Alaska faces huge short-term and long-term budget problems, and the Permanent Fund is at the center of both

Author: James Brooks | Anchorage Daily News | December 20, 2021

Note: You can read the article on the ADN site here. Board member Cliff Groh is quoted as part of this article.

Shortly before his death in 2005, Jay Hammond concisely expressed his vision for the Alaska Permanent Fund.

“I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity,” the former Alaska governor wrote.

For the first time since the Permanent Fund was created in 1976, the state of Alaska is seriously considering a step away from that vision. Gov. Mike Dunleavy has proposed spending billions from the fund to pay for a $5,000 stimulus in 2021. Such a stimulus is badly needed, economists say: Unemployment is high, thousands of Alaskans aren’t caught up on their rent and many residents don’t have enough to eat.

That stimulus would have a long-term cost. The Permanent Fund’s investment earnings now account for over 70% of state revenue. Spending more from the fund means less money to invest and bigger deficits in the future. In turn, that would mean more tax increases and cuts to services.

The debate between short-term needs and long-term needs is expected to consume the opening months of next year’s legislative session because Dunleavy is requesting action by
March.

To short-circuit that argument, some state experts are suggesting a third way: Short-term spending now, but an agreement on future tax increases to reduce deficits in the long run.

In 2018, lawmakers passed a bill that created an annual transfer from the Permanent Fund to the state treasury, and that money has kept the state afloat even as oil tax revenue has crashed.

In the fiscal year that starts July 1, oil will provide 19% of the state’s revenue, the lowest figure since 1960, according to state projections and historical figures kept by the nonpartisan Legislative Finance Division. The annual transfer from the Permanent Fund will account for 71% of the money the state spends on schools, roads, health care and other services.

Because the Permanent Fund is now so important to state revenue, lawmakers have taken extraordinary efforts to follow the 2018 law, even if it means cutting the Permanent Fund dividend in the process. (This year, state tax revenue has dropped so much that Alaska will likely have a small deficit even with no dividend.)

Many lawmakers have kept $100 billion as a target in their minds.

If the Alaska Permanent Fund reaches $100 billion, an average of $5 billion per year would flow from the fund to the treasury under the 2018 law, enough to pay for services and a small dividend.

If the fund keeps growing, the transfer would grow as well, keeping pace with inflation and services needed as the state’s population grows. The state could keep running without a sales tax, an income tax or higher taxes on oil companies.
The problem is getting to $100 billion.

On Nov. 30, the fund stood at $73 billion, and the Permanent Fund’s tentative forecasts indicate it will not reach $80 billion until 2030. Less than two weeks after the fund hit $73 billion, Dunleavy suggested his $6.2 billion spending plan.

The fund has enough money to pay for the plan — its value has risen significantly this year — but the governor’s proposal is about double the spending limit approved by lawmakers in 2018 and would drop the fund’s value.

“What the governor is proposing is that we take nearly 10% of the fund in one fell swoop, which I think will result in a significant loss to the overall value of the Permanent Fund, and that extreme whack at the fund, it will most certainly affect the future,” said state Sen. Natasha von Imhof, R-Anchorage.

The fund has earned an average of 6.44% annually over the past five years. Spending an extra $3 billion this year would cost the state over $1.9 billion in missed earnings over the next 10 years.

“How do you get to $100 billion if you take 10% of it in one fell swoop?” von Imhof said.

“As a realistic matter, it might make it impossible to get there,” said Rep. Zack Fields, D-Anchorage.

Since 1976, the fund has been capitalized by oil revenue, mostly from Prudhoe Bay, and Fields said Alaskans shouldn’t expect another Prudhoe Bay.

“I mean, you don’t want to plan on wishful thinking. I hope that happens, that would be great. But, you know, you don’t want your whole future to be contingent on that,” he said.

Others say the crisis happening now is more important than what might happen in the future.
Short-term needs

“Providing cash to people right now is probably one of the most efficient and effective ways to help reduce hardship,” said LaDonna Pavetti, vice president for family income support policy at the Washington, D.C.-based Center on Budget and Policy Priorities.

