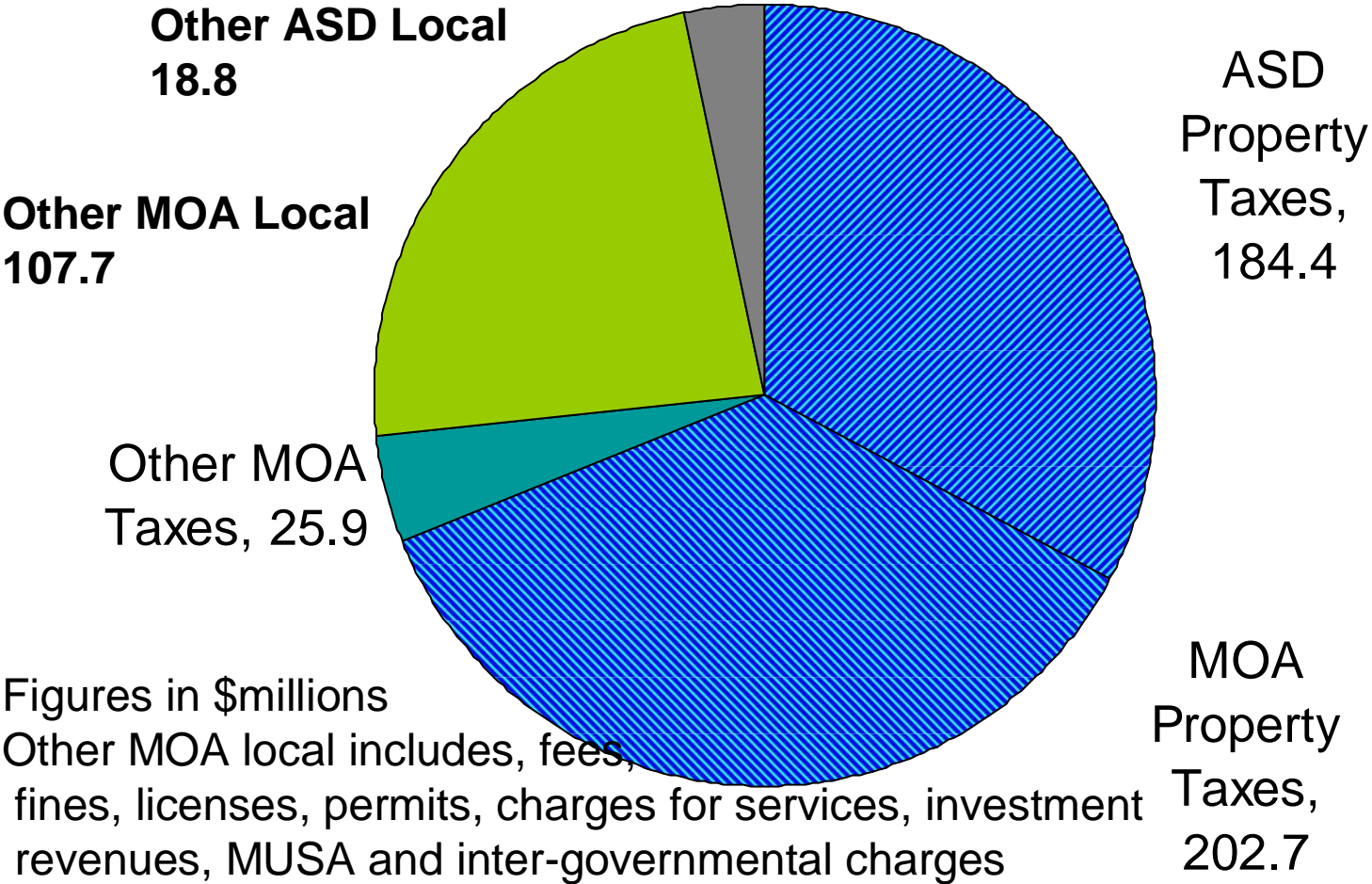


Alaska Independent Insurance
Agents & Brokers Inc.
Annual Convention
Oct. 12 2007

Dan E. Dickinson
CPA, CMA

2006 Anchorage Combined Local Revenues - \$562.8 million



Oct. 12 2007

Dan E. Dickinson, CPA
 presentation to AIIA&B Convention

Problem with Heavy Reliance on Property Tax

- Reliance on one major tax means the rate is higher than if there were two major taxes, each raising less revenue
- “The municipality’s general fund revenues are derived mainly from the property tax...; this could emerge as a concern if market values for residential and commercial property weaken” -Standard and Poor’s Municipality of Anchorage, Alaska, General Obligation (April 11, 2007)

Problem with Reliance on a Single Tax

Do property taxes reflect changes in local (and national) economy?

- Shift from goods to services.
- Shift from investment in capital equipment to investment in human capital.

“There are whole industries today – enormously and profitable industries – that weren’t even dreamed of twenty-five years ago. The new economy has been described by many names; service, information, space age, diversified. But our tax structure remains tied to the past, to hard products and assets attached to the ground. -

Report of the Texas Tax Reform Commission (2006, pg 12) advocating property (and income) tax relief coupled with a modified gross receipts tax.

