



Alaska Fiscal Solution

Alaska State Chamber of Commerce, Resource Development
Council, and Alaska Support Industry Alliance

March 30, 2017

Big cuts, but still a big deficit

Spending hit FY13 high:
\$8 billion (UGF)

Significant reductions:
44.6% over 4 years op/cap
\$3.5 billion
(26% operating reductions)

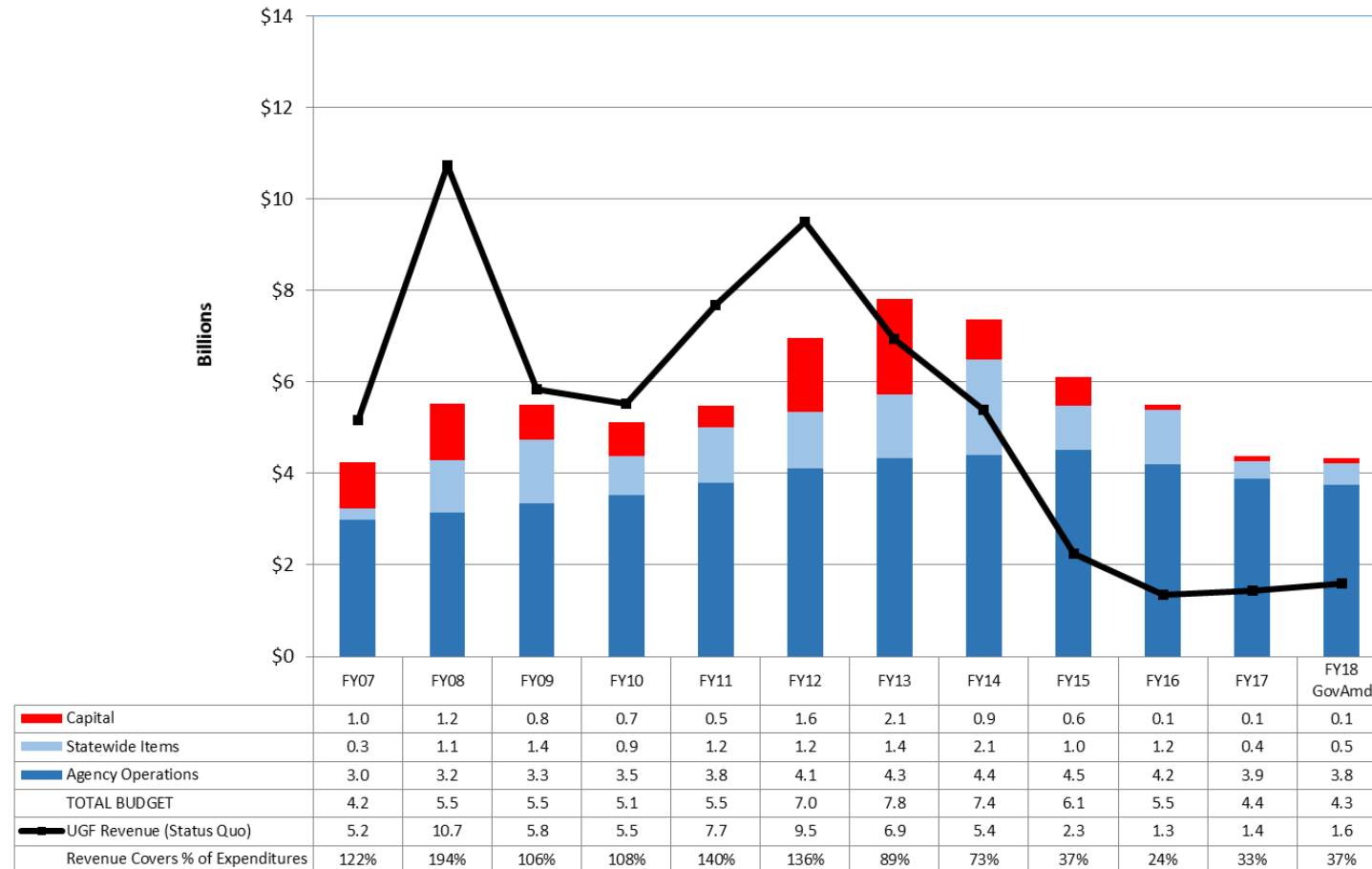
Current (proposed) budget:
\$4.3 billion

Current deficit:
\$2.8 billion

*Budget described in “UGF” – undesignated general funds. This is the budget the Legislature has discretion over, unlike dedicated or federal funds.