This week, the center analyzed U.S. Census Bureau data collected in the last week of November and the first week of December. It found that more than a third of Alaska adults are having problems paying for their normal household expenses. Almost 1 in 5 aren’t caught up on their rent. And more than 1 in 10 say their household doesn’t have enough to eat.

Alaska had 23,500 fewer jobs in November 2020 than it did in November 2019, according to figures published this week by Alaska Department of Labor and Workforce Development.

“If there was ever a good time to give people a chunk of money, it’s today,” said Ed King, an economist who formerly worked for the state Office of Management and Budget but now operates a private firm.

Announcing his proposed budget on Dec. 11, Dunleavy said, “Alaskans and the private sector need assistance now. Businesses that have been devastated, and Alaskans that are suffering, will benefit from immediate action by the legislature placing money into the people’s hands by March.”

The governor’s proposal calls for a $1,900 payment — costing about $1.2 billion — in the spring. A second payment, expected to be above $3,000, would come after the state’s new fiscal year starts July 1. It would cost about $2 billion, according to Permanent Fund Corp. estimates.

“I think it’s necessary, perhaps even prudent, to tap some portion of the Permanent Fund to stabilize economic activity,” said economist Mouhcine Guettabi of the Institute of Social
and Economic Research at the University of Alaska Anchorage.

Pavetti suggested that a payment targeted at the poorest Alaskans might be more cost-effective. Dunleavy has proposed a payout through Alaska’s Permanent Fund dividend.

That would help him fulfill a 2018 campaign pledge to support the old formula the state used for the annual Permanent Fund dividend. The state hasn’t followed that formula since 2016, but it still remains law. The governor has proposed changing the law to a smaller payout, if Alaskans approve the change in an advisory vote.

“I believe the governor’s FY22 budget approach strikes a reasonable balance between immediate needs of our neighbors who have been struggling for much of this year and the longer-term concerns of stabilizing Alaska’s economy and protecting and growing the Permanent Fund for the future,” said Rep. Cathy Tilton, R-Wasilla. “Obviously, I would much prefer if we didn’t have to strike that balance and make those choices.”
The problem is that even with the governor-endorsed formula change, the state still projects deficits — more than a billion dollars each year through 2025, and diminishing to just under $700 million by 2030.

Long before then, the Permanent Fund will be out of spendable money.

**Economists suggest a middle way**

Earlier this year, Anchorage attorney Cliff Groh, one of the authors of Alaska’s 1982 Permanent Fund dividend law, wrote a lengthy strategy that could provide a path to balancing the state’s short-term and long-term needs.

In brief, Groh’s strategy involves an overdraw from the Permanent Fund this year but also passing a tax that would
take effect in 2022. Revenue from the tax would offset the investment losses from the overdraw and make Dunleavy’s proposed new dividend formula practical.

Economists have separately endorsed similar ideas.

“In an ideal world, we would be ‘overdrawn’ in the fund but at the same time setting the course for either future taxes or some sort of revenue that’s going to balance the budget,” Guettabi said. “That doesn’t seem to be the case – we have one part of the equation but I’m not sure we have the other one quite yet.”

Groh prefers an income tax over a sales tax, and the Alaska Department of Revenue has previously said that it would take time to set up an income tax.

“What the Department of Revenue says is that it takes about 18 months, and that’s a fact,” Groh said.

The time needed to set up a tax would reduce its impact: Alaska would have time to rebound from the pandemic-caused recession before the new tax begins.

“That’s kind of what I hope comes out of this whole conversation: We don’t just solve a (short-term) problem, we also address the long-term, and we start working towards a solution,” King said, not referring specifically to the Groh plan. “So if you know it’s going to take at least a year to start generating revenue, you need to start having those revenue conversations a year before you need them, which is now.”

Dunleavy’s 10-year fiscal outlook acknowledges the possibility. Starting July 1, 2023, it lists more than $1 billion in undefined “other revenue sources.”