Property Tax Relief

- Sales Tax requires a vote of the people
 - 1993 30% Yes 70% No
 - 2001 29% Yes 71% No
 - 2006 30% Yes 70% No
- 60% approval required under charter
 - Charter amendment requires 50%

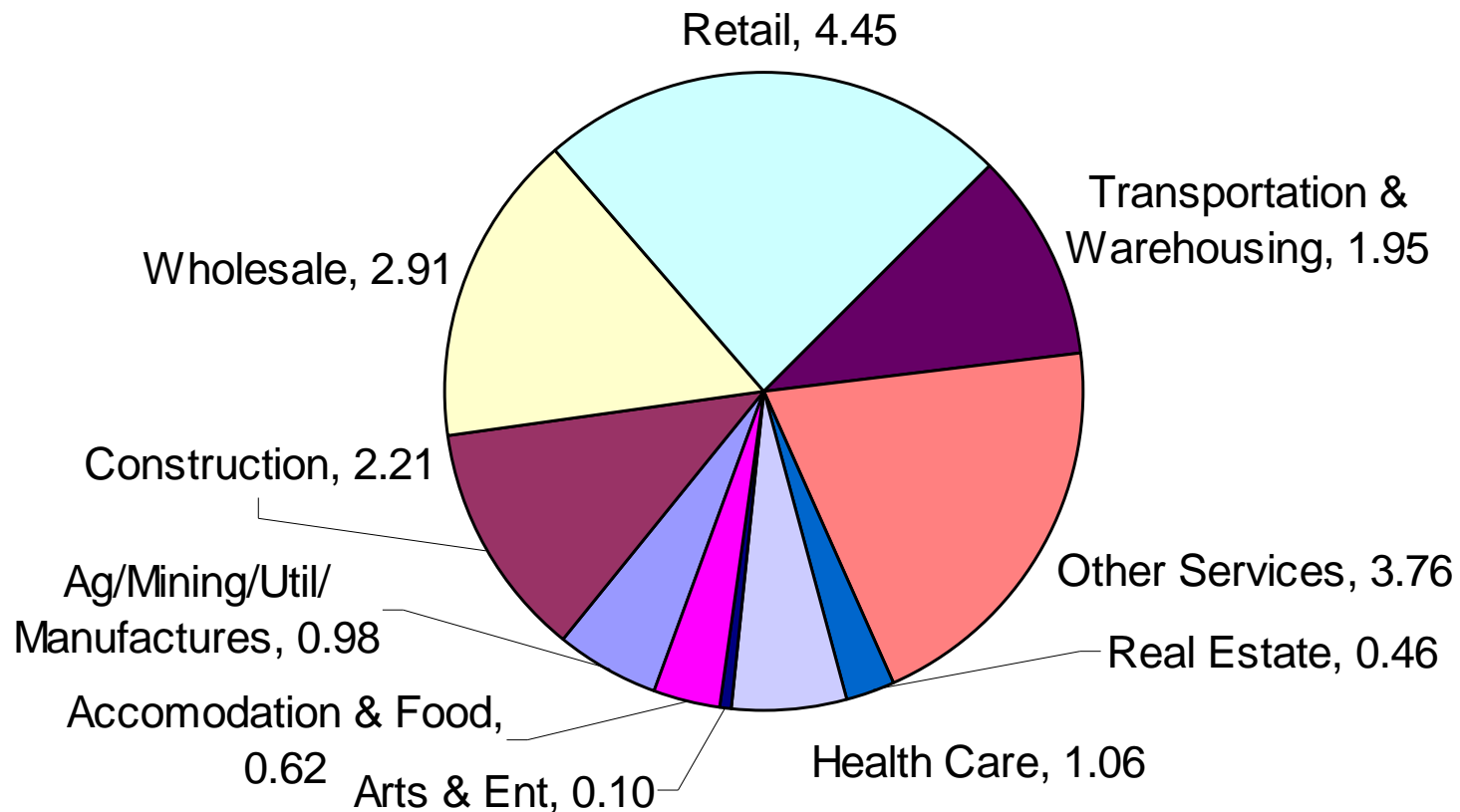
Property Tax Relief Plan B: Business Activity Tax

For most businesses, gross receipts best measure of activity. Businesses sell.

Estimated 2006 tax base in Anchorage:
18.5 billion dollars in sales

If goal were \$130 million dollars, rate of .7%
(7 tenths of a percent - \$7,000 in tax on a million dollars of receipts. \$.07 cents on a ten dollar sale.)

2006 Anchorage Gross Receipts of \$18.5 Billion



Property Tax Relief Plan B: Business Activity Tax

Other Business measures:

Alternative “headquarters” measure – if costs or a single measured cost is great than sales , then business is probably headquarters, back office or part of logistics chain.

Tax on the alternative measure – (payroll, square footage, # of employees, occupancy costs)

Alternative measure also used when ‘gross receipts” difficult to define.

Where Does Insurance Industry Fit in?

