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Name: Finance and taxation – Introductions; Eric Wohlforth, Leslie Nerland, Barry White, Frank Barr, Commissioner Sterling Gallagher, Steve Cowper, Stanley Erickson.

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Erick Wohlforth, the moderator, introduces himself and says that he's a stand-in for a more appropriate choice, Mr. Elmer Rasmuson, who couldn't make it. Eric continues that he was a commissioner of revenue in Juneau and that he's a practicing [unclear] in Anchorage. He introduces Sterling Gallagher who is the current commissioner of revenue for the State of Alaska and prior to that, he was a [unclear] for Alaska Bank and Commerce in Anchorage. Then he introduces Mr. Nerland who was a delegate to the constitutional convention in 1955 and is a long time Fairbanks resident who has held many public and private positions, including having served as mayor of Fairbanks.

Mr. Barry White was also a delegate to Alaska constitutional convention. He graduated from Harvard University and is a president of operations for Statehood. Next to him is Steven Cowper, a member of Alaska House of Representatives who graduated from University of North Carolina with a law degree in 1963 and has practiced law in Alaska and Virginia. To his left sits Stanley Ericson who has been a resident of Anchorage since 1951 and is known for his active community service there. He worked at Federal Aviation Administration until he retired in 1972 and has been active in Anchorage for 2 decades, serving on the [unclear] review commission for both the Anchorage school district and the City of Anchorage, [unclear]. Finally, they have Mr. Frank Barr from Fairbanks. He's had three terms on territorial senate and he is currently a resident of the State of Oregon.

3:26 Their schedule is for three hours and they will have time for public discussion. Wohlforth asks people to identify themselves and speak to the

microphone. He asks the delegates to give brief summaries of their experiences in connection with drafting of the finances and tax article.

Commissioner Sterling Gallagher is going to talk about his current and recent experiences in taxation and finance article as well as [unclear]. The [unclear] article isn't a lengthy one in their constitution but it's of considerable importance to all Alaskans whether they know it or not. Article dealing with state debt has raised considerable debate as all debts in Alaska State and local government.

5:51 Wohlforth addresses Mr. Frank Murkowski who arrived last and has to leave in an hour, and says that he was the chair of economic development for three years and is now the president of Alaska National Bank.

The article says that capital improvements must be voted by the local government who are voted in by the people. In states like Alaska, there's a vast unmet need for capital and the amount of contracts [?] is a subject to debate at election time. They will discuss those articles and how they came to be. The state budget article [unclear].

Finally, they will have a discussion on the constitutional prohibition against dedication of funds. Executive budget contemplates that there will be substantial amount of revenue that is already segregated away from legislative appropriations and voters will have a proposition that says that 25% of royalties from minerals in Alaska will be placed in a permanent fund, should voters pass the proposition. That money would be spent in income inducing investments as determined by the state legislature.

8:35 Wohlforth thinks it's a very major proposition that's got substantial ramifications for the whole executive legislative dichotomy in the state. There are philosophical reasons one could bring to bear for and against the passage of the amendment and [unclear] what the constitutional framers [unclear] 20 years ago.

Wohlforth asks Mr. White or Mr. Nerland to start with talking about the background of how the articles came to be. Leslie Nerland introduces himself and says that they have four of the seven members of finance and tax committee attending the convention reunion. One of their members, Oz Holland was involved in another committee meeting "this afternoon" in addition to Barry White and Frank Barr.

Some of Nerland's old papers were destroyed in 1967 flood and he's lost his notes from the convention which is why he has asked Barry White and Frank Barr to participate.

11:25 The convention was included "in our section" and the other sections were approved by convention. They thought they had made a concise document on finances and taxation. They felt that it has been good for 20 years.

They have a paper that they submitted with the committee proposal to the convention that was in December 16th, 1955, and with it, they had their list of commentaries on the article. Nerland asks Barry White to [unclear]. [Unclear talking.]

Barry says that he wants to go through article 9 of finance and taxation article with the audience and highlight where Alaska constitution differs from others.

13:14 The first area where Alaska's constitution differs from others is in section 2 that says that land and other property belonging to the citizens of United States who reside outside of the state will never be taxed at higher rate than land belonging to the residents.

Barry picked that, even though U.S. Constitution would protect absent land and property owners anyway, because it illustrates things they had to consider. They were drafting a constitution for a state to be and they had to anticipate the needs of their constitution to meet the final statehood bill so they wouldn't have to have another constitutional convention. That section is found from almost all of the enabling acts before the congress. At the time of the writing of the constitution, absentee owners wanted to ensure Statehood on one hand, and to protect their interest on the other.

14:40 "Standards for appraisal of all property assessed by Statehoods political subdivisions shall be prescribed by law." That clause appears in no other state constitution and it raised lots of discussions on the floor. Various delegates tried to turn that into a uniformity clause. Problem that they ran into was that it [uniformity clause?] opened a whole can of worms that would have been difficult to deal with. What they tried to do was to have properties assessed for taxation purposes by state or local government units that would all speak same language.

