Moving from protests to productive action

Author: Janet McCabe | Opinion | Anchorage Daily News | Sunday, June 21, 2020

In Alaska, the outpouring of public protest about George Floyd's death by asphyxiation was heartfelt and far-reaching, as it was throughout the rest of our nation, and here, there was one big positive; it was peaceful. There was no destruction of property.

On May 30, traffic going down Northern Lights Boulevard was slowed by young people racing ahead of cars and stepping out into the street waving their protest placards. The dynamism was contagious. Drivers beeped and waved back expressing approval and support. No doubt the moment was enhanced by the break from the social isolation imposed by the pandemic. But the shared support for Black Lives Matter was palpable.

The next weekend in Palmer, 1,400 young people gathered to express their outrage. They had been joined by others in the Mat-Su region as well as a contingent from Anchorage.

To take a statewide view, the peaceful protests extended throughout Alaska to communities, large and small, most populated by people of several different races. There has never been a social movement in Alaska quite like the protests of these last few weeks!

This amount of protest and its youthful, diverse composition is vastly different from what happened during the days of Martin Luther King when protesters were predominantly African American adults. This time in Alaska and elsewhere protesters were of many races. And they were young! In Anchorage, the initial organizer who filed for the permit was a 17-year-old high school boy. In Palmer, the filer was an 18-year-old girl.

As former President Barack Obama has urged, now is the time to turn protest into productive actions to prevent more wrongful death.

Ours is a country founded on noble goals. To respect and respond to the protesters, we should remember our ideals and act accordingly. In 1776, a time of kings and emperors, the signers of the July 4 Declaration of Independence risked hanging for treason when they pledged “that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights.” Ninety years later, it took the Civil War and the death of as many as 850,000 Americans, including Abraham Lincoln, to rededicate our nation to these truths.

Taking the knee shows love for our country and the noble goals of our founding fathers. Doing so says America can do better! A wide swath of the country believes this. A recent national poll shows that 84% of Americans believe the peaceful protests are justified. No doubt this includes many members of the police. Among the most powerful images of the protests are police officers and protesters taking the knee and giving each other a fist bump.

Living up to our national ideals takes ongoing work. In Anchorage, Partners Reentry Center, run by Partners for Progress, Inc., has achieved positive results in coordination with the Anchorage Police Department and the Alaska Department of Corrections.

Alaska Natives are the racial group that is most disproportionately incarcerated in Alaska. Often, after release from prison, they are stranded in the unfamiliar urban setting of Anchorage. In response, Partners Reentry Center sponsored a self-help group of Alaska Natives who, among other productive projects, have worked with the Anchorage police chief to help introduce new police cadets to Anchorage. Since 2017, this effort has blossomed to include regular panel discussions with the police and representatives of the many different cultures in Anchorage – Hispanic, Polynesian, Filipino, African American, Alaska Native and more.

But probably, the single most effective way to give the nationwide protest a productive response is by voting on Nov. 3. The current president has never looked beyond himself to realize, in the words of President Abraham Lincoln, that government is "of the people, by the people and for the people."

It is important to elect people who can create and maintain good government. This is crucial at all governmental levels. All people care about the future of their children. That is a good starting point for finding common ground to solve the crisis of social justice that was so starkly revealed by the recent protests.

To move from protest to progress, exercise your precious right to vote!

Janet McCabe *chairs Partners for Progress, Inc. and is a member of Alaska Common Ground. She and her husband, David, came to Alaska in 1964.*

Alaska Common Ground

Statement 6-4-20

The events of this past week, sparked by the murder of George Floyd, have shined an undeniable spotlight on the systemic racism in this country. We, the Board of Alaska Common Ground, stand in solidarity with Black lives. We stand against the legacies of racism and violence that have attempted to silence Black and Indigenous voices, and all People of Color, for generations throughout this country including Alaska.

For 30 years Alaska Common Ground has committed to a just society and sustainable democracy by bringing together people of diverse backgrounds and perspectives. Here on the Indigenous land on which all Alaskans live containing two of the most diverse zip codes in the nation, we can imagine no more important time to provide a forum for such dialogue and to amplify the voices who have historically been left out of these conversations.

The weight of these past several months as we navigate a pandemic is immeasurable. Alaska was already facing economic challenges never before seen, and the coronavirus immediately propelled us to the brink of our economic cliff. It also exposed the enormous inequalities prevalent in our society.

Then last week, starting in Minneapolis, this weight intensified to a fever pitch across our country. The pain, hurt, and anger are undeniable and direct results of the deep injustices that have existed for generations in our society, including here in Alaska.

We are living in a historical moment. Generations will look back and reflect upon the role we each played during these crucial and defining moments. We believe that legitimate reform and policy changes are necessary for us to move forward united as one country and one state. Alaska Common Ground is committed to working with our community to be a part of the solution.

Our community must stand together as one against racism and injustice. We look forward to working with you to build a better country and a better state, not only for ourselves but also for our future generations.

The Alaska Common Ground Board

Dick Mylius (Chair), Katie Dougherty, Alyssa Bish, Janet Bidwell, Cliff Groh, Mary Lu Harle, Bill Hall, Hannah Laird, Janet McCabe, Stephanie Nichols, Helen Nienhueser, John Parsi, Peg Tileston, Danielle Williams and Program Coordinator, Kari Gardey.

Not Your Ordinary Fiscal Crisis

Janet McCabe : Opinion Piece Anchorage Daily News : March 22, 2020

In the shadow of the COVID-19 pandemic and a consequent worldwide recession, Alaska legislators have self-isolated in Juneau, communicating with the public remotely. This is an abnormal and worrisome time. We want them to complete the essential work of the session and be able to go home.

But they should not quit until they agree on an affordable amount for the Permanent Fund dividend and give the dividend a dependable and stable future so it will grow as the Permanent Fund does.

