

## Long-range Fiscal Policy – Progress or Procrastination?

With the first session of the Twenty-third legislature concluded, I am considering what we did about the obvious and increasingly urgent need to address the “fiscal gap.” Even with cost cutting and revenue legislation enacted this year, the state’s cash reserves will likely be gone before the end of 2006. Alaska faces a projected general fund deficit of approximately \$800 million dollars and perhaps significantly more if oil prices decline when Iraqi production comes back on line. The deficit is fully one-third of our budget. We need to further reduce spending and increase resource revenue, however, we cannot realistically expect to balance the budget without making difficult decisions regarding the Permanent Fund and taxes.

Members of the House recognized the urgent need to match spending and revenue and the importance of ensuring the delivery of essential services and protecting the state’s economic stability. After much consideration, we established a Special Committee on Ways and Means. Fairbanks Representative Jim Whitaker and I were appointed co-chairmen to 1) consider methods to control state spending, 2) identify ways in which state government programs may be made more efficient, and 3) propose new measures to raise additional revenue. We first offered a five point fiscal plan:

1. Control the cost and growth of government
2. Manage the Permanent Fund to protect its real value over time while providing a substantial individual dividend and a contribution to the cost of public services
3. Structure the state’s general revenue system to minimize the need for broad based taxation of individuals and accommodate local governments’ revenue systems
4. Promote real economic growth
5. Maintain a balanced budget with a mechanism mitigating the consequences of oil price volatility on the general revenue system

The committee passed [HJR 9](#), proposing a constitutional spending limit. It is best for legislators to make appropriate decisions considering the facts and circumstances of each budget. However, government lacks sufficient credibility with the general public to be believed when we ask for additional revenue and claim it will not be used for frivolous new spending. This leads me to conclude that a spending limit is needed to craft a viable fiscal plan.

We also passed [HJR 26](#), proposing to operate the Permanent Fund as an endowment. The Permanent Fund Board suggested this change to better manage the fund in volatile financial markets. Under the endowment concept, all earnings are reinvested in the fund, with 5% of the fund balance transferred each year to the general fund for dividends and other public purposes. This approach guarantees inflation proofing, prevents excessive spending in years with high investment earnings and makes a greater amount available in years with poor investment earnings.

The committee received the most attention for proposing a statewide sales tax. Unless the Permanent Fund Dividend is eliminated, a broad based revenue mechanism is still necessary to balance the budget. Maintaining a substantial dividend is important to Alaskans and our economy. The Ways and Means proposal protects the dividend, and uses some Permanent Fund earnings along with a sales tax. While the proposal is subject to honest debate, a consumption tax ultimately has the most public acceptance and political viability.

Alaska’s elected policy makers must act promptly and decisively. Further spending reductions are necessary, but need to be tempered with additional revenue. It is appropriate to ask all Alaskans to contribute something to the cost of a responsible level of public services. I am committed to working with both majority and minority members and the philosophical factions within each caucus to reach a real solution. Resolving our fiscal problems requires compromise. No one will be totally pleased with any

particular solution, but the consequences of doing nothing are unacceptable. I remain cautiously optimistic that both the public and the legislature will find the fortitude to do what needs to be done to balance the budget. We have no more important challenge before us.

*Representative Mike Hawker  
Republican, District 32 – Chugach Park*