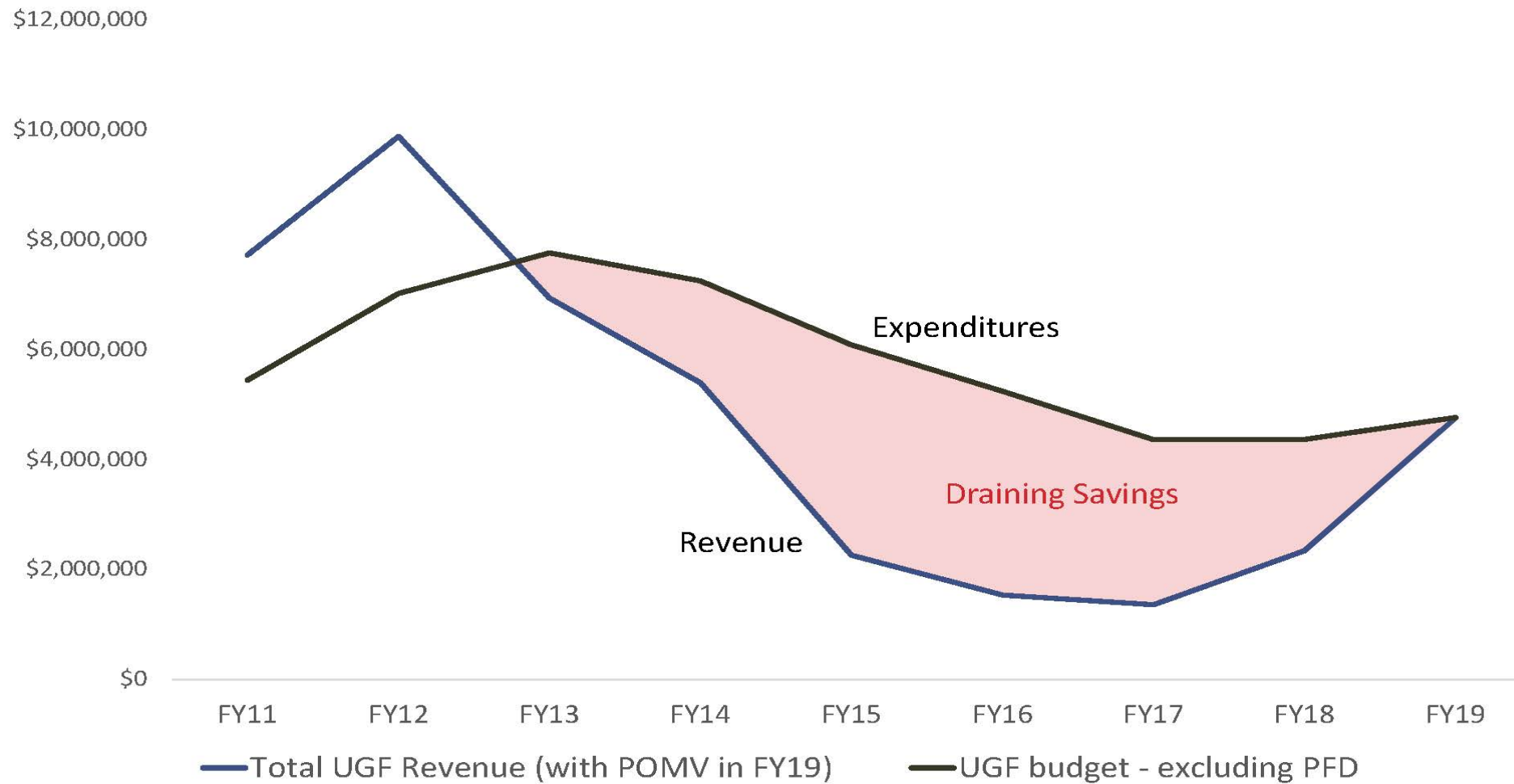




Where are we?
How did we get here?

