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MEMORANDUM AGENDA CHANGES AND SUPPLEMENTAL PACKET

TO: MAYOR WYTHE AND HOMER CITY COUNCIL
FROM: MELISSA JACOBSEN, CMC, DEPUTY CITY CLERK
DATE: MARCH 26, 2013
SUBJECT: AGENDA CHANGES AND SUPPLEMENTAL PACKET

PRESENTATIONS-

Lobbyist's Report written materials as backup.



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City of Homer

Lobbyist Report – The Home Stretch March 26, 2013

Overview

With less than 3 weeks remaining in this Legislative session, oil taxes, operating budgets and capital budgets occupy committee schedules. The oil tax debate consumed 3 days of floor debate before the Senate and has already been scheduled to be heard in House Resources Committee through March 29. That will allow 15 remaining days for the bill to pass through House Finance and the House Floor. The bill passed the Senate today on a close vote of 11-9. The House hasn't been idle on the issue. Having received extensive testimony and professional analysis since the beginning of session, the House hearing process paralleled the Senate and they are poised to hit the ground running. While there are changes to the Governor's initial proposal, House leaders and committee chairs have stayed current with those changes. And yet the question remains for yet another session; will the clock run out requiring legislation overtime.

In an unusual move for this period of the legislative process, House and Senate Finance committees met in joint session this week to hear an ISER report from economist Scott Goldsmith, [Maximum Sustainable Yield: A Fiscal Road Map for Alaska](#). The Goldsmith report was presented just as Senate Finance began closing their version of the operating budget and prior to the Senate Floor vote on oil taxes which effectively reduces revenues to the state treasure in the near term. Page after page of analysis provides comparisons and projections of future state budgets calculating current growth rates, savings accounts, budget reductions, oil production and revenues. There were no scenarios that provided anything less than tough decisions and tough times ahead when faced with the combination of increased state expenditures, declining oil production and revenue.

Operating Budget (HB65)

Before the ink dried on the House version of the FY14 operating budget, Senate Finance Committee began finalizing Agency budgets. This is fairly swift action compared to previous years and has taken many by surprise. Public hearings on the Senate's operating budget are scheduled this week. Both the House & Senate included \$60million funding level for Community Revenue Sharing (CRS). Unfortunately, the language providing a funding source for CRS was based on corporate income taxes but that language was removed from SB21, the oil tax legislation. This could signal tough sledding in future years for municipalities. The Alaska Municipal League, in conjunction with municipal lobbyists, is working to reinsert the language as the bill winds its way through House committees. The argument offered up by the Senate is that an appropriation is required no matter what the funds are tied to. The AML argument is that identifying a fund source gives predictability to municipalities. In addition, AML is advocating to continue one time funds of an additional \$25million as funded in previous years. This will be a tough hurdle as the budget mood has changed from previous years.

The '24 hour' clock begins once operating budget Conferees (House & Senate Finance Chairs) are appointed to work out the differences between the House & Senate operating budgets. At that point the five day hearing notice rule is suspended and bills can effectively move between committees with only 24 hour notice. Standing committees will soon close down. Unlike next Session, legislators can introduce bills through the last day of this session. All proposed bills are carried over until next year and do not have to be reintroduced.

FY14 Capital Budget (SB18)

Known as the "Spring Revenue Forecast", by the first week of April the Department of Revenue will present a report and analysis of state revenues needed to balance the budget for the upcoming fiscal year. Based on the fall forecast, the Governor's proposed FY14 budget requires at least \$105 per barrel oil. The spring forecast will trigger a decision on the amount available to spend on the Capital budget. Rumors today of just how much the capital budget will be range from ZERO to \$250million over the Governor's proposal of \$1.8 billion. A draw from the State's savings accounts may be necessary – an unpalatable option for many Legislators but not an unlikely scenario.

Numerous meetings have been held on behalf of the City of Homer and their requests for funding of major capital projects. Meetings including public officials from the Administration, Commissioners, Homer Delegation legislators, and Legislative budget writers will hopefully result in fruitful efforts.

Status of Legislation – Homer Bills of Interest

HB4, by Chenault, Hawker et.al. 'In-State Gas Line' will be heard in House Finance Committee this week. The Alaska Gasline Development Corporation bill was amended March 5 by House Resources and has been there awaiting a hearing in the House Finance committee. House Leaders, with the support of many communities and other entities, are pushing ahead to fund \$400million to capitalize the fund and advance the project this year. *CoH resolution of support was distributed.*

HB 30 by Chenault et. al. 'Performance Review' On February 19 this bill passed the House with a near majority of House Legislators. It was sent directly to Senate Finance for consideration. As previously noted, this bill is part of the House Majorities recent announcement of their guiding principles. The House has established a goal to significantly reduce the operating budget. The bill requires agencies to identify potential cuts equaling 10% of their budgets over a 10 year period and identifying non essential programs. This effort is one to watch closely with its potential for negative impact and pressure on Community Revenue Sharing.

HB35 by Rep. Tammie Wilson et. al. ' Home Conversion Loans' This legislation is still in House Finance committee. The issue is not one of support amongst committee members, but rather, how to fund the program for conversions. In an effort of relationship building, Mayor Beth Wythe and Katie Koester met with Rep. Wilson to again communicate their support and offer assistance wherever possible. *CoH resolution of support was distributed*

HB131 by Seaton The intent of this bill is to broaden the authority to deal with abandoned and derelict vessels from the jurisdiction of the Department of Transportation & Public Facilities to state agencies and municipalities. The bill is in House Transportation with no additional committee referrals. This bill could pass this session. *CoH resolution of support was distributed.*

SB 71 by Micciche the bill aligns the final quarterly payment due from fisheries resource landing taxes with the posting of the statewide average fish price as calculated by the Department of Fish and Game. The current April 1 filing date is replaced by the requirement of the final payment 30 days AFTER the average fish price posting by DF&G. The bill also changes the quarterly payments to 90% of the estimated amounts due for the year. The bill has not been scheduled for a hearing in Senate Resources and has a further referral to Senate Finance.

