



# 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)**

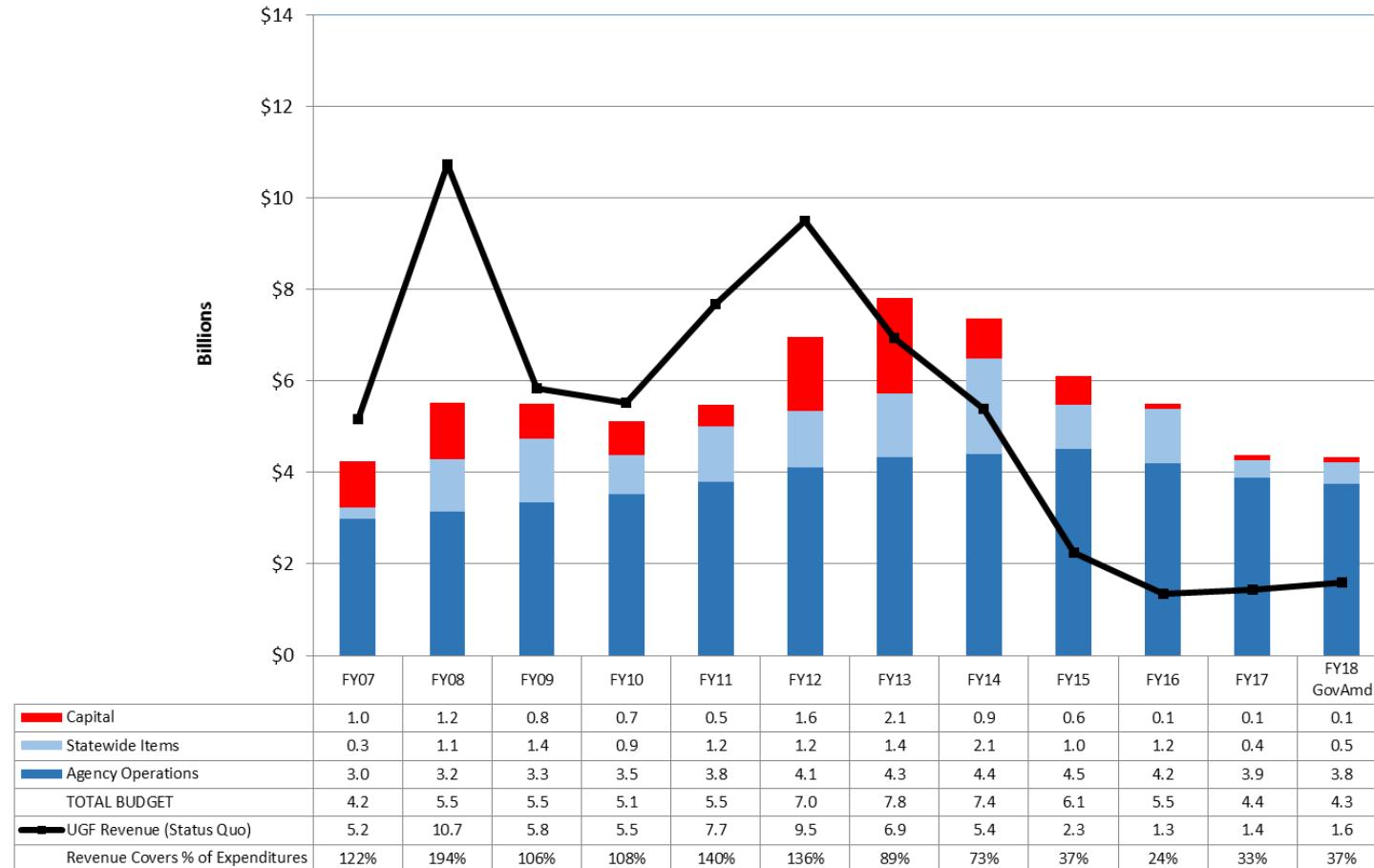
Current (proposed) budget:  
**\$4.3 billion**

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.