“Over the next two years Alaska’s economy will rebound from the pandemic-induced recession and as soon as fiscal year 2023
may be healthy enough to bear additional revenue measures,” the outlook states.

Any new taxes, changes to the Permanent Fund dividend formula or overdraws from the Permanent Fund must first be approved by the Alaska Legislature.

Neither the House nor Senate have selected leaders so far. The legislative session begins Jan. 18.

About this Author

James Brooks


Oil Companies Spend Big to Try to Defeat Alaska’s Tax Proposal

October 22, 2020 By Michael J. Bologna Bloomberg Gov

Petroleum giants BP, ConocoPhillips, ExxonMobil, and Hilcorp Energy have invested a record $18.4 million in a campaign against an Alaska ballot measure that would boost taxes on the richest oil fields in North America.

ConocoPhillips Alaska might retreat from drilling on the North Slope if the ballot proposal is approved in the Nov. 3
election, according to company president Joe Marushack.

“This is an increase of the severance taxes by 150% to 300% depending on oil prices,” Marushack said during an Alaska Chamber presentation. “That’s in addition to the income taxes we pay, the royalties we pay, the operating costs we pay. This is a huge increase on industry.”

The North Slope Oil Production Tax Increase Initiative (Ballot Measure 1) seeks to overhaul Alaska’s formula for claiming revenue from crude oil extracted from the Alpine, Kuparuk, and Prudhoe Bay fields.

The producers, pooling their money through the OneAlaska-Vote No on One committee, argue the initiative would destroy the most important industry in the state by jacking up taxes between $265 million and $800 million annually, depending on the per-barrel price of oil.

Hilcorp vice president David Wilkins said the change would cause producers to invest in other states. “The best thing Alaska can do is make the playing field for investment stable,” he said.

The Vote Yes for Alaska’s Fair Share committee is arguing that the current tax (S.B. 21), enacted in 2014, has essentially relieved big oil of production taxes for five years. The group points to modeling done by former state tax director Ken Alper showing Alaska netted production tax revenue of $3.8 billion annually, on average, during the five years prior to the new law. Revenues then dropped below zero because the state granted more in credits than it collected.

“Since S.B. 21, the state has paid and incurred $2.1 billion in awarded credits, and received only $2 billion in production taxes,” said Robin Brena, chairman of the Vote Yes committee. “We have paid the producers more than they’ve paid us.”

The Vote No committee argues that the state’s declining
production revenues should be attributed to conditions in the global oil industry.

**Lopsided Spending**

More than 98% of the Vote No committee’s $18.4 million was gathered from energy companies and trade associations, according to campaign finance reports filed with the Alaska Public Offices Commission. The donations include $4.5 million from BP; $275,000 from Chevron USA; $4.5 million from ConocoPhillips; $3.7 million from ExxonMobil; $4.3 million from Hilcorp Energy; and more than $800,000 from the Alaska Oil and Gas Association.

ConocoPhillips and Hilcorp have made additional campaign contributions though a $2.3 million fund directed by the Alaska Chamber, which released its own ads against the measure.

Chantel Walsh, chair of the Vote No committee and former director of Alaska’s Division of Oil and Gas, said the campaign is needed to avoid giving the petroleum industry a reason to pull back on drilling, production and investment across Alaska.

“It has to be fought, unfortunately, with lots of dollars and so the industry as a whole is rallying together,” Walsh said.

Photographer: Daniel Acker/Bloomberg


The Vote Yes committee has raised about $1.3 million from more than 500 donors. Brena, a trial attorney who made a fortune fighting oil companies on behalf of municipalities, put more than $1 million in the campaign.

Cliff Groh, a director of the voter awareness group Alaska
Common Ground, called the spending by both sides unprecedented for a ballot proposal in Alaska.

In 2014, oil companies spent $14.2 million and narrowly defeated a similar ballot measure. The political dynamics are different this year, with oil prices and industry revenues slumping and Alaska’s fiscal house in disarray, said Groh.

