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To: [Christa McDonald](#)
Subject: FW: Senator Dunleavy's Invitation to Testify Tonight On Improving Alaska's Constitutional Spending Limitation (SJR 2)
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From: DaveHarbour . [mailto:daveharbour@gmail.com]
Sent: Tuesday, February 14, 2017 3:09 PM
To: Sen. Mike Dunleavy <Sen.Mike.Dunleavy@akleg.gov>
Cc: Daniel George <Daniel.George@akleg.gov>
Subject: Senator Dunleavy's Invitation to Testify Tonight On Improving Alaska's Constitutional Spending Limitation (SJR 2)

Honorable Mike Dunleavy
Chairman, Senate State Affairs Committee
Alaska State Senate
Juneau, Alaska

Dear Chairman Dunleavy:

Thank you for inviting me to participate in tonight's hearing on SJR 2 and, while unavailable due to travel, I look forward to testifying at future meetings. I did have time today to prepare a few remarks that might provide Members with some background they consider useful. However, I ask your advance forgiveness for a somewhat hurried and probably error-ridden email.

As the legislative session progresses, I'll do everything I can to assist you and this committee in completing what I believe to be one of the most important tasks before you: providing Alaskans -- and those who choose to invest in this state -- with the certainty of knowing Alaskans have a disciplined fiscal regime that provides some buffer against uncontrolled government growth, unsustainable budgeting and unpredictable tax policies affecting investors as well as citizens.

I represent no clients or special interests other than my friends and family and the best interest of all of our fellow citizens.

While I have written much on this subject, an earlier commentary below may assist with a historical perspective, though in the near future I hope to more thoroughly piece together my 35 year old journals, notes and documents on the magnificent effort an earlier generation mustered to do what you are embarked on today.

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Sometimes we can observe the past without having to reinvent the wheel!

THIS, then, is the continuing saga of the most resource rich of the United States suffering from a fiscal crisis of its own making. This legislative session may be Alaska's one last chance to achieve fiscal sustainability. Establishing a more effective Constitutional spending

limitation than the one now in place is surely the most critical way of controlling future spending. It is a long term solution.

Between here and that long term solution is the immediate problem of deficit spending and vanishing savings, which the legislature is addressing in other ways. For the purpose of this committee, I focus on the long term spending solution.

Imagine a state churning out so much dough it could – and did – buy just about anything any politician or special interest wanted. That was Alaska in the 1979-81 period.

And the early 1980s era marked the peak of Prudhoe Bay production. All the stars were aligned. Oil prices were robust following the Arab oil embargo, in the range of \$36 per barrel (i.e. nearly \$100/barrel adjusted to current values), and the Trans Alaska Pipeline System (TAPS), not yet a decade old, was transporting over 2 million barrels of oil per day, about 20-25% of total U.S. domestic production.

Those were heady times for proud elected officials, your predecessors. After all, they presided over a state twice as big as Texas and occupied a fifth of U.S. geography that included $\frac{3}{4}$ of the U.S. coastline. And, in their defense, they wanted to provide for their voters, "the maximum benefit of natural resource extraction".

This was America's only Arctic state and the permanent population was under a half million folks. Their revenue from oil taxes and royalties approached \$5 billion before oil prices began to plummet in the later 80s – a commodity volatility affecting mostly severance taxes and royalties (Note: and [following a 1981 consensus](#) to repeal a discriminatory, new oil income tax, replacing it with an increased severance tax — while simultaneously eliminating the state's personal income tax. That consensus, by the way, resulted in a 20-year era of tax stability -- until the early 2000s. That stability may have resulted in the increased investment that produced over 17 billion barrels of Prudhoe Bay production from a TAPS financing package based on proven reserves of 9.6 billion barrels.)

We're not wanting to be especially hard on elected officials or fellow citizens for we are all subject to human weakness. [And, we all wanted to provide ourselves with the maximum benefit of natural resource extraction.](#) Unfortunately, human weakness if unrestrained leads to the [ant-grasshopper](#) phenomenon wherein one faces the decision to consume all resources during times of plenty, or sacrifice one's greed in order to [reserve resources](#) for times of shortage. Don't elected officials usually tend to err on the side of fulfilling constituent demands until the last cent is spent?

