Follow up Fiscal Letter to the Legislators

We sent a third letter to the Alaska State Legislators urging them to action on the fiscal crisis on May 18, 2017. Alaska Common Ground fiscal letter 5-18-17

Dear Senator:

We recognize and appreciate the hard work of the Legislature in reviewing a wide range of proposals to address the State's fiscal gap. However, to date the Legislature has not reached agreement on a broad-based and balanced solution.

This session remains a turning point for Alaska. If the Legislature again balances the budget by relying on savings in the Constitutional Budget Reserve Fund, there will be no ability to balance the budget in 2018 without spending a substantial amount of the Permanent Fund Earnings Reserve Account.

As former Alaska House Speaker Mike Bradner has pointed out, if the Legislature fails to take big steps in 2017, we will be out of money and out of time in 2018. Ignoring the revenue side of the equation in 2017 is a recipe for drastic cuts to services, a heavy reduction in Permanent Fund Dividends, and a significant loss of jobs in both the public and private sectors. Proposed cuts to education are particularly damaging to young Alaskans and the future of our State. The "wait and see" approach constitutes a direct threat to our economy and our way of life. Adjusted for inflation and population, the budget this fiscal year is the lowest it has been in 10 years. All State of Alaska employees could be laid off, and the State of Alaska would still have a deficit. Already the signs of a recession are all around us.

Global and state realities demand that in 2017 the Legislature adopt a comprehensive fiscal plan. Alaska's needs require us to include a broad-based tax—as does every other state—in the State's response to its continuing fiscal challenge. A progressive income tax, set at levels that would have little or no effect on those with low to moderate incomes, avoids competition with municipalities, and is preferable to a statewide sales tax. Without a broad-based tax, draws on the Permanent Fund Earnings Reserve Account will be increased, then Dividends can no longer be paid, and eventually the Permanent Fund itself will be threatened.

Timing is critical. The opportunity for an effective solution will be gone next year. We look forward to a plan that benefits all Alaskans, now and in the future.

Cliff Groh
Chair, Alaska Common Ground
On behalf of the Alaska Common Ground Board of Directors

Resolve the "Disconnect", take Alaska Forward

Board member Janet McCabe's Commentary in the Alaska Dispatch News on April 13th, 2017

Alaska is poised on the brink of a severe economic recession, and the state Legislature is about to make decisions that will influence whether the economy topples over this brink into an economic decline that builds on itself and gains momentum, or whether we pick ourselves up and move forward to thrive.

Mike Navarre, former state legislator and current three-term mayor of the Kenai Peninsula Borough, provided insight about this choice in the April 6 Alaska Dispatch News and in recent testimony to the House Finance Committee. He described the Alaska Disconnect, so named by Alaska's Institute of Social and Economic Research (ISER) over a decade ago. In short, the Alaska Disconnect means that the lack of a broad-based source of tax revenue cripples Alaska's ability to provide the state services required by the population increases that accompany new development. As a result, the budget gap becomes worse. Another study stated in 2003 that, unless the Alaska Disconnect is solved, "new non-oil-producing employment is a net drag on state finances."

[Alaska House votes to restructure Permanent Fund and slice dividends]

Multiplier effects must also be considered when the Legislature makes choices about ways to fill the budget gap. When Alaska's economy is healthy, new money comes into the economy from primary sources such as the oil industry, mining, tourism, other industries and, especially, state spending. These expenditures contribute to the success of secondary businesses that employ people who, in turn, spend in a way that makes other businesses thrive. Under this scenario, the multiplier effect is positive.

State spending and distributions are significant primary sources of new money that stimulate a positive multiplier effect. We are reminded of that annually when Permanent Fund dividend checks arrive. On the other side of the coin, ISER has found that a state budget cut of $100 million results in the loss of 1,000 to 1,250 jobs. Cuts generate negative multiplier effects.

Alaska's major recession of the late 1980s provides a vivid picture of the way a negative multiplier effect works. In 1986, crude oil prices fell from an inflation-adjusted all-time high of $107 per barrel to $31 per barrel, a 71 percent decline. Alaska was a young state with few other options, so the Legislature and governor cut state spending to balance the 1967 budget.

The effect on the economy was not immediate. Uncompleted “Project 80s” construction projects had a brief sustaining effect, but soon the economy started to wither.

The sudden loss of jobs, from state spending cuts and oil industry cuts, forced many Alaskans to leave the state or reduce their own spending. This loss of new money circulating in the economy impacted the service sector, and owners of restaurants, gas stations, saloons and beauty salons, automobile dealerships, retail stores, architectural firms, and construction and maintenance companies, to name a few, found they had less business. In turn, these businesses were forced to cut staff or close, and more people lost their livelihoods and left Alaska.

