

Report on the Alaska Legislature: Decisions, Divisions, and Visions

By Cliff Groh – September 29, 2021

The Alaska Legislature completed this year's third special session September 14 by passing an \$1,100 Permanent Fund Dividend for this fall and failing to adopt a fiscal plan. Gov. Mike Dunleavy reluctantly accepted the \$1,100 amount while vowing to fight for a higher Dividend. He also issued a proclamation directing the Legislature to return for a fourth special session starting in Juneau on Monday, October 4 to address the short agenda of "an act or acts relating to a fiscal plan."

Observers are split on the likelihood of that fourth special session producing a sustainable fix to the State of Alaska's structural fiscal deficit.

The Case for Optimism

You can find optimists regarding how fast Alaska can resolve its fiscal gap, and they include well-informed legislators such as Senate Minority Leader Tom Begich (D.-Anchorage) and Rep. Ivy Spohnholz (D.-Anchorage), Chair of the House Ways & Means Committee. They tend to cite the recent work of the Fiscal Plan Working Group that achieved agreement on the description of the problem and came up with solutions. That bipartisan and bicameral panel delivered a report last month with 10 substantive recommendations.

Sen. Begich told *The Hill* last week that lawmakers are concentrating on four main elements to produce a sustainable fiscal plan, and the four on his list are a shorter version of the Fiscal Plan Working Group's 10:

- Changing the formula for calculating the Dividend each year
- Embedding in the Constitution the allocation of Permanent Fund earnings between Dividends and public services/projects (in practice, constitutionalizing the allocation would seem to resolve the question of the Dividend formula by setting the dollars available for the annual Dividend)
- Imposing a tighter spending limit
- Adding new revenues

The Case for Pessimism

Pessimists, on the other hand, have their own long list of reasons why no deal will be reached this next (fourth) special session. The obstacles include:

- A highly divided Legislature on ideological and philosophical lines
- A public that includes many Alaskans with unrealistic expectations of a relatively painless solution to Alaska's structural deficit
- A tiny House Majority Coalition that finds it difficult to conduct business on the floor
- Fractures in the Senate that effectively produce two caucuses within the Senate Majority, with rumors flying that the Senate (and—less plausibly—the House) will re-organize soon
- Tribalism within the Legislature that has combined with fear of social media exposure to reduce the after-hours cross-party socializing that used to make compromises easier
- An unusually high degree of rancor and even “hatred” within the Capitol
- A Governor and a group of legislative allies who refuse to support legislation that would pay for the jumbo Dividends that this faction has advocated, preferring instead to overdraw the Permanent Fund as “bridge”

funding for a transition to sustainability

Wild Cards: Gov. Dunleavy's Re-Election Campaign, Reapportionment, and a Potential Constitutional Convention

Alaska had the most complex fiscal politics in the United States before we got to this 2021-2022 election cycle, and now three other elements make it even more complicated.

First, there is the odd role of Gov. Dunleavy. He has staunch supporters among Republican lawmakers. It is striking, however, how much opposition he triggers among powerful Republican legislators as well as in Democrats. Fierce critics of the Governor's approach to fiscal matters include GOP lawmakers like Sens. Bert Stedman of Sitka, Click Bishop of Fairbanks, and Natasha von Imhof of Anchorage. (Each are members of the powerful Senate Finance Committee, and Stedman and Bishop are the Co-Chairs.)

There is much speculation in the Capitol among the bipartisan anti-Dunleavy group about what steps would be most likely to help or harm his chances for re-election. Thus the Governor's proposed constitutional amendment for a 50/50 allocation of Permanent Fund earnings is held up for reasons both substantive and political. That is, the opposition is powered not only by fears of billion-dollar deficits, but by concerns that putting that amendment on the ballot would aid the Dunleavy campaign.

Then there's reapportionment. House Republican legislators lament the fact that there is a House Majority Coalition mostly composed of Democrats when the voters elected six more Republicans than Democrats to the House, and they hope that the redistricting that occurs for next year's election will produce a Republican-only House majority in 2023. This thinking tends to make some Republicans reluctant to compromise and want instead to wait until more like-minded lawmakers arrive in Juneau. Conversely, some Democrats advise

making a deal now to avoid a more difficult environment after this current 32nd Legislature ends.

Finally, there are hopes and fears about another once-in-10-years event, the vote in November of 2022 on whether to have a constitutional convention. This could be the biggest game-changer in Alaska politics, both regarding fiscal matters and a whole bunch of other subjects. The political dynamics of a potential constitutional convention resemble those of reapportionment, with those who believe they will benefit wanting to hold up on big decisions and those who are scared of coming up on the short end later feeling incentives to move now.

The Upshot: It's Probably Unlikely that a Fourth Special Session Will Produce a Big Fiscal Fix, and a Higher Dividend than \$1,100 This Year Depends on that Big Fiscal Fix

Matt Buxton of the *Midnight Sun Memo* wrote last week that: "I think that right now the chances are high that the Legislature may just immediately gavel out [of the fourth special session] or just let the session simmer with the occasional hearing and plenty of technical floor sessions."

That prediction may well be correct, and it might not go far enough.

Some lawmakers and observers are pushing for the Legislature to work with the Governor to cancel the fourth special session and hold off on big fiscal decisions until the regular session starts in January, when legislators have more time and more staff than in the special sessions (which are constitutionally limited to 30 days).

Paying a Dividend of more than \$1,100 this year would require some combination of overdrawing the Permanent Fund/raising taxes/additional budget cuts, so most Legislature watchers believe that achieving a long-term fix would be necessary

before there would be the votes to appropriate more money for a larger Dividend.

The Competing Visions Undergirding the Divisions

Counteracting these negative factors to produce a sustainable fix to Alaska's structural fiscal deficit is going to take leadership, courage, creativity, and a spirit of compromise. Whatever the timing, the way those big decisions will come out depends on the visions driving them.

This is particularly true given just how deep the gulf is over which way Alaska will go. Contrast two big-picture looks at our state's future.

The Alaska Municipal League has catalogued an "infrastructure deficit" regarding improvements to highways, deferred maintenance of State-owned buildings and schools, broadband, ports and harbors, housing, and other categories that totals more than \$27 billion. (You can find this list at the "Unfunded & Underfunded Priorities" section at <https://akfiscalfutures.com> on the Internet.) Supporters see these items as critical investments to help make the 49th State desirable and competitive in the necessary transition away from an economy and a fiscal system based on oil. Backers of this vision tend to push for taxes to pay for spending on this list as well as other items.

An influential Republican legislator pointed towards a different path in a meeting with me this month, however. After acknowledging that after adjusting for inflation and population growth the State of Alaska is now spending at levels seen in the 1970s, the lawmaker suggested that the spending should go down to the levels of the 1960s. Advocates for this approach stress the importance of much greater additional cuts to the conventional budget paired with jumbo Dividends.

Alaskans need to decide which vision is more desirable for our state.

Cliff Groh has been a board member of Alaska Common Ground for more than 20 years. As a Board member he has facilitated discussion of the state fiscal situation and as an individual has been a strong advocate for solving the state's fiscal problems. He spent the just-concluded third special session in Juneau meeting with legislators and legislative staff (while agreeing not to identify them), and he also writes an e-mail newsletter called "Fiscal Cliff's Notes." (You could get on the list by writing him at cliff.groh@gmail.com, and you can read it in blog form at <https://www.cliffgroh.org/alaska-fiscal-cliff-notes>.)