Note: When the politics are 'right', the City of Homer remains committed to a rewrite of fish tax shared revenues. Statewide Fish taxes are on the rise; 2010: \$31.9 million, 2011: \$44.5 million, and 2012: \$53.7 million.

Homer's Final Fly-In – sealing the deal!

As reported in the last report, Mayor Wythe and Administrative support staff Katie Koester covered many miles in the Capitol and Administrative offices during their early session trip to Juneau. During the first week of April, Mayor Wythe & City Manager Walt Wrede will be in Juneau to help push Homer across the finish line of success relative to priority legislation and capital projects. A Homer presence is invaluable during the final days of the Legislative session. As your lobbyists, Anderson Group's mission is to keep Homer's priorities top of mind with key officials, communicate the city of Homer positions on issues wherever and whenever needed, and notify the City of timely visits for face to face meetings in Juneau. Relationship building is invaluable, not just with Homer's Legislative Delegation, but with other Legislators, Governor's office staff, Commissioners and key officials.

END

Linda 460-6767
Yuri 388-8611

Maximum Sustainable Yield: A Fiscal Road Map for Alaska

Alaska State Senate
Senate Finance Committee
Juneau, Alaska
March 19, 2013

Scott Goldsmith
Institute of Social and Economic Research
University of Alaska Anchorage

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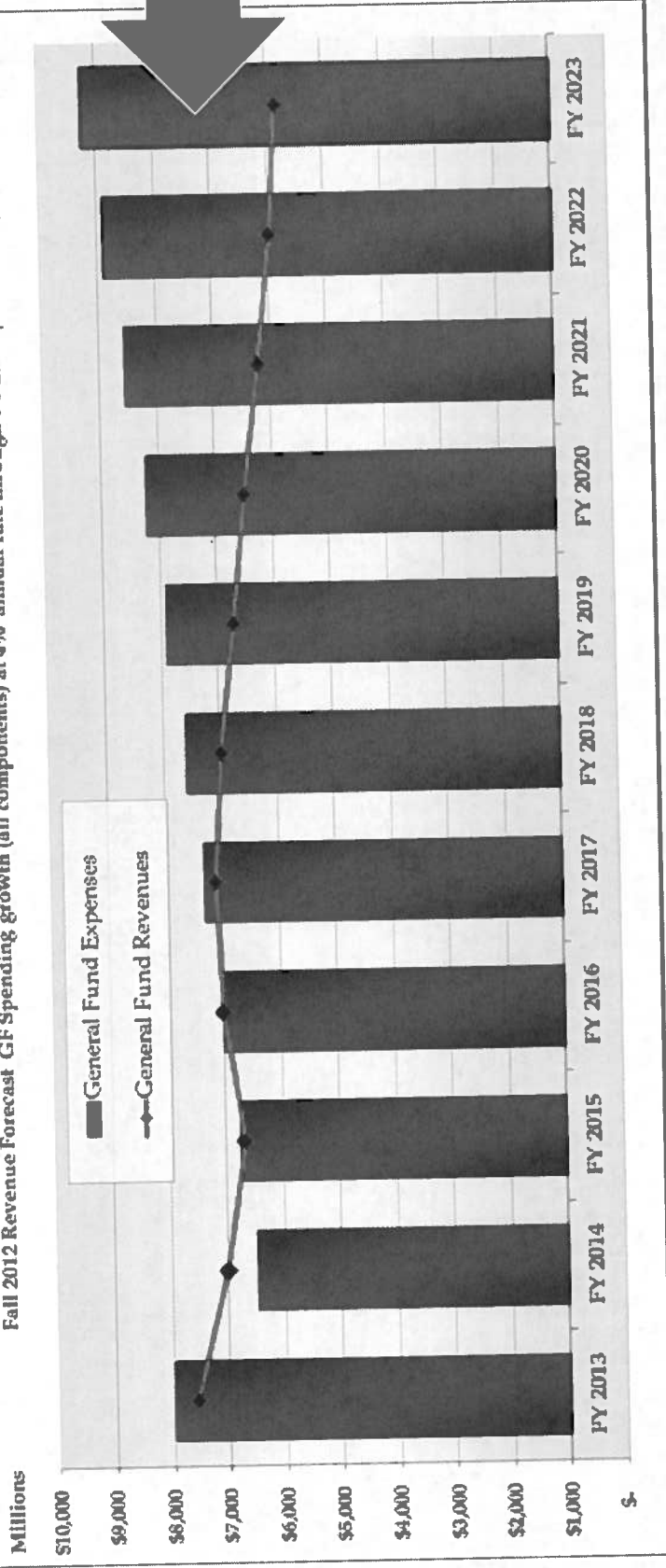


10 Year Fiscal Plan: Hints at the Problem

Scenario 3: Governor's FY2014 Budget with 4% Annual GF Expenditure Growth beginning in FY2015

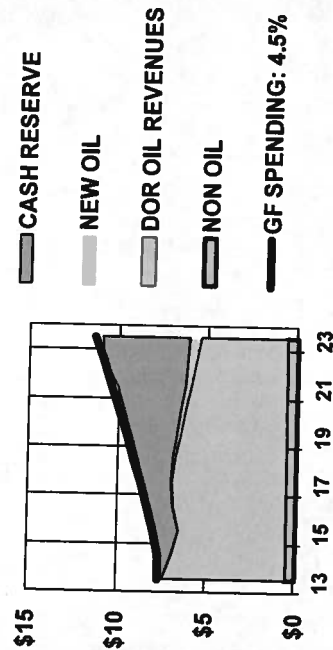
GF Revenue versus Appropriations FY13 to FY23