- Premium Tax
- Nexus & Situs Issues

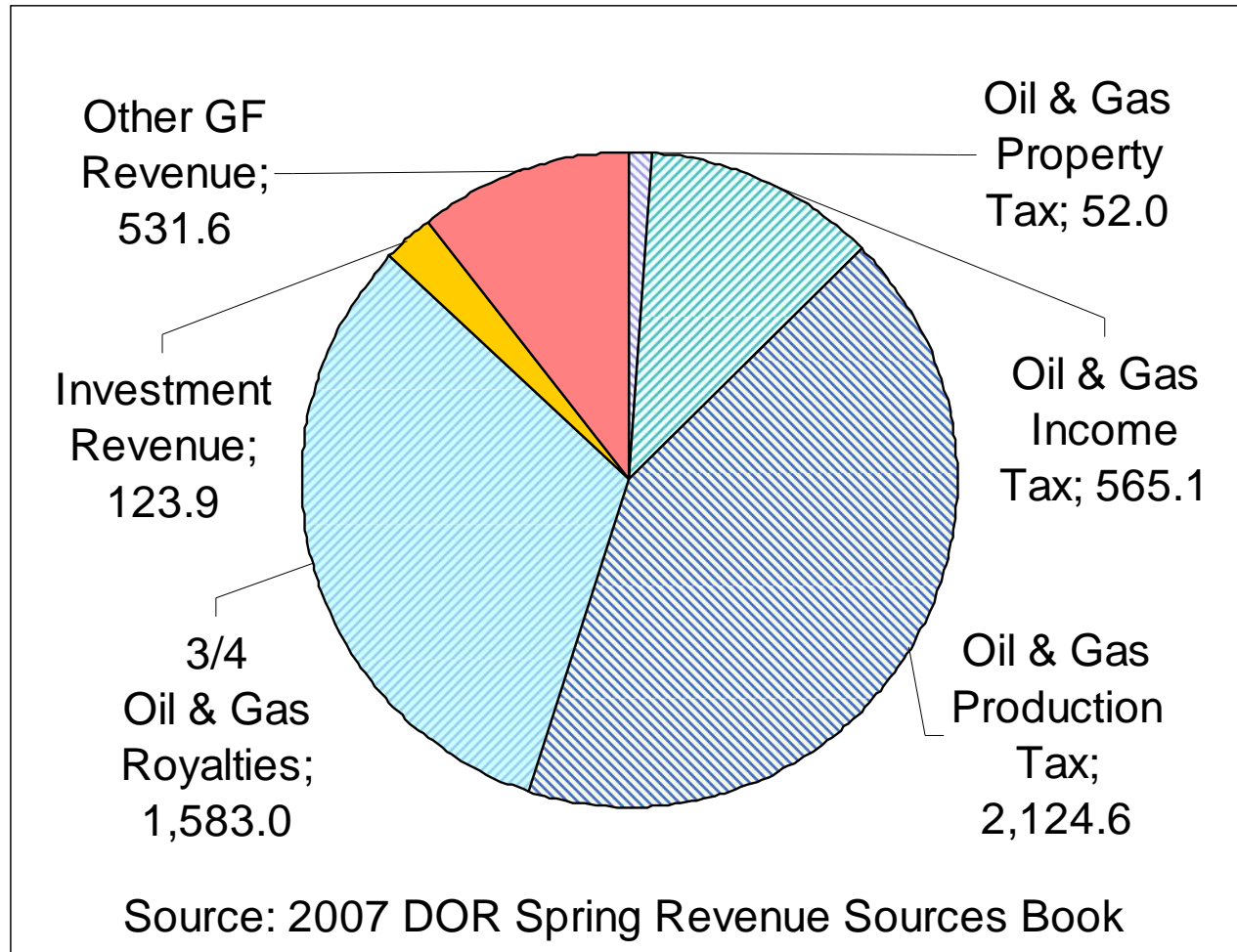
Property Tax Relief Task Force

- Appointed by Mayor Begich and Assembly Chair Coffey.
- Met weekly July – September
- Conclusion – broad based sales and use tax
 - Include services for broader more responsive base and lower rate
 - Exempt food and other basics recognizing regressive nature of consumption tax

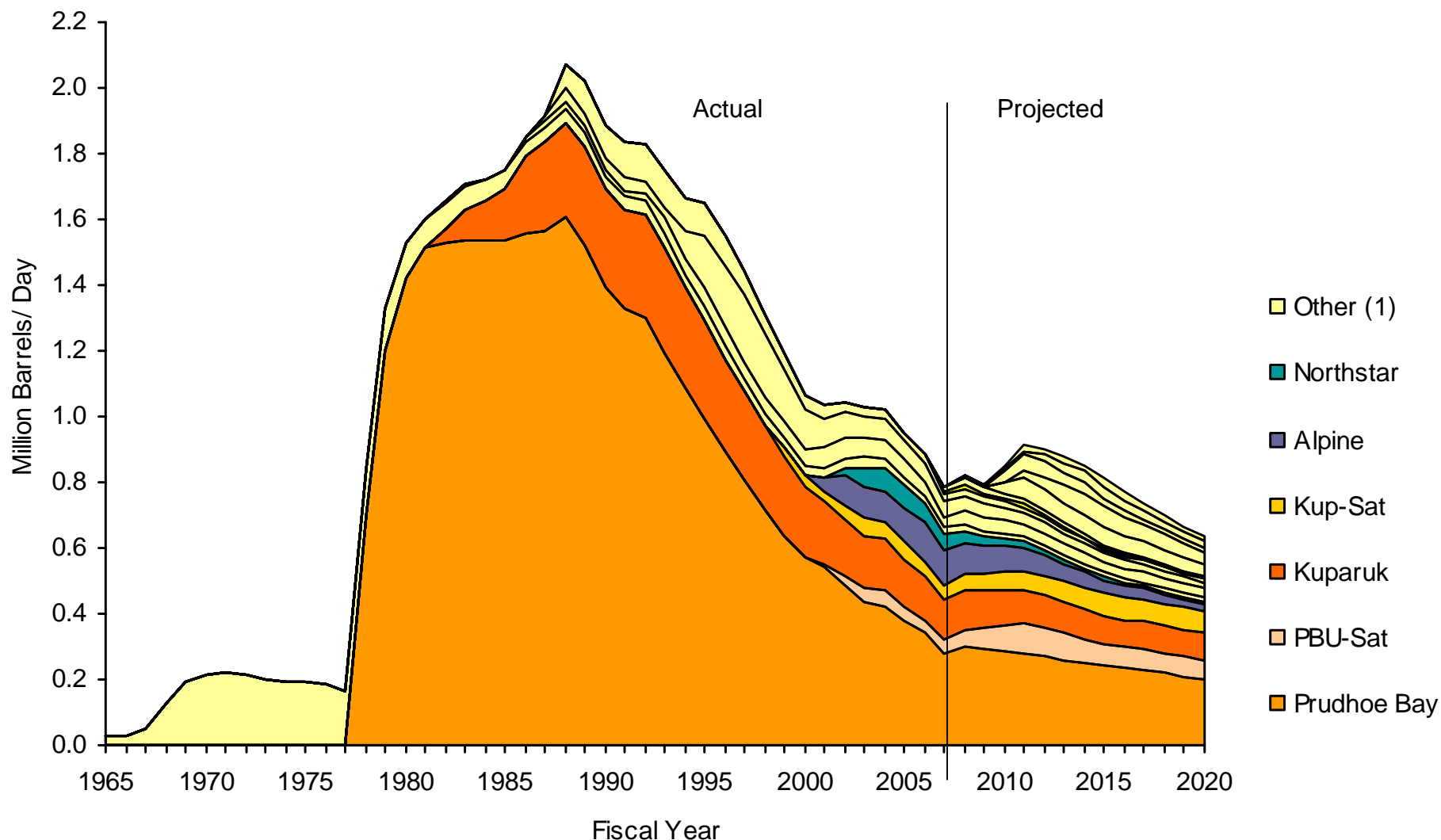
Why Would Anchorage Voters Approve a Sales and Use Tax?