As the negative multiplier effect of the late 1980s spread and people left or downsized, the supply of housing exceeded demand. Anchorage streets soon had rows of “For Sale” signs and property values collapsed. Many people found that their mortgage obligations exceeded the value of their property. Frequently, they were unable to sell. If a work-out was possible, the forgiven debt became taxable income in the eyes of the IRS.

Under these circumstances, some homeowners simply drove away. One bank employee told me he hated to open the drop box on Monday because it would be full of house keys. Eight banks, or 40 percent of all banks in Alaska, failed during the late 1980s. The crash had huge human costs in terms of broken dreams and broken relationships. Families split up and friends left forever.

The hard times of the 1980s ended because of the Exxon Valdez oil spill and the resulting infusion of primary spending for cleanup – $2.1 billion, according to Exxon. Alaska was yanked out of the economic doldrums. Still, it took years before oil prices recovered.

[House, Senate need closers for budget deal]

The similarities and differences between then and now are instructive. In the 1980s, the Alaska Legislature saw no option except to cut the budget. They did so, and that approach, in combination with the reduction of spending by the oil industry, resulted in an extremely harmful self-perpetuating economic recession. Thankfully, the current Alaska Legislature has a much wider range of options for solving the fiscal crisis.

Circumstances affecting Alaska's oil industry – the worldwide oversupply of oil, the consequent fall in prices and the declining productivity of Alaska's oil fields – are also very different than they were in the 1980s. Regardless of recent announcements by oil companies, we have reached a time when a major infusion of new oil revenue is insufficiently probable to serve as a basis for the critical decisions that will shape our state's economic future. Most likely, the oil industry will lobby intensely to oppose measures that would free Alaska from dependence on oil revenues. This must be recognized for what it is.

Fortunately, in this session the Legislature can fill the budget gap without further operating-budget cuts. So far, we have seen progress. Both the House and Senate proposals include an annual dividend. The agreement to use a percent-of-market-value draw from the Permanent Fund Earnings Reserve Account for public purposes is a major step forward. In combination with the oil credit and tax measures proposed by the House in HB 111, and a state income tax, legislators could stop the destructive cutting and give businesses and the public a measure of assurance that they are on the way to solving the problem.

Sure, we all hate to pay taxes, but paying the modest graduated or progressive income tax proposed by the House would be fair. Those with high incomes would pay taxes; those with low to moderate incomes would pay nothing or very little. We would be buying a better of quality of life for everyone. We could step off the oil-industry roller coaster, pay our share and, at long last, solve the Alaska Disconnect.

***Janet McCabe** and her family have lived in Alaska since 1964. Her education and experience are in community planning. She is actively involved in several nonprofit organizations.*

Second Fiscal Letter to State Legislators

Alaska Common Ground sent a second Fiscal Letter April 2017 to Alaska State Legislators on April 7, 2017.

Dear Legislator:

Alaska Common Ground focuses on public policy issues and seeks to build consensus through public forums including speakers with diverse perspectives. We have held over 30 such meetings about Alaska's fiscal gap and have put on more of them recently because of the urgency of the situation. These forums have been well received by the public and the media, in part because of participation by various legislators. Thank you for joining us!

We are gratified that both the House and the Senate are considering bills that include use of a portion of the Permanent Fund Earnings Reserve Account (ERA) as part of a fiscal plan, with an annual percent-of-market-value (POMV) calculation governing the amount of the draw for the state budget. That is an important step towards finding common ground, but, **as both houses recognize, the POMV is only part of the solution**.

A plan that is insufficient to fill the FY2018 budget gap – approximately *two thousand eight hundred million dollars* or $2.8 billion – will cause more harm than good. **Postponing necessary decisions will perpetuate, even accelerate, Alaska's current economic recession.**

Important points to consider include:

1) Additional substantial budget cuts are likely to exacerbate the recession. A budget cut of $100 million costs Alaska 1,000 to 1,250 jobs, according to ISER. Many Alaskans have not yet felt the bite of a serious recession, but, **without swift legislative action to stop sweeping cuts and adopt revenue measures, it is highly probable that job losses will continue, and negative impacts on the economy will multiply and become widespread and enduring.**

2) **Protecting the Permanent Fund Dividend protects the Permanent Fund**, as Governor Jay Hammond argued. Eliminating the Permanent Fund Dividend, on the other hand, would have a huge and unfair impact on lower-income Alaskans, including people in rural communities.