Using the 40-year-old statutory formula to calculate the amount of the dividend, the Legislative Finance Division has projected that the state's budget deficit for the upcoming fiscal year will exceed $1.5 billion. Many of us have trouble visualizing a number that large. As a current example, take the governor's proposal to raise $100 million from a state lottery. It would take 15 lotteries in a single year to raise $1.5 billion and close the fiscal gap.

Without action this session, $1.5 billion will be drained from the Constitutional Budget Reserve (CBR). That's the state's emergency rescue account, separate from the Permanent Fund. Budget analysts say the CBR should always be at least $2 billion. But unless legislators cure the fiscal crisis this session, the CBR will be reduced to $500,000, one quarter of the needed amount.

What if COVID-19 does strike with a vengeance, or climate change increases food insecurity in villages, or next summer. the forest fires we saw last year become overwhelming? Life is far too uncertain for the state to drain its emergency rescue account.

Recently, in recognition of the urgency of the fiscal crisis, the Trustees of the Alaska Permanent Fund Corporation, normally an apolitical group, added their voices to a growing chorus (Resolution 20-01). On March 5, Craig Richards, chairman of the Trustees, announced that payments from the Permanent Fund earnings are endangered. He recommended "that the State put in place a structure that minimizes that risk before a series of bad market events result in payment shortfalls."

That warning was on March 5. Since then, the stock market has tumbled and a worldwide recession is looming.

The root of the problem as set forth by the Trustees is the conflict between (1) the statute that set the amount of the dividend 40 years ago, and (2) the percent-of-market-value statute adopted in 2018 to provide the state with sustainable annual revenue from the Permanent Fund Earnings Reserve Account. If the market falls repeatedly, Permanent Fund earnings would be reduced to the point where "we couldn't fund the government and we couldn't fund people's dividends."

The Trustees' warning came with some useful advice, offering the legislature realistic solutions. The first of which was: "Transform by constitutional or statutory amendment, the Alaska Permanent Fund and the (Permanent Fund) Earnings Reserve Account into a single fund and limit the annual draw to the fund's long term real return."

House Joint Resolution No. 31 would do just that, using a constitutional amendment to combine the two parts of the Permanent Fund. Annual payments to the general fund follow the system adopted by the legislature in 2018 by passing SB 26. That bill established a percent of market value (POMV) system putting annual draws from the Permanent Fund on a sustainable system like that used by many institutions to manage large endowments.

Senate Bill 26 was just in time. Oil revenues dropped to $2 billion in 2018, but the POMV draw from the Permanent Fund (Earnings Reserve account) provided $2.9 billion, reversing a long decline in total state revenue.

Now, in implementing the Trustees' proposal, the Legislature should pick up a piece of unfinished business from 2018. In developing SB 26, the 30th Legislature had intended to include language establishing a percentage for the dividend so it would be a stable ongoing amount of the POMV draw. But they had bogged down because, at that time, a few legislators still supported the traditional formula.

Now that the state is facing an immediate fiscal crisis specifically caused by a supersized dividend that would drain our emergency rescue account; now that the Trustees of the Alaska Permanent Fund Corporation have warned the legislature about effects of a "series of bad market events"; now that the size of the traditional dividend threatens the future of the dividend itself – now is surely the time to give the dividend a stable and affordable place in Alaska's fiscal future. The dividend should grow as the Permanent Fund grows. This can be done by statutorily resetting the amount of the dividend, so it is a percentage the annual POMV payment.

Last December at Commonwealth North's traditional pre-session luncheon, House Speaker Bryce Edgmon and Senate President Cathy Giessel both emphasized their wish to "communicate, collaborate and compromise." Giessel quoted from President John F. Kennedy's first inaugural address. Even more memorably, she quoted former U.S. Sen. Ted Stevens: "To hell with politics. Let's do what's right for Alaska."

Janet McCabe *is a member of Alaska Common Ground and*

Commonwealth North. She has a master's degree in urban planning from Harvard's Kennedy School of Government, and has been following Alaska's fiscal future since she and her husband came to Alaska in 1964.

Read the piece in the ADN here.

What Kind of Alaska do we want?

A packed crowd gathered at the 49th State Brewing Company on December 10, 2019 for Alaska Common Ground's fiscal forum entitled **What kind of Alaska do we want? How do we get there?** The discussion featured Senator Natasha von Imhof, Co-chair of the Senate Finance Committee; Anchorage Mayor Ethan Berkowitz; CIRI Government Relations Vice President, Greg Razo; Institute of Social and Economic Research economist, Mouhcine Guettabi; and Atwood Chair at the UAA Department of Journalism, Larry Persily. Thea Agnew Bemben of Agnew::Beck moderated. The goal of the event was to increase public knowledge and understanding of the realities of Alaska's financial situation, and of potential measures to achieve a positive fiscal future.

Senator von Imhof launched the forum with a well-illustrated dose of reality ([see her presentation slides here]). "We are at a crossroads!" she said. Alaska cannot stay solvent if the state continues to pay dividends at, or even close to, the current statutory amount. She wants the legislature to find middle ground for all spending and establish a spending cap. Though she believes there are still government inefficiencies to be corrected, she noted that "It takes time and focus and energy to find more efficiencies…large cuts have to be walked back."

She and other panelists highlighted the fact that Alaska's primary source of revenue for government spending is now through management of the Permanent Fund as an endowment under Senate Bill 26. State revenue from this source now exceeds revenue from petroleum production, and, based on current projections, will continue to do so. The statute established 5.5% as the percentage of the market value available from the Permanent Fund this year. Next year it will be 5%. Other endowment systems were studied, and percentages were carefully gaged and set to protect the principle of the fund.