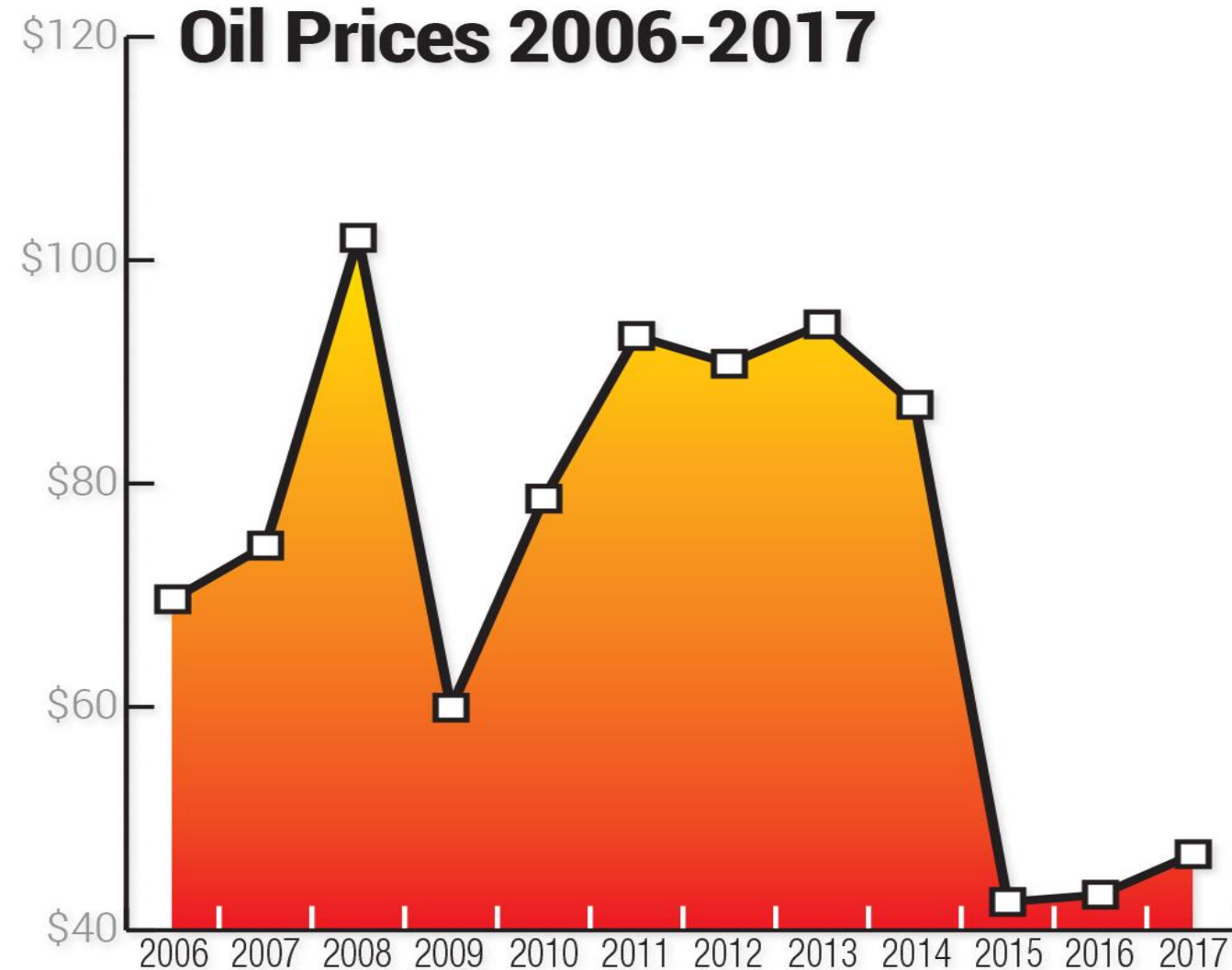
3/1/2017

**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



All prices inflation adjusted to 2015 dollars.

[http://inflationdata.com/Inflation/Inflation\\_Rate/Historical\\_Oil\\_Prices\\_Table.asp](http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp)