3) **A fiscal plan that is sufficient to fill the fiscal gap should include one or more broad-based sources of revenue in addition to the POMV.** A progressive income tax, set at levels that would have little or no effect on those with low to moderate incomes avoids competition with municipalities, and is preferable to a statewide sales tax. Note that Dillingham and Bethel, for example, each have six percent local sales taxes.

Many businesses seeking a startup or expansion in a new location look at quality of life factors such as good schools, universities, infrastructure, and public safety, that will help these businesses attract and retain employees. Those in the service sector—such as air transportation—are extremely reluctant to invest in a declining economy. This is yet another reason additional big budget cuts and a failure to establish an adequate revenue stream for the annual state operating budget will accelerate the downward spiral of Alaska’s economy.

For Alaska to flourish, the state must have a stable revenue stream. To stabilize the revenue stream several sources are required. Diversity is the key to security. Please act now to adopt the essential fiscal measures that will give our Alaska a positive future.

Respectfully,

Cliff Groh, Chair
Alaska Common Ground Board of Directors

Come join talks about transportation in Anchorage/Mat-Su

From Here to the Future: Transforming Anchorage/Mat-Su Transportation

Transportation options affect every Anchorage and Mat-Su Borough resident nearly every day. Everyone has to get to somewhere: work, medical care, school, groceries, errands, family gatherings and social events. It impacts everyone’s daily life, either making it easier or harder to get from place to place. And as a “winter city” and region with a substantial moose population wandering on our roads, Anchorage and the Mat-Su have some particularly tough transportation challenges.

The region’s transportation system is good, but it can be improved. For example, Anchorage has a great recreational trail system, but many bicyclists and walkers need to get places via safe roads and sidewalks that may not exist. Many of us want to increase walkability in our town. Mat-Su commuters to Anchorage have options, but they are limited. Addressing snow and ice is costly and difficult.

And there are questions. The People Mover bus system is undergoing a transformation – what will this mean for the public? Will we get Uber type service? Are driverless cars on the horizon? The state and federal governments share jurisdiction over Anchorage roads – does this division of governmental responsibilities make sense? Is the public sufficiently engaged in transportation decision-making and are decision makers responsive?

What are other cities and regions doing that we can learn from? Can the Anchorage/Mat-Su region offer more transportation choices, and how can we fund those options?

If you are interested in these transportation topics and questions, and ways that our transportation system can be improved and made relevant for the future, please join Alaska Common Ground as it hosts a series of free evening events with cutting edge speakers, followed by discussions with local experts on key transportation topics.

The first speaker is Rollin Stanley, General Manager of Urban Strategy in Calgary, Alberta, who will kick off the series giving a free public lecture on “Technology, Demographics, and Transportation.” Stanley says, “Transportation investments are about the generations that come long after they are made. What impacts do technology and demographics play in guiding these decisions?" His talk will be on Wednesday, March 22 from 7:00 to 8:30 pm in the Anchorage Museum Auditorium. Stanley has worked in the suburbs of Washington DC, as well as in St. Louis, Toronto, and Calgary.

On April 5th, Paul Soglin, Mayor of Madison, Wisconsin will give a free public lecture on "A Multi-Modal Transportation System (Winter or Not)." Mayor Soglin has served several terms as Mayor of Madison and is now in his 20th year as mayor. His tenure is noted for major commitments to public transportation, equity, sustainability, walkability and livability. His talk will be on Wednesday, April 5 from 7:00 to 8:30 pm in the Anchorage Museum Auditorium.

These public lectures will be followed three topical panel discussions, all at the 49th State Brewing Company from 7:00 – 8:30 pm. April 11 will be an engaging panel and audience discussion on "How does transportation planning work, and how do I engage?" April 25 will be a panel and audience discussion on "Anything but Cars" looking at how we might better connect our varied modes of transportation. The series will finish on May 9 with a policy maker's panel from Anchorage and the Mat-Su Borough engaging with the audience on regional transportation visions for the future.

Please join us for these thoughtful conversations on how to envision and transform our region's transportation system. Alaska Common Ground is a non-partisan, non-profit, which promotes community education and dialog on public policy issues.

For more information, go to www.akcommonground.org or to Facebook and Twitter @akcommonground.

Mary Lu Harle is a board member of Alaska Common Ground and is a resident of Anchorage for 39 years.

Read the piece on ADN.com.

A Good Solution to Our Fiscal Crisis

Compass piece in Alaska Dispatch, 2-16-17 by Helen Nienhueser

Kudos to Representative Paul Seaton, Representative Neal Foster, the House Finance Committee and the House majority coalition for their proposed solution to Alaska's fiscal crisis! Thank you! Finally we have a solution that looks at the whole problem!