- State Context
 - Anchorage and Fairbanks only two of ten largest cities without sales and use tax
 - **My Prediction** – local sales tax preferred over state sales tax. Local property tax relief favored over “funding credits for big oil”
 - Weasel words – Voters may prefer to “protect permanent fund” & have more bureaucrats in state cubicles, not city cubicles.

FY 2007 – Oil & Gas Revenues are 87% of General Fund Revenues



Alaska Oil Production, 1965 - 2020



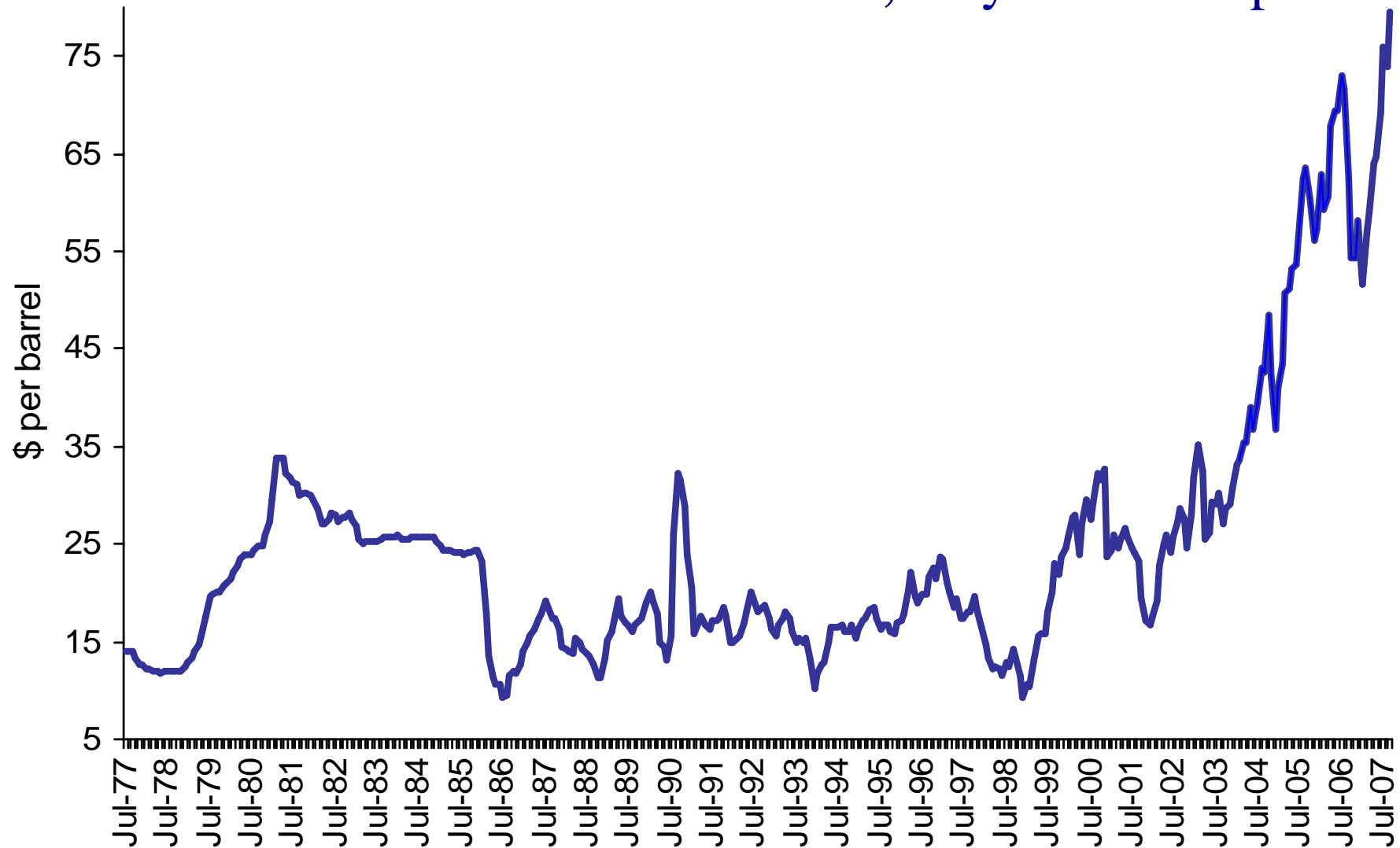
Source: Alaska Department of Revenue, Fall 2006 Revenue Sources Book. extrapolated

(1) Cook Inlet, Duck Island, Milne Point, Greater Point McIntyre, Liberty, Known On & Offshore, Fiord and NPRA.

