Greetings from your District 31 Representative. It has been a long, tough legislative session. The House and Senate were able to come to a compromise on some items, but there are several key pieces which were not resolved. The decisions the state faces are difficult ones and will affect all Alaskans and our future. I encourage you to stay engaged as we work toward a new fiscal path for Alaska. My staff and I will strive to keep you up-to-date and informed.

Last fall I joined a bipartisan coalition in the House which includes three republicans, two independents, and seventeen democrats. We came together with one common goal, to get the job done and pass a comprehensive solution to the $2.5 billion fiscal deficit facing the state. I was selected as the co-chair of finance in charge of the operating budget and oversaw the budget subcommittee process. The House Majority Coalition passed a complete four pillar fiscal plan which includes a structured use of the permanent fund earnings reserve, maintaining the permanent fund dividend at a sustainable level, new revenues, and smart budget cuts including a reform of the oil and gas tax system.

The need for such a complete plan was highlighted last month when investment rating agencies Moody’s and Standard & Poors both downgraded Alaska’s credit rating, stating “actions reflect continued lack of agreement on fiscal reforms to return the state to structural balance...The continued reliance on budgetary reserves that have significantly diminished over the years places the state in a more vulnerable position.” Unfortunately, during the session the Senate Majority remained stuck on a permanent fund only plan and refused to consider other revenues. By itself, this approach depletes our savings because it does not fully close the deficit and it relies only on Alaskans, asking nothing from the out-of-state workers. The
bills that passed the House represented a plan we believed to be fair and balanced and in the best interest of Alaska, but the Coalition was flexible on the exact components. However critics of the Coalition’s plan have yet to offer any alternatives.

The state cannot continue to pull from savings. In fact, there is not enough money in our primary savings account to fill next year’s deficit, which leaves the permanent fund as our only reserve. To avoid another downgrade and to restore some certainty to the Alaskan economy, we will need to agree on new revenue options to replace the volatile oil revenue the state has historically relied on. There could be a special session in the fall to address these important issues, but only if it appears that all parties are ready to work towards a solution. If one side continues to say no to all new revenue options it would be wasteful to send all 60 legislators into a fourth special session.

**Budges**

**Operating budget** - Since 2013, state general fund spending has dropped from $7.9 billion to $4.2 billion, a drop of over 44%, but the state still faces a $2.5 billion deficit. The easy cuts have been made. Every additional cut the legislature makes needs to take into account what services are also being cut and how those cuts might drive up costs in other areas, because we cannot expect the departments to continue providing the same level of service with fewer staff and resources. To that end I tasked each budget subcommittee to look for services that are not essential to the core mission of a department and to review any statutes that lead to lost revenue or unnecessary costs. Potential savings identified by the subcommittees will need to pass through the full legislative process next year.

I am proud that the Majority Coalition held firm to our promise to fully fund K-12 education. The budget that passed at the end of June was a compromise but did not include any of the Senate’s proposed $69 million cut to K-12 education or the Alaska Performance Scholarship. The budget also included funding for pre-K programs, the Alaska Marine Highway, Troopers, 12 hours of day habilitation and front line social workers. The compromise also removed the Senate’s cuts to the pioneer homes, behavioral health grants, public health, and other important programs. The final budget was $88.6 million less in unrestricted general fund spending than last year’s. You can read a more detailed summary in my June 26th online newsletter.

**Capital Budget** - On July 27th the legislature passed the capital budget in a one day third special session, which includes $122 million in unrestricted general funds and leverages $1.2 billion in federal funds, including $580 million for surface transportation. Though smaller than previous years, the budget includes funding for the Tustumena replacement ferry, village safe water projects, snowmobile trail grants, deferred maintenance, an additional $8 million for community assistance, road maintenance, and other programs that benefit District 31.