In the spirit of learning from history without having to repeat the mistakes, one recalls Alaska's actions in the decade following the 1969, [\\$900 million Prudhoe Bay lease sale](#). The Legislature hardly acknowledged its dependence on the volatile oil commodity as it proceeded to increase oil taxes about a dozen times in as many years, along with spending.

Legislators' Constitutional mantra was to achieve from resources, "maximum benefit for the people", but [we have long observed](#) that this Constitutional mandate has been used to support the greed of a grasshopper rather than the prudence of an ant. Instead of creating policy that benefits the people of this *and* future generations, [lawmakers were, over the years, inclined to provide every possible benefit to their own generation of constituents without regard to the non-voting children of their constituents \(i.e. intergenerational inequity\).](#) Yes, we know they meant well, but should they interpret the Constitution in a way that ONLY

benefits THIS generation of citizens?



Governor Jay Hammond. File photo by Dave Harbour, Northern Gas Pipelines

One exception was Governor **Jay Hammond's** 1976 creation of the Alaska Permanent Fund. It would collect a portion of oil revenue and protect that savings account by Constitutional fiat. For some, the purpose was to "save for a rainy day" (i.e. the "ants"). For others (i.e. the "grasshoppers"), the enticement of an annual "dividend" paid to current residents, attracted sufficient votes for passage.

In 1979 and into the 1980s businessman **Bill Sheffield** (i.e. a future governor), others and I served, successively, as Chairmen of a non-profit organization consisting of citizens concerned with the sustainability of Alaska's taxing and spending policies. (While that organization began to drift in a different direction in the late 90s and then disbanded, it was at its "non-partisan, community-organizing" best during the period we are discussing.)

In 1979-80, the group, *Common Sense for Alaska*, organized a truly inclusive, non-partisan effort to bring all geographic, employment, cultural and political sectors together. That effort culminated in the intense 1980 event they called [*The Challenge of Plenty*](#) (Please review [important link here](#)).



Governor Bill Sheffield. Northern Gas Pipelines file photo by Dave Harbour

Readers will truly appreciate the enormity of the volunteer event which included current and past leaders of government, industry, environment, Native, Labor, non-profit and education sectors from the far north to Southeast Alaska. It was certainly the "Alaska Pioneering Spirit" at work to solve a mutual problem.'

If you take time to review this document, you'll hear both support and warnings from Mayor Vince O'Reilly, Dr. Glen Olds, Larry Crawford, Terry Miller, Robert Richards, Jan Faiks, Lee Fisher, Heather Flynn, Shelby Stastny, George Easley, Vern Hickel, Judy Meidinger, Mitch Gravo, Dwayne Carlson, Bill Pargeter, Ken Showalter, Joe Josephson, Flip Todd, Wally Parker, Bob Penney, Eric Wohlforth, Governors Hickel, Egan and Sheffield, Chancy Croft,

Tom Fink, Morris Thompson, Fran Ulmer, David Dittman.

My Common Sense fellow board members, in addition to those mentioned elsewhere, included: Paul Robison, Richard Hall, Tom Soper, Rick Baldwin, Richard Lauber, Jeff Wilson, Chris Beardsley, Ken Calhoon, Al Fleetwood, Gary Johanson, Jackie Lindauer, Rod McDonald, Len McLean, Rick Nerland, John Norman, Ken Showalter, Chris Stephens, George Trefry, Ray Waters, Frank Van Zant, Bobbye Young, Bob Dempsey, Paul Gavora, Albro Gregory, Bob Groff, Thelma Cutler, Fred Eastaugh, Bob Horchover, Dick Morgan, Kay Poland, Lew Williams, Hazel Hogan, Mary Jo Evans, Maurie Buness, Jean Peterson.