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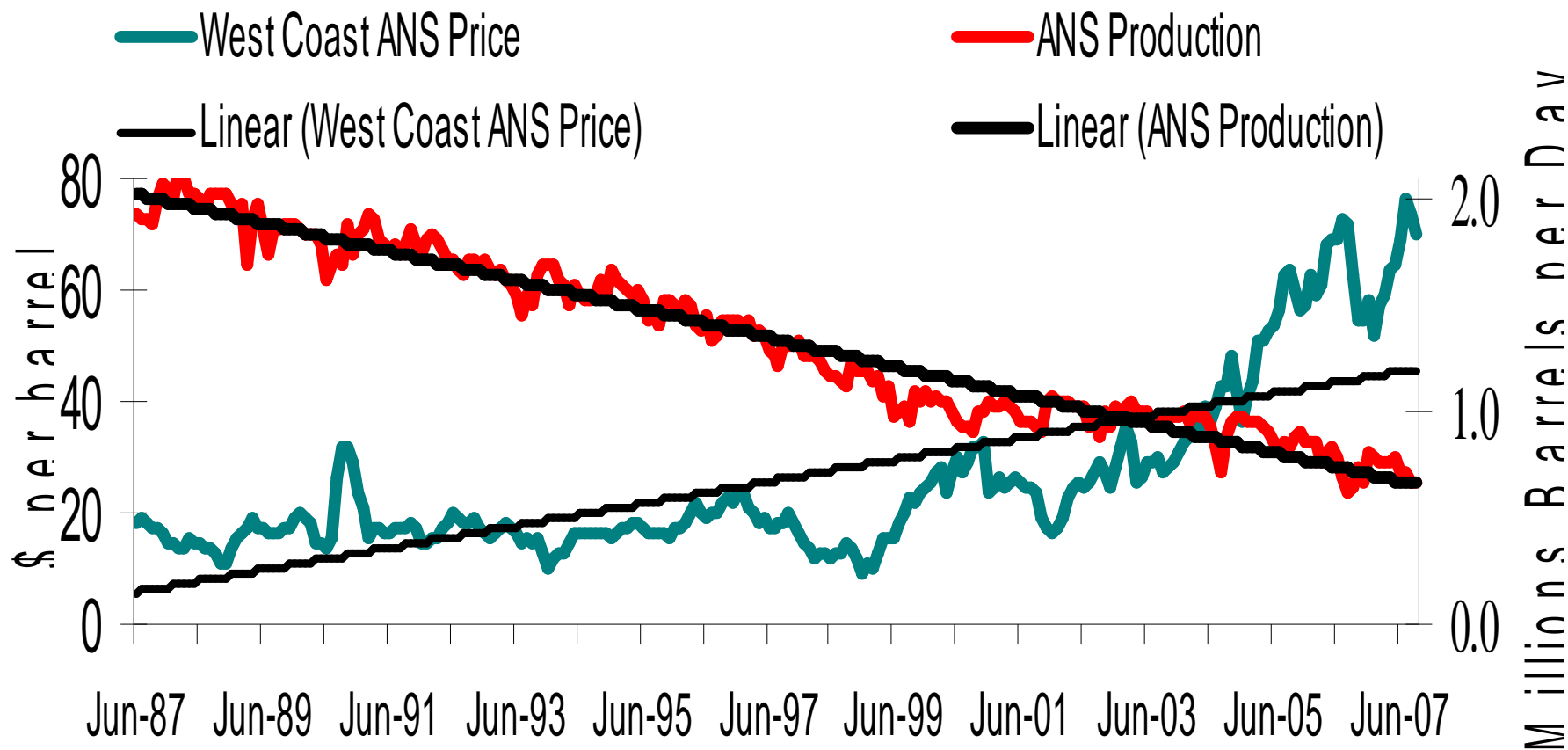
ANS West Coast Price, July 1977 – Sept 2007



Source: Alaska Department of Revenue, Tax Division
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ANS West Coast Price and Oil Production



