

FISCAL POLICY WORKING GROUP FINAL REPORT



32nd ALASKA LEGISLATURE

Fiscal Policy Working Group, 32nd Alaska Legislature

Senate Majority

Senator Lyman Hoffman (co-facilitator)
Senator Shelley Hughes
Senator Mike Shower (alternate)

Senate Minority

Senator Scott Kawasaki
Senator Jesse Kiehl
Senator Elvi Gray-Jackson (alternate)

House Majority

Representative Jonathan Kreiss-Tomkins (co-facilitator)
Representative Calvin Schrage
Representative Grier Hopkins (alternate)

House Minority

Representative Ben Carpenter
Representative Kevin McCabe
Representative Mike Prax (alternate)

BACKGROUND

On June 28, 2021, the Alaska Legislature [established](#) a bicameral, bipartisan working group for the purpose of "...developing policy recommendations that will provide fiscal certainty to Alaskans into the future through means of achieving a balanced budget and resolving the annual dispute over the Permanent Fund Dividend."

The Fiscal Policy Working Group (FPWG) was composed of eight members, including two members from each legislative caucus.

PROCESS

Between public informational hearings and internal work sessions, the FPWG met as many as nine times in a week. Over the course of about a month (July 7-August 15), the FPWG spent approximately 71 total hours as a group in hearings or work sessions.

Additionally, members engaged with each other by phone and text between meetings. Alternates served when members of their caucus were absent. Otherwise, alternates participated on an ad hoc basis.

The FPWG approached its work through a process that sought unanimous support —

that is, all eight FPWG members aligned in thinking — for substantive decisions and recommendations. Non-unanimous recommendations are so noted.

AGREE ON WHAT THE PROBLEM IS

Before even talking about solutions, we wanted to create a common definition of the problem: *What does our structural budget deficit look like, exactly?*

Different people have different answers because they use different assumptions. In order to talk about solutions in a productive way, we needed to use a common set of assumptions in order to create a common definition of the problem.

After a week of internal dialogue and engagement with the Administration and Legislative Finance Division, the FPWG unanimously adopted a set of fiscal assumptions that can be found [here](#).

AGREE WHAT THE PARTS OF A SOLUTION ARE

After creating a common definition of the problem, the FPWG identified mathematically and politically necessary parts of a comprehensive solution. The FPWG unanimously

1 AGREE ON WHAT THE PROBLEM IS

2 AGREE ON WHAT THE PARTS OF A SOLUTION ARE

3 GET MORE SPECIFIC: DEFINE THE SOLUTION "STRIKE ZONE"

agreed that the following were necessary parts of a comprehensive solution:

- Constitutional, single-account Permanent Fund structure with draws limited by POMV
- Constitutional certainty for the Permanent Fund Dividend (PFD)
- New POMV-based PFD formula
- Healthy capital budget
- New revenues
- Budget reductions
- Spending cap reform
- Several-year “transition period” with one-time fiscal measures
- Resilience to fiscal stress
- Constitutional Budget Reserve reform
- *Process*: a comprehensive solution must be negotiated and agreed to as whole, not be taken up one part at a time
- *Process*: at all times, keep in mind what can realistically pass the legislature — “the rule of 21 and 11,” and “the constitutional rule of 27 and 14” — being mindful of the diverse viewpoints within the legislature, as well as what can achieve public support, including for ratification of a constitutional amendment

Positions for each member on any single provision should be understood as agreement within the context of a comprehensive solution and not agreement on any one provision in the absence of a comprehensive solution.

GET MORE SPECIFIC: DEFINE THE SOLUTION “STRIKE ZONE”

Once the FPWG identified the principles of a solution, we got into dollars and cents detail. Each FPWG member was tasked with modeling a balanced budget, with everyone working from the same fiscal assumptions. Legislative Finance Division staff facilitated the exercise with its in-house model, and “referee’d” any budget model that did not balance.

Unsurprisingly, FPWG members’ budget models reflected the diversity of their districts. But they all balanced. This exercise was the jumping off point to convert general ideas into more specific recommendations.

The FPWG did not endeavor to produce a prescriptive, dollar-specific, “comprehensive solution on a silver platter,” but rather to identify ranges and bounds that represented what the

FPWG thought was a reasonable “solution strike zone” from which the full legislature could work.