Greg Razo noted that Alaska's public spending must recognize the food insecurity in villages where part of the economy is subsistence hunting, fishing, and gathering. Climate change is threatening this ancient and traditional part of Alaska's economy.

Mayor Berkowitz described how once generous state assistance to Anchorage has been reduced over the years to a pittance. Now the state does not even clear sidewalks on state roads within the municipality. He sees great potential to build the earnings of the Permanent Fund by investing more money in it. The Mayor advocated dividing the growing "percent of market value" earnings three ways to establish an ongoing percent for municipalities, for state services, and for dividends.

Mouhcine Guettabi and Larry Persily took the lead in emphasizing the economic value of quality of life and the fact that attracting people and economic development to Alaska depends greatly on having good state educational systems, transportation, and other public services. Persily concluded by telling people to look at the math, face reality, and find the revenues to build the secure and prosperous state that we want. All speakers noted that establishing ongoing fiscal predictability and stability would be an economic stimulant. The need for new revenue sources, such as taxes, was mentioned frequently in describing a positive fiscal future for our state.

The event was audio recorded by Alaska Public Media, livestreamed on Facebook, and video recorded by Jenson Hall

Creative. You can watch the video here. Co-chairs of the planning committee for this forum were Janet McCabe and Cliff Groh. Cliff Groh has written a series of articles for the Anchorage Press on Alaska’s fiscal issues. You can read one here. If you want to read them all, search for Cliff Groh at anchoragepress.com.

It’s Probably Worse than you Think

By Cliff Groh, Nov 4, 2019, Anchorage Press

Alaska’s fiscal outlook is bad due to factors such as drooping oil prices, long-falling Alaska oil production, and an absence of broad-based taxes. The non-partisan Alaska Legislative Finance Division projects that starting next year, the State faces annual deficits exceeding $1 billion under current law and the most likely assumptions.

But that gloomy scenario probably understates our fiscal squeeze. Numerous other factors either threaten future revenues or create pressures for spending to increase.

Let's start by looking at some of those upward pressures on the budget: the unfunded liabilities of the state government's pension systems; the capital budget; and refundable oil tax credits.

The State of Alaska is paying off the unfunded liabilities previously built up in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) under an officially adopted payoff plan that runs at least until Fiscal 2039. Actuaries project that the annual installments under that plan will increase every year but one, and also project that those installments will total more than $8 billion over the decades. Changing demographics and shifts in financial markets, however, could increase that total price tag over the next two decades.

The capital budget was probably too large in some years of high oil revenues. That spending for buildings and other infrastructure has fallen substantially in the last half-dozen years, however, and this year it is less than $150 million in General Fund spending. Experts see that number as too low. The Office of Management and Budget estimated in 2018 that the State of Alaska has needs for deferred maintenance totaling $1.87 billion. One observer's calculation is that the annual capital budget should be at a minimum tripled to start catching up on that backlog.

Then there’s refundable oil tax credits, an obligation which the Alaska Department of Revenue estimated at $700 million in June of 2019. The State has proposed to pay off the credits through a bond program now in litigation while paying zero for the credits in the current year’s budget. The obligation to pay the oil tax credits is much weaker legally than the obligation to pay in full the pension system benefits, which are explicitly protected in the Alaska Constitution.

Now let’s turn to the revenue side of the equation. Climate change poses a systemic fiscal danger to our state.

The evidence of this global phenomenon is all around us. Humans are changing their behavior in reaction to the changing physical world. The use of electric cars may blow past gasoline-powered vehicles by 2040. Oil companies are changing their names to shed their oil-only images and are focusing increasingly on wind, solar, and other renewable sources. Carbon taxes are likely to further reduce the demand for oil worldwide. At least one major energy producer—Norway-based Elsinor (formerly Statoil)—has projected that oil demand could start to decline by 2030, as Alaska Public Media's Elizabeth Harball noted in 2018.

Climate change already appears to be reducing oil production from Alaska's North Slope, as long-time oil industry observer Tim Bradner has pointed out. The Arctic is warming at rates twice as fast as regions further south, and those higher temperatures thaw permafrost and reduce the efficiency of oil-producing facilities.

The climate change news will probably get substantially worse for Alaska. Energy companies recognize that there is a growing possibility that the warming planet will lead to significant amounts of oil now ticketed to be produced to end up in the ground unburned. Some of that oil stranded by climate change is likely to be on the North Slope, in part because that region is expensive to work in and high-cost provinces are most likely to be the home of stranded oil.

Over the next

year—and over the next 10 years or so—the downside risks for Alaska on the fiscal front appear to exceed the upside potential. Alaskans should prepare accordingly.

Cliff Groh is an Anchorage lawyer and writer as well as the legislative assistant who worked the most on the bill in 1982 that created the Permanent Fund Dividend we have today. He also designed a course he taught at the University of Alaska called "Navigating Alaska's Fiscal and Economic Challenges." This is the ninth installment of a continuing series on the Permanent Fund Dividend and Alaska's fiscal system.

Letter to Legislators re: transferring prisoners out of state

October 26, 2019

Dear Senate President Cathy Giessel and House Speaker Bryce Edgmon:

As a non-partisan, policy-focused non-profit organization, Alaska Common Ground asks the Legislature to find common ground to keep Alaska's prisoners within Alaska and prevent the use of private, for-profit, out-of-state prisons by the Department of Corrections.

This request is based on Alaska Common Ground's long-standing support for therapeutic justice, i.e. treating underlying causes of criminal behavior such as substance abuse disorders, mental health issues, and lack of positive community support. We held public forums on the subject, listened to a variety of well-qualified experts, and concluded that therapeutic justice is the best way to close the revolving door in and out of prison.