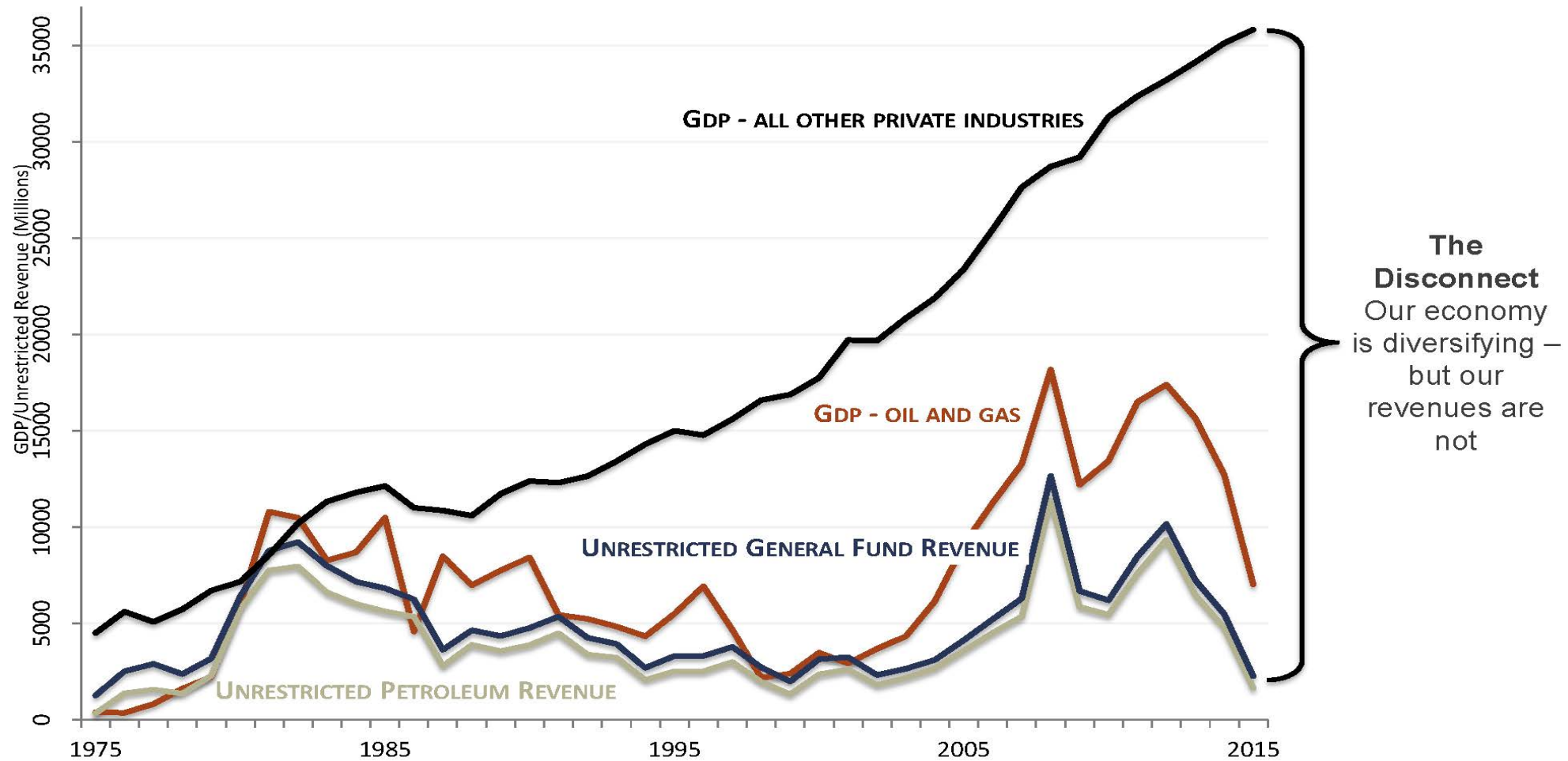


Savings: State Budget Overview





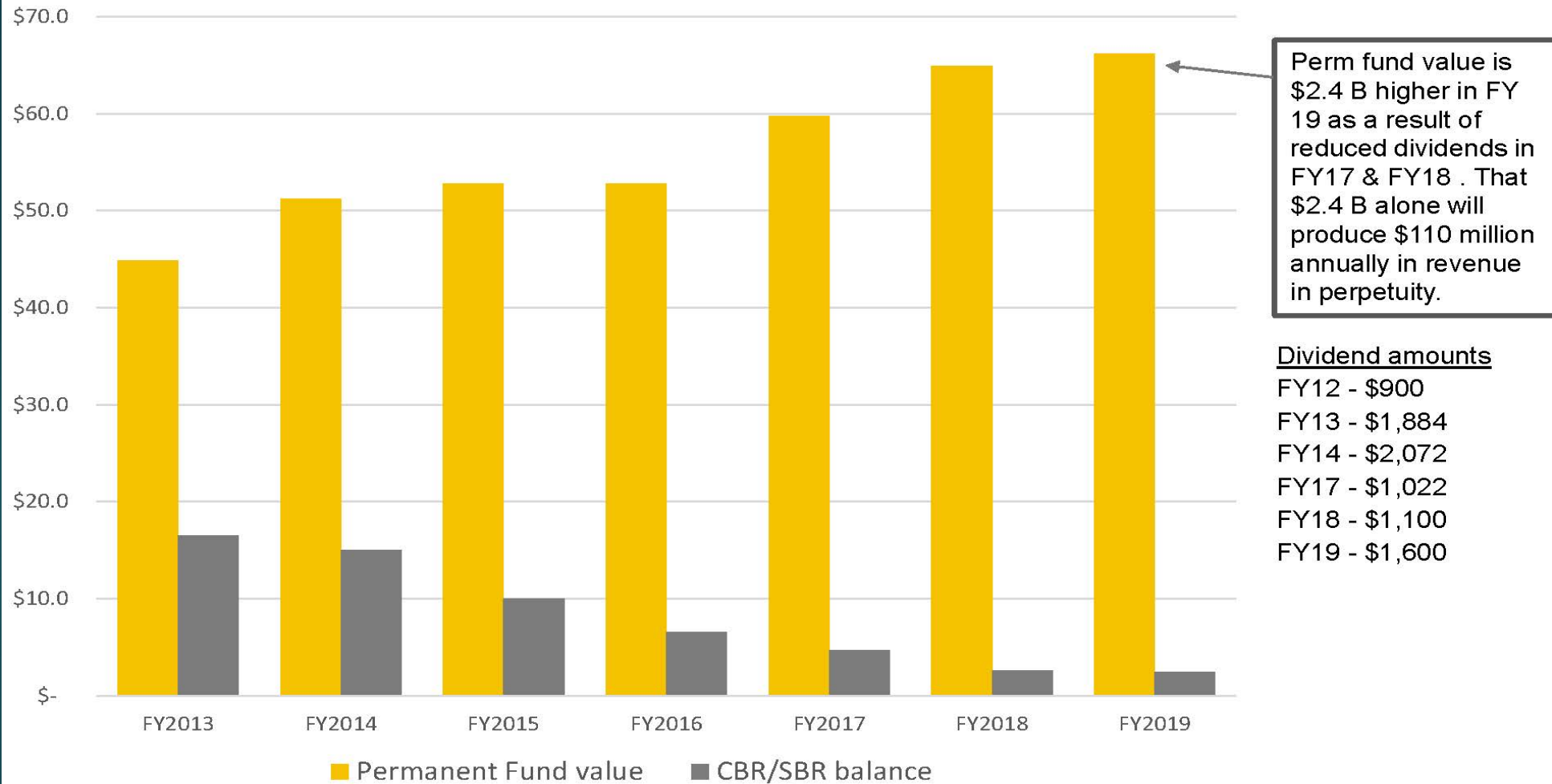
The Disconnect



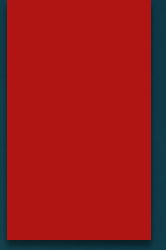
Source - US. Bureau of Economic Analysis, Legislative Finance 28



Permanent Fund growth during fiscal crisis compared to savings drawdown.



Governor Dunleavy's FY20 Proposed Budget



Guiding Principles of Dunleavy Budget

1. expenditures \leq revenue
2. functions must impact a majority of Alaskans
3. maintain and protect our reserves
4. no taxes, no take-away from the PFD
5. sustainable, predictable and affordable.

Traditional Budget Balancing Tools

- ~~1. Add revenue~~
- ~~2. Pull money from reserves~~
3. Reduce expenditures (downsize or cut)

Budget and Implications

- ▶ Budget does not reduce state government (bureaucracy) significantly.
- ▶ Proposed cuts eliminate state support for institutions including University of Alaska and Pioneer Homes.
- ▶ Proposed budget *cost-shifts* to local governments, who have options to raise local taxes and/or reduce services

Shifted Revenues, Expenses & Cuts

School Bond Debt Reimbursement	\$105,000,000
Petroleum Property Tax	\$439,500,000
Fisheries Business Tax	\$25,900,000
Fisheries Resource Landing Tax	\$6,300,000
Repeal HB528 (DOT & AEA projects)	\$32,450,000
Education (K-12)	\$332,421,200
University of Alaska	\$155,000,000
Medical Centers & Hospitals	\$270,000,000

Shifted Revenues, Expenses & Cuts (cont.)

Community Assistance (FY21)

Revenue resource for estimated 30% of communities without a tax base.

Power Cost Equalization (FY21)

Financial assistance to communities and residents where KWH costs are 3 to 5 times as high as the average of urban areas.

Department of Administration:

Health Care, Public Employee and Teacher Retirement Systems, Public Broadcasting

Commerce and Community Development

Alcohol Beverage Control Board

Education and Early Development

Pre-K grants, Alaska State Council on the Arts, OWL, WWAMI

Shifted Revenue, Expenses & Cuts (cont.)

