Panelists suggest cuts, tapping Permanent Fund earnings to solve Alaska's fiscal woes

Alaska Dispatch News

October 6, 2014 Monday

With Alaska's annual budget deficit at more than $1 billion and growing, and the state's income dwindling, fiscal sages and scholars gathered at an all-day forum Saturday to explore ideas for balancing the budget and staving off a brutal economic crash.

Solutions included ideas that would reduce the annual Permanent Fund dividend to help pay for state services, two days after this year's $1,884 checks appeared in Alaskans' bank accounts.

Alaska still has plenty of money, thanks to years of healthy oil production, but it's disappearing quickly as oil production continues its recent decline. For the fiscal fix that will one day be needed, the state's $50 billion Alaska Permanent Fund -- used mainly to cut those annual checks -- presents an obvious income source. Alaska can also count more than $10 billion in savings accounts beyond the Permanent Fund.

But a big question is how to draw from the constitutionally protected Permanent Fund when families rely on the popular dividend checks to pay the bills.

"We don't have a financial problem, we have a political problem," said Larry Persily, a former deputy commissioner of the state Department of Revenue and one of the panelists at "Alaska's Fiscal Future," a forum organized by Alaska Common Ground and the Institute of Social and Economic Research.

"Nobody wins a campaign by talking about fiscal reality or a fiscal plan," he said. "They win by wrapping themselves in the damn flag of the Permanent Fund dividend."

More than 150 people showed up for the discussion at the Z.J. Loussac Library in Anchorage, which some hope will be a prelude to future talks in Juneau. The Legislature in recent years has had little to worry about, as gobs of cash have flowed into the treasury because oil prices were high and the state substantially taxed production at those high prices.

Past efforts to tap the annual earnings of the Permanent Fund to balance the budget have failed, most notably in 1999 when 83 percent of voters supported fully protecting their Permanent Fund payout and rejected the plan that would have used part of the earnings to pay for state services.

Voters will never agree to take money out of their own pocket and give it to government, some panelists said.

John Havelock, a former attorney general, summed it up simplest: "If you want to take my Permanent Fund dividend, you'll have to pry it from my cold, dead hands."

Better to institute taxes than to consider removing people's dividend, he said. But he suggested capping the payout -- with a formula built in to keep up with inflation -- an idea that would loosen up some funding.

Andrew Halcro, a former state lawmaker and president of the Anchorage Chamber of Commerce, likened the problem to the government feeding a gorilla peanuts for decades -- the gorilla won't be happy when it's time to take those peanuts away.

That day may come soon. With annual deficits of $2 billion to $3 billion looming, the discussion in the Legislature needs to happen now, not when the state has just two years of savings left, said Persily, currently the federal pipeline coordinator and a key voice in the state's efforts to build an Alaska LNG project.

The solution will have to be widespread, include reducing spending, implementing broad-based taxes, and using some of the earnings of the Permanent Fund to pay for state services, he said.

Slimming down spending on capital projects also got special attention, with some critics at a midday panel targeting what they said were wasteful projects such as the proposed Knik Arm Crossing. Talking about fiscal solutions in a later panel, Persily addressed the need to cut unnecessary capital projects. "You can't keep pouring money into turkeys and think they will become white swans," he said.

Brad Keithley, a former oil and gas attorney and now a fiscal activist calling for lower spending, said lawmakers need to make heavy cuts to create a sustainable budget that ensures future generations aren't bearing the burden of today's deficits.

The state spent $7.2 billion in 2014, more than the $5.5 billion considered sustainable by ISER, he said. Because the state has not met that "sustainable" target and has continued to spend its savings, the new target has fallen to $5 billion or lower.

ISER economist Scott Goldsmith urged growing the Permanent Fund as much as possible for the day its earnings must be tapped to help pay for services, though he said the portion of the earnings used to inflation-proof the fund should not be spent. His idea includes moving a chunk of money from one of the state's savings accounts, the Constitutional Budget Reserve -- reported to be $10 billion at the end of August --- into the Permanent Fund.

That also means saving the more than $10 million that is left over after the Permanent Fund is inflation-proofed and dividends are paid out. According to economist and journalist Gregg Erickson, those extra funds are quietly spent by lawmakers.

Erickson said if any of the earnings must be spent, the best option is using the more than $1 billion now used for inflation-proofing to help pay for state services.

Pat Galvin, a former Revenue commissioner and currently a vice president for oil explorer Great Bear Petroleum, countered the grim mood and said his solutions are based on the idea that "good days are coming" rather than the "gloomy descent into chaos" some anticipate.

He said very little of the oil on the North Slope and in the offshore Arctic Ocean has been tapped. Also, the North Slope is a "woefully" unexplored basin compared to other oil provinces, so the known reserves might grow. Great Bear plans to drill this winter in an effort to one day produce some of those untapped resources.

Calling for prioritized spending with an emphasis on education, Galvin suggested a proposal similar to one presented by panelist and accountant Dan Dickinson.

Earnings from oil and gas revenue should be plowed into the Constitutional Budget Reserve, creating a fund that lawmakers can draw from, and giving them a limited "allowance" to pay for state services, he said. If needed, some of the earnings of the Permanent Fund could also contribute. The idea could bring stability to spending that in the past has seesawed with income swings and fluctuating oil prices.

Keithley said he agrees the North Slope has huge potential, but he's not willing to reduce today's savings and bet the farm on future discoveries. Any number of things could threaten the oil industry, including lower oil prices, federal regulatory hurdles and who knows what else, said Keithley.

"We have the responsibility to pass on as good a future to our kids as we were given, and we need to act responsibly," he said.