There are several reasons why out-of-state, private prisons are not effective in reducing recidivism. Sending Alaskan prisoners to distant, out-of-state facilities cuts them off from all community and family support. In addition, private prisons do not have a good record treating the root causes of criminal behavior. They are profit- motivated and their profit is affected by the number of individuals incarcerated. There is a built-in conflict between operating for profit and reducing the number of people incarcerated or returning to incarceration. In the state's previous experience, prisoners sent to private out-of-state prisons often returned as hardened criminals with connections to criminal gangs.

Ninety-five percent of all prisoners are eventually released. Since most who return to prison do so because of a new crime, it is greatly in the interest of public safety to reduce recidivism.

We support the Legislature’s appropriation to reopen the Palmer Correctional Center and house Alaskan prisoners within Alaska. We urge you to require the Department of Corrections to comply with legislative funding directives and reject Department of Corrections’ proposal to send prisoners to private, out-of-state prisons.

Sincerely,

Dick Mylius, Chair

On behalf of the Alaska Common Ground Board of Directors

Cc: Nancy Dahlstrom,

Commissioner, Alaska Department of Corrections

How Did Alaska Get to this Place, and What Are the Options Now?

Fiscal update by Cliff Groh, ACG Board Member, September 30, 2019

After an exhausting and apparently endless seven-month fight over budget cuts and the size of the Permanent Fund Dividend, the State of
Alaska is set up for continuing struggles over the same issues in the coming
years. You might be tired of it all, but this set of fiscal conflicts is primed
to keep going.

Alaska politics is tumultuous (Mike Dunleavy is the sixth person to be elected Governor in the last six elections, as Governing magazine has noted). Alaska politics is also unusual (try explaining it to people outside the state). One reason for the tumult and the uniqueness is existential. The issues of what the State of Alaska should do and how to pay for what it does raise questions like "What kind of Alaska can we have?" and "What kind of Alaska do we want?"

Let’s set the stage with familiar yet critical facts. Alaska oil production has fallen by more than 75 percent in the last three decades, going from over 2 million barrels per day in the late 1980s to less than 500,000 a day now. Meanwhile, oil prices have not stayed high enough to compensate for the fact that the State of Alaska now has so much less oil from which to collect royalties and taxes. World oil prices, in fact, bounce around a lot and in 2019 have been substantially below what they were in the summer of 2014 (even though the Middle East is roiled by war).

The combination of the big decline in Alaska oil production and unpredictable world oil prices well under historical highs creates a big problem for our state. From the early 1980s to 2018, the State of Alaska’s fiscal system was based on having a whole bunch of new oil money coming in, and that system stopped working about five years ago.

The fiscal system changed in 2018 with the adoption of legislation—Senate Bill 26—that provides for the use of substantial amounts of Permanent Fund earnings to pay for conventional public services. Even with that injection of Permanent Fund earnings into the regular budget, however, the massive drop in oil revenues in the absence of unrealistically high stock market returns or an apparently unsustainable long-term run-up in oil prices means that the State of Alaska still lacks sufficient revenues to pay for the level of public services a majority of Alaskans seem to want—including a Permanent Fund Dividend paid pursuant to the formula set out in Alaska statutes—without instituting a broad-based tax and/or raising oil taxes. That last sentence runs 86 words, but that's what it takes to sum up our fiscal circumstances. (The State of Alaska could always finance itself for a while by going through all its spendable savings, but that is of course a short-term strategy at best.)

It All Seems So Different Now from Last Fall

You have probably observed how this account of Alaska's current fiscal situation is at odds with how the Governor's race went last year. Former State Sen. Mike Dunleavy ran and won on a platform of super-sized Permanent Fund Dividends (remember the Dunleavy Dividend of $6,700 promised to arrive in October of 2019?); no personal taxes; and relatively small and painless budget cuts.

The Dunleavy campaign's platform regarding the budget is crucial and poorly remembered. Independent journalist Dermot Cole and Alaska Public Media's Nathaniel Herz have labored to set out what candidate Mike Dunleavy actually said on the trail in 2018. Candidate Mike Dunleavy promised to increase spending on K-12 education and not cut funding for the University of Alaska, Power Cost Equalization (PCE), and the Pioneer Homes—among other agencies. He also specifically promised not to “lop off and chop off big aspects” of the ferry system (officially called the “Alaska Marine Highway System”) and said that there was “no plan to hack, cut, or destroy” that ferry system.

Instead of making cuts to these popular programs, candidate Dunleavy said in 2018 that he would save $200 million by cutting 2,000 funded but unfilled positions, save another $100 million with a voluntary school district health insurance consolidation plan, and save another $150 million by making Medicaid more efficient. Dunleavy told the Fairbanks Daily News-Miner in August of 2018 that “I do not have a specific program I would like to reduce or eliminate.” When he did identify specific budget cuts he wanted to make, candidate Dunleavy said that he would axe a $4.5 million study of fast rail between Palmer and Anchorage and not fund “climatologists.”

Following

the Election, Gov. Dunleavy Dramatically Changes His Positions on the Budget and the Dividend

Mike Dunleavy was elected Governor on November 6, 2018, receiving 51 percent of the vote. The next month, the new Governor's budget only included funding for a $3,000 Dividend in 2019, while the administration said that additional funding to pay a larger 2019 Dividend would come in legislation outside the budget. By January of 2019, the administration had abandoned the plan to send a Dividend of $6,700 to all Alaskans in October of 2019. Instead, Gov. Dunleavy proposed to pay bigger Dividends in future years to compensate Alaskans for the amounts the Legislature and former Gov. Bill Walker had cut Dividends in 2016, 2017, and 2018 compared to what the payments would have been under the formula for Dividends adopted in the 1980s that is still on the books. Eventually, Gov. Dunleavy's demand for the 2019 Dividend turned out to be that $3,000 that would be paid pursuant to that formula adopted in the 1980s.

The Dunleavy switch on the funding for conventional public services came in February of 2019, and it was big.