And, joining Common Sense as co-sponsors, were, AGC, Alaska Council on Economic Education, General Federation of Women's Clubs, Alaska State Chamber of Commerce, Alaska Support Industry Alliance, Alaska Trucking Association, Anchorage Chamber of Commerce, Anchorage School District, Laborers Union Local #341, National Federation of Independent Business, Resource Development Council for Alaska, Territorial Sportsmen, Inc., Afognak Logging, Providence Hospital, and more....representing other segments of Alaska Native and minority populations.

In the following year, Common Sense organized a similar, powerful statewide consensus which it called, **The Challenge of Shortage** -- with even more of Alaska's thought leaders from the North and West to Southeast Alaska -- anticipating that the recent, Arab oil embargo would devolve into more supply and lower prices as state spending continued to increase.

(Note: a concurrent, dramatic drop in natural gas prices prohibited development of an economically feasible, Alaska North Slope natural gas transportation project, as well.)

Out of that magnificent, Common Sense for Alaska "Challenge" project came a recommended draft, "Constitutional amendment to limit government spending". The intent was to limit spending to a sustainable level *benefitting both current and future generations of Alaska's "people"*. The technique was to establish a reasonable spending base, allowing it to reasonably increase along with population and inflation. During the plush years, savings surpluses would accrue that could be used when oil price volatility took the commodity on a nosedive...and/or when Alaska production began to decline.

So we may truly credit a prior generation for anticipating future Challenges of Shortage and how to deal with them.

Sadly, we have observed that the way the legislature of that day finally worded the spending limit, did not actually result in any spending containment as the years went by.

Spending, especially mandatory, entitlement spending, continued to mushroom along with more programs.

Today, Alaska has a history of having undertaken little fiscal discipline or sacrifice — outside of the low-oil price, mid-late '80s era...and even the warnings of fiscal disaster a decade ago in the ACES era.

And now Alaska faces a true fiscal crisis. Its non-constitutionally protected savings are going fast. Last we looked, the state had about a \$6 billion unfunded liability in its state/municipal/education pension funds. As this current session of the Legislature meets, Alaska could face a several billion dollar deficit depending on action the Governor and lawmakers take to increase revenue and/or reduce FY 2018 spending.

With this history and this present circumstance, Senator Dunleavy and his thoughtful colleagues present a 'fix' to the Constitutional spending limit that would cap spending, enabling legislators to tell demanding constituents *in the future*, "We'd like to fund that for you but we just don't have the money. We can't exceed the spending limit."

While he has revived a noble effort initiated over 35 years ago, the question is whether there is the political will and the time to both create a future spending limit via his resolution *and* agree on a current tax and spend solution to an imposing wall of potential deficits.

If all Alaskan interest groups like Common Sense for Alaska once organized can come together again, perhaps a truly effective spending cap can be adopted to the benefit of Alaska's *current and future people*.

This is why SJR 2 reflects Alaska's heralded "pioneering spirit" and may be one of the most important but least appreciated efforts of the current legislative session to develop long-term fiscal sustainability.

I, of course, plan to support it because we continue to be convinced that a constitutional spending limit is the only way to contain the political pressures to "spend every cent". But beware of the potential for ingenious ways to avoid the limitations when oil revenue again increases -- that surplus should be saved to fund future challenges of shortage!

It is true that, in concept, Alaska today has [one foot on the edge of a fiscal cliff and the other on a banana peel](#). So we end this little commentary on history wondering if Alaska in 2017 will contain its human nature proclivity to tax and spend the most resource rich state in the nation into bankruptcy.

We know that, "Hope is not a strategy". Nevertheless, we fervently hope all citizens will commit to creating a happy ending to their fiscal challenge and bequeath to their children a history of prudence, sacrifice and fiscal responsibility.

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Early today I provided my Northern Gas Pipelines readers with a Valentine's Day comment on the importance of a reliable Constitutional spending (i.e. or appropriations) limitation. [The link is here.](#)

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For the record, here is a link to a biographical resolution adopted by the [National Association of Regulatory Utility Commissioners](#).

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Godspeed in your important work. I look forward to assisting the Committee in any way possible.

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