“This will be a hard one to call,” he said. Alaska is hard to poll statewide. It’s a big state geographically, lots of rural areas, with a small population.”

The ballot measure is opposed by Gov. Mike Dunleavy (R), who believes the tax plan would harm the state’s economy. Tax reforms are best left to the state legislature, Dunleavy told a public radio station last week.

The Details

The ballot measure seeks to impose an alternative gross minimum tax or an additional production tax, whichever is greater, on oil pumped from Alaska’s North Slope. The gross minimum tax would be imposed at 10 percent of the gross value of oil at the point of production where the average per-barrel price for crude oil is less than $50. The alternative calculation would scale higher by 1 percentage point per $5 increment increase in the average per-barrel price for crude oil to a cap of 15 percent. No credits, operating losses or offsets could be used to reduce the tax due below this calculation.

Under the additional production tax method, the tax would be the difference between the average production tax value of oil per month and $50, multiplied by the volume of taxable oil produced by the producer for that month, and multiplied by 15 percent. The method would also eliminate the current credit system.

The plan also promises transparency, requiring oil company tax
records submitted to the Alaska Department of Revenue to be considered matters of public record.

Edward King, a former chief economist for the state, said he agrees the production tax should be changed, just not this way.

“Oil tax law is complicated and our oil tax law in Alaska is more complicated than anywhere else,” said King, who’s running for a state House seat as an independent. “When you start adjusting something this complex through a ballot initiative that had no public process, no analysis and no transparency. That’s not a great way of rewriting a very complex area of law.”

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We shouldn’t waste the time before the budget wars begin again

Larry Persily, Published October 21, 2019, Anchorage Daily News

As the
chances of a special legislative session this fall diminish, Alaskans have some extra time to think about how to fix the state’s fiscal future next year.

The Legislature will convene in regular session in less than 90 days and no doubt the budget, public services and long-term finances will dominate the debates — as they should. We’ve confronted — and at the same time avoided — the problems since the 1990s. The indecision is hurting our communities and Alaska’s economic future.

We’ve put off the decisions in election years for fear of punishment at the polls, and have been unable to solve them in non-election years because too many players are looking ahead to the next campaign.

All the while, the big-number options for balancing spending and revenues are unchanged despite years of arguing, spreadsheets and town halls: Cut state spending on public services; collect taxes from individual Alaskans, non-resident workers and/or visitors; increase taxes on oil production; use Permanent Fund earnings and adjust the calculation for the annual Permanent Fund dividend.
People can talk all they want about railroads to Canada, roads to remote Alaska mining districts, mythical North Slope natural gas pipelines and hypothetical benefits of being “open for business” (whatever that overused slogan means), but the mathematical reality is that none of the above politically inflated legends could ever produce enough state revenue to avoid the hard decisions on public services, taxes and the size of the PFD.

Our decisions should be based on reality, not dreams.

Those decisions on public services, taxes and the PFD are uncomfortable, even painful to many, and all are politically dangerous, maybe even politically deadly. But waiting any longer isn’t going to make some new option appear out of nowhere or make the problems go away, just like the broccoli isn’t going to disappear from the 12-year-old’s plate no matter how long he avoids it.

The solution is all of the above (minus the broccoli). Everyone benefits in the long term if everyone contributes. The odds of political success are better if everyone jumps together.
In the 1969 film, “Butch Cassidy and the Sundance Kid,” Robert Redford and Paul Newman survived when they jumped off the cliff together. Sure, they were being chased by a posse for robbing a train — unlike Alaska, which is being chased by fiscal reality — but the solution is the same: Take the leap together.

Which means legislators and the governor — and the public — need to work next year toward a comprehensive plan for a healthy, stable long-term fiscal future for Alaska.

Which means permanently restructuring the dividend formula to an affordable level that can pay Alaskans for decades.

It means spending enough on public services to protect and educate Alaskans, while building for the future, but resisting spending on programs and special projects that are beyond the role of government.

