

Dear,

Thank you for voicing your opinions on the use of the Permanent Fund and for sharing your concerns for the unique challenges we in Alaska now face. I appreciated your email and encourage you to continue making your voice heard. Government works best when people participate.

The State of Alaska is facing a budget crisis of mammoth proportions. Our state spends more money each year on government programs and services than it takes in. Unfortunately, because many of our increases in the General Operating Budget are formula driven (an increase to the tune of \$160-220 million from this year's budget), we simply cannot cost contain. This means we must make fundamental changes in the way we spend and receive money in the state.

We are looking at a \$650 million draw this year from our Constitutional Budget Reserve, if oil prices remain at their historic highs, to cover the gap created by government spending. Currently, the CBR contains \$1.9-2.2 billion, money collected from the settlement of oil disputes to be used in times of budgetary shortfalls. This well is expected to run dry by June 2004 or 2005, depending on the price of oil. Even with massive budget cuts, we will probably not be able to spend less than the last year.

The Permanent Fund was established in 1976 as a public savings account through a Constitutional amendment approved by Alaska voters. Two major arguments offered in support of this amendment were: 1) The creation of an investment base to generate future income would ensure a source of state revenues to pay the costs of basic government services when oil revenues ran out; and 2) The Fund would transform wealth from a non-renewable resource into a renewable income stream for future Alaskans. Oil revenues are running out (earnings from the Permanent Fund have exceeded earnings from state oil revenues since 1998), and the cost of basic government programs and services is exceeding our income.

The people Alaska voted in support of "no new taxes" in the 2002 election. This means that revenue for government services must come from somewhere else. The House Majority certainly has no desire to "raid the Permanent Fund." The Permanent Fund Advisory Board recommended several years ago that the Fund move to an endowment concept, which would ensure that all Alaskans receive a dividend (which is not ensured now in the Fund's current form), certain government services would be adequately funded (an education endowment is being discussed because it accounts for one-third of the state's operating budget), and the fund would be inflation proofed. This proposal was widely supported by the Twenty-Second Legislature, and Governor Murkowski's Permanent Fund Transition Advisors made this recommendation to him again in December.

All cards are on the table, and all options are being considered to balance the State's budget and to ensure that constitutionally mandated services be adequately provided. Rest assured that no changes to the Permanent Fund can be made without a vote of the people,

but it is unwise to not consider all of the possibilities for dealing with our unique challenges. This is a multi-pronged problem that requires a multi-pronged solution.

Several Web sites that may be useful to truly understand the scope of our fiscal issues and possible solutions are: Access [www.apfc.org](http://www.apfc.org) to learn about the history and current status of the Permanent Fund; and [www.tax.state.ak.us/SourcesBook/2002FallSources](http://www.tax.state.ak.us/SourcesBook/2002FallSources) to learn about Alaska's historic and potential revenue sources. You can find a report on fiscal policy entitled "Facts and Findings for a Long-Range Fiscal Plan for Alaska" at [www.akrepublicans.org/22ndleg/pdf/fiscalpolicay112012001.pdf](http://www.akrepublicans.org/22ndleg/pdf/fiscalpolicay112012001.pdf).

I believe that our efforts here in Juneau will restore security, prosperity, and hope to the people of Alaska. Please follow our progress on your behalf on our Web site [www.akrepublicans.org](http://www.akrepublicans.org).

Again, thank you for participating in your government. We are investigating every available option for ensuring long-term economic prosperity while assuring a system of quality education, safety, and other public services.

Warm Regards,

Rep. Pete Kott  
Speaker of the House