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*

# Alaska Fiscal Solution

## 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

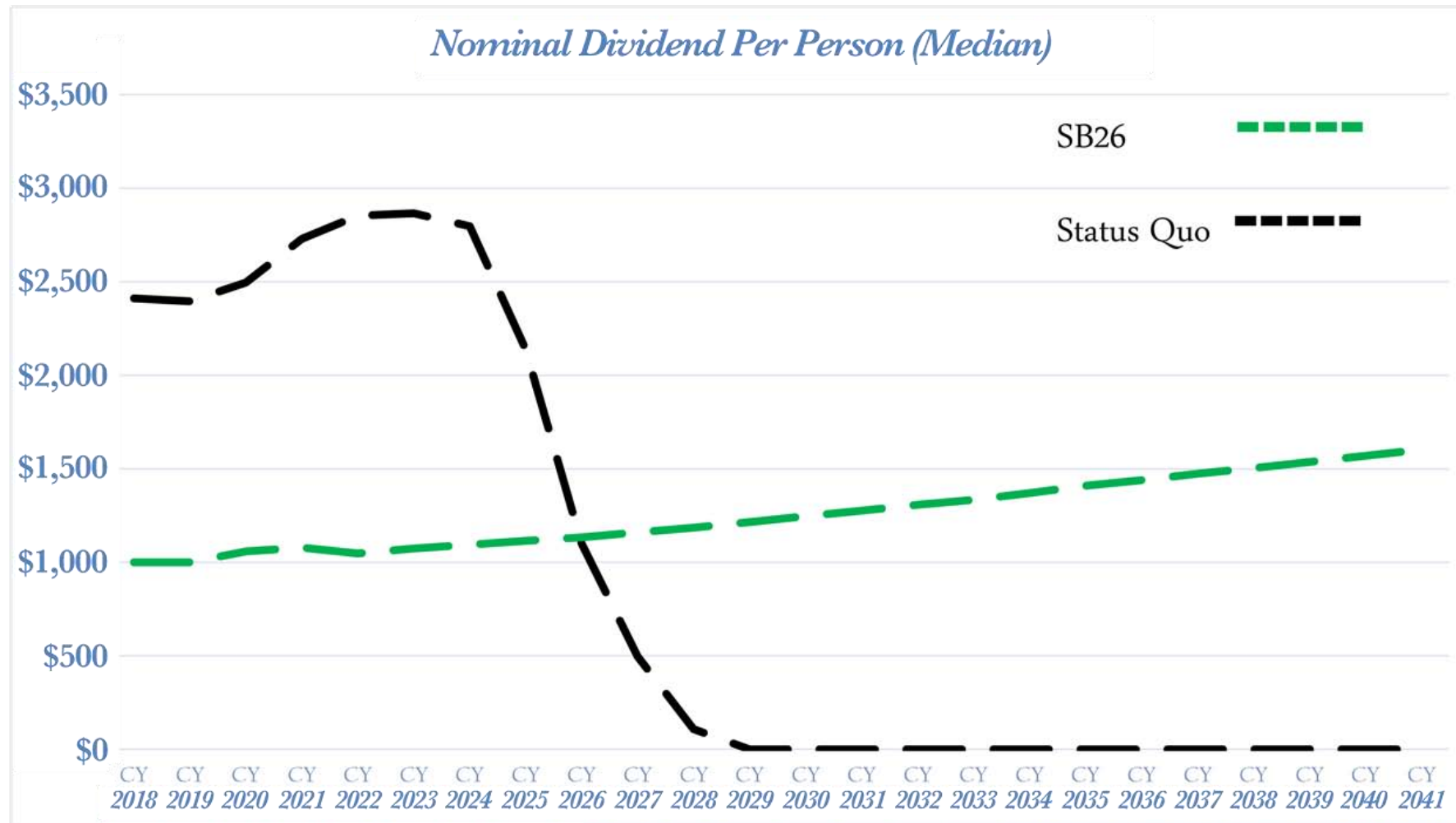