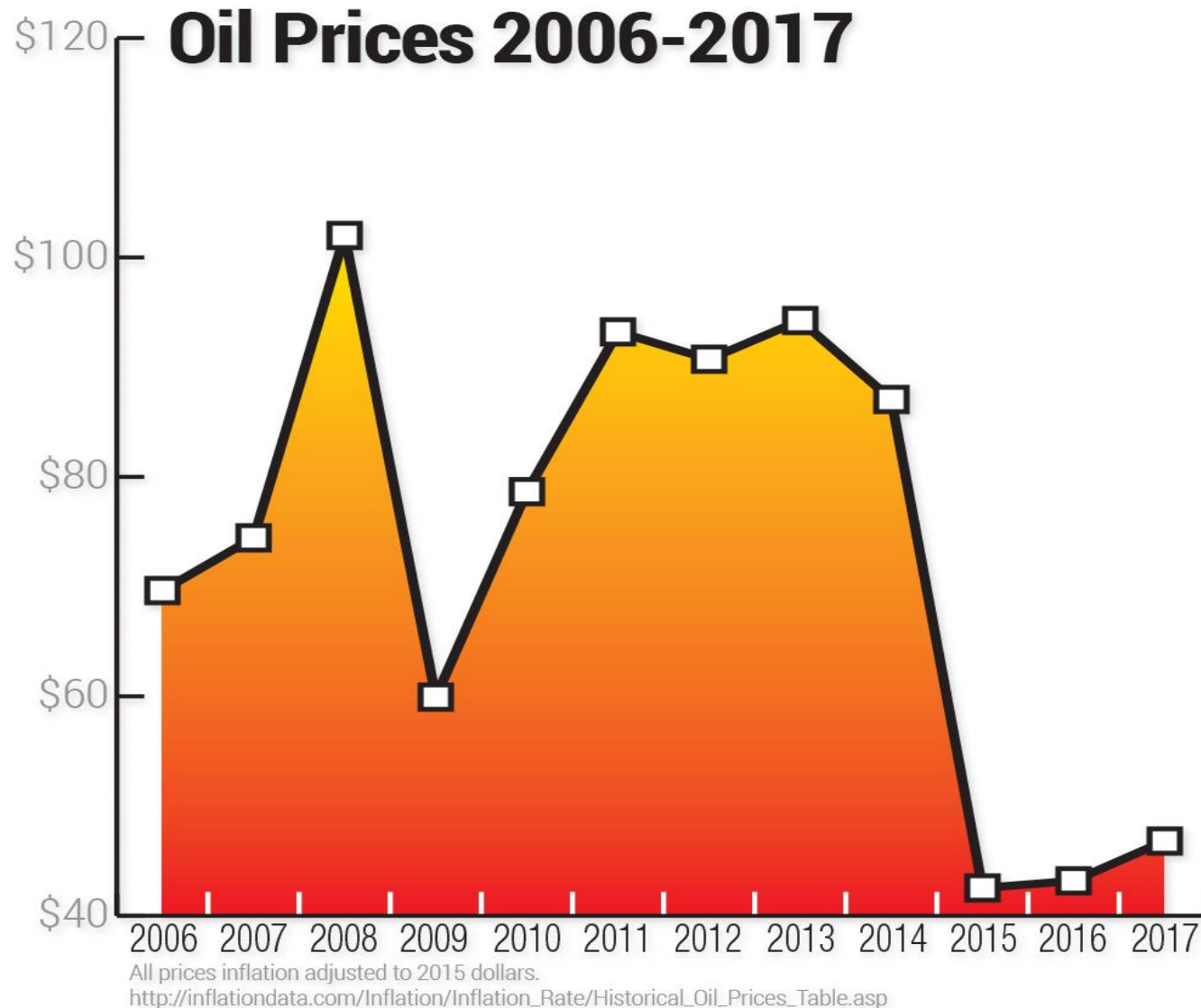
3/1/2017

Total Agency Operating Budgets, Statewide Items and Capital Budget
Compared to Revenue
(UGF Only--\$billions)
(Excludes Permanent Fund ERA Appropriations)



Legislative Finance Division

Oil prices won't save us



Under SB 21 tax system
production is up, but prices
remain low – and profits are
slim

Alaska would need
prices of **\$103** per barrel
to balance a
\$4.3 billion budget

And now ... a recession

- Officially in a recession
- Economy is hurting
- Highest job losses since 1980s recession/highest unemployment in nation
- Consequences to our actions (or inaction)
- Priority – protect private sector

Third quarter jobs down 9,000 from year before; biggest decline since oil prices crashed

Employment cuts across Alaska have mounted monthly since late 2015, leading to four straight quarters of **job decline** as Alaska remains **mired in recession** with the **nation's worst unemployment** rate.

ADN, Feb. 3, 2017

Alaskans faced with the first recession in decades

Marketplace.org, July 13, 2016

Recession grips Alaska as employment losses hit new sectors

ADN, Dec. 2, 2016

After years of growth, the Anchorage housing market flattens

ADN, Jan. 31, 2017

Alaska Railroad lays off 31 and cuts vacant positions

ADN, Feb. 10, 2017

Alaska's recession will last through 2019, economists tell Legislature

Juneau Empire, Jan. 20, 2017

The No-Action Alternative

- Bigger deficits
- Deplete our reserves
- Devastating cuts
- More job losses
- Drive oil, other investment elsewhere
- Weaken a fragile economy
- No reserves left to bail us out

How deep, how long, does the recession go?

Do what we know needs to be done –
and ***do it now***

- Stabilize state spending
- Stabilize state revenue
- Protect future reserves
and Alaskans' dividend

“We’re in a recession; we have the highest unemployment rate in the nation. The Senate is focused on the only thing we believe can actually stabilize Alaska.”

– *Sen. Anna MacKinnon,
Senate Finance Committee Co-Chair*

1. Reduce state spending

- Goal is \$300 million reduction in operating budget this year
- Part of \$750 million target reduction over three years
- Most will come from structural reforms – but these take time

2. Reform the spending cap

- Maintain downward pressure on state operating budget

3. Manage state reserves prudently

- Preserve Permanent Fund, dividend, CBR for future
- Apply Permanent Fund Earnings in structured draw to help pay for smaller government and a sustainable dividend
- After oil revenue and Permanent Fund Earnings draw, strategic CBR draws fill in if needed – but only up to overall state spending limit

Solution – spending cap

Spending cap ‘holds the line’