It means looking at a broad-based tax on individuals, so that all Alaskans, and the guests who enjoy and prosper during their time in the state, contribute.
And it means the oil industry should not be excused from the collective answer.

That doesn’t mean expecting the oil industry to solve all our problems with one big check, like the backers of the oil tax initiative promote. The industry knows it will always be a deep pocket in Alaska. What worries the decision-makers in corporate offices is the 40-year history that they are the only pocket we reach into. That attitude among many Alaskans, and the resulting fear among the industry, is destructive of future investment.

Our best hope is that the higher-oil-taxes-solve-everything lobby, the don’t-touch-my-PFD lobby, the no-new-taxes lobby, and the cut-spending lobby will put down their signs, stifle their campaign rhetoric, stop their Facebook attacks and find an all-of-the-above compromise.

**Larry Persily** is a longtime Alaska journalist, with breaks for federal, state and municipal jobs in oil and gas and taxes, including deputy commissioner at the Alaska Department of Revenue 1999-2003. He is teaching journalism this fall at the University of Alaska Anchorage.
JUNEAU — Victor Fischer, the last surviving delegate to Alaska’s 1955-1956 Constitutional Convention, testified Tuesday against a proposed constitutional amendment dealing with taxation, telling lawmakers it is poorly written and would handicap the state in the future.

“If we had had something like that at the time of the construction of the trans-Alaska oil pipeline, state government would have been incapable of dealing with the changes that were taking place,” Fischer told a hearing of the House State Affairs Committee.

Fischer’s status as the last living link to the Alaska Constitution granted him extraordinary deference from the committee, which allowed him to speak for almost an hour with few interruptions.

As Rep. Zack Fields, D-Anchorage, explained, Americans “can’t
ask Thomas Jefferson” why he wrote certain things in the Declaration of Independence, but they can speak to someone who was part of the process for one of Alaska’s foundational documents.

The amendment under discussion is contained in House Joint Resolution 5 and would require voter approval of all new taxes or tax increases. The amendment was proposed by Gov. Mike Dunleavy, but as Fischer pointed out, the state constitution doesn’t give the governor a role in amending the constitution.

“It’s your amendment if it goes before the people,” he told lawmakers. “It’s not the governor’s.”

The governor has proposed two other constitutional amendments: a tightening of the existing constitutional spending cap and a constitutional guarantee for the Permanent Fund dividend.

Fischer previously stated his opposition to all three amendments in an op-ed submitted to the Daily News, and on Tuesday he expanded upon his position with a focus on the taxation amendment.

To lawmakers, he said the effect of the amendment is to freeze state taxes in place, regardless of whether or not they are appropriate.

“(They) may be totally inappropriate seven years from now, to say nothing about 70 years from now,” he said.
He pointed out that when the Alaska Constitution was written, “big oil” hadn’t yet been discovered, yet the document was flexible enough to serve as the basis for the state’s resource wealth today.

He alluded to the popular debate over Senate Bill 21, the oil tax reform legislation that passed the Legislature in 2013 and was upheld at the ballot box in 2014.

Are Alaskans sure, he asked, if that is the appropriate oil tax system now and forever?

“It is freezing something at this moment of time instead of leaving it to future legislatures, to future actions,” he said.

Fischer also had tough words for the text of the amendment itself. He pointed out that the constitutional convention had an entire committee devoted to writing things simply and clearly for the public. The taxation amendment is too long and written poorly, he said.

“Do it in one sentence. Don’t do pages in the constitution, because then you get involved in minutiae, and future legislators will have to come and clean up the mess that you’ve made,” he said.

Regardless of his opinion, Fischer said, the guiding hands on the language of any amendment are those of the Legislature.
“This is your responsibility. You decide – not the governor, not the Supreme Court – what goes before the people,” he said.

Read the full article here.

Affordable housing in Anchorage is ‘like the game of musical chairs,’ says Cook Inlet Housing Authority

Cassie Schirm from KTVA Channel 11 News. March 8, 2019


How does Alaska’s Spending Compare?