The Governor proposed on Feb. 13 the following budget reductions compared to the previous year (the figures in this

paragraph
represent cuts in Unrestricted General Funds according to the Alaska
Legislative Finance Division):

- K-12 education—25 percent cut
- Medicaid—38 percent cut
- University of Alaska—41 percent cut
- Department of Transportation and Public Facilities (DOTPF)—32 percent cut

The Governor also proposed to:

- Shift $420 million in petroleum property tax revenues from local governments to the State of Alaska
- Eliminate the endowment for Power Cost Equalization (PCE)
- Substantially increase the fees charged to Pioneer Home residents
- Zero out funding for public radio and TV
- Cut funding for the ferry system (which is part of DOTPF) by at least 65 percent—requiring that the ferries at least be tied up for the winter—while exploring privatization

Along with claiming that the public knew that he would propose big budget cuts when he was elected, the Governor's defense of his switch on the budget cuts was that oil prices were lower in December of 2018 than they were briefly in October of 2018.

Note that despite various statements and suggestions to the contrary, Gov. Dunleavy did not propose in February of 2019 a budget that aligns expenditures with current revenues. The Alaska Legislative Finance Division broke out the Governor's budget proposal as $650 million in reductions in agency operations, $520 million in cost-shifting from the State government (primarily or entirely to local governments), and $352 million in use of reserves.

The Public Protests and the Legislature Reacts

Gov. Dunleavy's proposed budget cuts galvanized public opposition. Testimony at legislative hearings ran overwhelmingly against the proposed cuts, both generally and in their specifics. Letters, e-mail messages, and telephone calls to legislators' offices also apparently leaned against the proposed cuts.

Polling results regarding the Governor's budget proposal, however, showed that Alaskans were more evenly divided than the public testimony suggested. A poll conducted in late March and early April of 2019 showed that 28 percent strongly supported Gov. Dunleavy's budget proposal and 21 percent mildly supported it while 32 percent strongly opposed it and 14 percent mildly opposed it. Another public opinion survey taken in late May and early June of 2019 provided similar numbers. That poll showed that 25 percent strongly supported the Governor’s budget proposal and 22 percent somewhat supported it, while 37 percent strongly opposed it and 10 percent somewhat opposed it.

The Legislature rejected most of Gov. Dunleavy’s proposed budget cuts and re-allocations. The operating budget the Legislature passed in June at the end of the first special session was $190 million lower than from the previous year, with most of the cuts coming from Medicaid ($87 million) and the ferry system ($40 million). (Once again, these figures represent Unrestricted General Fund (UGF) spending as reported by the non-partisan Alaska Legislative Finance Division.) In an under-reported move, the Legislature also voted to make a special transfer of $9.4 billion from the Permanent Fund Earnings Reserve to the Permanent Fund principal—which under the Alaska Constitution cannot be spent without a vote of the people—with the announced intent of satisfying inflation-proofing over the next eight fiscal years.

The Legislature was unable to pass a capital budget and could not decide on the level of the Permanent Fund Dividend before the end of the first special session came in mid-June.

The

Governor Brings the Veto Pen the First Time, and the Legislature Adds Back Most of the Vetoed Funding in a Second Special Session

Governor Dunleavy responded on June 28 by vetoing more than $400 million from the budget, adopting much of the approach he had unveiled in the budget cuts he had proposed in February (which—as noted earlier—was contrary to the specific statements he made during his gubernatorial campaign). Prominent among the vetoes announced were $130 million from the University of Alaska (a cut in line with the Governor's budget proposal in February) and $77 million from Medicaid (on top of the Legislature's cut). Among the rest of the 182 line-item vetoes were $49 million for school debt bond reimbursement and Senior Benefit payments totaling $21 million, resulting in a planned elimination of the latter program. (These figures were those announced by the Dunleavy administration's Office of Budget and Management.)

The Governor also vetoed $5.4 billion of that special appropriation from the Permanent Fund Earnings Reserve to the Permanent Fund's principal.

The Legislature's initial responses to these vetoes were hampered by both a temporary factor and a structural issue. The short-run factor was the Governor called the second special session to be held at Wasilla Middle School, while most legislators gathered more than 500 miles away in the State Capitol in Juneau. The structural issue was that Alaska's Constitution was intentionally designed to make the Governor one of the nation's most powerful. A constitutional provision that it takes a ¾ vote of the Legislature to override a veto of an appropriation is a critical element of what makes Alaska's Governor so powerful. This requirement to line up 45 votes (as opposed to 31 or 40) out of the 60 members of the Legislature in order to override a line-item veto of an appropriation is a giant weapon for the Governor who can make that veto. (Alaska is the only state with a requirement as high as ¾ of legislators to override a governor's veto of an appropriation, according to the National Conference of State Legislatures.)

Hampered by both impediments, the Legislature failed to override the budget vetoes. When all the legislators eventually gathered in Juneau later in July, the Legislature instead passed a new bill that restored all but about $20 million of the more than $400 million in operating budget vetoes that the Governor vetoed June 28. (The conflict over funding for K-12 education was put off, as the Legislature and the Governor agreed to put the issue on hold while the issue of constitutionality for forward funding for education was resolved in the courts.) The Legislature also approved a capital budget at the end of July, resolving a complicated funding question called the "reverse sweep."

The debate over the Dividend ate up much of the second special session in July, much as it consumed the Legislature all year. The Legislature passed a bill providing for a $1,600 Dividend rather than the $3,000 Dividend based on the formula adopted in the 1980s that the Governor had sought for months. The votes on the new budget bill—including the different Dividend figure—were aided by the fact that Gov. Dunleavy's approach helped unite in opposition to him a number of Republicans and Democrats who before his election were not allies.

The Legislature then adjourned in early August and awaited the Governor's next move.