Source: Alaska Department of Revenue, Tax Division

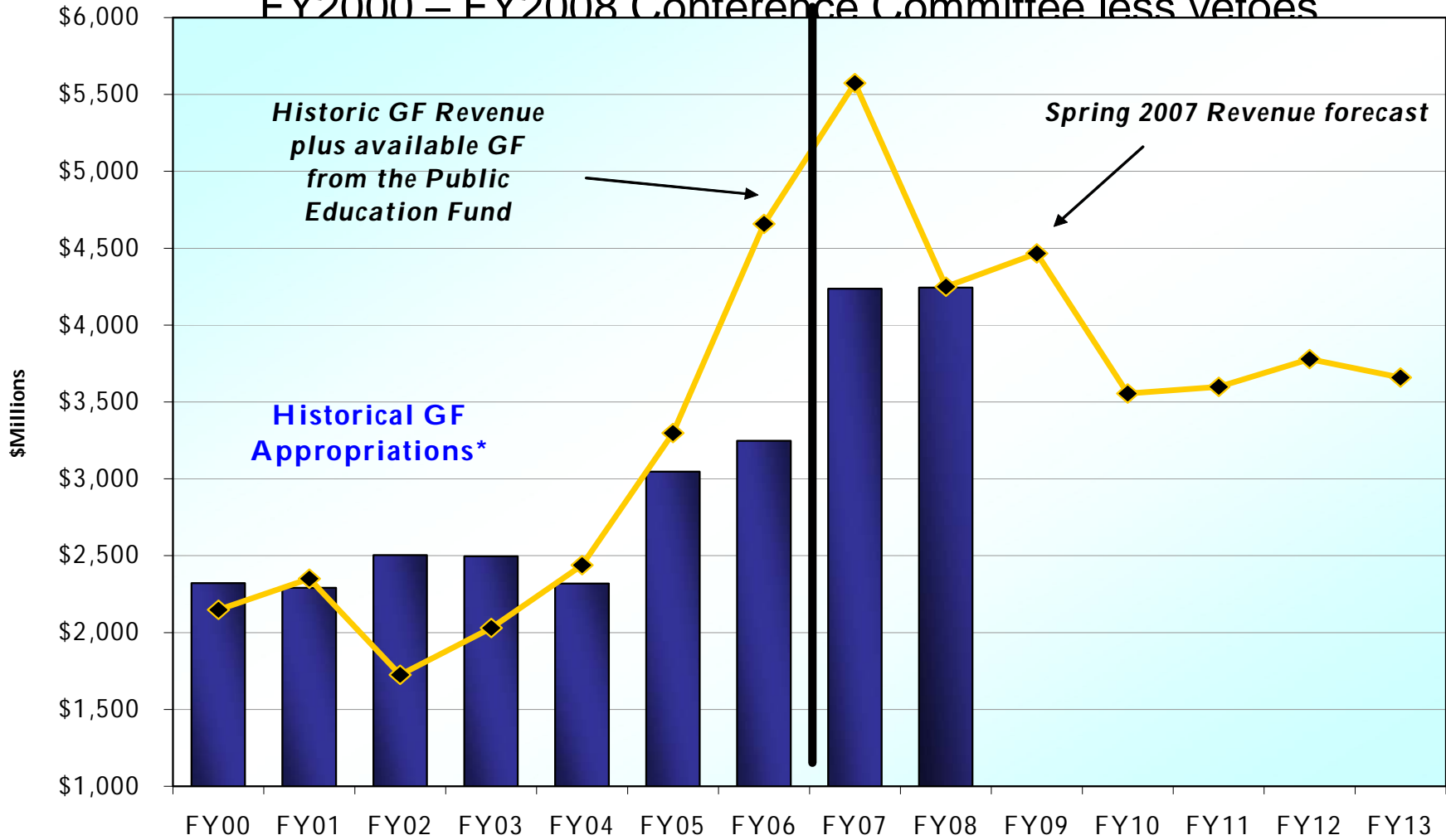
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General Fund Revenue including Public Education Fund versus Appropriations*

FY2000 – FY2008 Conference Committee less vetoes



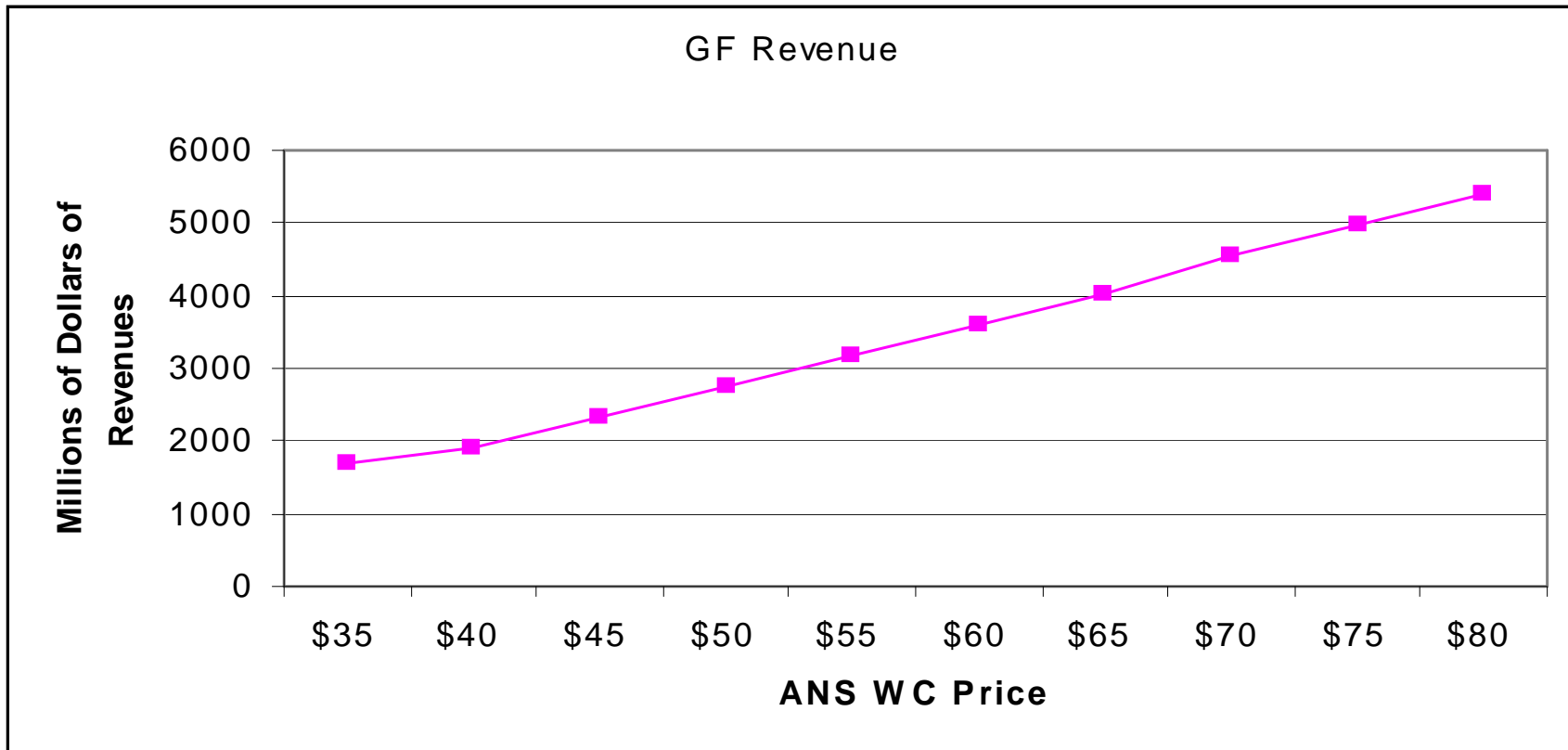
*Excludes appropriations to Public education Fund and some other savings accounts. For example, FY07 excludes \$1.000 appropriation to Public Education Fund, \$182.7 million appropriation to Power Cost Equalization Endowment, \$50.0 million to CBR and estimated \$104.7 appropriation to the Alaska Capital Income Fund.