CONSTITUTIONAL, SINGLE-ACCOUNT PERMANENT FUND STRUCTURE WITH DRAWS LIMITED BY POMV

The FPWG unanimously recommends restructuring the Permanent Fund to be a single, constitutionally-protected account with draws limited by the percent of the Permanent Fund’s market value (POMV). Consistent with current practice, the FPWG recommends using a five-year rolling average to calculate the POMV.

The FPWG recommends a draw of no more than 5% of POMV.

CONSTITUTIONAL CERTAINTY FOR THE PFD

The FPWG unanimously believes constitutional certainty is needed to resolve the PFD question. The FPWG unanimously recommends considering two approaches:

- A constitutional amendment that requires the PFD be paid “as provided by law,” leaving the formula in statute, and effectively constitutionally guaranteeing the statutory formula.
- A constitutional amendment that constitutionalizes the PFD formula itself.

NEW POMV-BASED PFD FORMULA

While FPWG members have diverse perspectives on the PFD, the FPWG recommends that the legislature work towards a 50%-of-POMV-draw PFD formula as a part of a comprehensive solution.

HEALTHY CAPITAL BUDGET

The FPWG recommends that any comprehensive solution assume \$210 million in capital budget spending — \$150M to match federal funding, supplemented by \$60M, which approximates 1% of the value of State of Alaska assets.

NEW REVENUES

The FPWG recommends the legislature consider additional annual revenues, working towards revenues on the order of \$500-\$775 million, as a part of a comprehensive solution.

Though the FPWG was not able to make a specific recommendation for type of revenue, the FPWG generally recommends adoption of a broad-based revenue measure, in addition to other revenue measures, as a part of a comprehensive solution.

BUDGET REDUCTIONS

The FPWG recommends the legislature consider budget reductions below the FY23 operating budget baseline (\$4.503 billion), and work towards reductions in the \$25-\$200 million range over multiple years.

While specific budget reduction options were discussed, the FPWG believes that the greatest potential for reductions will be realized through structural and statutory reforms that maintain levels of service but improve efficiency.

Finally, the FPWG recommends an aggressive review of indirect expenditures, starting from Legislative Finance Division's indirect expenditure report and recommendations.

SPENDING LIMITS REFORM

The FPWG unanimously recommends that revising Alaska's spending limits be part of a comprehensive solution.

SEVERAL-YEAR "TRANSITION PERIOD" WITH ONE-TIME FISCAL MEASURES

The FPWG unanimously believes one-time fiscal measures will be necessary as a part of a comprehensive solution, while other parts of the solution take full effect. Two different one-time fiscal measures were discussed, with some FPWG members favoring one approach, and some members favoring the other:

- One-time transfer (in excess of the

annual POMV draw) from the Permanent Fund's Earnings Reserve Account to the Constitutional or Statutory Budget Reserve, to "bridge" budget deficits through the first few fiscal years after adoption of a comprehensive solution.

- A PFD "stairstep" that starts with a more modest PFD and steps up to the full PFD amount as provided under the new POMV-based PFD formula through the first few fiscal years after adoption of a comprehensive solution.

RESILIENCE TO FISCAL STRESS

The FPWG unanimously recommends that whatever comprehensive solution the legislature passes must survive fiscal stress, specifically market volatility (impacting Permanent Fund earnings/POMV draw) and the varying price of oil.

CONSTITUTIONAL BUDGET RESERVE REFORM

The FPWG unanimously recommends that any comprehensive solution adopted by the legislature maintain at least a \$500 million balance in the Constitutional Budget Reserve for cashflow management, with a substantial additional balance to absorb fiscal shocks and revenue volatility. To reflect these fiscal needs, the FPWG also recommends considering constitutional reform to the function and the purpose of the CBR as a part of a comprehensive solution, including the possibility of eliminating the sweep.

CONCLUSION

We hope our work and this report add value as the legislature considers these questions during a special session this year.

The FPWG believes the legislature must pass a comprehensive solution. FPWG members do not support addressing only one or two issues to the exclusion of others. The FPWG believes addressing these issues as a comprehensive solution solves not only a fiscal challenge but a political challenge as well.