On Friday the House majority introduced House Bill 115, the State Revenue Restructuring Act. This bill would use two major sources for state revenues that together would cover 80% of the state's current 2.7 billion deficit. And it protects the Permanent Fund dividend!

To do this the bill calls for restructuring how the earnings of the Permanent Fund will be used. The annual draw from the Permanent Fund Earning Reserves would be 4.75 % of the market value of the entire fund. This is a safe, conservative figure that will allow the fund to continue to grow in the future. Two-thirds of this draw or 1.52 billion would go to the state's general fund to cover state operations such as education, public safety, and road maintenance/plowing.

The second major revenue source would be a progressive income tax of 15% of your federal tax. This is slightly LESS than we paid in the 1980s.! This would generate an estimated $655 million annually, part of which will be paid by non residents.. This is fairer than a sales tax because a sales tax hits those who are least able to pay hardest. In addition, most communities other than Anchorage already have a sales tax which would put a double burden on the residents of those communities.

This leaves a remaining deficit of about 500 million, a much more manageable amount to cover with smart budget cuts (e,g. travel for legislators and state employees?), reduction in oil tax credits, and other taxes such as alcohol, tobacco, and gas.

The remaining third of the draw on the Permanent Fund earnings would go to pay the dividend. The 2018 dividend would start at about $1100 and would *grow sustainably* over time. Those of us who pay income tax could choose to do so with our dividend, which would cover the tax for many of us.

The House Finance Committee is holding a hearing on HB 115 at 1:30 Friday. You can testify by going to the Legislative Information Office (2nd floor, Wells Fargo building, 1500 W Benson Blvd at the corner of Benson and Minnesota) at 1:15. You can also testify by phone; call 586 9085. Or send written testimony to Housefinance@akleg.gov, with copies to your own legislators (subject line: written testimony HB115)..

Please support this bill! It will ensure an Alaska where our children and grandchildren can stay!

Alaska Common Ground Holds Several Successful Educational Events in Juneau Regarding Alaska’s Fiscal Challenge

By Chair, Cliff Groh

Alaska Common Ground put on seven fiscal events in Juneau open to the public during the first three weeks of the legislative session. The venues included the State Capitol, a conference room at the University of Alaska Southeast (UAS), an ice cream shop, and the back room of a sports bar. The largest event was the Policymakers’ Fiscal Forum at the historic Red Dog Saloon, which drew 80-100 people. Five legislators—including the Speaker of the House, the President of the Senate, the Chair of the Senate Rules Committee, and the Co-Chair of the House Finance Committee—joined the Commissioner of Revenue and the Governor’s Director of the Office of Management and Budget to answer questions from each other and from the audience. That audience included at least four other legislators plus legislative staff members and officials from the administration and the Permanent Fund Corporation. Advance publicity appeared for the Policymakers’ Fiscal Forum in the *Juneau Empire* (including a teaser on the front page). Two TV crews covered the forum, which ran 2.5 hours on a Tuesday evening. KTUU-TV ran a three-minute story on the evening newscast and Gavel Alaska rebroadcast the forum. I served as moderator at the Policymaker’s Fiscal Forum and prepared an updated version of undisputed facts regarding the fiscal challenge that I distributed to both the participants and the audience. (For those who have been to the Red Dog over the decades, there is no sawdust on the floor in the winter, but

Wyatt Earp's pistol is still on the wall.)

Three other events were televised. I made two "Lunch and Learn" presentations in the Capitol, one on questions of history and values associated with the fiscal challenge and the other a demonstration of the Alaska Fiscal Balance Game. ISER Professor Emeritus of Economics Gunnar Knapp, Department of Labor Economist Caroline Schultz, and I appeared on a panel discussion before a live audience in the studio of KTOO public television. The Lunch and Learn events were televised on a delayed basis within the Capitol, and the panel discussion was shown on Gavel Alaska public TV. Gunnar Knapp and I also made presentations and answered questions at a campus-wide event at UAS. Then there were the events where Gunnar and I spoke that were less traditional and even more fun. There was free ice cream at "Get the Scoop on the Budget" at Coppa, with special flavors for the occasion—Fiscal Crunch (maple caramel ice cream with cinnamon and nutmeg brittle) and Sustainable Budget (blueberry ice cream with chocolate fudge chunks). Later that same night, there was free beer at "Beer and Budget" in the back room at McGivney's. The events at Coppa and McGivney's were the focus of a story that ran on "Alaska News Nightly," the flagship evening program of statewide public radio. In addition to those seven events open to the public, I gave a guest lecture at one UAS course and demonstrated the Alaska Fiscal Balance Game at another.