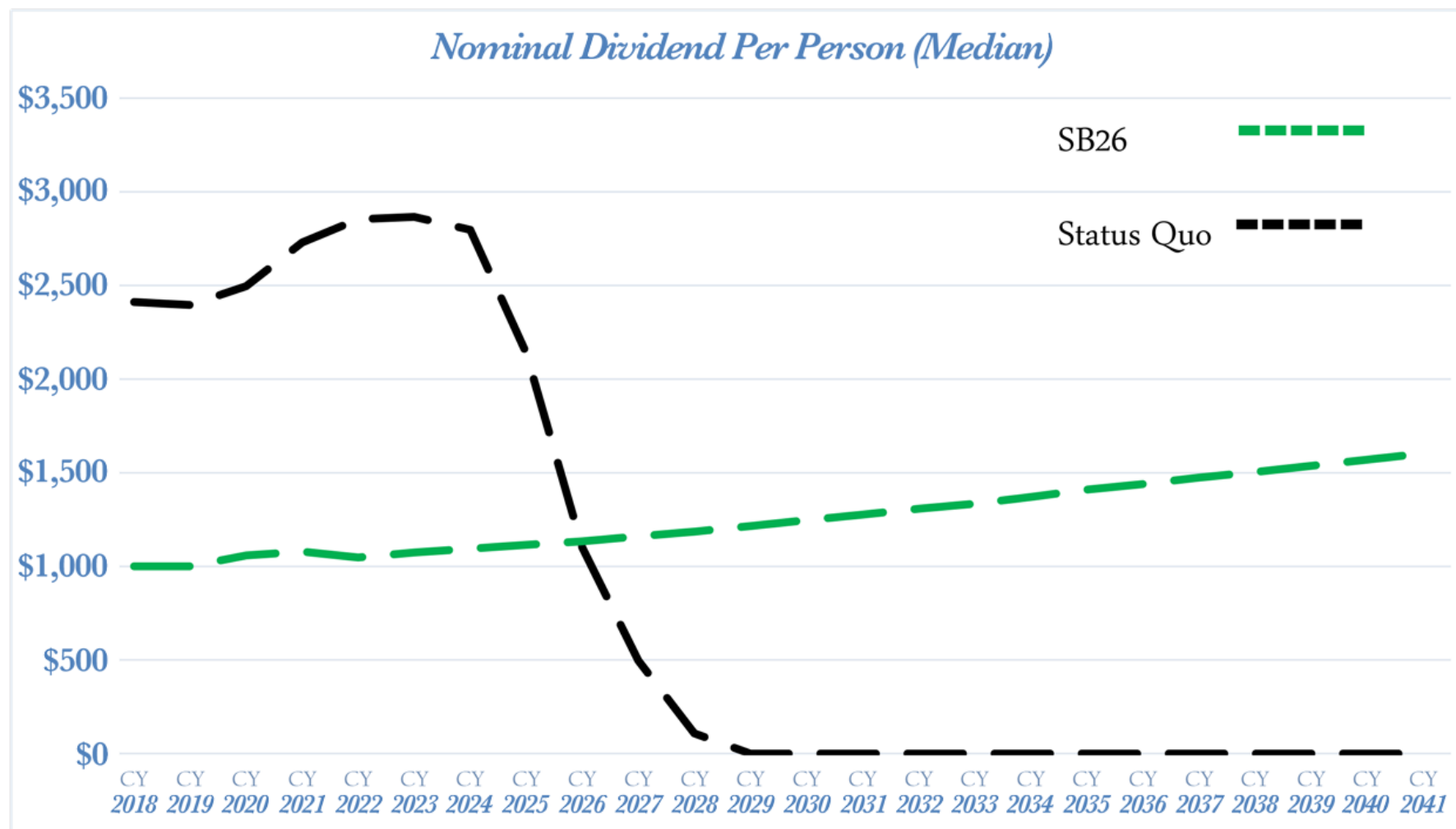
- Statutory first - \$4.1 billion
- In range of historic spending, minus the peaks
- Adjusts annually for inflation
- Does not include:
 - Dividends
 - Debt obligations
 - Capital budgets
- Constitutional next year

Solution – managing reserves

Smart reserves management over generations

- ✓ Uses a percent of market value (POMV) approach to draw annually from 5-year average of Permanent Fund's value
- ✓ Of annual draw, some to government, some to dividends
- ✓ Dividend in line with historical average
- ✓ After oil revenue, POMV draw, strategic CBR draw fills in if needed – but only up to state spending limit
- ✓ As oil revenue increases, government's share of POMV draw goes back to reserves

