

"Beyond the Numbers: Questions of History and Values In Alaska's Fiscal Challenge"

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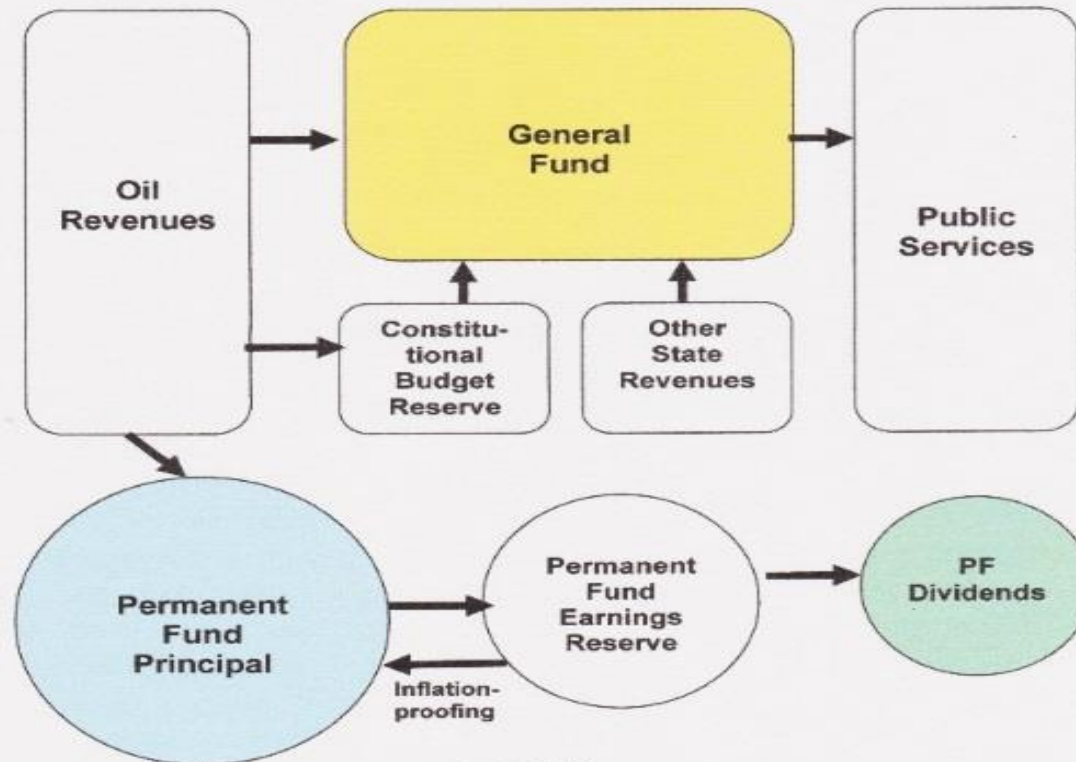
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"If we don't act in 2017 we will be out of sufficient money to fund the following budget...for FY19. We will also be out of time."

**--Bradners' Alaska Legislative Digest,
Sept. 24, 2016**

Alaska's Annual State Revenue Flow (The Groh Flow)



Key Definitions

General Fund: the State's primary operating fund

PF Principal: the cumulative contributions and appropriations to the PF, plus or minus (per an Atty. Gen.'s opinion) unrealized gains and losses on invested assets

PF Earnings Reserve: the cumulative realized income from PF investments

PF Dividends: annual distribution of part of the PF earnings reserve

Inflation-proofing: the part of the PF earnings reserve returned annually to the PF principal to offset inflation

1. Dealing with Alaska's **deep fiscal hole** will require us to answer some questions that involve Alaska history and Alaska values.
2. How much government do Alaskans want to have as **we start paying** for it?

If we live only within our means—and our means are defined as Unrestricted General Fund revenues as traditionally defined—

Then—the Alaska Department of Revenue's latest forecast says that we could only fund K-12 education and the University of Alaska at the current budget levels (and nothing else) in Fiscal Year 2018.

3. What kind of government do Alaskans want to have as we start paying for it?

4. Who should help pay for the government Alaskans want to have and pay for?

5. What is the Permanent Fund for?

Historical research suggests that the original intent can best be stated as:

“The Permanent Fund began, chiefly, with a ‘negative’ goal, to place part of the one-time oil wealth beyond the reach of day-to-day spending.”

--Elmer Rasmuson, First Chairman of the Permanent Fund Board of Trustees, 1997

6. What were the original arguments for the Permanent Fund Dividend when it was created in 1982?

- Build **political constituency** for Permanent Fund/**create incentive** for Permanent Fund to grow
- Create **more economic “bang for the buck”** than alternatives would
- Deliver **benefits of petrodollars more efficiently** than other ways of using the oil wealth
- Deliver benefits **more equitably**
- **Hold down** government growth
- Recognize **individual right to decide use** of portion of oil wealth
- Provide a **safety net** for low-income Alaskans

7. Are we the “Owner State” or the “Owner People?”

8. How long **do you intend to live** in Alaska?

9. Does the statement “**It’s just math**” in favor of a proposal sometimes conceal value choices?

10. How should Alaska's traditionally low inequality play into discussions about how to address Alaska's fiscal challenge?

11. How do our options change over time?

12. What matters more:
what you love and want?
or
what you hate and fear?

What Do You Fear Most?

More Budget Cuts?

**Broad-Based Taxes? Esp.
Income Taxes?**

Cuts in PFDs Below Baseline?

Changes in Oil Tax System?

Cuts to Local Governments?

Economic Recession/Crash?

STANDOFF

BUT WAIT, THERE'S MORE...

IT'S WORSE THAN THAT...

**STANDOFF ON AN AIRPLANE
GOING DOWN**

14. What are the most **significant ways Alaska has changed** since the beginning of the Big Oil Era politically, economically, and sociologically?

- **Less Alaska oil production**, relatively **low world oil prices**, more competition around the country and the world for oil investment
- Large **increase in health care costs**
- More cosmopolitan population

- Influx of oil money has made Alaskans used to not paying for public services they receive from the state government
- Differences in relations among people—snowdrifts example
- Importation of national ideologies into Alaska helps increase political fragmentation in the state

15. Is the political clock synchronized with the revenues/reserves clock?

16. Is the perfect the enemy of the acceptable?

17. Does your definition of what is acceptable depend on what you think the alternatives are?

CONTRIBUTING FACTORS

- **IGNORANCE**
- **INERTIA**
- **IDEOLOGY**
- **INTERESTS**
- **INCENTIVES**
- **INVULNERABILITY**

DEFAULT POSITION

- **SUBSTANTIAL AD HOC SPENDING OF PERMANENT FUND EARNINGS FOR GENERAL GOVERNMENT UNTIL THEY ARE EXHAUSTED**
- **DEEP ACROSS-THE-BOARD BUDGET CUTS**
- **RECESSION/CRASH EXACERBATED BY GOVERNMENT ACTION**

UPCOMING EVENTS TO DISCUSS ALTERNATIVE FUTURES

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