The feedback to these events has been overwhelmingly positive. As an example, two legislators—the Speaker of the House (a Democrat) and the Chair of the Senate Rules Committee (a Republican)—asked me immediately after the Policymakers' Fiscal Forum to arrange for Alaska Common Ground to hold another similar event soon. There was surprise in the Capitol at the turnout at the Red Dog, as some legislative staff members and at least one legislator had told me before the event that few of their colleagues would go to an educational event where they had to pay for their own food and alcohol.

Several people deserve thanks. UAS Professor Jim Powell organized the campus-wide event as well as the gatherings at Coppa and McGivney's. Theresa Philbrick designed the flyers, helped publicize the events, and paid for (and named) the ice cream flavors. Alaskan Brewing Company donated the beer at the McGivney's event. Three volunteers from the League of Women Voters staffed the table at the door of the Red Dog and circulated the question cards. Future gatherings could include additional events in Juneau featuring policymakers answering questions from each other and from the audience as well as a demonstration of the Alaska Fiscal Balance Game in a Juneau bar. I have also been asked to explore the possibility of holding Alaska Common Ground events in the next few weeks in Fairbanks and the Matanuska-Susitna Valley that would have policymakers talking about the fiscal challenge. I have also had discussions about making presentations to civic and professional organizations in Juneau.

Progressive income tax is essential to a fair fiscal plan for Alaska

Opinion piece published in the Anchorage Press, February 2, 2017 written by AK Common Ground board member, Janet McCabe

The sheer size of the Alaska's budget crisis makes it difficult to comprehend, let alone to solve. Many people, including myself, find it hard to picture that a million dollars as only a tiny fraction of a billion dollars. It takes a thousand million to make a billion. But today state legislators are facing a budget crisis amounting to over $3 billion. Unless they adopt measures to solve this problem, Alaska will have difficulties paying its bills in 2018. In business terms, the state is facing an immense “cash flow” crisis. Bond rating companies have made it clear that the “cash flow” crisis will translate into a credit crisis.

For a do-it-yourself way of grasping the fiscal reality of Alaska’s budget crisis you can use three yardsticks and assume each one represents $1 billion. Then look at how close you can come to eliminating the deficit with the available revenue sources and cuts. For example, a revenue source worth $500 million, or half a billion, moves you half way up one yardstick, but there are still two and half yardsticks to go.

Alaska’s avalanche of debt resulted from the 90% drop in oil revenues during the last four years. Since the state budget was almost totally dependent on oil revenues, the effect on the budget has been catastrophic. Despite recent good news from ConocoPhillips, neither of the two factors that caused the drop in oil revenues – the worldwide oversupply of oil and consequent fall in prices, and the declining productivity of Alaska’s oil fields – is likely to change enough to solve the crisis. Legislative denial and postponement of hard choices has been widespread. But, for the sake of all of us, they must not divert from solving the problem this year, this session. We, the people, must support them as they do so.

Cuts cannot be the only solution. First and foremost, the size of feasible cuts does not approach the size of the budget crisis. Cuts are measured in millions of dollars. The deficit is three billion (three thousand million) dollars.

Further, it must be clear by now that cutting has and will harm Alaska’s economy. The multiplier effects from loss of primary employment were carefully and thoroughly explained to legislators in recent presentations by Northern Economics and by UAA’s Institute of Social and Economic Research. The signs of the recession generated by job loss from the petroleum industry and from state cuts can be seen all around us!

Still, based on the experience of many people, including some legislators, it is counter-intuitive to argue against cutting as a way to solve a budget problem. We can see why. When hard times hit, families do the right and responsible thing by reducing their spending. The effects are only felt within the family. Unfortunately, state spending cuts have a different type of effect and often spread hardship throughout the economy. When many people lose jobs with primary employers – petroleum producers, or the state – and cannot find other work, the collective reduction in spending harms businesses in the service sector. In turn, closures of restaurants, hair dressers, automotive sales and similar service businesses mean more people are jobless. They leave the state or try to sell their houses, and the real estate market is affected. Then local tax revenues are reduced. Municipalities must, in turn, reduce public services, and the harm spreads further.

At best, cutting is risky tinkering around the edges of Alaska's budget crisis. At worst, legislative debate on cuts threatens to delay or jeopardize their focus on the revenue solutions that are essential this year.

It must be clear to most that a broad-based fiscal solution will be required. Legislators need to come together on basic goals such as protecting the Permanent Fund for future generations, and assuring that their solution is fair-minded.

