

2004_6_20_ADN_Fund battle looms

Fund battle looms

SPECIAL SESSION: Murkowski faced with reluctant legislators.

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JUNEAU -- Gov. Frank Murkowski is about to face what could be his ultimate political challenge: cajoling legislators who are in the heat of re-election campaigns into messing with the size of their constituents' Alaska Permanent Fund dividend checks.

"If the (Murkowski) administration can pull this off, then they've pulled off one of the greatest miracles since the U.S. beat the Soviets in ice hockey," said state House Speaker Pete Kott, an Eagle River Republican.

Murkowski is lacing up his skates. He's ordered legislators back to Juneau for a special session to begin Tuesday. The main point of it is for the governor to try to persuade legislators to change their minds and support his proposal to use Permanent Fund earnings for public services.

It's the cornerstone of the governor's plan to fix the chronic budget shortfalls, caused by a steady decline in oil production, that have dominated state politics for more than a decade. Murkowski's goal is for lawmakers to put his Permanent Fund proposal before Alaska voters in the November election.

It will cost the state about \$50,000 to bring legislators back and forth to Juneau for the special session. Each day it lasts will cost another \$25,000 or so. Lawmakers can vote to adjourn at any time, but most of them expect the session to last four to 10 days.

CRANKY LEGISLATORS

Lawmakers are cranky about being called back to Juneau in summer -- away from jobs, election campaigns, fishing and travel plans -- to deal with proposals they already rejected during the regular four-month session. One of them, Kenai Republican Rep. Kelly Wolf, is refusing to come. Top lawmakers are deciding whether to excuse him or send Alaska State Troopers to force him to Juneau.

There are also big political disagreements. Legislative leaders on both the left and the right bad-mouth details of Murkowski's Permanent Fund plan.

"I think the special session is an exercise in futility," Kott said. "But we'll see."

Murkowski has spent more of his political capital on his push to take income from the Permanent Fund than on any other issue since taking office. During his 2002 campaign he said that new oil development and controlling spending were the solutions to the state's budget problems. He concedes now, though, that the hoped-for big new oil and gas development dollars aren't coming for at least several years. In the meantime he is committed to keeping at least a \$1 billion cushion in the budget reserve that absorbs the state's annual deficits.

That means something has to give.

The governor has been traveling the state in recent weeks, attempting to get local officials to put pressure on their legislators. His offer is to distribute almost \$70 million of each year's Permanent Fund earnings to local governments. That's tempting for mayors and other city officials.

On Monday in Anchorage, mayors from across the state and former Gov. Wally Hickel plan a press conference to turn up the heat on legislators.

McGrath Mayor Dustin Parker said rural Alaska, in particular, will be in trouble if the Legislature doesn't act soon to solve the problem. He said he fears a tobacco tax will be the only result of the special session.

"They are worried about getting re-elected," Parker said. "Oh, well. We're worried about shutting the power off in our community."

ROAD TO SPECIAL SESSION

Murkowski also sees the state's budget problems as interfering with his pursuit of his ultimate goal: inciting more petroleum, timber and mining development in Alaska. That's the reason he stepped down from the U.S. Senate after 22 years and came home to run for governor.

He's said the state's unstable financial future hurts business investment.

In February, Murkowski called a "Conference of Alaskans" with 55 delegates from around the state meeting in Fairbanks to explore the governor's ideas of tapping the fund. The delegates agreed it should be done but also called for guaranteeing future dividends in the state constitution and considering an income tax to help spread the burden.

The state House then gave the governor the two-thirds support needed to pass his Permanent Fund plan -- without a vote to spare. But the Senate trashed the proposal, with the governor watching from the gallery.

Murkowski's plan involves changing the fund into an endowment known as the percent of market value. The POMV is an amendment to the state constitution, which means it must go to a statewide vote in a general election. So if Murkowski this week cannot persuade the Legislature to put his plan on the November ballot, it can't go to voters until fall 2006. That's at the end of Murkowski's term.

"Why shouldn't this Legislature meet the challenge?" the governor said last week. "Instead of worrying about what effect it will have on the campaigns, recognize that Alaskans anticipate it will be resolved. Get on with resolving it. Do it now so that we can get this issue behind us."

BALKING LEGISLATORS

But it's not just the re-election campaigns causing legislators to balk.

The price of oil, which accounts for more than 80 percent of the state's general fund dollars, has shot up to record levels in recent months. So the state doesn't have much of an immediate budget problem. No one expects oil prices to remain so high, but it makes it easier not to act now.

And voters love the dividend. More than 80 percent said no when asked in a 1999

advisory vote whether the state should use Permanent Fund earnings to balance the budget.

Murkowski's latest offer is to guarantee in the state constitution that annual dividend checks would remain at least \$1,000 after his plan kicks in.

That's more than the checks are expected to be for the next couple of years even if the fund is left alone. But over the next several years the governor's plan would lead to annual dividend checks that are between \$100 and \$700 less than if the fund isn't touched, according to the latest stock market estimates from the officials who manage the fund.

Democrats don't like the governor's plan because it relies just on the Permanent Fund to solve the budget problems. Their argument is that reducing the dividend checks hurts the poor and the middle class more than the rich. Several Democrats want to raise taxes on the oil industry and urged Murkowski to add that to his special session call.

Murkowski declined. And just a week before the special session, top oil executives declared future petroleum expansion in Alaska depends on the state's working out its budget problems without raising taxes on them.

Democrats like the governor's call to put the dividend in the state constitution but want a bigger check than Murkowski is talking about. He wants to put in the constitution that the same amount of Permanent Fund money would go to government services as to the dividends.

Murkowski often declares that the public wants the state to get a handle on its budget problems. And that's true, said Anchorage Democratic Sen. Johnny Ellis, the Senate minority leader. But it doesn't tell the whole story.

"People say find a fiscal plan," Ellis said, "but, by the way, protect my dividend."

Murkowski also has big problems with his fellow Republicans. There are a lot of Republican lawmakers who can't stand the governor's proposal to put the dividend in the constitution, arguing that a check handout shouldn't rank up there with the most basic human rights.

Several Republican senators said they believe the time is coming soon to tap the fund earnings but not now. They also fear the governor's plan would fail at the ballot box, putting the earnings politically off-limits for a long time.

Murkowski has pledged a public vote before touching the fund. But the Legislature doesn't need to have a public vote to spend fund income; it can do so whenever it gets the political will. Fairbanks Republican Sen. Gary Wilken, and others, have argued that when the time comes, the Legislature should just use earnings without the statewide vote. It will be tough for the governor to convince them otherwise.

"I haven't changed my mind," Wilken said last week. "He's gotten further away from me."

Murkowski's POMV plan

Gov. Frank Murkowski's fiscal plan is based on a change that would make the \$27.8 billion Alaska Permanent Fund operate like an endowment. The proposal is called percent of market value, or the POMV.

It would set a maximum 5 percent payout of the fund's entire value each year. The Permanent Fund board of trustees projects that the fund will grow an average of 8 percent a year through its investment earnings. So the trustees proposed the POMV change as a way to guarantee automatic inflation-proofing. It would also lead to more predictable dividend checks, according to the trustees, since the current system for calculating the size of the dividend checks is based on the volatile stock market.

Murkowski's plan is to give half of the 5 percent payout to the dividend checks. Of the other half of the 5 percent, 45 percent would go toward the state's expenses for education and the remainder to local governments. Putting \$600 million or so each year toward education would free state dollars that now go for schools to be used for other state services.