Fall 2012 Revenue Forecast GF Spending growth (all components) at 4% annual rate through FY 2023 (Scenario 3)

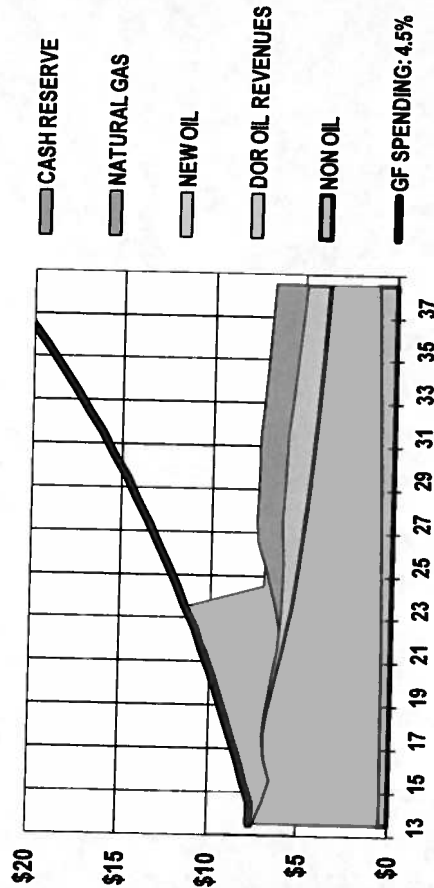


Looking Beyond 10 Years

ALASKA 10-YEAR FISCAL PLAN



LOOKING BEYOND THE 10-YEAR HORIZON



Non-Petroleum Strategies for the Future?

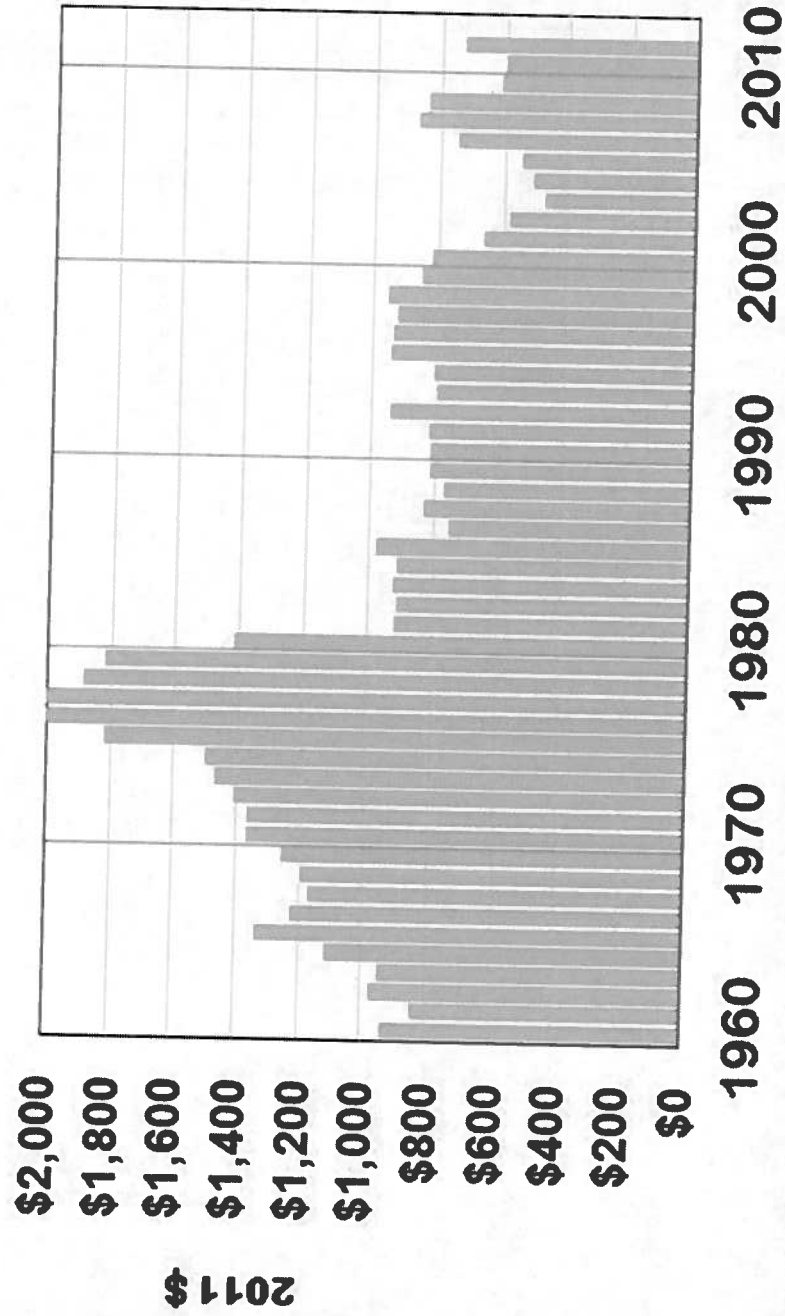
- Natural Resource Development
- Value Added Processing
- Economic Diversification
- Infrastructure Investments in

Power and Transportation

- Footloose Industry
- Renewable Energy

Non Petroleum GF Revenues

**General Fund Revenues not Directly
From Petroleum (Real Per Capita)**



How Can We Sustain a Healthy Level of Public Services in the Future?

MAXIMUM SUSTAINABLE YIELD

Management of our biggest asset—
Petroleum.

- 1) How Big is Our Nest Egg?
- 2) How Should We Manage It?
- 3) How Should We Spend it?