Governor Walker and several legislative leaders started this process last year and made proposals. The most likely point of coalition is HB 365, sponsored by Representative Paul Seaton from Homer, referred to and heard by the House Finance Committee last year. This bill used fairness as the underlying concept, counterbalancing provisions for a permanent fund dividend and an income tax based on a percentage of federal tax liability. Representative Seaton recognizes that maintaining the dividend is especially important to people in rural Alaska as well as to people statewide with limited incomes. Having an income tax makes it possible to keep the permanent fund dividend which is unique and enormously beneficial to Alaska.

A progressive income tax based on federal tax liability would apply to people in higher income levels, and minimize impact on those in lower income levels. The income tax has the big advantage of capturing income earned in Alaska by non-residents (estimated at 20% of the total). Further, state income taxes are a deductible item for those who itemize a federal income tax return.

Before we struck oil, Alaska had a progressive income tax based on a percentage of federal tax liability. It is time to rejoin the rest of the country by following the time-honored national practice of taxing income progressively. Given the depth of the fiscal crisis and a basic goal of fairness to all, an income tax is essential. No fiscal plan will be sufficient to cover the current deficit, and still be fair, without a progressive income tax.

The positive side of the current fiscal crisis is the opportunity, in fact the necessity, to step off the roller coaster of dependence on oil revenue, and adopt a plan that will allow stable year-to-year budgeting independent of the ups and downs of oil revenues. Without implementing such a plan, including substantial revenue measures, Alaska will be unable to pay its bills next year. The situation calls for a sense of urgency for the future of our state, our children and our grandchildren.

Janet McCabe and her family have lived in Anchorage since 1964. Her education and experience are in community planning. She is actively involved in several non-profit organizations, including Alaska Common Ground.

AK Common Ground letter to State Legislators

January 24, 2017

Dear Legislator,

As you know, the State of Alaska has financed its budget by spending savings for five years in a row, and the savings are running out. The deficit this fiscal year will be more than two-thirds the size of the budget.

This session is the turning point. If the Legislature again balances the budget by relying on savings, there will be no ability to balance the budget in 2018 without spending a substantial amount of the Permanent Fund Earnings Reserve Account. Under current law this would drastically slash Permanent Fund Dividends.

As former Alaska House Speaker Mike Bradner has pointed out, **if the Legislature fails to take big steps in 2017, we will be out of money and out of time in 2018.** Ignoring the revenue side of the equation in 2017 is a recipe for drastic cuts to services, a heavy reduction in Permanent Fund Dividends, and a significant loss of jobs in both the public and private sectors. The "wait and see" approach constitutes a direct threat to our economy and our way of life. Adjusted for inflation and population, the budget this fiscal year is the lowest it has been in 10 years. All State of Alaska employees could be laid off, and the State of Alaska would still have a deficit. **Already the signs of a recession are all around us.**

Global and state realities demand that in 2017 the Legislature adopt a broad-based fiscal plan. To make the scale of the plan match the scale of the problem, both revenue and cost-reduction measures must be included. Timing is critical. The opportunity for an effective solution will be gone next year.

Now is the time for bold leadership, galvanized by the needs of the next generation of Alaskans. We look forward to courageous action on behalf of all Alaskans.

Cliff Groh
Chair, Alaska Common Ground
On behalf of the Alaska Common Ground Board of Directors

The State of Alaska's Fiscal Circumstances – Updated 1-2017

This collection of facts is numbered for ease of reference. (Unless otherwise noted, the figures below come from the Alaska Legislative Finance Division and describe the Unrestricted General Fund ("UGF"), which is what people in Alaska usually mean when they say "the budget" or "State spending.”)

- Do you see any of these facts as incorrect?
- Which of these facts do you see as most important?
- Which additional facts—if any—do you consider important in addressing the State of Alaska’s fiscal challenge?
- What specific steps do you support to address the State of Alaska’s fiscal challenge?

1. The budget is $4.4 billion in the current fiscal year (Fiscal Year 2017— “FY17”—which runs July 1, 2016-June 30, 2017) under the traditional definition of Unrestricted General Fund, and the revenues under that definition are projected to be $1.5 billion in FY17.
2. The resulting deficit of $2.9 billion works out to about $3,900 for every man, woman, and child in Alaska for FY17.
3. With a proposed Governor’s budget of $4.4 billion and projected revenues by the Alaska Department of Revenue of $1.6 billion, the deficit with no other action in FY18 (July 1, 2017-June 30, 2018) would be $2.8 billion.
4. For five years in a row (FY13-FY17), the State of Alaska is financing its deficit by spending savings, primarily the Constitutional Budget Reserve Fund.
5. Assuming the current level of spending and the current revenue laws as well as the Alaska Department of Revenue’s most recent revenue projections, those savings spendable by the Legislature outside the Permanent Fund Earnings Reserve Account will be exhausted no later than June 30, 2019 (and very likely by December 31, 2018).
6. That definition of “those savings spendable by the Legislature outside the Permanent Fund Earnings Reserve Account” used in the previous paragraph includes all the money in “undesignated reserves” such as the Constitutional Budget Reserve Fund, the Statutory Budget Reserve Fund, and the Alaska Housing Capital Corporation Fund plus all the money in “designated reserves” such as