# Solution – managing reserves

## 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

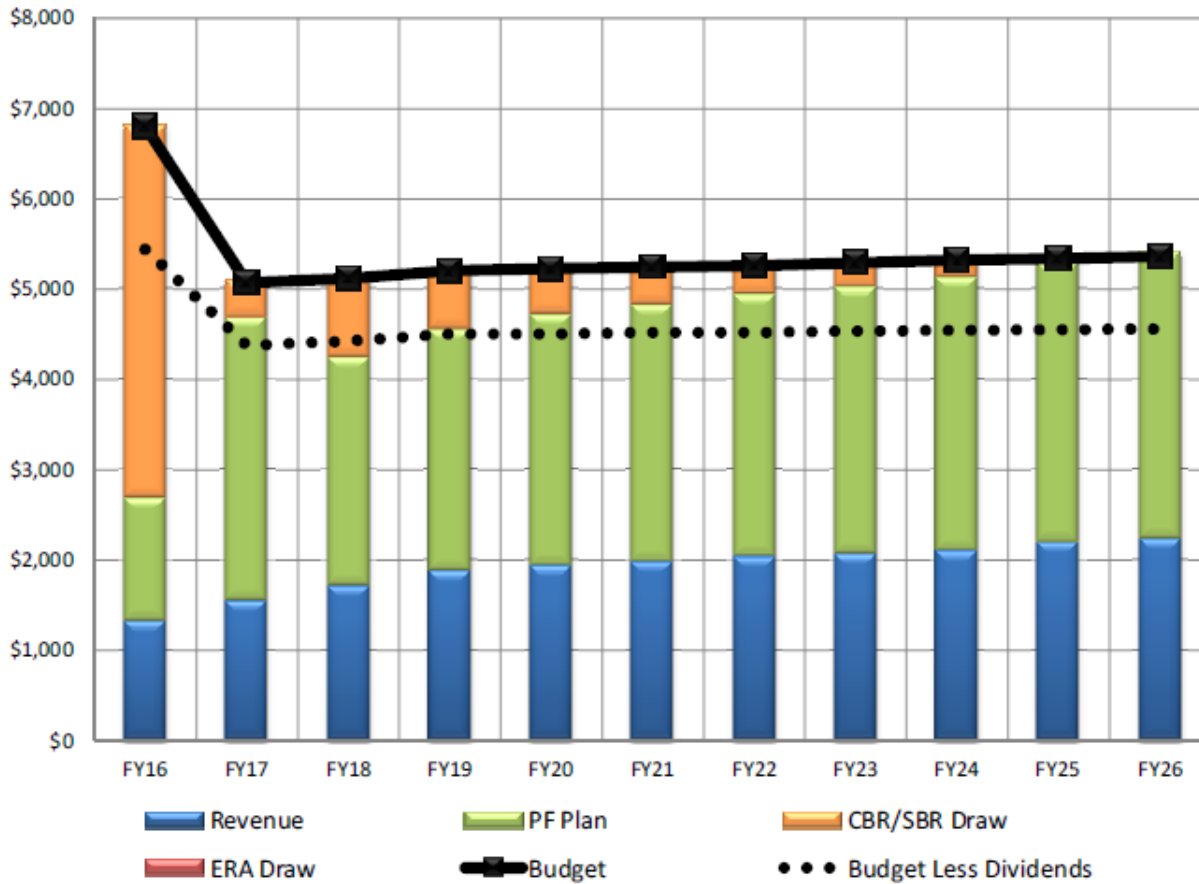
## DIVIDEND SIZE COMPARISON