Department of Environmental Conservation

Air Quality, Water Quality, Spill Prevention and Response, Ocean Ranger program

Department of Military and Veterans Affairs

Reduce Youth Academy, Eliminate Local Emergency Planning

Department of Public Safety

Reductions to State Troopers, Village Public Safety, Police Standards Council, Civil Patrol

Department of Transportation & Public Facilities

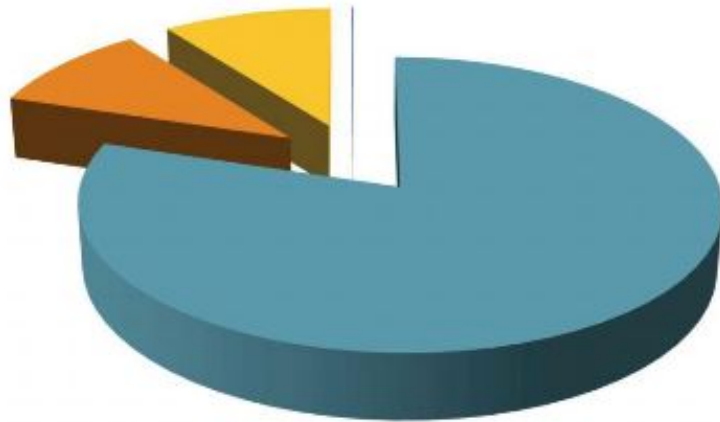
Eliminate Harbor Facility Grant Program

Alaska Marine Highway System

Alaska Marine Highway System Fund UNRESTRICTED OPERATING REVENUES

For the fiscal year ended June 30, 2018

\$47.3 MILLION

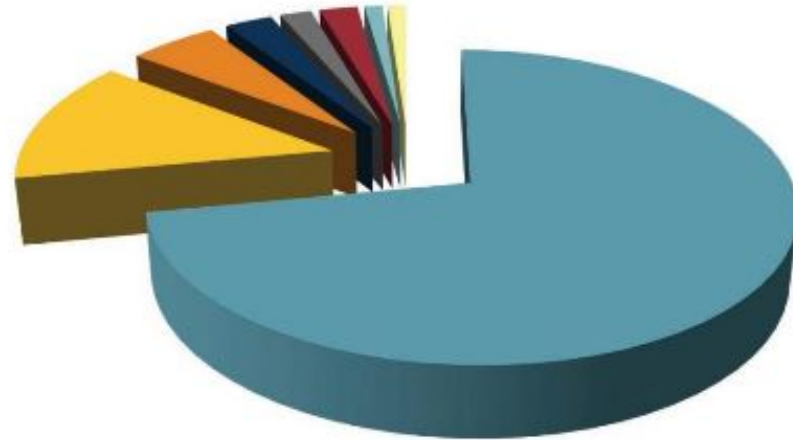


Ticket Sales	80.0%
Stateroom Sales	10.0%
Passenger Services Sales	10.0%
Other Unrestricted Revenue	0.0%

Alaska Marine Highway System Fund OPERATING EXPENDITURES

For the fiscal year ended June 30, 2018

\$142.0 MILLION



Marine Vessel Operations	72.0%	Operations Management	2.9%
Marine Fuel	13.3%	Overhaul	1.1%
Shore Operations	5.4%	Marine Engineering	1.9%
Reservations and Marketing	1.1%	Support Services	2.3%

Expected to end service in October; 65% cut and planned divestiture
State support of \$71,949,000 in FY18

It's not all bad:

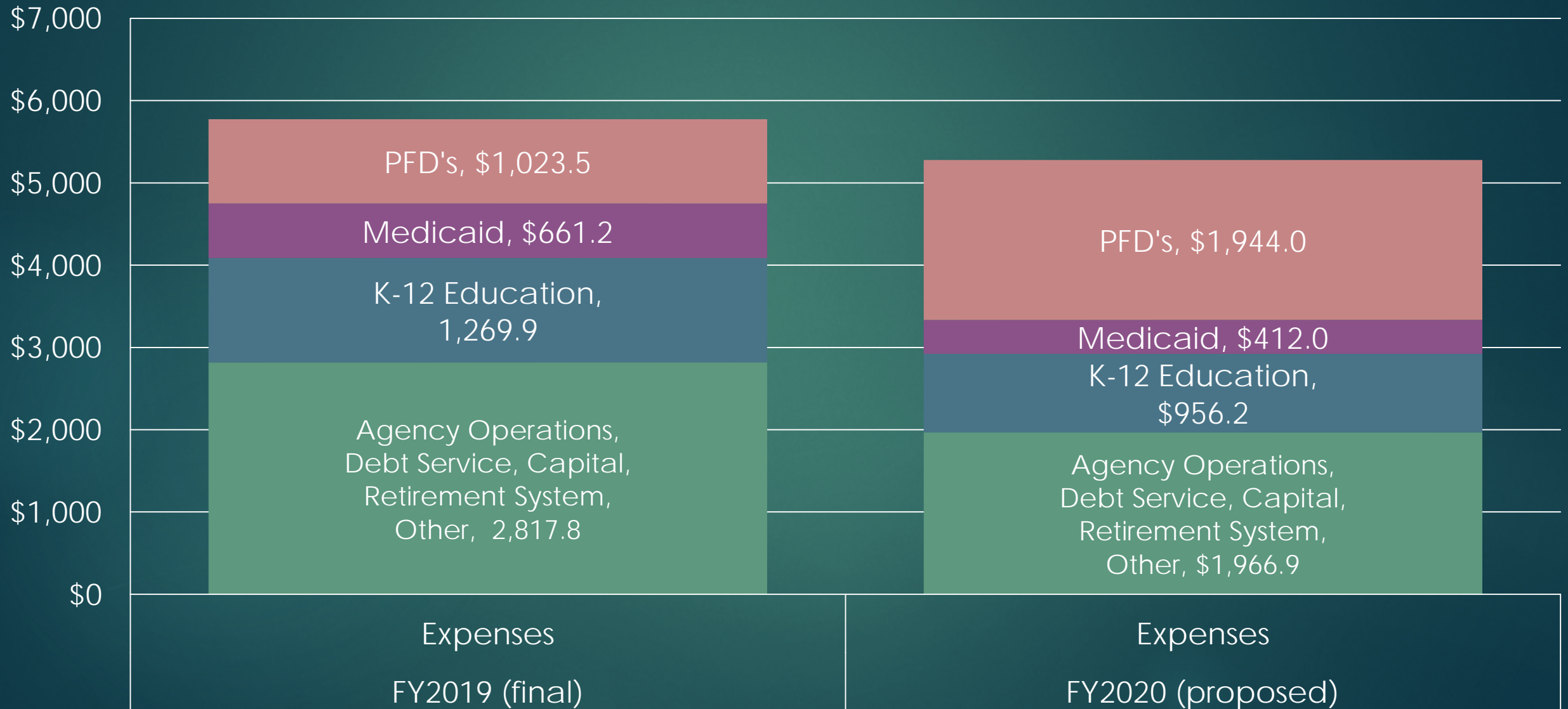
Selected Programs still
in the FY20 State
budget.

Approx. \$310,726,800

Power Cost Equalization	\$32,355,000
PILT	\$10,428,200
AEA Rural Energy Assistance	\$6,668,300
ASMI	\$20,360,300
Regional and Community Jails	\$7,000,000
Spill Prevention and Response	\$19,747,600
Fish and Game	Maintained
DEC Water	\$19,056,900
Public Assistance	Maintained
Municipal Bond Bank	\$1,006,600
PERS on behalf payment	\$159,055,000

State of Alaska Expenses

FY2019 Budget (final) vs. FY2020 Proposed Budget (Gov. Dunleavy)



State Allocation of Haines Borough Reductions

14

SHIFTED REVENUE

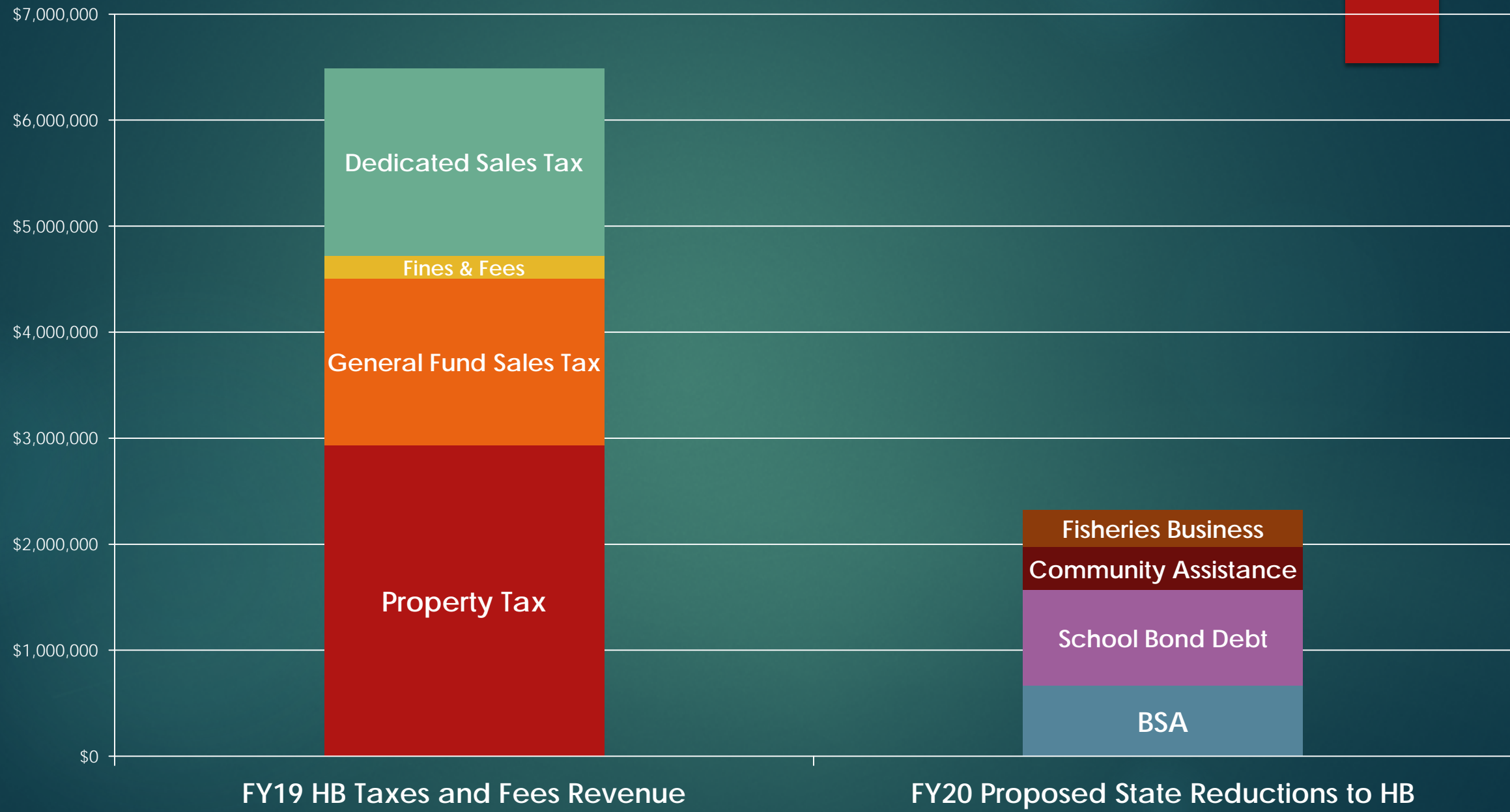
- ▶ Fisheries Business Tax:
 - ▶ \$352,900
- ▶ Community Assistance:
 - ▶ \$409,200 (In FY21)