the Alaska Capital Income Fund, the Alaska Higher Education Investment Fund, the Revenue Sharing Fund, and the Power Cost Equalization Endowment.

7. If the State of Alaska spent the entire Permanent Fund Earnings Reserve Account in addition to spending all the other savings spendable by the Legislature described in the previous paragraph, the Alaska Legislative Finance Division’s model shows that the State of Alaska would be out of savings outside of the Permanent Fund principal no later than the end of Fiscal Year 2025—assuming the current level of spending and the current revenue laws as well as the Alaska Department of Revenue’s most recent revenue projections.
8. The earnings of the Permanent Fund go into the Permanent Fund Earnings Reserve Account, which has since the first payment of the Permanent Fund Dividends in 1982 has almost entirely used either to pay Permanent Fund Dividends or for inflation-proofing the Permanent Fund principal. Under current law leaving the Permanent Fund Earnings Reserve Account empty without replenishment would mean no Permanent Fund Dividends.
9. The Governor’s proposed budget for Fiscal Year 2018 (July 1, 2017-June 30, 2018) reclassifies revenues and expenditures involving Permanent Fund earnings from “Designated General Funds” (“DGF”) to UGF. Adopting this reclassification or redefinition changes the numbers for UGF spending, UGF revenues, and the budget deficit.
10. The budget as traditionally defined has been cut by 44 percent ($3.5 billion) between Fiscal Year 2013 and Fiscal Year 2017.
11. The budget as traditionally defined was $4.2 billion in Fiscal Year 2007 and is $4.4 billion in Fiscal Year 2017.
12. Adjusted for inflation and population, the budget as traditionally defined in Fiscal Year 2017 is the lowest it has been in 10 years.

13. More than 55 percent of the Fiscal Year 2017 budget goes for K-12 education and the Department of Health and Social Services.
14. All State of Alaska employees could be laid off, and the State of Alaska would still have a deficit. (To explain this apparently counterintuitive fact, note that the expenditures for K-12 education and Medicaid are mostly paid as grants—not salaries to State employees—and that debt service on State bonds is paid to bondholders, not State employees.)
15. The Alaska Department of Revenue has reported that the price of oil (Alaska North Slope West Coast or "ANS West Coast") has ranged between \$38 and \$56 per barrel since July 1, 2016 (the beginning of Fiscal Year 2017).
16. The price of oil (ANS West Coast) would have to average between \$100 and \$110 per barrel during Fiscal Year 2017 to balance the Fiscal Year 2017 budget without using savings.
17. The Alaska Department of Revenue's most recent forecast (Fall 2016 Sources Book) projects that oil prices for Alaska will be below \$89 per barrel in nominal dollars for each fiscal year through Fiscal Year 2026.
18. The State of Alaska's oil revenues fell more than 90 percent from Fiscal Year 2012 to Fiscal Year 2016, according to the University of Alaska Anchorage's Institute of Social and Economic Research (ISER).
19. Oil revenues provided an average of 90 percent of Unrestricted General Fund revenues for the period of Fiscal Year 2005 through Fiscal Year 2014, according to ISER.
20. Oil production in Alaska is projected to average less than 510,000 barrels per day in Fiscal Year 2017, according to the Alaska Department of Revenue's most recent forecast (Fall 2016 Sources Book).
21. Oil production in Alaska is expected to drop every year from Fiscal Year 2017 through Fiscal Year 2025, according to the Alaska Department of Revenue's most

recent forecast (Fall 2016 Sources Book).