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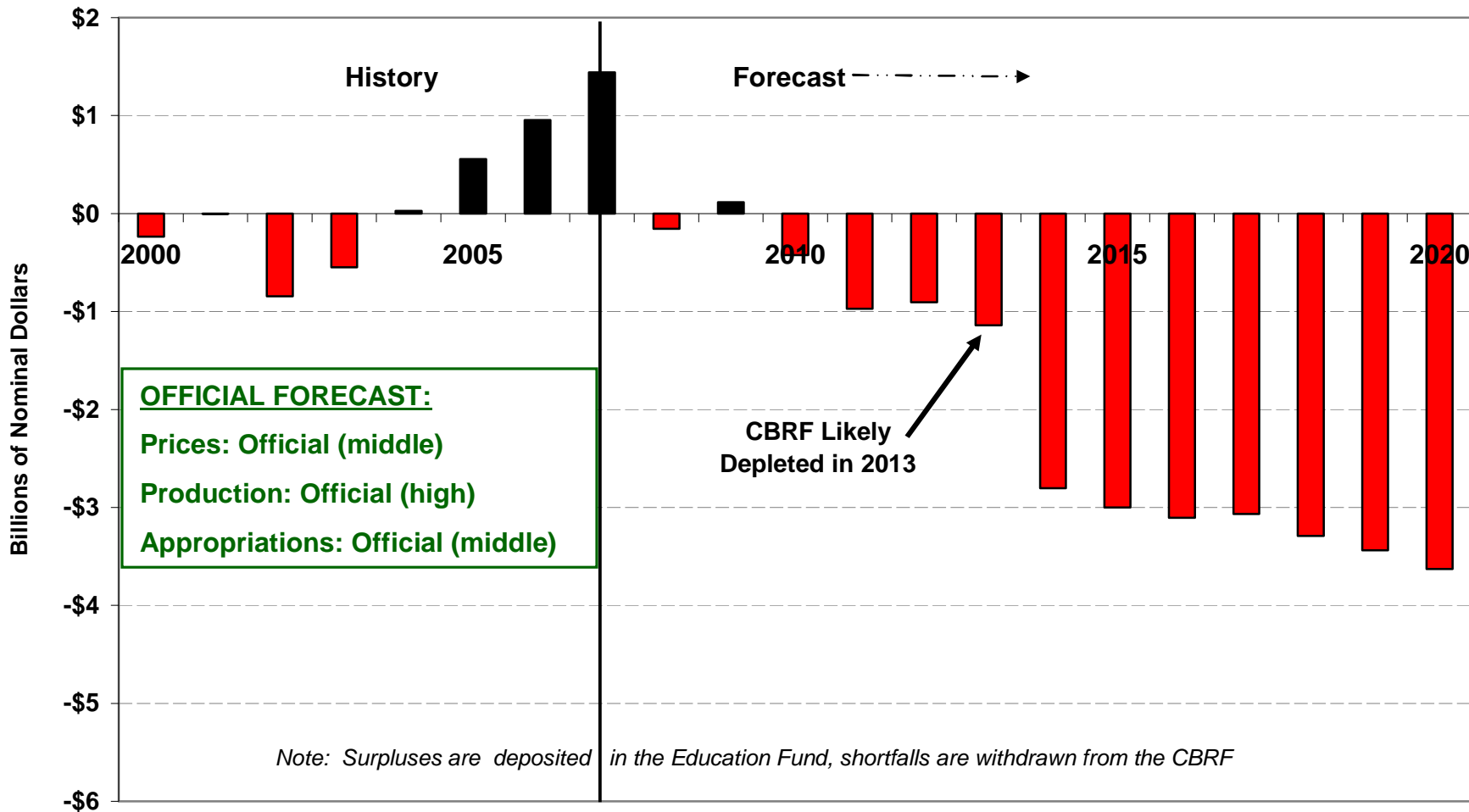
2008 GF Revenue if Price Correction (assumed 700,000 bbls/day)



Source: DOR 2007 Revenue Sources Book through \$70 – Extrapolated for \$75 and \$80.

