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.”

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Read the piece in the ADN here.
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.