Petroleum Wealth in our Infrastructure



Physical Capital



Human Capital





Petroleum Wealth in the Bank (Billion \$)



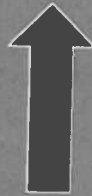
TOTAL	\$60
Permanent Fund	\$42
CBR (Constitutional Budget Reserve) SBR (Statutory Budget Reserve) GF (General Fund)	\$18



Petroleum Wealth in the Ground

Table 2 Arctic Alaska Petroleum Provinces
Estimated Economically Recoverable Oil Resources (2012)

	Central North Slope	Beaufort OCB	Chukchi OCB	NTEA	ANWR 1002	TOTAL
KNOWN CONVENTIONAL						
Estimateable Resources	13,453	1		1		13,455
Reserves	29					29
Proven Fields						
Known but Undeveloped	5					5
KNOWN UNCONVENTIONAL						
Estimateable Resources	16,410					16,410
Proven Fields						
Known but Undeveloped						
YET TO BE DISCOVERED						
Non-Tenure (by 2020)	4	7				11
Long-Term (by 2020)	21	43	15	2	0.48	81.510
TOTAL	116,160	51	15	3	0.48	283,380
Source: BSEE Estimates						

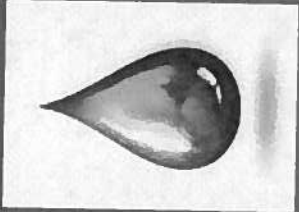


Alaska North Slope: Estimated Economically Recoverable Oil Resources (Billion Barrels)

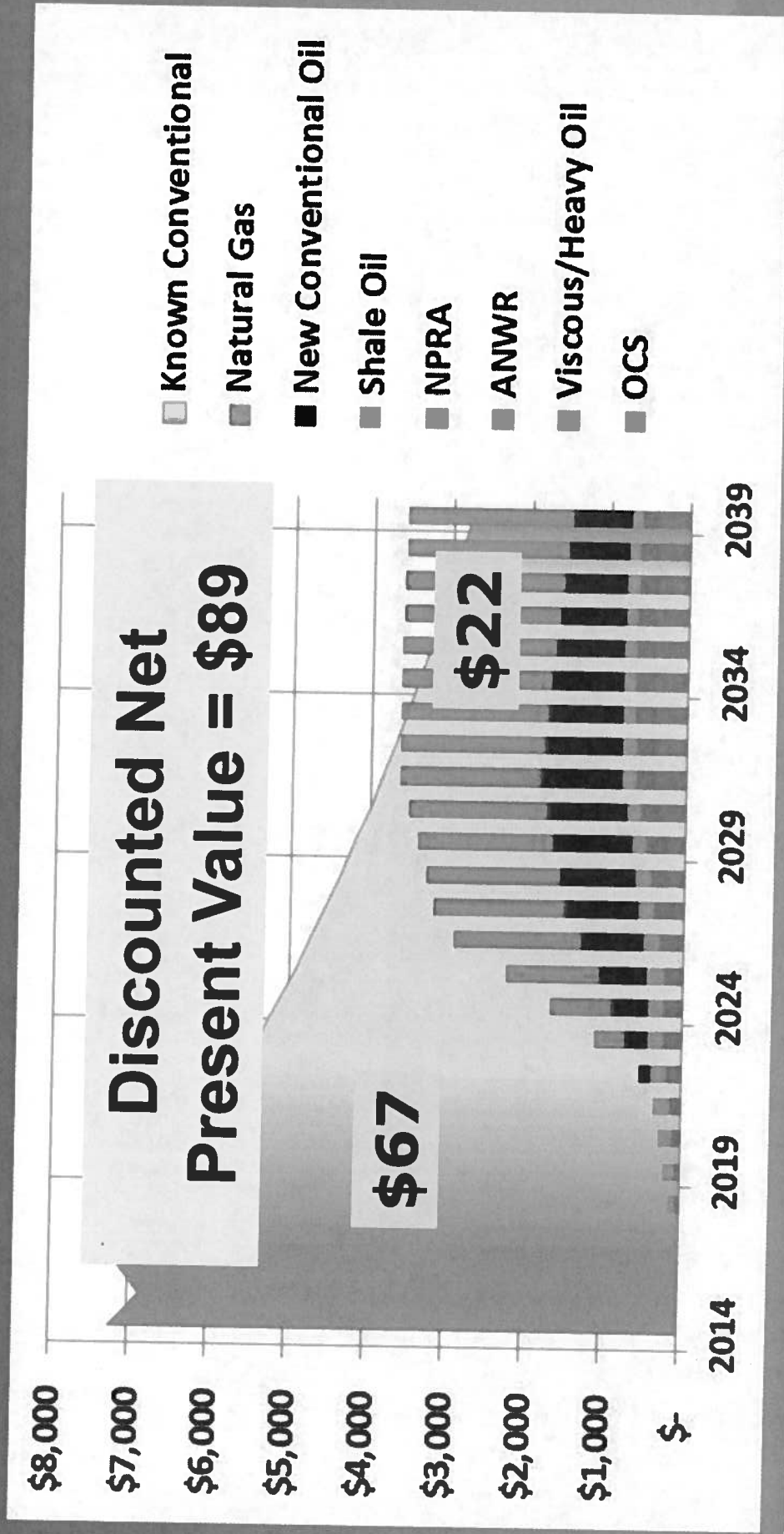
TOTAL	28-38.5
Known Conventional	7-9.5
Known Unconventional	3.5-4.5
Yet to be Discovered	17.5-24.5

Revenue Potential Constrained

	Production Tax	Royalty	Corporate Income Tax	Property Tax
STATE LAND				
Conventional	Y	Y	Y	Y
Conventional Marginal	?	?	Y	Y
Unconventional	?	?	Y	Y
NPRA	Y	$1/2$	Y	Y
ANWR	Y	N	Y	Y
OCS	N	N	N	N



Future Petroleum Revenue: Value Today (Billion \$)



Institute of Social and Economic Research
University of Alaska Anchorage

Cumulative Nominal = \$536

Petroleum Wealth of the "Owner State"



TOTAL	\$149 Billion
In the Bank	\$60 Billion
In the Ground	\$89 Billion
Known Conventional Oil	\$67 Billion
Other Oil and Gas	\$22 Billion

\$200,000 for each current resident

HOW SHOULD WE MANAGE THE NEST EGG (Asset, Endowment)?