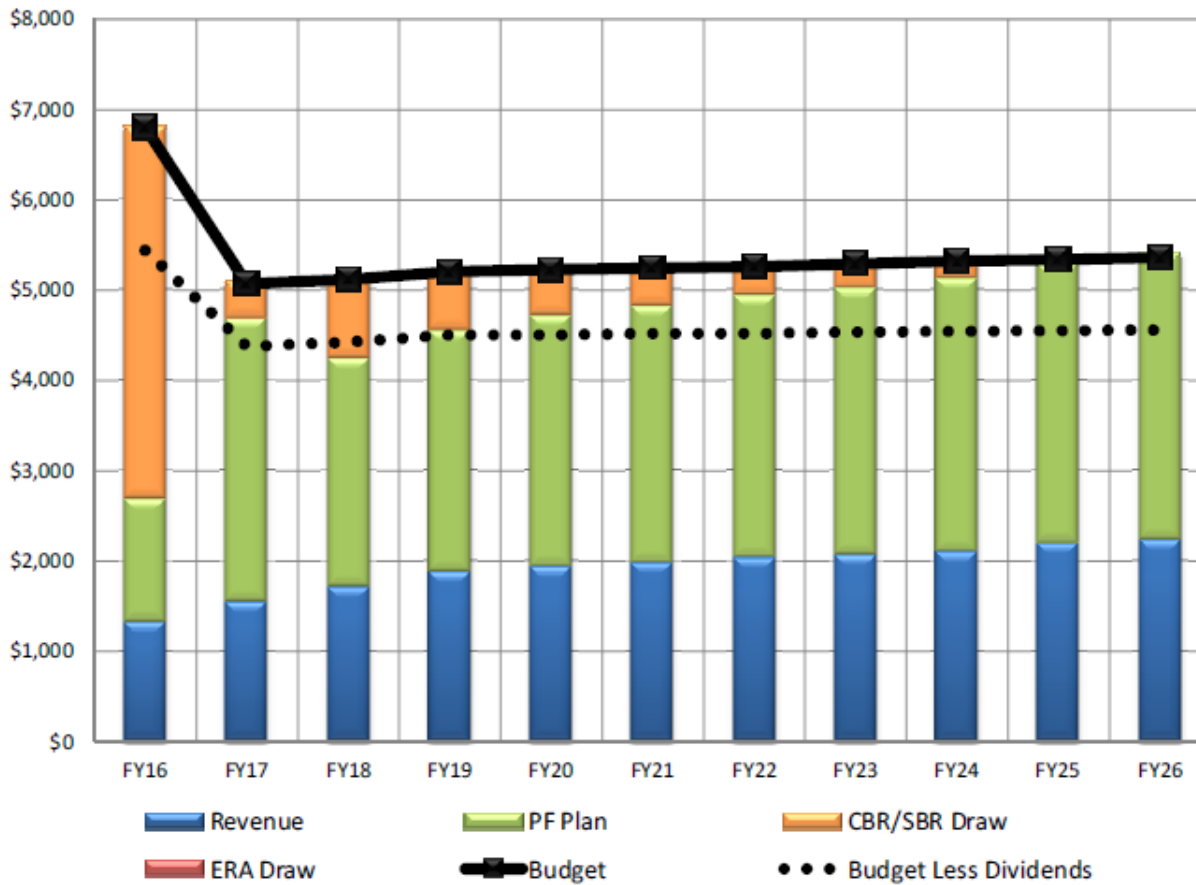
DIVIDEND SIZE COMPARISON



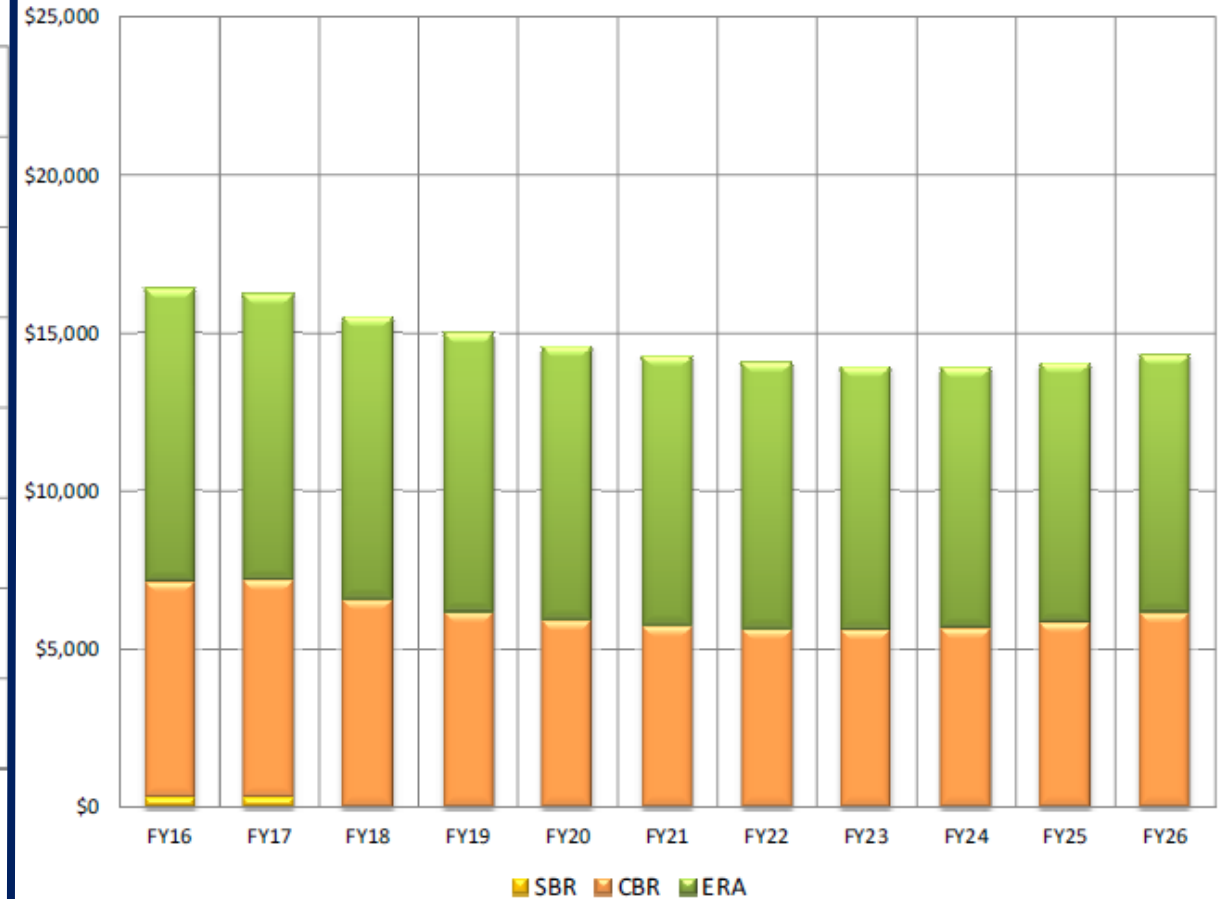
Source:
Department
of Revenue

Solution - analysis

UGF Revenue/ Budget
(\$ millions)