CUT COSTS

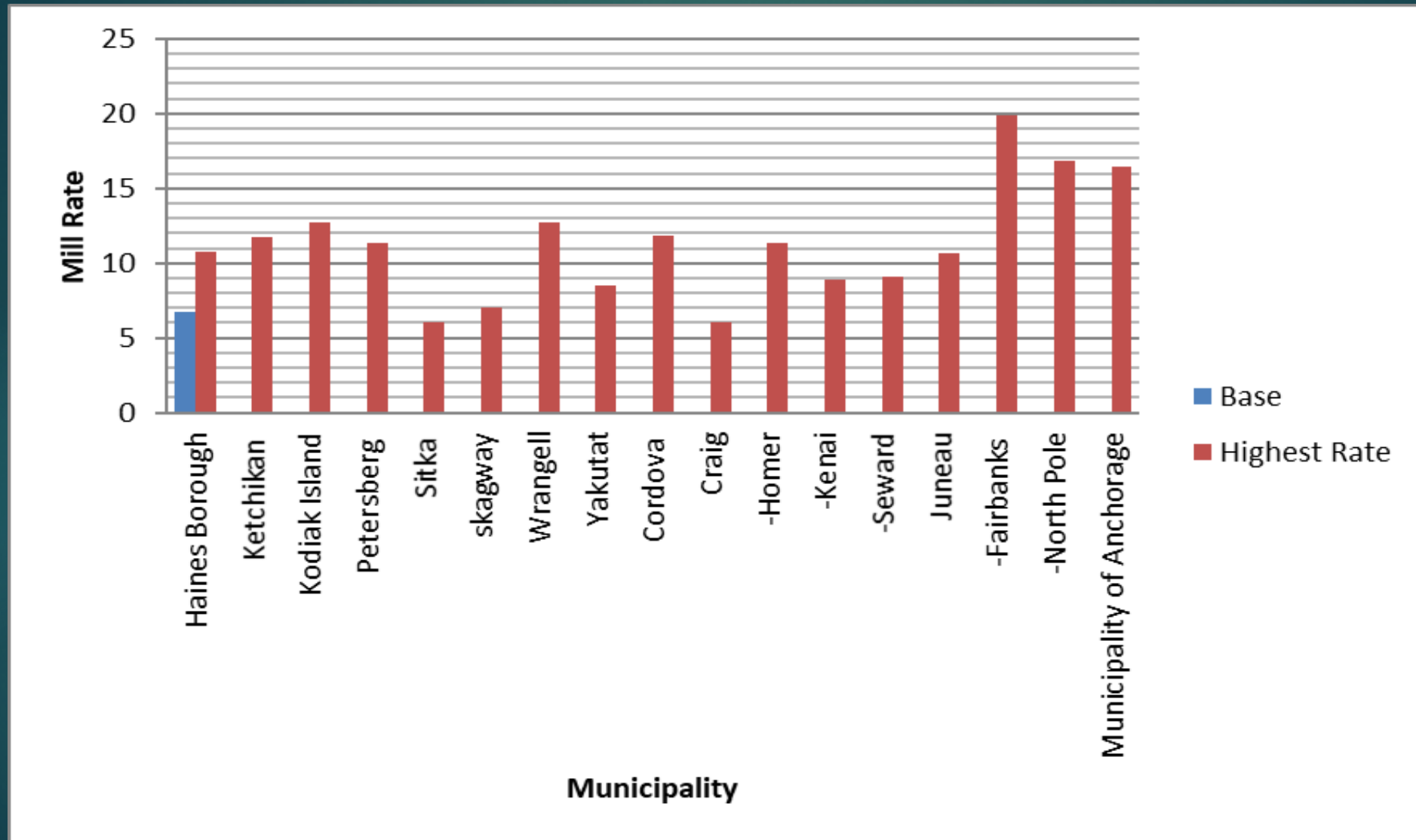
- ▶ Base Student Allocation:
 - ▶ \$665,600 (Walker to Dunleavy)
 - ▶ \$1,037,800 (from FY19)
- ▶ School Bond Debt Reimbursement:
 - ▶ \$900,700

