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Alaska State Legislature



REPRESENTATIVE
BRYCE EDGMON

Speaker of the House

State Capitol
Juneau, Alaska 99801-
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October 27, 2020

Governor Mike Dunleavy
550 West 7th Avenue,
Suite 1700
Anchorage, AK 99501

Delivered electronically

Governor Dunleavy,

We are in the middle of the most significant public health crisis in the past 100 years. It's clear that you and your team are concentrating on responding to the coronavirus, while Alaskans across the state are rightfully focused on the well-being of their families and loved ones. Thank you for your administration's concerted efforts in those regards. However, as elected officials, we cannot lose sight of our longer-term fiduciary duty to work together toward sound decisions that will enable our state to have a bright future for years to come after we come through the worst of this public health emergency.

With both the administration's Dec. 15 budget submission deadline and the 2021 legislative session fast approaching, we write to express our concerns about the unparalleled fiscal challenges that await the 32nd Alaska Legislature.

At this stage of the budget cycle, ordinarily, we would not write such a letter, but the upcoming fiscal year presents a fiscal environment that decision-makers in Alaska have not faced in many years, if ever, in our state's history.

The basic facts are somber:

- A pandemic-wounded economy, with painful job losses and business closures.
- A state budget deficit that could fall anywhere between \$1 billion or \$2.5 billion, depending on oil prices, the size of the Fall 2021 Permanent Fund dividend and state spending.
- No more "rainy-day" savings accounts to tap.
- Diminished revenue from low oil prices and continued declining production.

- No political agreement on how far to dip into the earnings from Permanent Fund in this most unusual year.
- Lack of concurrence among the public and elected officials on the best course of action to get Alaska past the next couple of years.

There are no easy choices remaining to balance the budget:

- Large budget cuts that will be highly problematic to achieve as legislators and Alaskans are divided over additional cuts to public services.
- Overdrawing the Permanent Fund earnings reserve by exceeding the 5% percent-of-market-value statutory limit adopted in 2018.
- Liquidating designated savings accounts (including the Power Cost Equalization Endowment).
- New sources of revenue may not be realistic in the time frame needed to balance next year's budget, or even the year after that.

Knowing that we all need to work together, we are interested in hearing your thoughts for engaging the legislature and the general public in a broader dialogue that addresses the magnitude of the challenge. While public health constraints limit our collective abilities to reach out and engage with stakeholders, they do not remove the need for us, as elected officials, to prepare the public for the options and consequences.

We are not asking you to reveal the specifics of your Fiscal Year 2022 budget prior to its release in December, but there are questions we believe are worthy of discussion before then.

Reducing the budget through anything more substantial than targeted trimming would require major reforms to the “bigger buckets of state spending” such as public education, health and social services, the university system, and the Alaska Marine Highway System. Are you planning any outreach efforts in the time remaining between now and the start of the legislative session to prepare stakeholders for the impact of major reductions such as to public education funding, health and social services, etc.? What are your plans for a PFD without dangerously overdrawing the annual 5% withdrawal from the earnings reserve account of the Permanent Fund?

What about statutory changes that come with big budget cuts? Should the legislature be prepared to tackle controversial policy issues (requiring more time outside of the normal budget process,) that would accompany significant changes to the operating budget?

In addition to the budget questions, we need to keep in mind that the 2021 session could easily be shortened by the pandemic like it was this past year when the legislature rushed to finish its work in March, well in advance of the 120-day constitutional limit. Should this occur again, time will be even tighter to deal with complicated policy discussions, adding another challenge.

We are eager to assist in any manner possible during these trying times. We are grateful for your leadership as we do our best to collectively navigate through uncharted waters.

Thank you for considering our questions.

Sincerely,



Senator Cathy Giessel
President of the Senate



Rep. Bryce Edgmon
Speaker of House

CC:

Sen. Bert Stedman, Senate Finance Co-Chair
Sen. Natasha Von Imhof, Senate Finance Co-Chair
Rep. Neal Foster, House Finance Co-Chair
Rep. Jennifer Johnson, House Finance Co-Chair
Ben Stevens, Chief of Staff to the Governor
Lucinda Mahoney, Commissioner for the Department of Revenue