Budget Reserves
FY Ending Balance

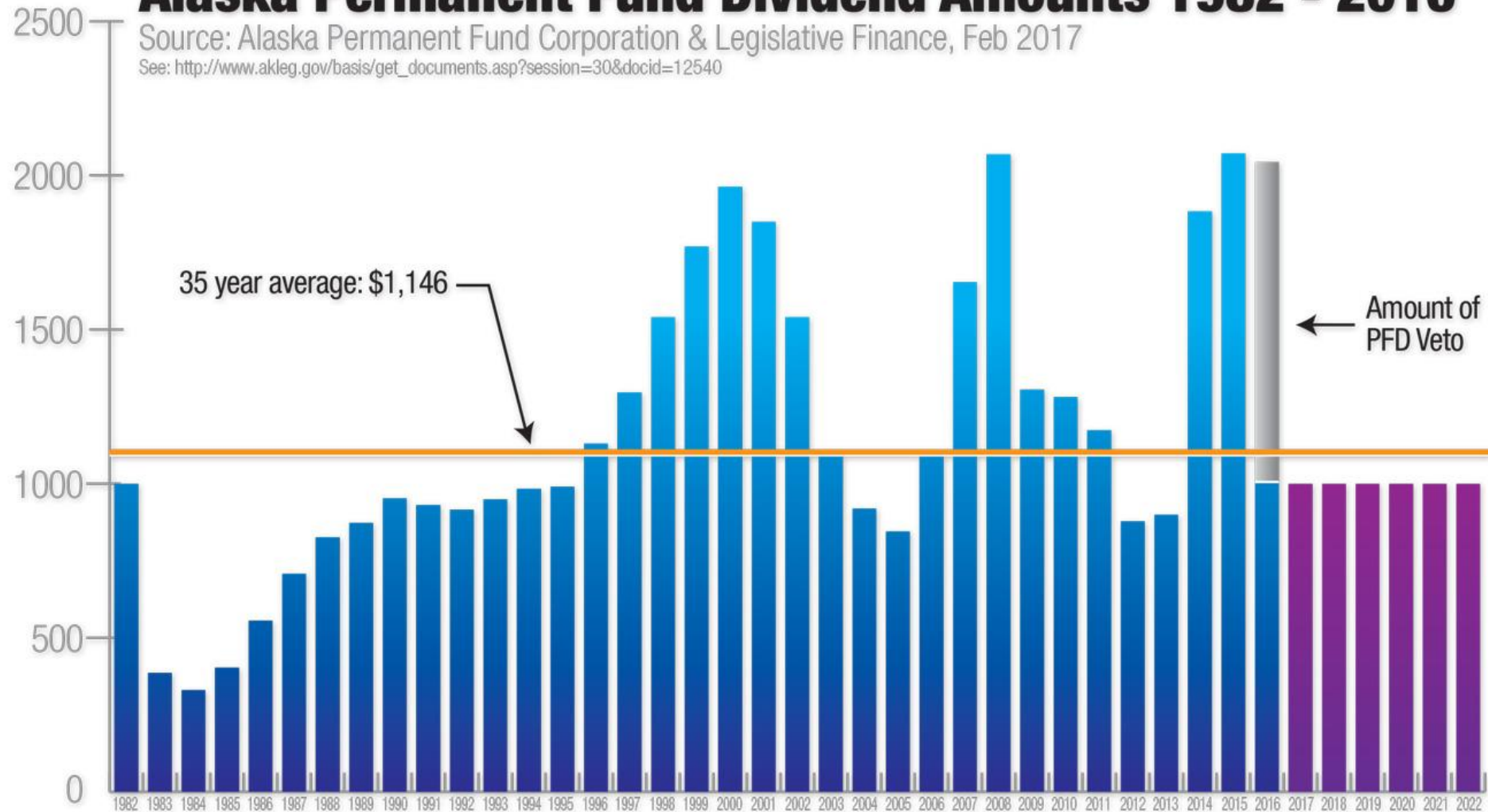


Dividend certainty

Alaska Permanent Fund Dividend Amounts 1982 - 2016

Source: Alaska Permanent Fund Corporation & Legislative Finance, Feb 2017

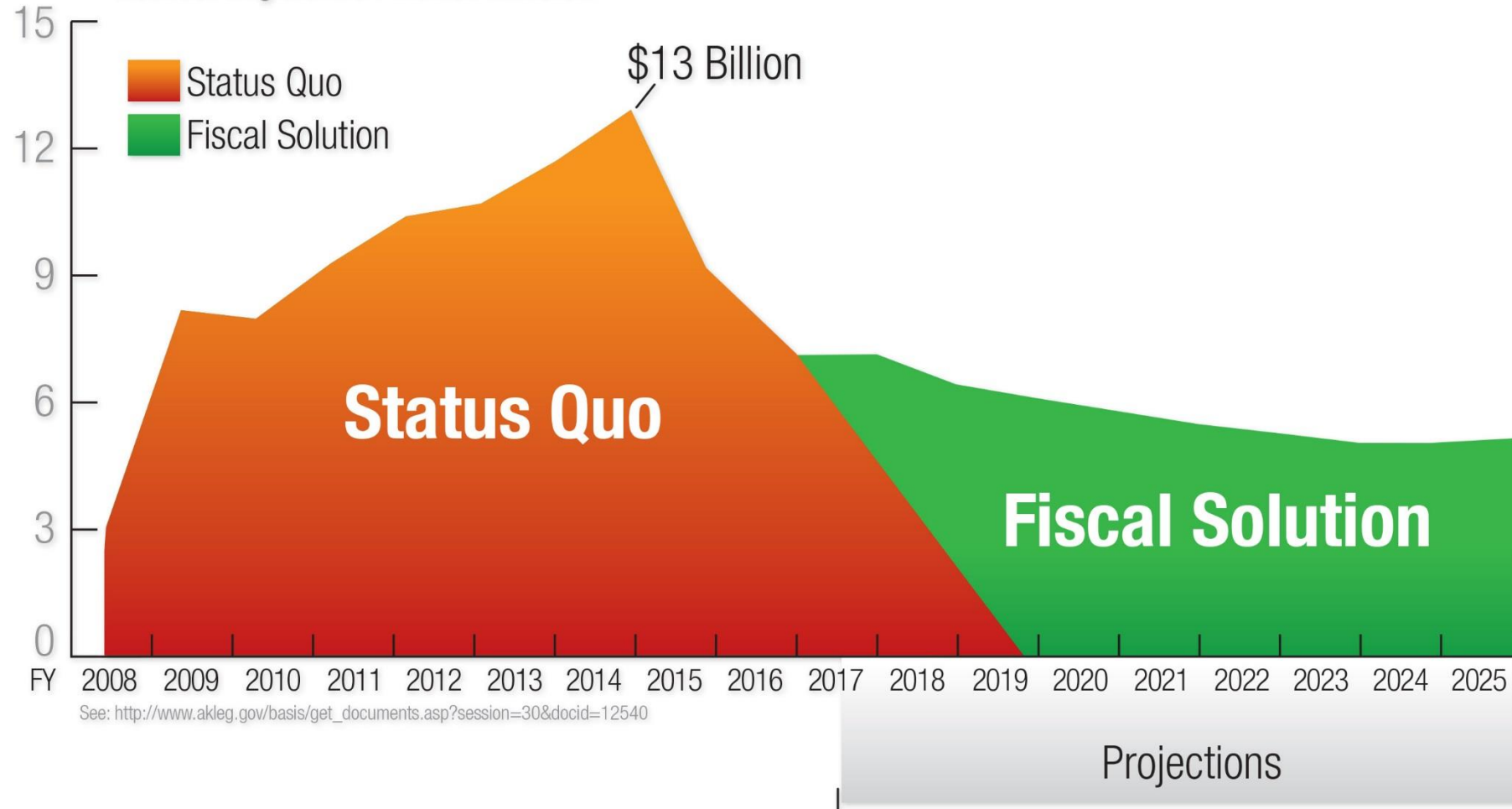
See: http://www.akleg.gov/basis/get_documents.asp?session=30&docid=12540