**Discussing with politically active students from Project Grad how they can be effective advocates for issues of importance like higher education and industry.**

**Town Hall Meeting with constituents at the Homer LIO.**
What Was Accomplished This Year

Alaska is at a crossroads and the path we take could be as meaningful as the choices made at statehood or during the development of the PFD. These decisions have broad reaching affects across the state and deserve the diligent attention of all legislators. Here are some of the compromises from the 1st session of the 30th legislature.

**HB 159** - In February Governor Walker declared opioid abuse a public health disaster in Alaska. HB 159 is intended to reduce the amount of unnecessary prescription opioids through education and awareness of providers and patients. Among other things, HB 159 will allow patients to decline opioids through an advanced opioid directive and will now require doctors to note specifically in a patient’s chart any reason for a first prescription that is for more than 7 days. The Kenai Peninsula has a specific problem as we continue to have the highest rate of opioid prescriptions in the State.

**HB 111** - The compromise oil and gas tax credit bill took the immediate step of ending cash credits statewide this year to protect the state in the short-term, but it included only limited options to reduce the value of future tax deductions companies could take in place of those credits. HB 111 created a bipartisan working group to review our current system, and I hope the public keeps the pressure on to finish that work. A stable oil and gas tax system that the state can afford is key to a complete fiscal plan. You can read more details in my July 17th newsletter.

**HB 148** - This bill, which passed as a part of SB 100, gives boroughs like the Kenai Peninsula the option to create a service area in unpopulated areas to provide for emergency response along state highways which can be paid for with federal payment-in-lieu-of-taxes (PILT) money. The Kenai Peninsula Borough passed an ordinance to create such an area along 90 miles of the Seward and Sterling highways, and the new service area board started meeting in July.

What is Left

Our state is in a recession. Revenues from oil, our state’s main source for the last 40 years, have declined by 80% due to lower price and lower production and are not expected to recover anytime soon. We’ve had three consecutive years of falling state GDP (Gross Domestic Product). The housing and rental markets are going flat; the rental vacancy rate on the Kenai Peninsula is over 11%, one of the highest in the state. Cutting the budget to fill the deficit is not the solution for our economy. State government has already lost 1500 jobs since last year, and ISER economists estimate that for every three state jobs cut from the budget two private sector jobs are lost. Economists will testify that part of what is hurting business is uncertainty over what the state will do.

**Permanent Fund Restructure** – The permanent fund is the state’s single biggest asset, valued at over $60 billion. $12 billion of that is available for spending through the earnings reserve account (ERA), but the rest is required by the constitution to be reinvested. The legislature can access the ERA at any time, but if we annually tap that fund without rules in place, we
risk draining it faster than the investment earnings can refill it. Furthermore, PFDs are paid from the ERA so any use of the ERA will affect the dividend. To turn the permanent fund ERA into a stable and sustainable revenue source for Alaska we need to implement guidelines to protect it. I strongly believe these guidelines must also ensure a moderate PFD for Alaskans; the dividend is important to many Alaskan families, and keeps Alaskans engaged with permanent fund investments and how the ERA is spent.

**Broad-based Revenue** – Use of the permanent fund alone is not enough to fill the deficit, and it asks nothing from non-residents. The state needs some form of broad-based tax. The House passed an income tax as the most equitable option to balance changes to the PFD, but there are other forms of broad based tax that could be used to help fill the deficit. Options include a flat-rate payroll tax or a statewide sales tax. Whatever compromise the Senate is willing to agree to, it must also ask something of the non-residents that work and play in our state.

**Motor Fuels** – The current state motor fuels tax of 8 cents a gallon has not been raised since 1970 and does not come close to covering the funds needed to match the federal grants that maintain our roads and highways. A gradual increase over the next few years would still keep us below the national average of 30 cents a gallon.

**Oil and Gas Taxes** – The compromise HB 111 that the legislature passed only addressed cash credits, but it included a legislative working group as a commitment to review the tax system as a whole. Our current system is overly complicated and allows companies to pay an effective tax rate that is far lower than the tax rate set in law. Legislators will be working closely through the fall with our independent consultants to craft recommendations. The oil tax system should be fair to business – but it also must be one that the state can afford.