

A NEW FISCAL PLANNING PROCESS

by Eric E. Wohlforth

Alaska faces a fiscal challenge of unprecedented dimension. With the possible exception of the earthquake, nothing since statehood equals in fiscal importance today's sharp drop in state revenues. Alaskans need to engage in a realistic, informed discussion of the problem. A well-planned process for Alaskans to "buy into" the issue may help to develop a path so that the State can weather better the fiscal crisis of sharply reduced oil revenues. Here are some thoughts on the history of past efforts and how a new process might be planned.

NEED FOR PUBLIC EDUCATION

Before any public process, a clear public understanding of reports by ISER and Commonwealth North showing the rapid draw down of state surplus under different scenarios of low oil prices is essential. Also important is a clear public understanding of our state budgets. The education process is well underway, led by the Department of Revenue, ISER, and civic groups like Common Ground and Commonwealth North. More in the way of clear revenue and budget information understandable at the consumer level is needed.

Then the questions are - "What kind of process would be useful and lead to public consensus on the path forward?" and "How can we avoid the failures of past efforts to lead to solutions?"

REVIEW OF PAST EFFORTS

A short review of past efforts is in order. There have been Alaska's fiscal future conferences as far back as the Brookings Institution in 1968. "Fiscal gap" conferences started almost 20 years ago. The 2004 Conference of Alaskans in Fairbanks was the most recent and most nearly successful effort in these series of public "fiscal gap" conferences.

In 2004, oil sold for \$38.84 a barrel, production was 900,000 barrels a day, and the Permanent Fund balance was \$27.4 billion. The budget shortfall or "fiscal gap" was modest compared to today at \$500 million. The mantra was the need to plan our fiscal future in advance of declining oil production.

This two-day conference produced legislation (which passed the House, but not the Senate) to propose constitutional amendments to protect the dividend, but use some Permanent Fund income for education and municipal revenue sharing. A major planning defect was the fact that although this conference was carefully planned and fully supported by the governor, the legislature was not involved.

An earlier 2001-2002 Fiscal Policy Caucus convening group consisted of a majority of the State House of Representatives. After 11 forums held throughout the state, the group efforts produced legislation which passed the House providing for a

division of Permanent Fund income to pay dividends and government operation. The legislation failed to pass the Senate. In 2001, oil sold for \$23.21 a barrel, production was 963,000 barrels a day, and the Permanent Fund balance was \$24.8 billion. The fiscal gap for FY 2002 was \$865 million.

In 1995, a Long Range Financial Planning Commission, consisting of nine citizens, two senators, two representatives, and two governor appointees, after 300 hours of public testimony, research, and meetings produced a three-year plan to cut spending \$100 million a year and increase revenues with fees and taxes by \$144 million. In 1995, oil sold for \$16.86 a barrel, production was 1,484,000 barrels a day, and the Permanent Fund balance was \$14.875 billion. The budget shortfall or fiscal gap was \$500 million.

All these "fiscal gap" conferences occurred when oil flow was twice or more what it is today. They were premised on the view that fiscal planning should happen before an emergency or crisis. However, they failed to produce legislative solutions. The most nearly successful conference in 2004 lacked legislative buy-in. Legislative leaders who, in some cases, voted against legislation suggested by the public process and who were not involved in the process said that they did not believe that the public would countenance any major new fiscal step until it was "absolutely necessary." Because the "absolutely necessary" time has now arrived, it is vital that any new effort succeed.

A NEW PUBLIC PROCESS EFFORT

In deciding on the format of a new public process effort, we need to look at efforts elsewhere in the world and a successful recent effort in Anchorage. The Deliberative Polling Process is an example of a successful technique used for effective public process in many places throughout the world. In Deliberative Polling, views are sought by questionnaire from a random number of people who then convene together, both in small groups and plenary sessions, directing questions developed in small groups to competing experts or policy makers. At the end of the process, they fill out the same questionnaire as the one they had been given when they were first contacted.

This second questionnaire typically shows change in positions based on increased knowledge and information. Within the small groups democracy is reframed so that individual voices can seem important. This means that calculations of "rational ignorance" ("since I am one in a million, why should I take the time and trouble") do not apply.

It was used in the nomination process for a major party's candidate for mayor in Athens in 2006 and in China in 2008 to identify capital projects.

Deliberative Polling is only one possibility for a statewide fiscal planning process. Other examples exist. In British Columbia, 160 randomly selected citizens meeting over one year voted with 50 public hearings on a new electoral system.

Anchorage has used an effective process for public dialogue on the budget called Choice Dialogue. It relies, as do most successful public deliberative programs,

on education of the participants. Over 350 Alaskans met together over four evenings to discuss Anchorage's public services and taxes. In the course of three hour facilitated meetings, they considered questions of what services should government provide, how to pay for them, and what are the tradeoffs. Choices were advanced and a conclusion reached. It has the very considerable advantage that it is a process that a large number of Alaskans know about it because they have experienced it. It was broad-based, involving any citizen who wished to join in.

Any fiscal plan public process must be carefully designed by all the involved constituencies (the legislature, the governor, and the public) who must be involved in determining its format and setting its agenda. Planners of a new process should consider the dynamics of successful efforts in Alaska and elsewhere in the world.

We badly need informed public engagement in developing our future as a state. So far as a state we have not effectively engaged the issues. We need to recognize that we owe an obligation to Alaskans to engage the issue now of how we responsibly shepherd current resources for the immediate and long-term future and for this and the next generation.