\$2,328,400 to \$2,700,600

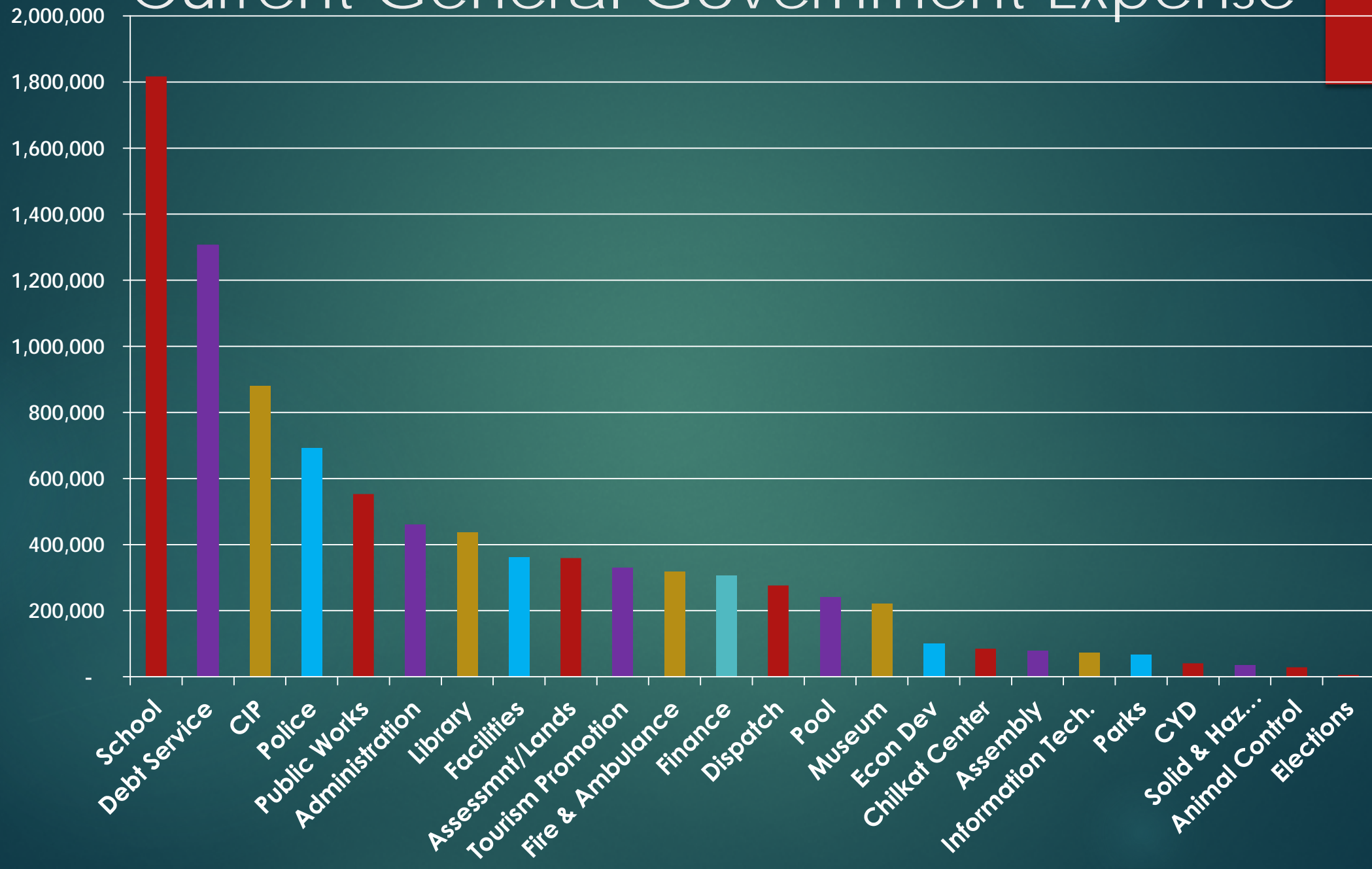
Haines Borough Taxes & Fees vs Potential Shortfall



COMPARATIVE MUNICIPAL MILL RATES (CURRENT)



Current General Government Expense



What Options do we have?