Alaskans have been arguing for years about how much the state government should be spending, ever since low oil prices
gouged a big hole in the budget—and the state has been using up its savings to pay the bills. We don’t know how much the state should spend: that answer depends on what things Alaskans want to keep, and what they’ll pay for them. But we can throw some light on the debate.

Read the full article by Mouhcine Guettabi, Trang Tan, and Linda Leask of UAA’s Institute of Social and Economic Research.

Language of Ballot Measure 1

Summary language:

An act providing for the protection of wild salmon and fish and wildlife habitat.

This act would amend Alaska’s fish habitat permitting law. The act would require the Department of Fish and Game (ADF&G) to apply new standards to permitting activities and development projects that have the potential to harm fish habitat. The act would exempt existing projects, operations, or facilities that have received all state and federal permits until a new permit is needed. The act would create fish and wildlife habitat-protection standards. The standards would address water quality, temperature, streamflow, and more. The act defines “anadromous fish habitat.” The act would allow ADF&G to apply the law to all habitat in Alaska that directly or indirectly supports salmon or other anadromous fish. The act would provide for three types of permits for development in anadromous fish habitat. ADF&G could issue a general permit—a single permit that applies to many people—for certain
activities. For other activities that require a permit, the act would establish a two-track permitting system. Minor permits would be issued for activities that have little impact on fish habitat. Major permits would be issued for projects that have the potential to cause significant adverse effects on fish habitat. The act defines “significant adverse effects.” The act would require ADF&G to avoid or minimize adverse effects through mitigation measures and permit conditions. It would provide public notice on all permits and a chance to comment on major permits. The act would create criteria, timeframes, and an appeals process for the permits by interested persons. The act would allow ADF&G to respond to specified conduct with tickets, civil fines, or criminal penalties. The act would repeal two current statutes. One is regarding mitigation from a dam. The other is regarding criminal penalties that are addressed elsewhere.

Interested in reading the actual language of ballot measure 1? This includes the edits based on the Supreme Court decision in August. Please visit the Division of Elections page with the language here.

Draft STIP released for 2018-2021

The Alaska Statewide Transportation Improvement Program (STIP) is the state’s four-year program for transportation system preservation and development. It includes interstate, state and some local highways, bridges, ferries and public transportation, but does not include airports or non-ferry-related ports and harbors. It covers all system improvements for which partial or full federal funding is approved and that
are expected to take place during the four-year duration of the STIP.

More information on their website.

Read the STIP.

Climate Action Leadership Team releases draft climate change policy

Alaska takes first step toward a state-level climate policy. Plan calls for 30 percent less emissions, 50 percent electricity from renewable resources by 2025.

Link to the draft Climate Change Policy.

Link to Juneau Empire article.

Effects of PFDs on Poverty Among Rural Alaska Natives

UAA ISER Publications
April 10th, 2018

A recent article in the journal World Development, by Matthew Berman, professor of economics at ISER, examines how the Permanent Fund dividend (PFD) has reduced poverty among the
60,000 or so Alaska Natives living in small, isolated communities far off the road system. PFDs are cash payments the state government makes to virtually all Alaska residents every year. Rural Alaska Natives are much more likely than other Alaskans to be poor, mostly because jobs are scarce in remote areas. The author found:

Without PFDs, more than 28% of rural Alaska Natives would have fallen below the poverty line from 2011-2015, compared with about 11% among all Alaskans. With PFDs, poverty during that period dropped to about 22% among rural Alaska Natives and 9% among all Alaskans. But those recent rates are higher than in 2000, when PFDs reduced poverty to 14% among rural Alaska Natives and about 6.5% among all Alaskans. PFDs have become less effective at reducing poverty, partly because PFDs didn’t grow as fast as inflation. But also, more Alaskans now have incomes that fall further below the poverty line—so it takes more to lift them out of poverty.

This article is open access. Download “Resource rents, universal basic income, and poverty among Alaska’s Indigenous peoples,” by Matthew Berman, in World Development, Volume 106. If you have questions, contact the author at matthew.berman@uaa.alaska.edu.