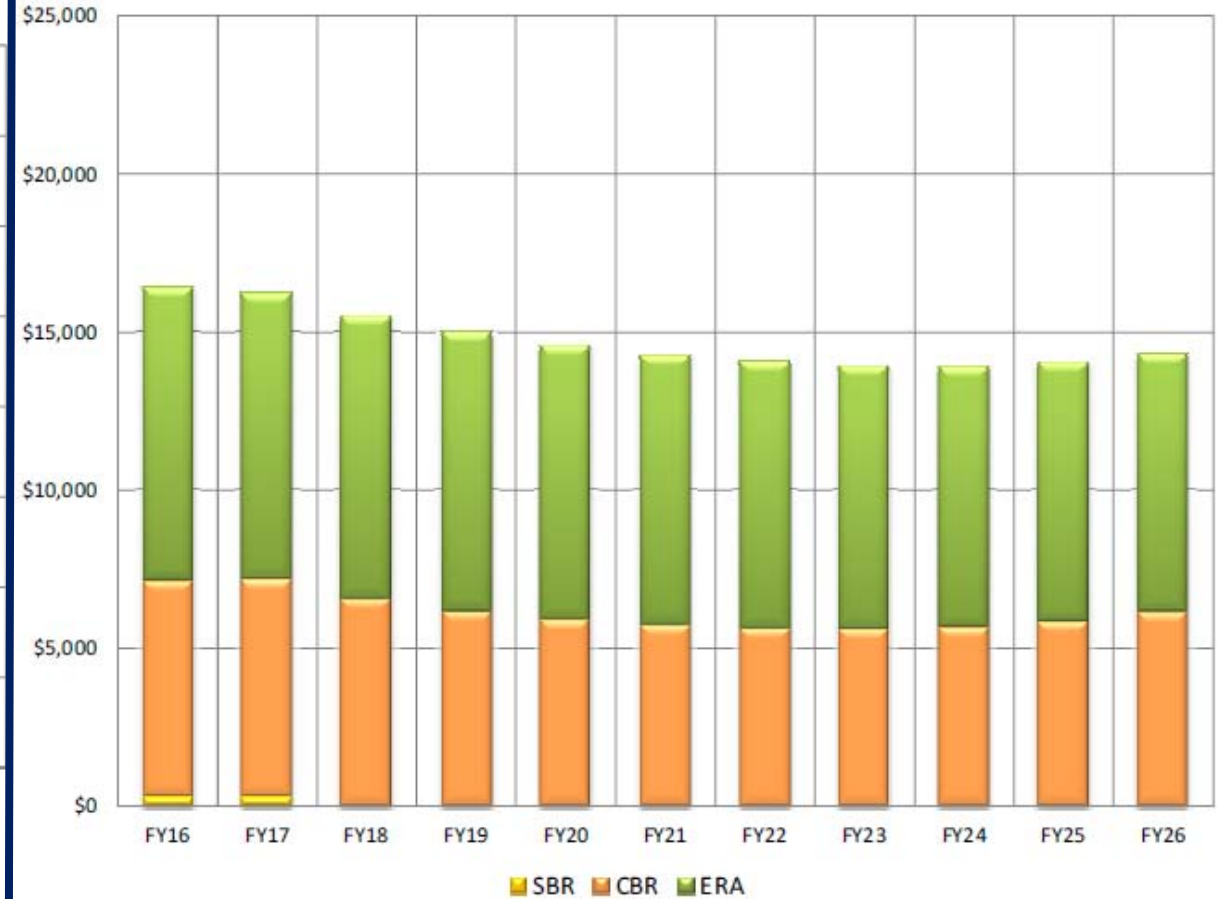
Source:  
Department  
of Revenue

# Solution - analysis

### UGF Revenue/ Budget (\$ millions)



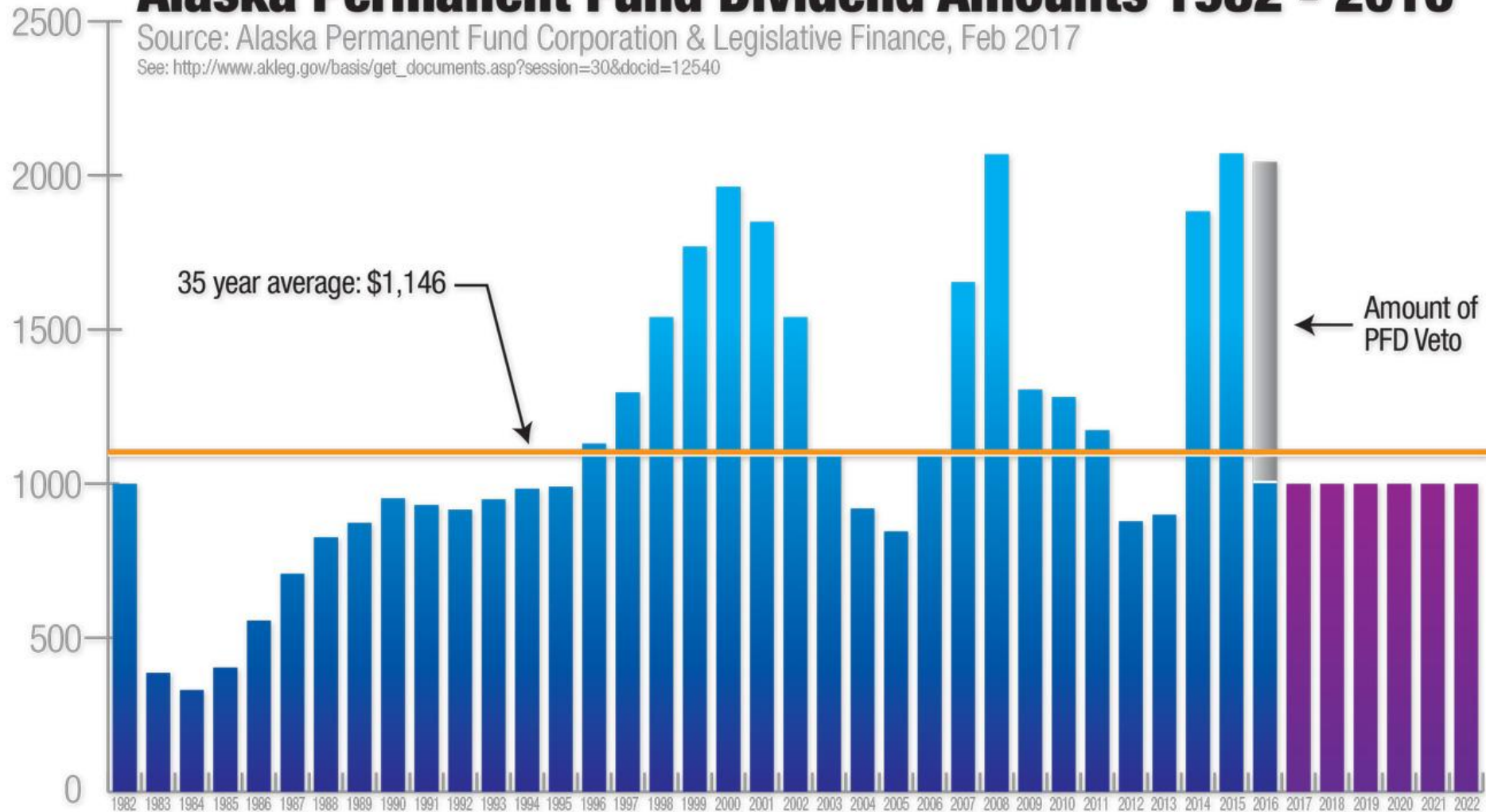
