

## **WE CAN CUT OUR WAY OUT ...**

by Beth Fread

This January, Senator Michael Dunleavy made two presentations explaining a 4-year plan that he had worked on for 3-4 months that allows Alaska to cut its way out of its fiscal dilemma. Last year, Senator Dunleavy consistently heard many of his constituents in the Mat-Su say, “Cut the Budget, leave the Permanent Fund structure alone, and don’t look for new revenues until you cut the budget.”

Senator Dunleavy had also heard the Governor, the unions, the Rasmuson Foundation and several business leaders/ government contractors say, “Alaska can’t just cut our way out of this fiscal crisis, we need more revenues (taxes, fees and fines) as well.”

The Senator decided to test both theories. In October he went to the Legislative Finance Office and the Permanent Fund Corporation and asked them to ‘run the numbers’. After months of testing, refinement and re-confirming those analyses, he learned that we could fix the problem in 4 years through gradual cuts to the budget and using existing reserves.

If implemented for Fiscal Year 2018 (FY18), the Senator, Legislative Finance and Permanent Fund numbers crunchers, developed a 4-year reduction plan that will use existing reserves and budget reductions without any new or increased revenues out of voters’ pockets. The plan begins with \$300 million in budget reductions for 3 years (FY18, 19 and 20) and \$200 million in budget reductions the final year (FY21), to bring Alaska’s governmental spending (Unrestricted General Fund, Administrative Operational Fund and Dedicated Fund) down to about \$8.3 Billion by FY21.

The first year, the plan taps into all reserve funds (i.e., Earnings [ER], Constitutional Budget [CBR] and Statutory Budget [SBR] reserves, the Alaska Higher Education Fund, the Power Cost Equalization Fund (PCE) and Alaska Housing Capital Corporation reserve (AHCC)) for FY18. In FY19, only the CBR, PCE and the ER will be used. In FY20, only the ER will be needed to supplement the budget.

Once again, Senator Dunleavy’s plan does not include raising or adding any new revenues to government, nor does it change the purpose or calculations for the Permanent Fund or Dividends in any way. In fact, this plan doesn’t even account for the Caelus, Armstrong and Conoco Phillips anticipated revenue streams that may begin as early as 2022. As the Senator has said, “Our economy is in recession and we have the highest unemployment rate in the nation. Now is not the time to ask the private sector to give more to government while Alaskans are out of work and businesses are on the ropes.”

Governor Hammond's '50/50 plan' is the corner stone of the Senator's plan. It does not eliminate or cap the Dividends Alaskans receive from the Permanent Fund Earnings. Since Alaska is in a recession, and UAA ISER's report last spring indicated that the Dividends provide a stabilizing source of revenue for Alaska's economy, the last thing the Senator wants to do is 'play' with the Permanent Fund. Economists like ISER's Dr. Goldsmith and Nobel Laureate Dr. Vernon Smith report that during a recession, the more money government can leave in the private sector the better off the state's economy is as a whole.

Senator Dunleavy has stated, "This fiscal situation we find ourselves in needs to be solved this year. We are running out of time and resources to make it happen. In doing so, all Alaskans need to pull together and make sacrifices to get us through this difficult transition. Taxing Alaskans, and/or taking the PFD to cover the large fiscal gap is not necessary. Substantial reductions, however, are needed so existing resources currently at our disposal can be deployed to get us on a path to a sustainable budget."

The final question to Senator Dunleavy's presentation was, "how can we, specifically, help?" His request was that we communicate with the legislature and the Governor. Let them know that we understand there is a way out of this that doesn't include going into the citizens' pockets.

The '50/50 Plan' needs our support and cooperation. Alaska can safely and sanely trim its budget, just like heads of Alaskan households have. We need to encourage streamlining of governmental functions. We need to rally behind these efforts and let our political leaders know that we are standing behind them in fighting for affordable budgets and services.

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