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As Alaska leaders eye Permanent Fund earnings, cost will be felt in dividend checks

Alex DeMarban | January 11, 2016

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The governor's proposed reduction to the Alaska Permanent Fund dividend check -- a move designed to help the state balance its budget -- will exceed more than $15,000 for a household of four in the next three years.

That's according to an analysis by Alaska Dispatch News of the next three dividend checks using data from the Alaska Permanent Fund Corp. and the state's fall revenue forecast.

Compounding the loss to Alaskans is the fact that the next two dividend checks had been projected to grow to record amounts, if you don't count inflation.

Meanwhile, under Gov. Bill Walker's fiscal plan to balance the budget, the checks are expected to fall below the $1,000 proposed for 2016 checks, estimates show.

Advocates of the plan say that doing nothing would result in a panicky grab at the Permanent Fund in a few years, and checks would disappear altogether, unless there is a dramatic -- and unexpected -- turnaround in the low oil prices that are rapidly eroding the state's fortunes.

Walker said in a statement he's looking out for the long-term interest of Alaskans, not just a "few high years" of dividend payments. Stay on the current path, and dividends are gone by 2020, he said.

Experts say that could happen because the state's savings that are accessible to lawmakers will be wiped out by then, forcing them take drastic steps to keep government afloat, including using every available source of funding and leaving no money for checks.

"Our plan makes the Permanent Fund permanent," Walker said.

The question of how the state will close a $3.5 billion deficit is expected to dominate the legislative session this year.

A key part of the governor's broad plan to close the gap would overhaul the manner in which dividends are currently paid.

If the plan is approved by lawmakers, future dividend checks would come from oil royalties, instead of investment earnings from the $50 billion Permanent Fund. Instead, the fund's earnings under the plan would help pay for government.

Complicating the discussion in the Legislature this spring could be the large dividends estimated for the coming years, according to the analysis using projections released in late November by the Alaska Permanent Fund Corp.

Last year's $2,072 check, a record when not counting inflation, is expected to be even higher for the next three years: $2,100 this fall, $2,250 in 2017 and $2,200 in 2018.

The governor's plan would provide dividends of $1,000 this year, $814 in 2017, and $905 in 2018.

Add it up, and over three years, the loss to a household of four would be about $15,300.

Gunnar Knapp -- director of the Institute of Social and Economic Research, the University of Alaska Anchorage's think tank -- said maintaining the current levels of high and rising dividend checks could come with dramatic costs.

"The only sustainable dividend is a smaller dividend," he said, "unless you're prepared to accept very significant budget cuts or very significant taxes."

Key House and Senate leaders said legislators may support using the earnings to pay for government, as long as budget reductions are made.

House Speaker Mike Chenault, R-Nikiski, said he wants to see cuts before the earnings are used. His colleagues are all over the map.

"Some are adamantly opposed, some would use it, and some are kind of in between," he said. "But you may get support for using Permanent Fund earnings if we feel the size of the budget has been reduced enough."

Sen. President Kevin Meyer said he likes the governor's proposal to overhaul the Permanent Fund. The idea may have support in the Senate, but cuts need to come first.

He wants to see state government reduced another $700 million to $800 million, similar to last year's reductions. The Senate will be looking for savings through

reforms to Corrections, Medicaid and various tax credits, including the $500 million oil and gas tax credit program, he said.

Centralizing services that are currently duplicated across state agencies, such as IT, communications and purchasing, might also offer savings, he said.

"We've gone from $100 oil to $35 oil, and so we need to make that change before we start taking money from Alaskans," he said.

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