Section 4 deals with exemptions from taxation and it is probably different from most constitutions in that it tried to make very clear that if tax exempt bodies tried to use any part of their property for profit, that would not be tax exempt. Their state constitutions [unclear] are not clear.

16:40 Section 7 has to do with dedicated funds [unclear talking]. It was clear in Barry's mind that a good government in any area of finance and taxation called for a minimum of dedication of funds. They felt that they couldn't constitutionalize or legislate good fiscal management and that they could only do it by electing responsible people to [unclear] to levy taxes and spend money [?].

The other [option?] was to exempt funds that had to be earmarked in order to receive federal funds. Those were for wildlife and fisheries. When Alaska became a state, it automatically began to receive federal funds to those areas but the federal legislation required earmarking licenses [unclear] to obtain those funds.

There was a great deal of debate in the committee and on the floor about the restrictions on contraction of debt. Barry thinks that "the political idealists among us" would like to have seen no restrictions on the contraction of debt, particularly on local government level. The majority of the convention felt that people ought to have [unclear] opinion where the general credit to the state would be backing for bond issues.

19:12 Barry can remember that it was said many times that old vote will never turn down a bond issue. Barry has seen in recent years that that's no longer the case. There's a great deal of pressure. $\frac{3}{4}$ of the senate will pass or contract debt without [unclear] voters during the sessions in each house. The convention felt strongly that debt, where the money that was spent on a project and the project itself served as a security for the debt, didn't require bringing the issue to voters for approval.

Chairman of the panel [unclear] submitted the budget to the legislature and with that, proposals for revenue to meet the budget. That's standard in most state constitutions and they wanted to make it very clear that the governor would have the responsibility for proposing expenditures and how he would like the money to be raised.

21:03 There are two reasons: This constitution is known as one that provides for strong executive, and also they tried to make clear in their constitution where the

separation of power and responsibility should be. In those areas, their state article differs from other state articles.

Nerland thanks Barry and asks if Frank has additions. Frank says that it all happened 20 years ago so his memory is a bit spotty, but he remembers things with which he was most involved in. He remembers [unclear] section on post audit, which is something that most other states don't have. There's an independent auditor who is appointed by the legislature. He is responsible and reports to the legislature and the governor.

The department head, the ones who spend the money, has no influence over the auditors.

22:52 Frank says he remembers how in a committee, one of their aims was that everything would be done in fairness to every department, and especially that taxation was equal to all. There's one paragraph that talks about equal taxation for non-residents. They were especially interested in equal assessment of property, feeling that everybody should share the burden of supporting the government.

Frank also remembers that some state constitutions put money figures in the constitution but value of money changes. They decided that there should be no figures in [Alaska's constitution.]

Frank has always been interested in highways and while he served in the senate, they had earmarked funds for highways. For construction of highways, they had to know how much money they had before making plans. Depending on appropriation every legislative year, they didn't know what they had to work with and in Alaska, the construction season is short.

25:30 The [unclear] gasoline tax is derived from highways and they have highways now because of the earmarked funds. Despite of the fact that [unclear] highway funds, and that Frank is, in principle, against dedicated funds, the highway fund was a special case. When they speak about establishing a permanent fund from oil revenues, he is for it, although he doesn't believe that it's necessary to establish it by amending the constitution. They have to remember that a constitution is a long-range statement of policy and legislature can carry out the administration of the government.

Wohlforth [?] thanks Frank and says that the other speakers will concentrate on advice from Mr. Fischer on overview developments of statehood and current and anticipated problems relating to the permanent fund. He invites Mr. Gallagher to speak next.

27:18 Gallagher says that he looked at the change in the operating budget since statehood. There are [papers with] operating budget without the capital projects and then there is operating budget plus capital budgets plus federal funds. That gives one a different perspective on state's budget. [Unclear talking.]

One of the things is that in 1960, they had a resident population of 226,000 and last year, in 1975, they had 377,000 people. Also, there was a 71% decrease in the value of the dollar at the same time. They are trying to put the budget back to real dollar basis. What they find in the operating budget is that in real sense, operating budget has gone up 7 times since statehood. When they include federal funds, capital and operating, it has gone up from 8 to 9 times. That's the sort of increase that they've had.

29:40 Lots of people think that a big increase has happened in last few years, but it's not true. There have been big increases in the budget all through the years. The rate of change has been smaller in past years, and in last 3-4 years the rate of change in per-capita spending has been almost zero.

Gallagher doesn't think that the legislature was being especially conscious of it when they were doing it, but when they saw the enormity of the numbers that were changing they thought that they couldn't spend more than another \$10-15 or \$30 million dollars, or they can't spend another \$50 million dollars the following year and be fiscally responsible.

What happened is that past few years haven't increased the level of funding much at all, and money for federal projects has marginally declined. Looking at the future, there's a huge drive in following year's budget for Alaska Native Claims Settlement Act and that will be worked on for next 6 years. [Unclear] 1981, total of \$50 million dollars and next year are \$58 million and then it goes up to \$90-110 million dollars.