22. The Alaska Department of Revenue projects that by the end of Fiscal Year 2018 (June 30, 2018), there will be approximately $1 billion in oil and gas production tax credits eligible for repurchase outstanding. The amount legally required to be paid each year (the statutory minimum appropriation to the Oil and Gas Tax Credit Fund) under a statutory formula set out in AS 43.55.028(c) was $30 million in Fiscal Year 2017, and that is the amount that was paid for that type of oil and gas tax credit.
23. The Alaska Department of Revenue's Fall 2016 Sources Book shows that the statutory minimum appropriation to the Oil and Gas Tax Credit Fund is $74 million for Fiscal Year 2018, and also shows that the amounts for that statutory minimum appropriation for Fiscal Years 2019 to 2026 range from $54 million to $102 million per year.
24. Oil production in Alaska averaged more than 2 million barrels per day in Fiscal Year 1988 (the peak year for Alaska oil production), according to the Alaska Department of Revenue.
25. Pursuant to a formula set out in state statute, the Legislature appropriated $1.362 billion from the Permanent Fund Earnings Reserve Account to pay Permanent Fund Dividends in the fall of 2016. The Governor vetoed $666.35 million from that amount, leaving $695.65 million to be paid in Permanent Fund Dividends (pending a legal challenge to the veto).
26. The money in the portion of the appropriation for Permanent Fund Dividends that was vetoed by the Governor stayed in the Permanent Fund Earnings Reserve Account.
27. The Permanent Fund Dividend is a form of universal direct distribution of cash to residents, and Alaska is the only state that has it.
28. Alaska is the only state with no form of state income tax paid by individuals and no statewide general sales

tax, according to ISER.

29. Alaska had a graduated (progressive) income tax paid by individuals between 1949 and 1980.
30. Imposing an income tax of 15 percent of federal tax liability would raise $571 million per year, according to the Alaska Department of Revenue in 2015.
31. Imposing a three percent sales tax without exemptions would raise $418 million per year, according to the Alaska Department of Revenue in 2015.
32. Alaskans pay the lowest broad-based state taxes in the country, according to ISER.
33. Alaska has the lowest gasoline tax of any state, according to the Tax Foundation.
34. To eliminate the deficit with marijuana tax revenues alone, every person over 21 years of age in Alaska would have to buy more than nine pounds of legally taxed marijuana each year, according to the Alaska Department of Revenue.
35. The earliest year for production from the proposed Alaska Liquefied Natural Gas (AK LNG) project is projected to be 2025, according to the Kenai Peninsula Borough (the local government where the southern terminus of the project's pipeline segment is located)

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[Updated Big-Picture Truths Regarding Alaska's Fiscal

Challenge

by Cliff Groh

Let’s review some enduring truths about Alaska’s circumstances.

- The long-term decline in Alaska oil production and the collapse the last two years in world oil prices have combined to create major and continuing challenges for both Alaska’s government and Alaska’s economy.
- The State of Alaska’s oil revenues fell by more than 90 percent in the last four years (Fiscal Year 2012 to Fiscal Year 2016) and are projected to continue to fall during the current fiscal year (FY17). That large reduction in oil revenues is a big problem given that oil revenues provided an average of 90 percent of Unrestricted General Fund revenues for the period of Fiscal Year 2005 through Fiscal Year 2014.
- This sharp drop in revenues has contributed to big structural deficits both this year and in the future. The deficit is approximately $3.1 billion this year (FY2017), and that number is equal to almost about ¾ of the budget (as conventionally defined as Unrestricted General Fund spending).
- The State of Alaska’s ability to finance deficits using the Constitutional Budget Reserve Fund—the savings account traditionally used to fill the gap—is going away fast, as that fund will go to zero in less than two years at the current burn rate.
- Although still probably the highest per capita among the states, Alaska’s state budget has fallen and continues to fall. As reported by the Alaska Legislative Finance Division, the total operating and capital budget has been cut by more than 40 percent in the last four years and is now below the level it was eight years ago—without accounting for population and inflation.

- The State of Alaska’s top two expenditures are for K-12 education and health and social services.
- Alaskans are the lowest-taxed people in the U.S. Alaska is the only state with no form of state income tax and no form of statewide general sales tax.
- The restructuring of the Permanent Fund earnings system under the most frequently discussed proposals will still likely leave Alaska with a substantial deficit.
- The existence of the Permanent Fund—and even more the Permanent Fund Dividend—make fiscal politics in Alaska more difficult and complex than in other states.
- The Permanent Fund and the Permanent Fund Dividend raise unusual questions of equity, both among classes and among generations.
- Critical questions relevant to the fiscal challenge include “What is the Permanent Fund for?” and “How long do you intend to live in Alaska?”
- Alaska perhaps faces a future of battles in court over levels of government funding.
- Resolving Alaska’s fiscal challenge is a question of values as well as a question of numbers.
- Alaska’s challenge is psychological or cultural as well as fiscal and political. Alaska needs to move from imagining easy prosperity to find fiscal sustainability in an era likely to feature increasing scarcity.