For Maximum Long Run Return

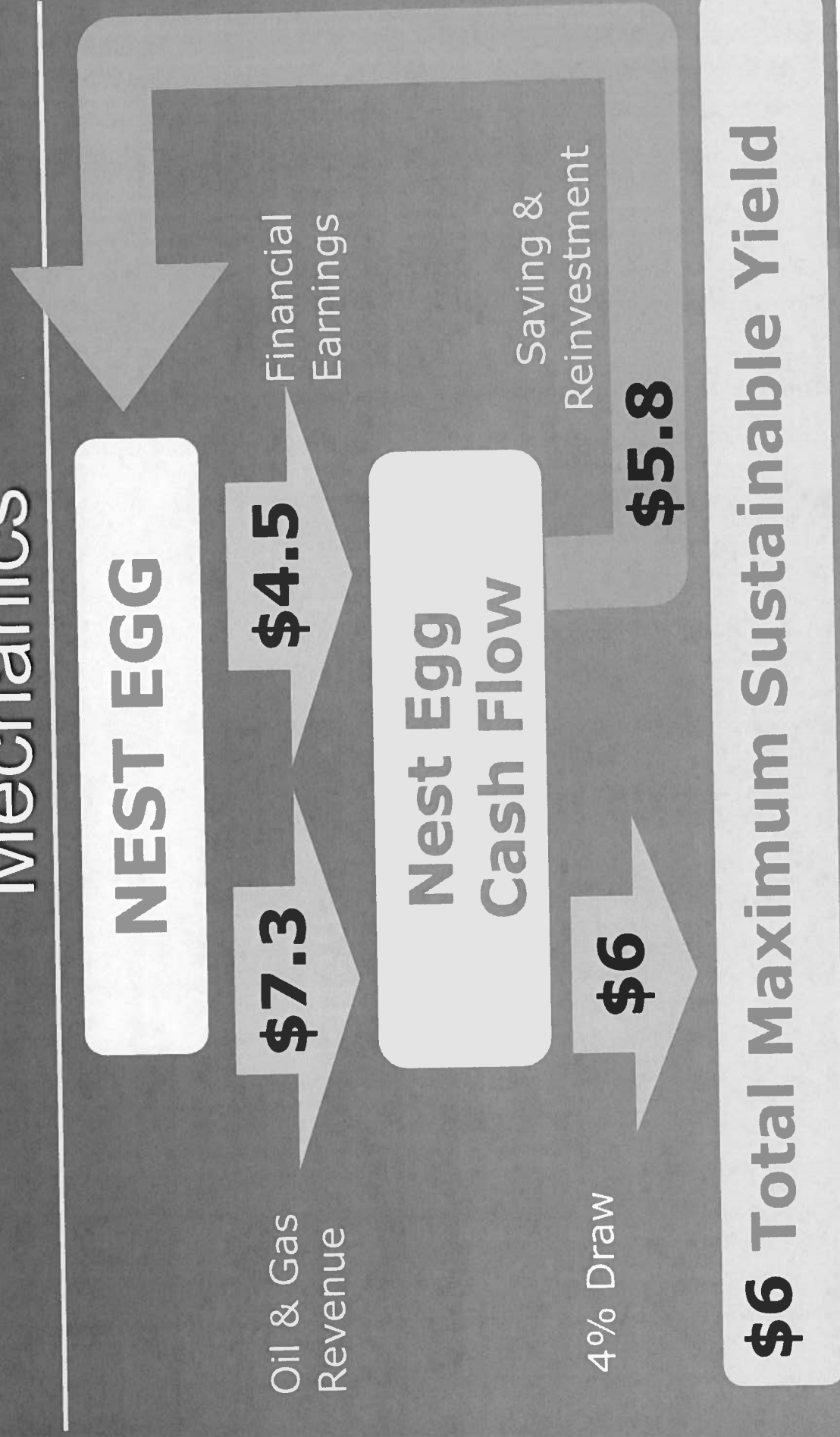
HOW MUCH OF THE NEST EGG SHOULD WE SPEND?

DRAW each year at a rate that will
conserve the value of the Nest
Egg for future generations of
Alaskans—the Maximum
Sustainable Yield.

Maximum Sustainable Yield: Calculation

Nest Egg	\$149 Billion
Investment Return (After Inflation)	5%
Population Growth	1%
MSY Draw Rate	4% = (5%-1%)
MSY Draw	\$6 Billion = (\$149*4%)