Reduce Programs & Services

- ▶ Schools: reduce elective programs, larger class sizes
- ▶ Public Safety: reduce coverage, animal control (HARK)
- ▶ Public Facilities: community buildings (CCA, Pool, Mosquito Lake)
- ▶ Reduce/eliminate non-profit support
- ▶ Public Works: reduce road & parks maintenance

Increase Revenue

- ▶ Property Tax Increase:
 - ▶ 4.13 mils to pay school debt
 - ▶ 8 mils to capture full shortfall
 - ▶ Adjust tax cap (10 mils) to provide operating revenue
 - ▶ Revisit Community Exemptions
 - ▶ Legislate away mandatory property tax waiver
- ▶ Sales Tax Restructure to direct tax revenue to General Fund
 - ▶ Seasonal adjustment estimated \$190,000+
- ▶ Increase State Revenues to maintain local support
 - ▶ Taxes: Individual, LLC & corporate income; sales
 - ▶ Reduce Oil Tax Credits
 - ▶ Tap PFD allocation



Dear Governor Dunleavy,
Dear Legislators,...

State revenue options

MAJOR

- ▶ Expand current income program to LLCs and S Corps
- ▶ Initiate individual income tax
- ▶ Statewide sales tax
- ▶ Amend oil production tax rates and/or credits

MINOR

- ▶ Increase tax on motor fuel, alcohol
- ▶ Raise mining, fisheries, cruise ship passenger taxes

Income Tax expansion

- ▶ Alaska does not tax corporate entities where all income passes through to the owners
 - ▶ Expand state corporate income tax to LLCs, S Corps and other closely held business entities
 - ▶ Estimated Revenue - \$30 million

Individual Income Tax

▶ STRUCTURAL OPTIONS

- ▶ % of net or gross income – flat or graduated
- ▶ % of federal income taxes – flat or graduated

▶ EXAMPLES (estimated)

- ▶ 6% of federal tax - \$210 million
- ▶ graduated 2.5% - 7% of income - \$690 million
- ▶ flat-rate 1.5% of income - \$320 million

▶ INCOME TAX OUTLOOK

- ▶ Out-of-state workers would pay income tax
- ▶ 1979 Alaska income tax was 3% to 14.5% of taxable income - would raise more than \$1 billion if same rates applied to 2019 incomes

Statewide Sales Tax

POTENTIAL POSITIVES

3% state sales tax rate - \$500 million a year

- ▶ Exempted groceries and health care services
- ▶ No exemption on equipment/material used in manufacturing or extraction of natural resources

VISITORS WOULD PAY ESTIMATED 10%

POTENTIAL NEGATIVES

State sales tax would encroach on municipalities' sales tax levy for operating revenues

State sales tax added to municipal tax could put retailers at a disadvantage, harm local economies

Revenues co-relate with exemptions: Air and cruise fares are not taxable

What about the Permanent Fund Dividend?

- ▶ Governor Dunleavy's Proposed FY20 budget would distribute \$1,944,000,000 to qualified Alaskans.
- ▶ He proposes paying out PFDs withheld in 2016 & 2017.
- ▶ Withheld PFDs now valued at \$2.4 billion are earning an average of \$100 million dollars a year every year.
 - ▶ That could pay for:
 - ▶ 500 Alaska State Troopers; or
 - ▶ 64 of the 72 projects on the school major maintenance list; or
 - ▶ Cover our state match for federal transportation projects
 - ▶ and more.

Options for oil industry

- ▶ Increase minimum tax at lowest prices 1% - estimated gain of \$100 million/year
- ▶ Eliminate credits that ease production tax burden as oil prices climb above the minimum-tax floor; credits go away at \$150 oil
- ▶ At \$65 oil, the credits reduce the tax bill to Alaska by about \$1 billion
 - ▶ producers still pay \$750 million

Small options

- ▶ Double motor fuel tax to 16 cents/gal: \$40 million
- ▶ Double all alcohol taxes: \$40 million
- ▶ Double state mining license tax: \$40 to \$50 million,
- ▶ Double taxes on commercial fisheries: \$22 million (assumes the municipalities continue to receive half)
- ▶ Double state (not municipal) proceeds of cruise ship passenger tax and gambling tax: \$12 million/year

Fill out a Survey for Mayor Hill

Send a postcard to the Governor

Email or call your Legislator

Have a cookie and feel better.