### Budget Reserves FY Ending Balance



# Dividend certainty

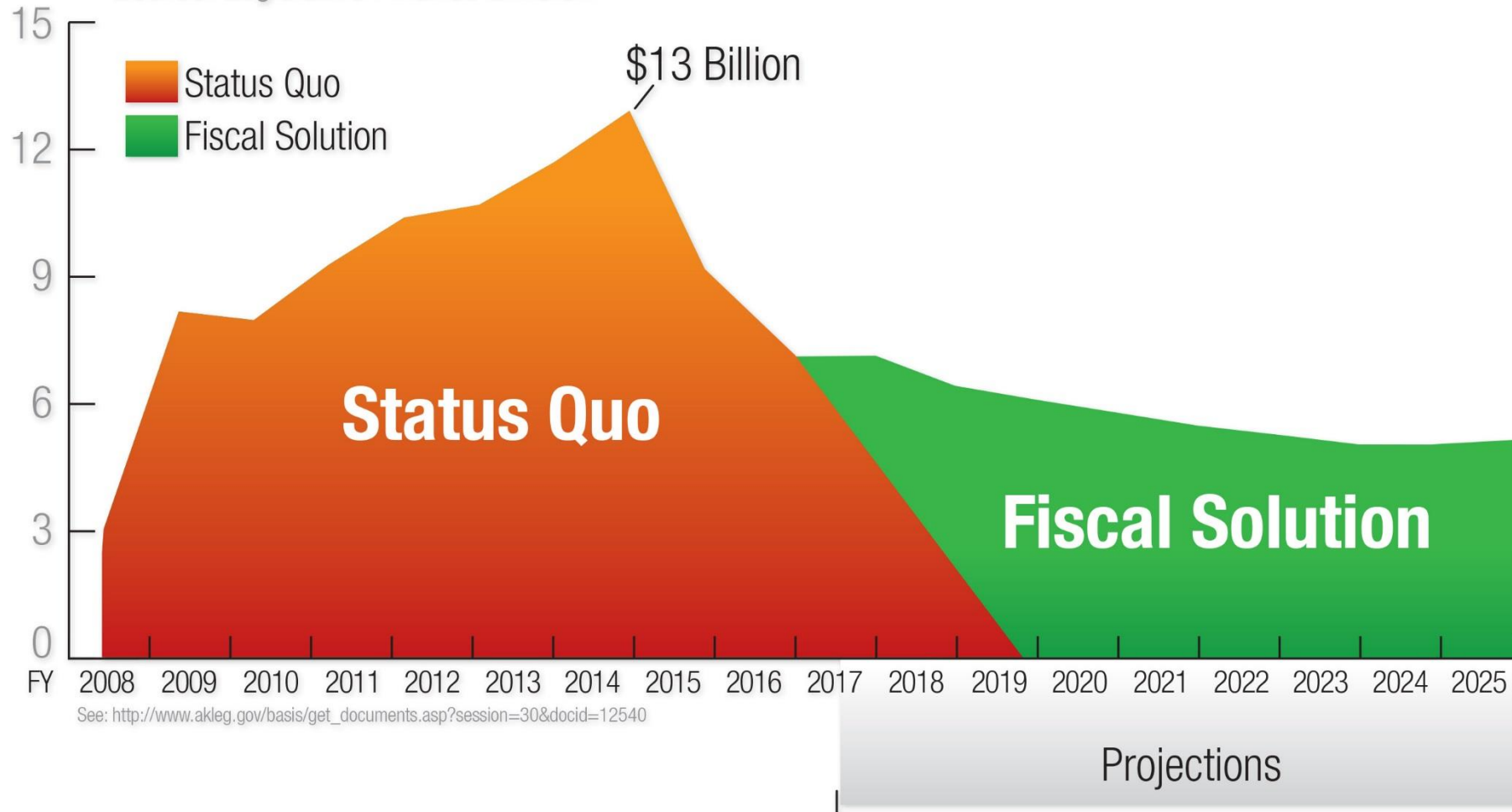
## Alaska Permanent Fund Dividend Amounts 1982 - 2016