The Rise of the Recall and the Return of Ben Stevens to Power Seem to Change the Governor's Mindset on How Much to Cut How Fast

Two other events occurred at the end of July that may have been related but definitely affected the Governor's relationship with the Legislature. A recall effort was announced against the Governor with two Republicans—one a coal baron—and a Democrat as the three co-chairs. Two of the five specific allegations in the recall specifically related to the Governor's budget vetoes, and signatures came much faster than expected (organizers submitted just over 49,000 signatures collected in just over a month).

The other notable announcement on July 31 was the replacement of Tuckerman Babcock as Chief of Staff with former State Senate President Ben Stevens. Some observers saw Babcock as an ideologue who may have overestimated the appeal of a $3,000 Dividend in his advice to the Governor, while the experience of Stevens in the legislative leadership may temper his counsel. Legislators reported that Gov. Dunleavy moderated in his negotiations following the naming of Stevens as Chief of Staff. (Given that in 2007 the U.S. Department of Justice got two men to plead guilty to bribing Ben Stevens (even though he was never charged—much less convicted—of any crime), some observers are surprised that he has been put in charge of a public official's image rehabilitation.)

Another step in changing the Governor's image came in the announcement Sept. 16 that Donna Arduin was out as the Governor's Director of Office of Management and Budget. Arduin had been a lightning rod for criticism of the administration's budget-cutting approach, and insiders expect that the threat of recall will lead Ben Stevens to continue to work hard to make Gov. Dunleavy appear more empathetic.

While the Governor was pondering a second round of vetoes in August, he announced an agreement apparently aimed at lowering the temperature on University funding, the target of his biggest operating budget veto in dollar terms. Gov. Dunleavy signed on August 13 a document approved by the University of Alaska's Regents in which the Governor stated his intent to replace a $135 million budget cut in one year for the University with a $25 million cut in State of Alaska funding for the current fiscal year and another $45 million cut over the following two years. Skeptics noted that the Legislature—not the University of Alaska's Regents—retains the constitutional power to make appropriations for the University (subject of course to the Governor's veto and the Legislature's power to override such a veto).

The Governor announced on August 19 his vetoes on the budget bill passed in July. The action attracting the most attention was his decision to not veto as insufficient the appropriation that would produce a Permanent Fund Dividend in 2019 of about $1,600. Gov. Dunleavy vowed to fight for a second check of $1,400 to bring the total Dividend payments to $3,000 for this year. To get that total of $3,000, he said in a video announcement that he expected to call a third special legislative session this fall to seek an additional appropriation from the Permanent Fund Earnings

Reserve to pay for the second check this year.

That same day as the announcement of the non-veto of Dividend funding that generated the $1,600 payment, Gov. Dunleavy unveiled the vetoes on the bill the Legislature passed in July adding back funding after his first round of vetoes. Highlighting the vetoes in Round 2 were $48 million from Medicaid services (including funding for adult preventative dental Medicaid services in an intended elimination of the program); $49 million from school bond debt reimbursement; and $2.7 million for public radio and TV. The Governor vetoed $5 million the Legislature added back in funding for the Alaska Marine System; with the Legislature having cut $43 million in funding during the 2019 session, some coastal communities off the road system such as Cordova will go as much as seven months this winter without ferry service.

Simultaneously, the Governor let stand some of the add-backs made by the Legislature in July. Prominent in the restorations (that is, the July appropriations not vetoed) were $21 million for the Senior Benefits program and $3.9 million for the Alaska State Council on the Arts.

Where Do the Numbers Stand Now?

Following the vetoes announced in mid-August on the add-back bill (House Bill 2001), the Alaska Legislative Finance Division reported that the budget without Dividends was $4.3 billion in Unrestricted General Funds, which is $486 million lower than last year—a 10 percent reduction. Add in the approximately $1.14 billion to pay for a Permanent Fund Dividend of $1,606 this year, and you get to $5.4 billion and a roughly balanced budget for Fiscal Year 2020, the year that runs July 1, 2019-June 30, 2020. Add in another $1,400 to pay for a second Dividend check this year—and absent new revenues—the State of Alaska would be in a deficit of close to $1 billion this year.

What's Coming Up? (Hint: More Proposed Big Budget Cuts from the Governor)

As noted above, Gov. Dunleavy has stated that he expects to call for this fall a special session—the third special session this year—to focus solely on paying the second check of $1,400 to make the $3,000 total Dividend this year that he has promised. Some legislators have said that this third special session should also address another appropriation bill that would reverse some of the vetoes made in the second round. Another potential topic at that potential special session this fall is a new formula for distribution of Permanent Fund Dividends that would be sustainable in light of the new realities the State of Alaska confronts. Some lawmakers kick around the idea of a grand bargain that would resolve these questions simultaneously.

Whatever happens this fall, Alaskans need to know that Gov. Dunleavy is by all indications committed to additional funding cuts in his budget proposal for the next fiscal year which by law must be unveiled no later than December 15. When a legislator pointed out at a public gathering this summer that Gov. Dunleavy had never proposed a budget that in fact aligned expenditures with current revenues, Commissioner of Revenue Bruce Tangeman responded that he was confident that the Governor would do so in that proposal to be submitted for the upcoming fiscal year. This statement strongly implies that the Governor's next round of proposed budget cuts will total $500 million or more.

K-12 education is the most likely big target for that next blitz of the Governor's proposed budget cuts. Recall that the Governor proposed a 25 percent budget cut—approximately $300 million—to K-12 funding back in February, and that fight only got sidetracked this year because of the Governor’s agreement with the Legislature to put the issue on hold while the courts resolved the question of the constitutionality of forward-funding.