31:31 Another comment Gallagher wants to make is that there's a provision in the constitution as to state agency debt that legislature may appropriate. One of the things is [unclear] something like ASHA come into existence where there's

something like \$100 million of outstanding state debt. That debt was never voted on by the people.

There's more debt outstanding the state's general obligation. Another provision to the constitution is in the taxation and finance section that [unclear] taxation and finances is one on retirement. Both teachers and public employees are underfunded. The other has 64% funds and the other one 49%. The other has unfunded liability of \$80 million dollars and the other one \$29 million dollars. Those facts are a real liability in state's books and they have to be advertised over time. They need to be aware of the outstanding debt that has to be paid off.

33:23 [Unclear talking.] Chairman asks for another man to speak. The man says that he's understood that they are making a preliminary enquiry into matters that might be considered by future constitutional convention, and every time they start talking about another constitutional convention, he gets a bit nervous because he's had a number of opportunities to participate in legislation and litigation that involves an interpretation of the constitution.

To him, that [the constitution] is one of the best ones in the United States because it's clear, precise and flexible, and the flexibility is aided by a supreme court that is one of the best in the country. He thinks that it's best to start talking about the things that might come up in next constitutional convention.

34:53 The speaker got into public [unclear] late, having been elected only 2 years prior. He hadn't had anything to do with government before that. He was placed in a house finance committee and they showed him the budget documents that he didn't read or understand. They also told him that they were running out of money, being short for \$200 million dollars, and that he would be in charge of getting that money [laughter]. That was the occasion for creating the subcommittee on revenue sources. They went through a number of possibilities, first being that he thought – like anybody growing in conservative neighborhood – that they should just stop spending.

They realized that in order to not impose additional revenue measures, they would have to close the schools, cut law enforcement in half, and do lots of things that would have been intolerable for the people in Alaska. Ultimately they came out with a reserves tax. There were lots of controversy between members of legislature and representatives of oil industry. The industry representatives said the bill would never work but it has. It has not been litigated. That money went to the treasury to cover deficit when the pipeline didn't go as planned.

37:19 The speaker would like the governments to plan things better. They had to take a look at state's spending patterns and the first-year legislators "just stepped right into it without legacy." They had to look into ways in which public spending could be controlled. One of the first things that were considered was the concept of permanent fund. Because the situation wasn't as crucial several years ago when the concept was first discussed, it was discarded by people who thought that the government should have 100% say on how money was spent.

Looking back into that, and to depletion to the funds that State got, [unclear]. If they could go back and redo the things that were done, the speaker is sure that people would have suggested using that money for capital improvement and social services while holding back some of it for a capital fund. The problem with that is that when there's a pile of money sitting somewhere, everybody wants a piece of it.

39:24 The only way to protect the fund, since the constitution wisely prevents dedication of funds, is to make a constitutional amendment which they have tried to do. That will be on ballot in November.

There are lots of things that go into a concept of permanent fund that aren't discussed but that are sold as a motherhood issue. One of the things that perhaps aren't put across clearly is the notion that Alaska's resources are owned by Alaska residents. The speaker thinks that a portion of revenue from non-renewable resources should be put away so that future generations will derive some benefit from the resources when they are long gone.

The money could be saved and the interest used for operating schools, for example, or it could be invested in renewable resources so that Alaska wouldn't solely depend on non-renewable ones.

One of the things that were discussed during past legislative session was the possible constitutional amendment that would say that public resources are in trust for the people in Alaska. That is a new concept that has been loosely discussed. It is based on the concept that public resources would put into public trust and they should be used for maximum benefit of the people.

42:54 The speaker doesn't support that concept as a constitutional amendment but thinks that the concept has lots of merit. They have article 8, section 2 in Alaska's constitution that says that state resources should be used for maximum benefit of people. They should talk about using state's resources as a public trust. The speaker thanks the audience.

[Unclear talking.] A man says he found an article from 1962 issue of the legislative council that discussed tax revenues. He will only cite 2 of the 6 major bases for tax revenue and they have already touched on one of them. Second one is that one must have an economic basis and know how to appraise the assets of the state. They must know how tax proposals affect the tax payers.

44:36 Some of their major development companies say that they shouldn't overtax oil companies in order not to "destroy the basis for it."

The issues concerning the permanent fund will be how it is going to be administered, and how the money will be spent. They may run out of money if they discover no other major oil fields in Prudhoe Bay. They think that interstate oil discovery is only a remote possibility.

If they bind themselves to expenditures, they might run out of oil indebtedness before they pay off the debt so they will have to think about how to spend their resources. The speaker noticed that Gallagher said that he would be able to reduce overall indebtedness from 99 years to 20 years.

46:38 The speaker thinks there's not enough time to discuss the possibilities and that they need a constitutional convention. The speaker recommends everyone to participate in Alaska Public Forum that is sponsored by Alaska policy [unclear] council in which the various communities would have opportunities to discuss things like whether they need a constitutional convention and what they should contain in that constitutional convention.

In Norway, they are taxing their oil in much greater rate than United States is even propose to tax it and they shouldn't worry too much about killing the goose that lays the golden eggs.

[End of the recording.]