



A Fiscal Plan for Alaska

Alaska is closer today than ever to having a fiscal policy that balances our revenue and expenditures, sustains the delivery of necessary services and protects our economy. Over the years, individual Alaskans, legislators and governors have identified the components of a sound fiscal plan. We now need to take politics out of the equation and make the numbers work.

Alaska's citizens deserve credit for insisting the state live within its means as do individual families. Our collective will to accept increasingly significant budget reductions has reduced longer-range deficit projections from \$1.2 billion to more like \$800 million. Projections remain subject to oil price volatility, but legislative budget reductions through the past decade and the commitment of Governor Murkowski to fiscal discipline has set the stage for a practical solution.

Alaskans will collectively determine the level of services we are willing to pay for. Inflation-adjusted per-capita general fund spending is now less than in 1975. We hold divergent opinions, but are approaching the threshold of consensus that further budget cuts are less desirable than stabilizing expenditures and managing for efficiency.

Alaska's fiscal policy must incorporate our unique state ownership of natural resources. The Alaska Statehood Act gave us the resource wealth within our borders "For the purposes of furthering the development of and the expansion of communities..." This grant resolved congressional concerns that Alaska would never have the population to be economically viable if required to depend on traditional tax systems.

Governor Hickel has long championed fiscal policy grounded in developing these resources and using our wealth to build communities, infrastructure and a strong economy. Alaska's policy makers consistently reaffirm that vision.

The Permanent Fund is Alaska's greatest renewable resource. While originally intended to be a "rainy day" savings account, the fund has become much more. Governor Hammond led the debate that created the dividend program to share a portion of Alaska's wealth with its citizens. He argued we could reduce spending for non-essential state services by the amount of the dividend and let citizens decide for themselves how to spend that money.

Governor Hammond has been a staunch advocate for protecting the value of the fund and providing the greatest possible assurance of continued individual dividends. The proposed constitutional amendment to manage the fund as an endowment does exactly that.

The greater magic of our \$26 billion Permanent Fund is that endowment management not only virtually assures increasing future dividends, it can provide the financial core of a fiscal plan that does not require statewide sales or income taxes in the near future. The endowment plan provides the state over \$1.3 billion each year. This is enough to continue paying increasing dividends of more than \$1,100 and to contribute over \$650 million towards balancing the budget. While we still need to look into commuter taxes on non-residents working here, tourism taxes and some revenue designated for education, we do not now, and may never, need large individual taxes on working Alaskans.

Governor Hammond points out that, with continuing fiscal discipline, our greatest exposure to increasing deficits results from declining oil prices. To hedge that risk, he emphasizes the importance of maintaining the Constitutional Budget Reserve. If oil prices fall and that reserve falls below \$1 billion, we need to trigger some mechanism to recapture or “claw back” part of the dividends received by Alaskans in the previous year.

This could be accomplished with a simple 2 to 3 percent flat assessment on federal adjusted gross income, with the amount of tax limited to the previous year’s dividend. Alaska residents could use the immediate year’s dividend to pay that assessment. Estimates vary, but this mechanism generates approximately \$250 million. Combined with continued spending discipline, the basic \$600 million from Permanent Fund earnings and some adjustments to lesser general revenue system components, we can meet projected deficits. Later, when resource production increases or prices recover, restoring the budget reserve, this assessment would cease.

Alaska is the wealthiest state in the nation. Our collective resource wealth integrates the visions of our past and current leaders into a practical fiscal plan that all Alaskans can support today.

Representative Mike Hawker