Math and history both dictate that the Governor—who spent nearly two decades as a teacher, principal, and school district superintendent in the Bush—reach for the hatchet on K-12 education. Gov. Dunleavy has said repeatedly that he is determined to align expenditures with current revenues, and K-12 education is the biggest non-Dividend spending item in the budget. (And with the Dividend still legally at $1,606, K-12 is the largest expenditure; it’s the $3,000 Dividend that would make that outlay the biggest of all expenditures.)

In addition to another wave of budget cuts that will be fought over in the legislative session starting in January, the Governor seems likely to continue to push for his three proposed constitutional amendments, each of which would have a major impact on Alaska’s fiscal system. One amendment would substantially tighten the existing spending limit. A second would require all new taxes or tax increases to be approved by both the Legislature and a vote of the people. The third would guarantee in the Alaska Constitution the annual payment of Permanent Fund Dividends pursuant to the distribution formula that has been on the statute books since the 1980s.

What Are the Constraints on What Can Happen?

In the short run, fear of the recall might slow down some of Gov. Dunleavy's efforts to cut the budget and reshape the fiscal system. Regardless of what happens with the recall, Alaskans need to ponder some hard facts about saviors, desires, and goals.

Let's start with saviors. Alaskans have long imagined or speculated that various rescuers are coming over the hill to save our state from making difficult fiscal choices. Those potential saviors have been at various times ANWR; the gasline/LNG/various other efforts to commercialize/monetize natural gas on Alaska's North Slope; offshore oil development; the Pebble Mine; taxation of non-residents only; and small and relatively budget cuts. Unfortunately, these rescuers have not arrived, and they seem unlikely ever to get here due to a number of factors, including economic and technological changes and (in the case of taxing non-residents only) the U.S. and Alaska Constitutions. Alaska is transforming, and the announced departures of BP from Alaska and the flagship Nordstrom department store from downtown Anchorage both represent aspects of that transformation. No outside force or magic trick is going to save us, folks, and we must save ourselves.

In saving ourselves, we need to distinguish between desires and options. Many Alaskans want the State of Alaska’s fiscal system to run as much as possible as it did between the early 1980s and the mid-2010s. The four pillars of those three and a half decades were:

- Large amounts of new oil money generated by taxes and royalties regarding oil development
- Relatively high state spending per capita compared to the national average
- No use of Permanent Fund income/earnings in significant amounts beyond the payment of Permanent Fund Dividends or to protect the Permanent Fund’s principal from the effects of inflation (this latter effort is known as “inflation-proofing”)
- No general statewide taxes on individuals or significant general statewide taxes on Alaska-based corporations

Three out of four of these pillars have fallen. Large amounts of new oil money stopped arrived in the mid-2010s; the annual budget has fallen substantially since the mid-2010s and after adjusting for inflation and population is now below what is was before this fiscal system was created in the early 1980s; and starting in 2018 the State of Alaska has come to rely heavily on Permanent Fund earnings to finance the budget. Despite the falling budget and use of a lot of Permanent Fund earnings/income to pay for conventional public services, the State of Alaska still has a deficit—and will continue to do so for any future seeable now—without either raising additional revenues and/or not following the statutory Permanent Fund Dividend formula. (To get an idea of revenue options discussed now, the income tax that the Alaska House passed in 2017 would have generated about $700 million per year, and supporters of the recently proposed oil tax initiative assert that it would raise approximately $1 billion annually.)

On top of all that, the State of Alaska also faces pressures to increase the budget that has recently been going down each year. One pressure is an aging population, as people over 70 tend to need more medical care and other services than people between, say, 20 and 40 years of age. A second pressure is the capital budget; spending for infrastructure has fallen substantially in the last four years, and most experts see it as too low now. A third upward force on the budget is the State of Alaska's officially adopted plan to pay off the unfunded liabilities for the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Regarding that last factor, the State is paying off the unfunded liabilities on a

25-year plan that ends in 2039; those payments are one of the half-dozen biggest spending items in the budget, and they increase each year until the final payment in 2039.

Given current realities, Alaskans appear to want mutually contradictory outcomes. A lot of Alaskans seem to want big budget cuts in theory and in general, but rebel loudly when those cuts are made specific and real and rule out the additional taxes and/or reduction of Permanent Fund Dividends necessary to finance the actual budget they seem to want. Alaskans need to figure out what desires are unrealistic and investigate the genuine options for our state.

The choices among options should be guided by an explicit discussion of goals. Once again: What kind of Alaska can we have? What kind of Alaska do we want?

Cliff Groh speaks only for himself in this article.

What were the original arguments for the Permanent Fund dividend?

By Cliff Groh, printed in the Anchorage Daily News, 9/10/19

I was the legislative assistant who worked the most on the bill that created the Permanent Fund dividend in 1982. Advocates for the dividend offered essentially five rationales during consideration of the legislation that put in place the “equal payments for all” program we have today. The per capita dividend adopted in 1982 was the result of a bill that served as a backup — or backstop — for the original “the longer you’re here, the more you get” dividend created by a law passed in 1980, which quickly became stalled in litigation. The Alaska Legislature passed the bill providing for the per capita dividend as a backstop 11 days before the U.S. Supreme Court struck down the original dividend bill as unconstitutional, and so the first dividends were paid in the summer of 1982 under the backstop bill.

The five arguments for per-capita dividends made at the creation were:

1. Paying dividends out of the Permanent Fund’s income or earnings would build a political constituency to protect the Permanent Fund’s principal against raids by special interests. The logic: The bigger the Permanent Fund, the bigger the Permanent Fund dividend. A variant of this argument was that the dividend would strengthen political opposition to pork-barrel spending and budgetary hyper-growth.

2. Paying dividends would provide greater economic "bang for the buck" than spending the same amount of money on the operating budget, capital projects or loans to residents. A related argument was that compared to the alternatives, dividends would more efficiently allocate the surplus oil money coming into the state of Alaska's coffers in the early 1980s.