Maximum Sustainable Yield: Mechanics



Maximum Sustainable Yield: Disposition

Total Maximum Sustainable Yield \$6

\$1

**Permanent Fund
Dividend**

\$5

**General
Fund**

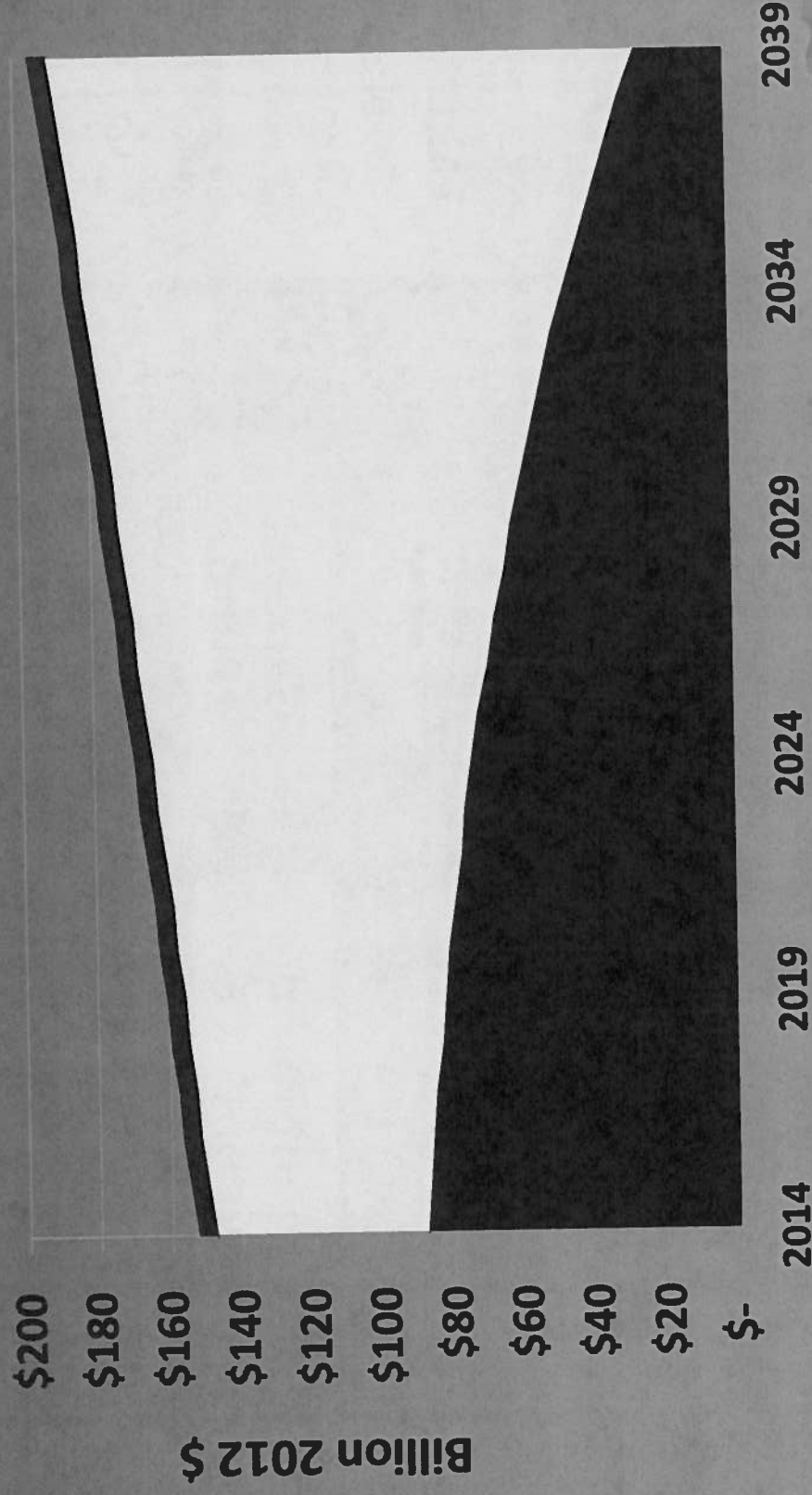
**GF Non
Petroleum
Revenues**

\$5

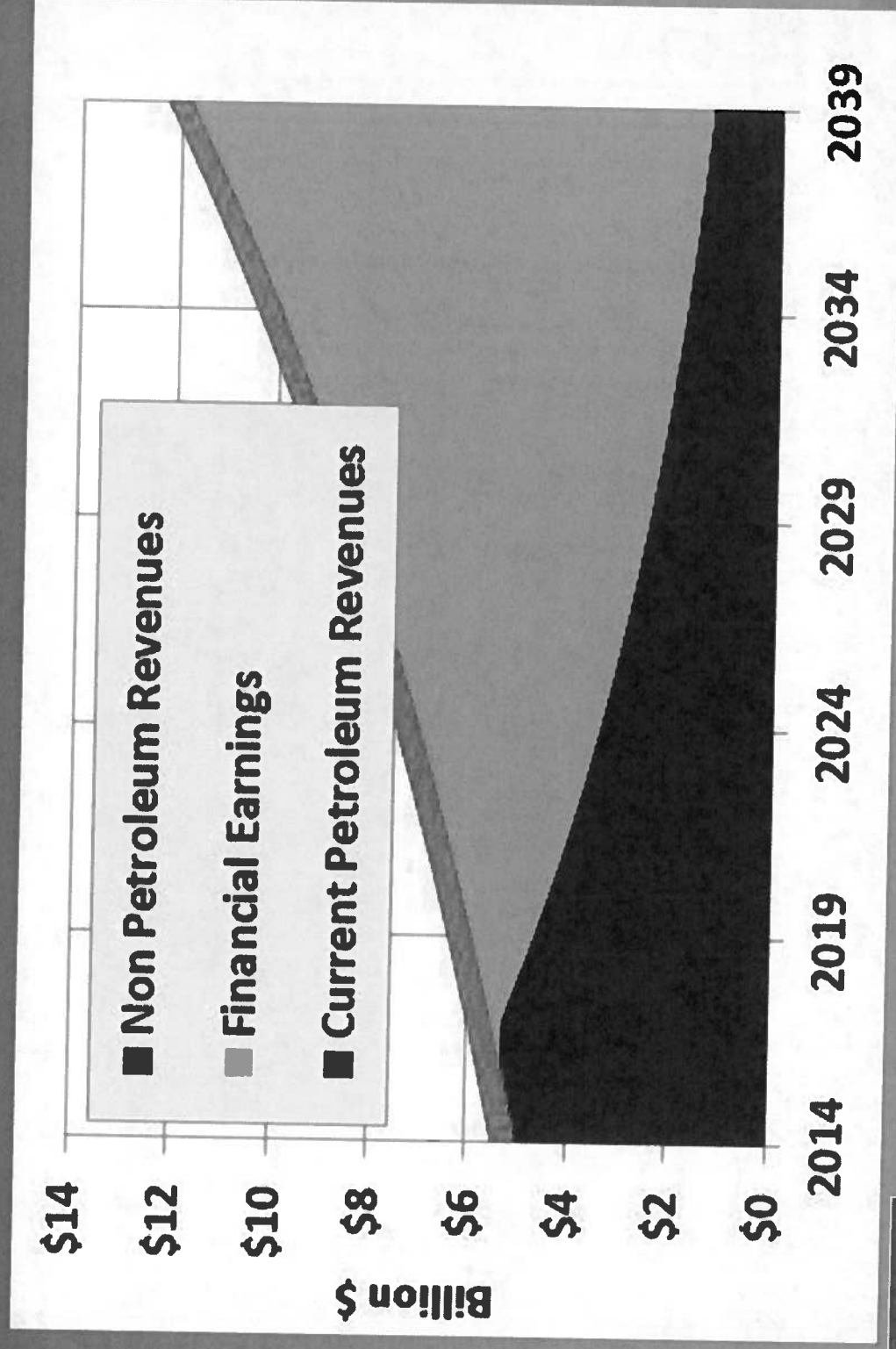
\$0.5

**\$5.5 GENERAL FUND
MAXIMUM SUSTAINABLE YIELD**

Maximum Sustainable Yield: Nest Egg Growth



Maximum Sustainable Yield: General Fund Growth



FY 2013 General Fund Spending (Billion \$)

GF Actual Spend (Billion \$)	\$7.6
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GF Maximum Sustainable Yield Draw*	\$5.5
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GF Over Spend Fiscal Burden & Asset Erosion	\$2.1
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- After subtracting endowment spending on the PFD and adding in non-petroleum revenues.
- To get on a MSY path, save all revenues above this amount.

Maximum Sustainable Yield: Implementation

- Gradual transition to GF Maximum Sustainable Yield level
- Protection of financial assets
- Active participation in management of petroleum in the ground thru alignment
- Establish monitoring system to track Nest Egg value, set MSY target for each budget, and track progress towards sustainability