Reserves stability

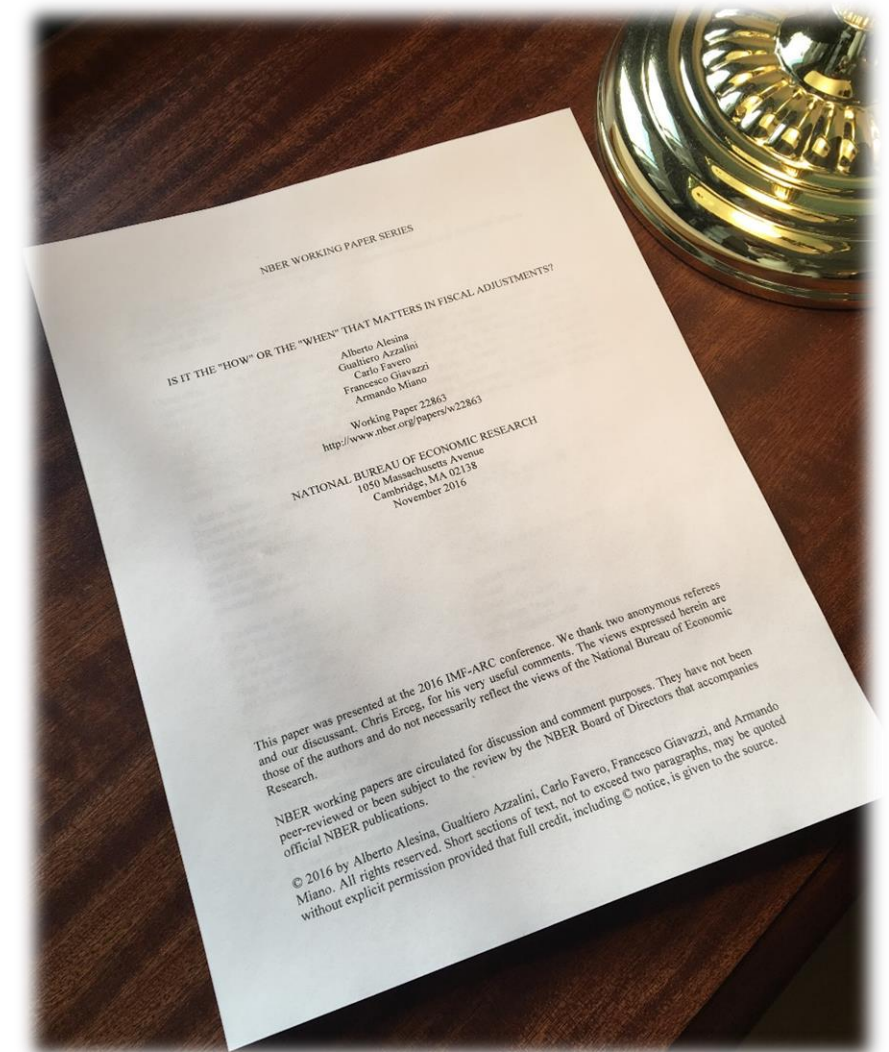
CBR Balance Status Quo vs. Fiscal Solution

Source: Legislative Finance Division



Taxes prolong recession

“ . . . **tax-based adjustments**
have been followed by **prolonged**
and **deep** recessions.”