3. Individuals have a right to use a portion of their oil wealth. This argument's supporters pointed to the Alaska Constitution's statement that "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." Legislators recognized this individual entitlement to state-owned natural resources by adopting findings to the 1980 dividend bill stating that the legislation "fairly compensates each state resident for his equitable ownership of the state's natural resources…." (The legislation in 1982 that created the per-capita dividend we have today had no findings, however, as some legislators considered such philosophical statements too controversial to include in the bill.)

4. Permanent Fund dividends would deliver benefits more equitably than alternative uses of the surplus oil money. Gov. Jay Hammond – the most important supporter of dividends – contended that the powerful and well-connected were already benefiting from the state's oil wealth through special-interest appropriations, often arranged behind closed doors. The repeal of Alaska's personal income tax in 1980 further tilted benefits toward higher-income people, some of whom were non-residents. The state's highly subsidized loan programs were also cited as examples of inequitable distribution. As I noted in a document circulated in the Legislature during the 1982 session, per-capita dividends by contrast "treat all

Alaskans alike – whether they are rich or poor, or whether their home is Adak or Anchorage."

5. Universal direct distribution of a portion of the Permanent Fund's income would fortify the safety net for low-income Alaskans. Hammond never thought much of this argument, but legislators concerned over what seemed to them a possible perverse effect inserted "hold harmless" provisions in the 1982 legislation authorizing use of the state's general fund to offset loss of federal needs-tested benefits caused by receipt of a dividend.

Which arguments make sense now?

***Cliff Groh**, an Anchorage resident, says he considers his work on the 1982 Permanent Fund Dividend legislation perhaps his most interesting, challenging and fun job ever. Some of this material overlaps with a chapter he co-authored with Gregg Erickson for a book published in 2012.*

Read the online opinion piece here.

Vic Fischer's testimony on constitutional amendments

Interested in watching Vic Fischer's testimony to the House

State Affairs Committee on Tuesday, May 7, 2019? You can find it at this link.

Taxes and the Dividend

John Havelock, Anchorage Daily News, April 14, 2019

The first step in bringing a solution to our state budget issues is to combine a healthy dividend plan with the imposition of an income tax in one bill, possibly avoiding the one-subject rule by treating the dividend as a subset of the tax. The combination would make a Dunleavy veto difficult.

Put together with the dividend, the tax doesn't seem so bad. You get paid $1,800 into one hand and pay back out of the other — nothing or, in rare cases, the whole thing, depending on how rich you are. Amazing how the majority of Alaskans who make too little to pay much in graduated income taxes are the angriest voices protecting the income of the well-off who would pay almost all the taxes.

It might help if more Alaskans realized that the Permanent Fund dividend is actually a social program, common in other Western countries, intended to support a minimum income floor. Sometimes it is called a "negative income tax." Also common in Western Europe are forms of child support. Our dividend to babies and children serves the same purpose. The payments to a family with children bring an improved standard of child care.

The PFD's societal purposes are especially relevant in Alaska with our large, rural, variable subsistence, low income population. The disappearance of the dividend will undermine village life, pressuring thousands of Alaska Natives to choose a life in large cities as the cash floor to the subsistence lifestyle is destroyed.

Of course expenditures are made deserving disapproval. That may be where the notion of "dividend," a "payment of right," helps to justify the program as well as saving the state expenditures relating to accountability. The public will favor a PFD but not separate appropriations for rural welfare or child support. We all prefer programs free of the government's nose in our business.

The PFD is not the root of the state's budget problem (per Roger Marks); the root of the state's problem is the absence of a sustaining tax base. In most states, that's an income tax. A new business coming into the state, bringing in new people, should pay its share. In Alaska, new business cuts everybody's share. That's why some economists have called our oil base "a curse." In a tax-free state, it sets a fixed or declining amount of revenue for the public-service sectors of the economy.

The PFD is a program, a program requiring expenditures, like education, health, justice and welfare, or to cite a federal program, Social Security, which also sends money to people that need it or don't in varying degrees and then taxes some of it back. Some Social Security dollars are no doubt spent on pleasures not related to specific needs of seniors. But it works and it had the required public support.

Whatever the original theory (and bless Gov. Jay Hammond and his legislative allies), the PFD is now an income maintenance program of critical importance to most of the state.

No doubt, after an income tax, there is still some deficit to be dealt with. At the top of the list for addressing the remaining deficit is a better look at oil taxes. In the era of Govs. Bill Egan, Jay Hammond and Wally Hickel, a split of one-third federal, one-third state and one-third industry was the rough standard for distributing oil revenue. We fall short of that now. We have heard the industry's cry for 50 years that if you raise our taxes, we will take our bat and balls and go home. It just isn't true. And handing out oil subsidies is just crazy, suggesting there has been way too much oil influence over the Legislature.

Maybe there is room for more budget cuts, but not much. We have been cutting and ignoring emerging issues (pre-K-12 for example) for too many years already. Maybe there are additional, incidental taxes to levy. A bit more on gasoline, a statewide shot at alcohol — which generates much more in costs than it gives in taxes — and a seasonal sales tax that brings the tourist industry in to pay a better share of the base.

Most of us take special pride in being Alaskans. How many times have you heard about the "old days" when we stopped on the highway anytime we saw someone in trouble? Those stories reflect the theme that Real Alaskans take care of those who need help. We don't complain about people living on handouts when the economics of the state show that we are all doing just that. The Territorial Legislature passed an income tax. So, let’s call our legislators to a standard, working on a real solution – one that does no injury to Alaska values, one that reminds us to cough up our share as well as taking one.

John Havelock served as Gov. Bill Egan’s Attorney General and was on Gov. Jay Hammond’s Growth Policy Council and Gov. Wally Hickel’s Committee on School Organization.

He’s also a founding member of Alaska Common Ground. Read the article in the Anchorage Daily News here.