Historical and Forecasted Budget Surpluses and Deficits FY 2000 to FY 2020

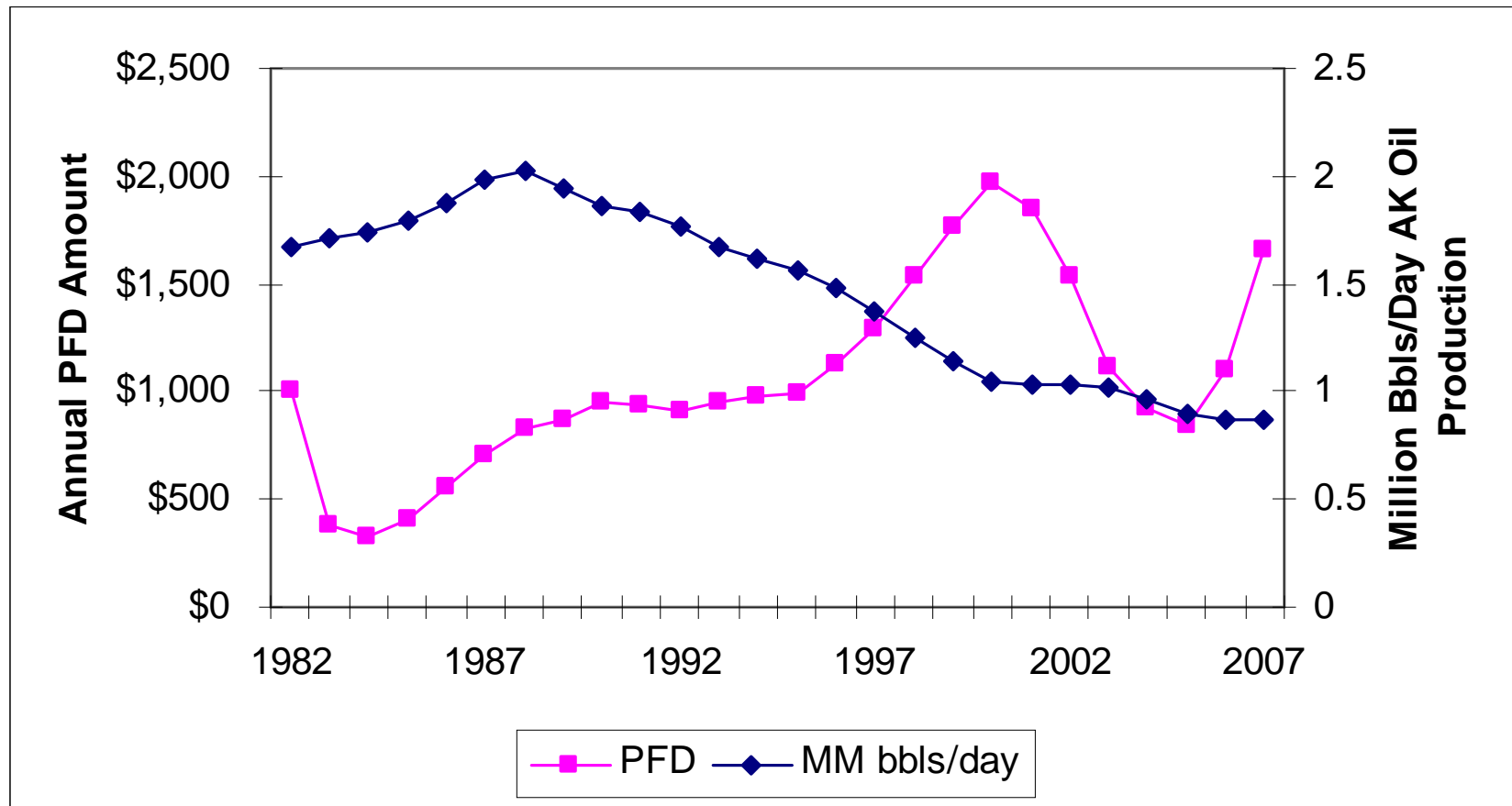
*assumes official revenue forecast (official prices, official production)
and budget appropriations growth of 2.5%*



Iron Triangle – Permanent Fund Earnings

- Percent of Market Value POMV – makes excellent sense
- Coupled with either a more stable dividend policy;
 - Room for dividends and public services
- Or a less stable, declining dividends policy tied to Alaska hydrocarbon price and production – ‘wake up call’
- Back into through ‘borrowing’ like CBRF

AK PFD vs. AK Production



Iron Triangle – Personal Income Tax

- Join 43 other states
- Alaska had a personal income tax during TAPS construction
- Could be very effective local hire measure if a gasline is built
 - Automatic repeal with first gas.

Iron Triangle – Sales and Use Tax

- Join 45 other states
- Effect on Anchorage Debate?
- State passes sales and use tax that ‘grandfathers’ in existing taxes
 - incremental rate
- Race to get there first – make it politically unpalatable for Anchorage Legislators to add a state tax on top of city tax.

Thank You

- ddickinsoncpa@gci.net
- <http://www.tax.state.ak.us/sourcesbook/index.asp>
- <http://www.apfc.org/pomv/index.cfm>
- <http://www.legfin.state.ak.us/FisSum/DisplayReports.php>