National Bureau of Economic Research 2016 report: “Is it the ‘how’ or the ‘when’ that matters in fiscal adjustments?”

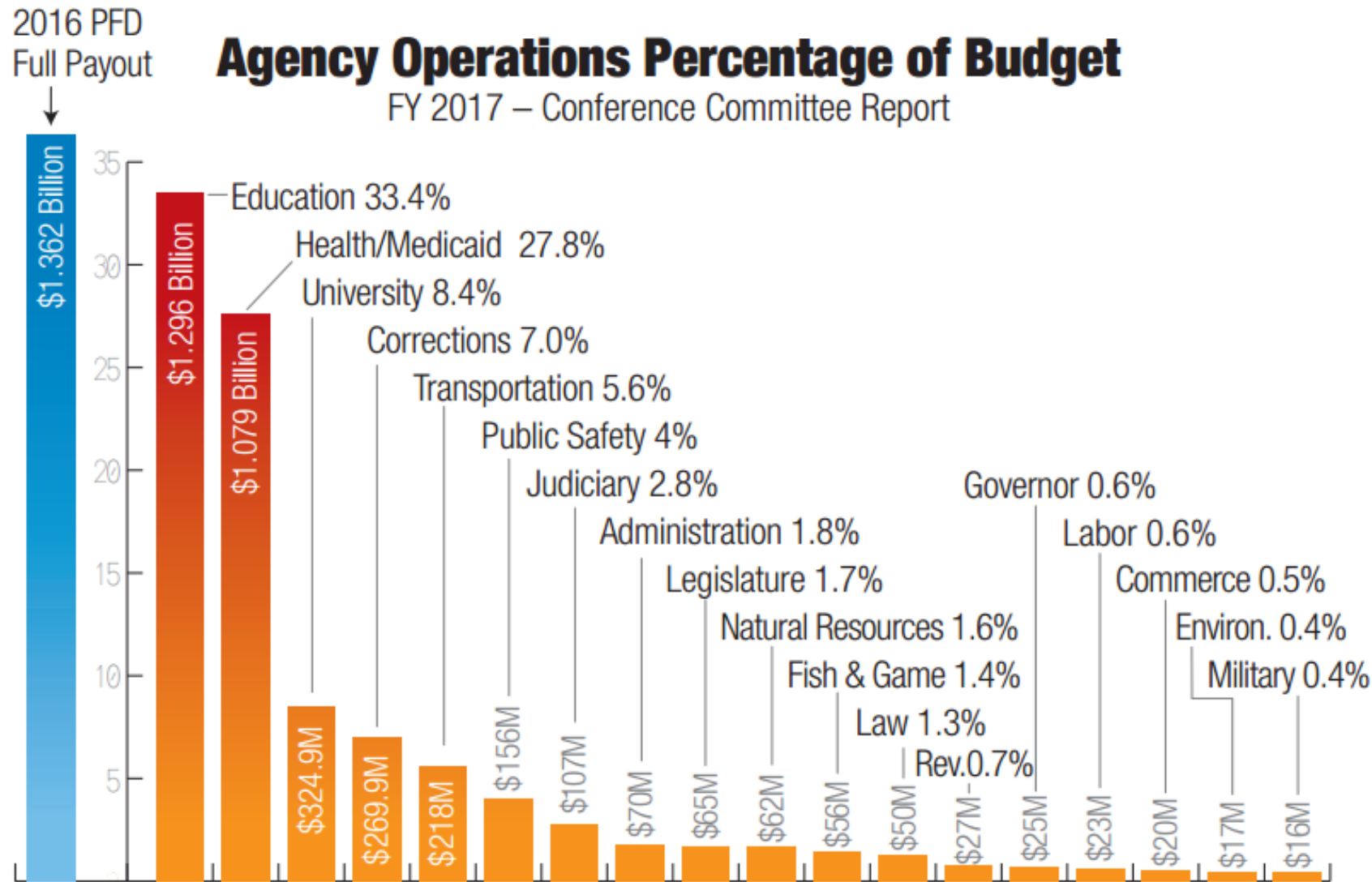
Thank you

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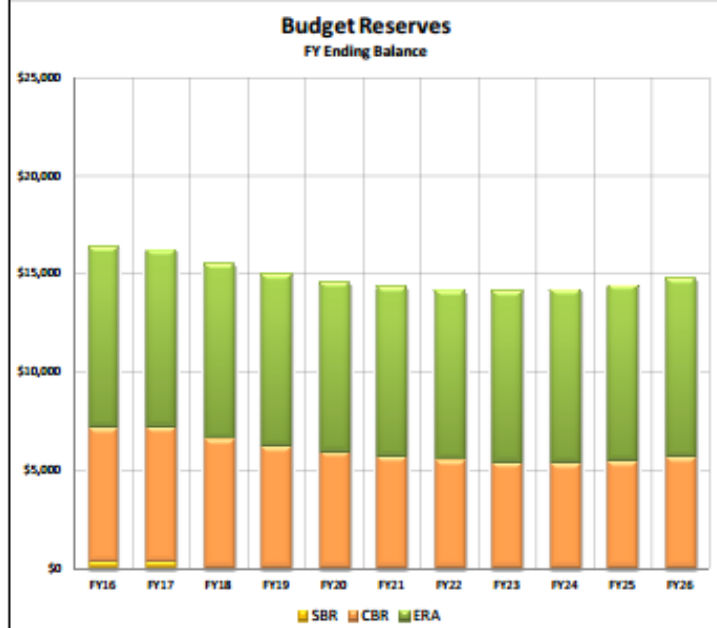
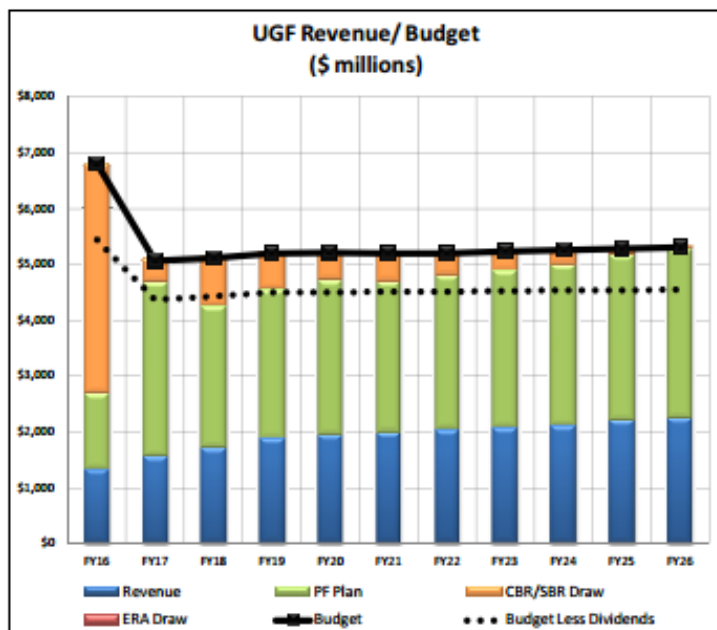


SenateMajority@akleg.gov

Appendix – Budget reductions

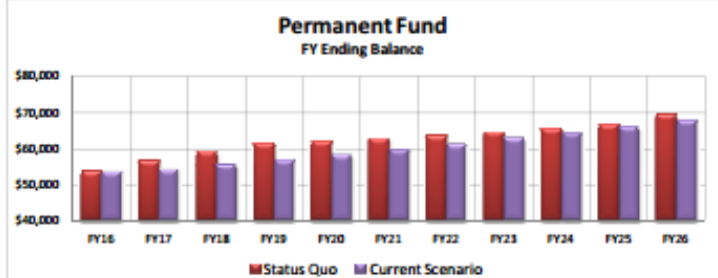
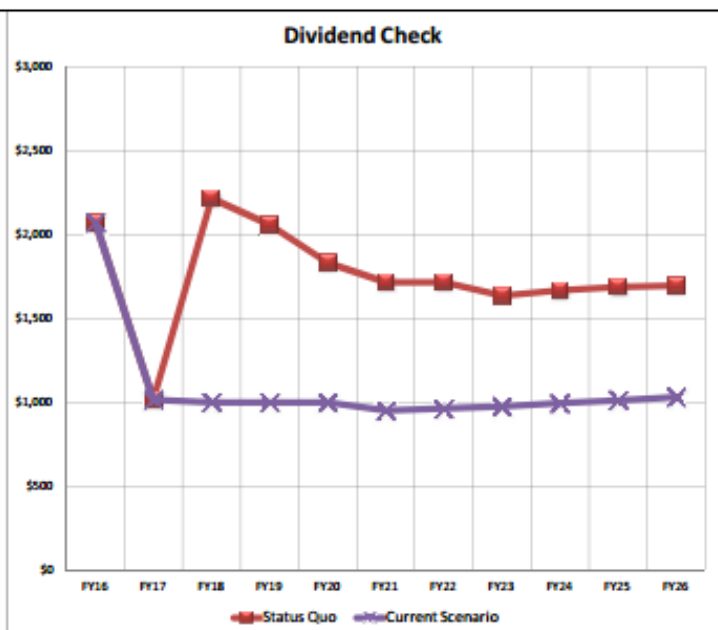


Source: Legislative Finance Division, <http://www.legfin.akleg.gov/BudgetReports/LY2016/Operating/ConfComm/2016-AgencySummaryUGF.pdf>



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	15,505	14,977	14,570	14,299	14,160	14,111	14,173	14,404	14,757
Deficit	-904	-676	-517	-531	-431	-372	-287	-149	-58
Years to Exhaust	17	22	28	27	33	38	49	97	254

Price Scenario	Fall 2016
Production Scenario	DOR Forecast
COST VARIABLES	
Operating Budget	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
Statewide Budget	
Tax Credit Payments	Statutory
Capital Budget (FY19-26)	180.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Oil Tax Legislation	n
Permanent Fund Plan	SB 70
Assumptions	
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	57.25%
Population Growth Rate	Labor Stats
CBR Earnings	2.89%
Plan Specifications	
Payout	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	20
% Statutory Net Income	0%
Draw Start Year	17
Dividend	
% of Stat Net Income to Div	0%
% of POMV Draw to Div	25%
% of UGF Royalties to Div	0%
Dividend Floor	\$ 1,000
Floor Ends	20
Dividend Cap	\$ -
Dividend Override	Off
Inflation Proofing	
Status Quo Inflation Proofing	0
4x Draw Inflation Proofing	1
POMV Inflation Proofing	0.00%
Other Provisions	
Reduce when oil rev exceeds	\$ 1,200
Reduce by x%	100%
Royalties to PF	25%



Perm. Fund	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
% Real Value	100%	100%	100%	101%	101%	101%	102%	102%	102%
Payout %	5.25%	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.56%	4.71%	4.79%	4.54%	4.52%	4.50%	4.49%	4.49%	4.49%