Maximum Sustainable Yield: Challenges to Implementation

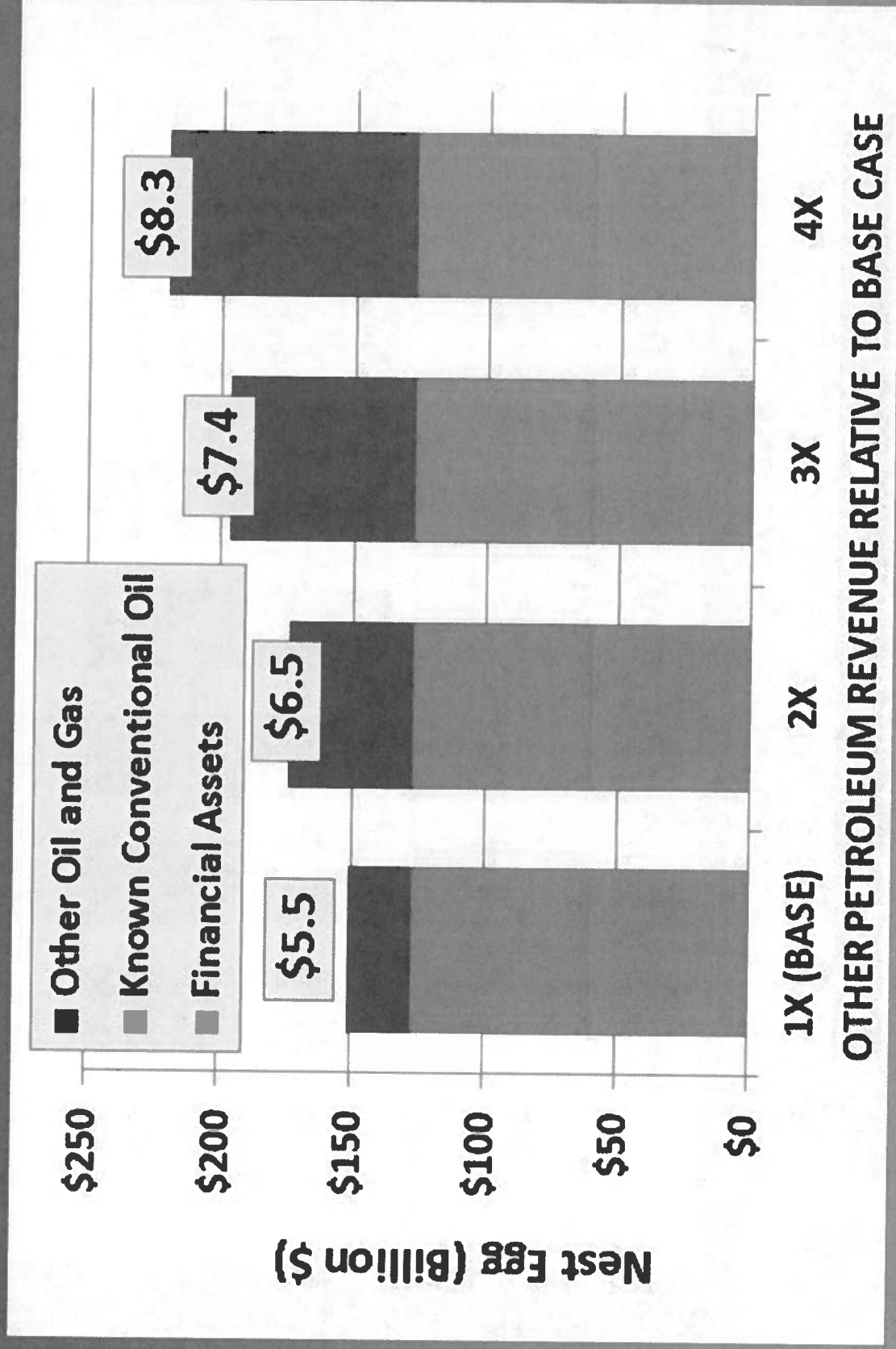
IT CAN'T WORK

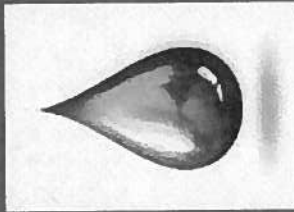
- ✓ Confusion about the concept
- ✓ Uncertainty about portfolio size, rate of return, population growth, risk aversion
- ✓ Institutional constraints
- ✓ Political challenge of constraining current spending level
- ✓ Fragility of social contract (trust)
- ✓ Suppression of individual positive discount rate
- ✓ Speculative/Opportunistic migrants

IT SHOULDN'T BE TRIED

- ✓ Aversion to Public Savings Accounts
- ✓ Negative effects of "Rentier Society" or "Trust Fund Babies"
- ✓ Indifference to future generations of Alaskans
- ✓ Past good luck will continue
- ✓ Life was better before petroleum
- ✓ Future generations preferences unknowable
- ✓ Money in the bank is not working for Alaska economy

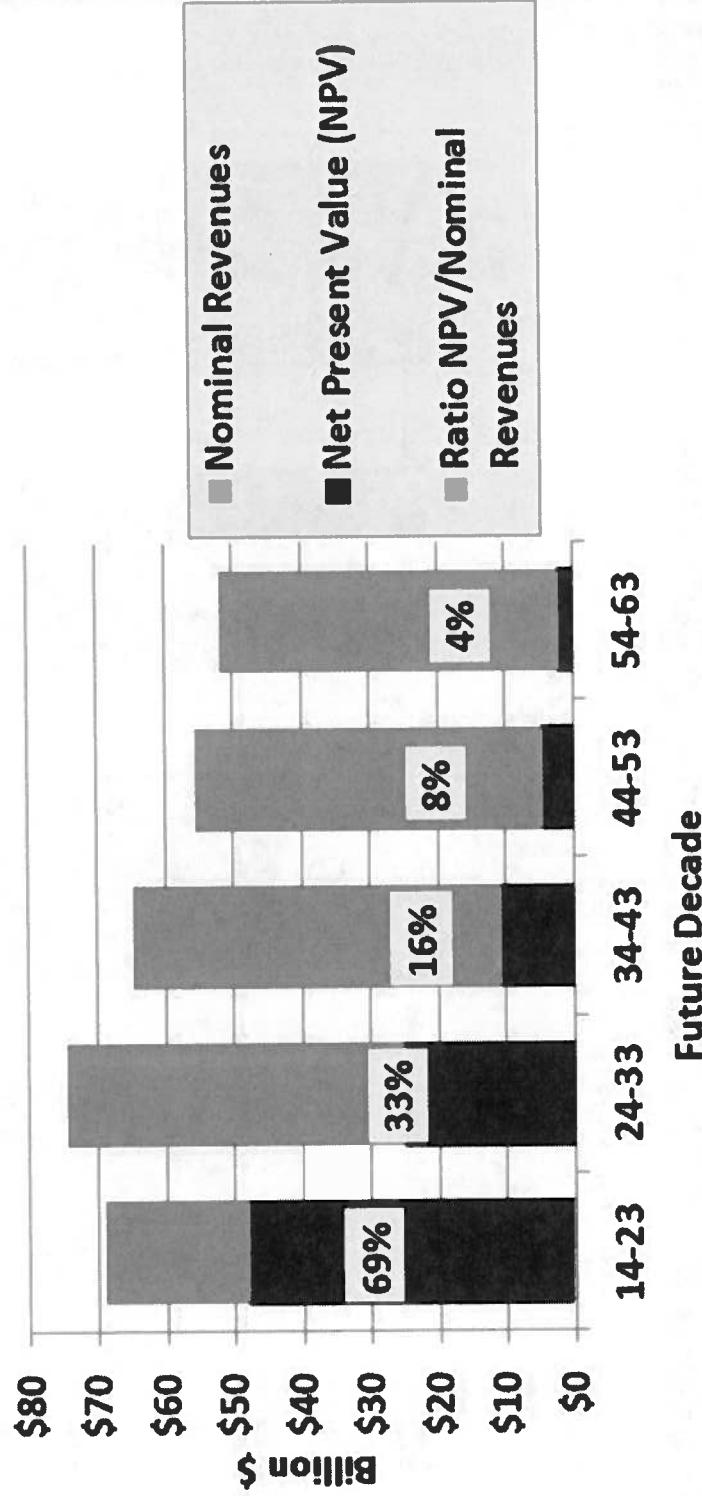
MSY Sensitivity to Assumptions





Future Petroleum Revenues Have Lower Current Value

Net Present Value (NPV) of Future Revenue Stream



Better than the Current Fiscal Strategy?



"Please God, give us
another oil boom, we
promise not to @#&%! it
away this time"

Maximum Sustainable Yield: A Fiscal Road Map for Alaska

Alaska State Senate
Senate Finance Committee
Juneau, Alaska
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