Source: Alaska Permanent Fund Corporation & Legislative Finance, Feb 2017  
See: [http://www.akleg.gov/basis/get\\_documents.asp?session=30&docid=12540](http://www.akleg.gov/basis/get_documents.asp?session=30&docid=12540)



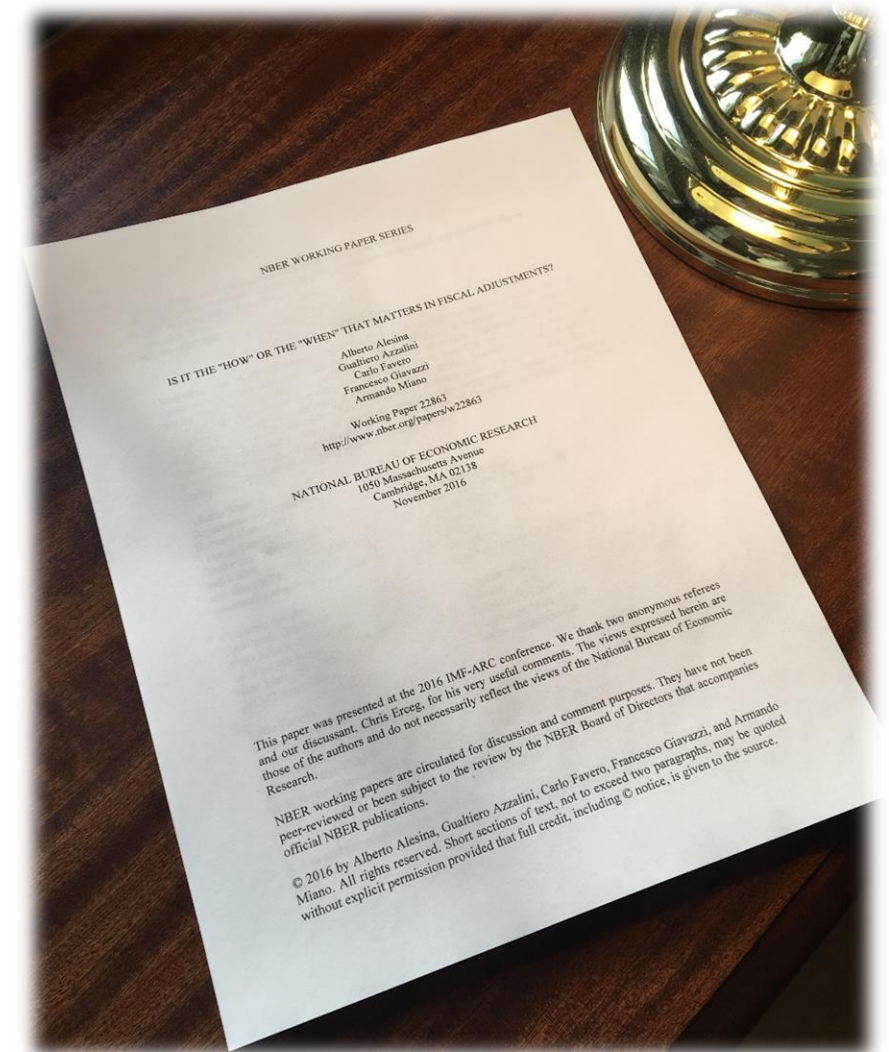
## CBR Balance Status Quo vs. Fiscal Solution

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?"



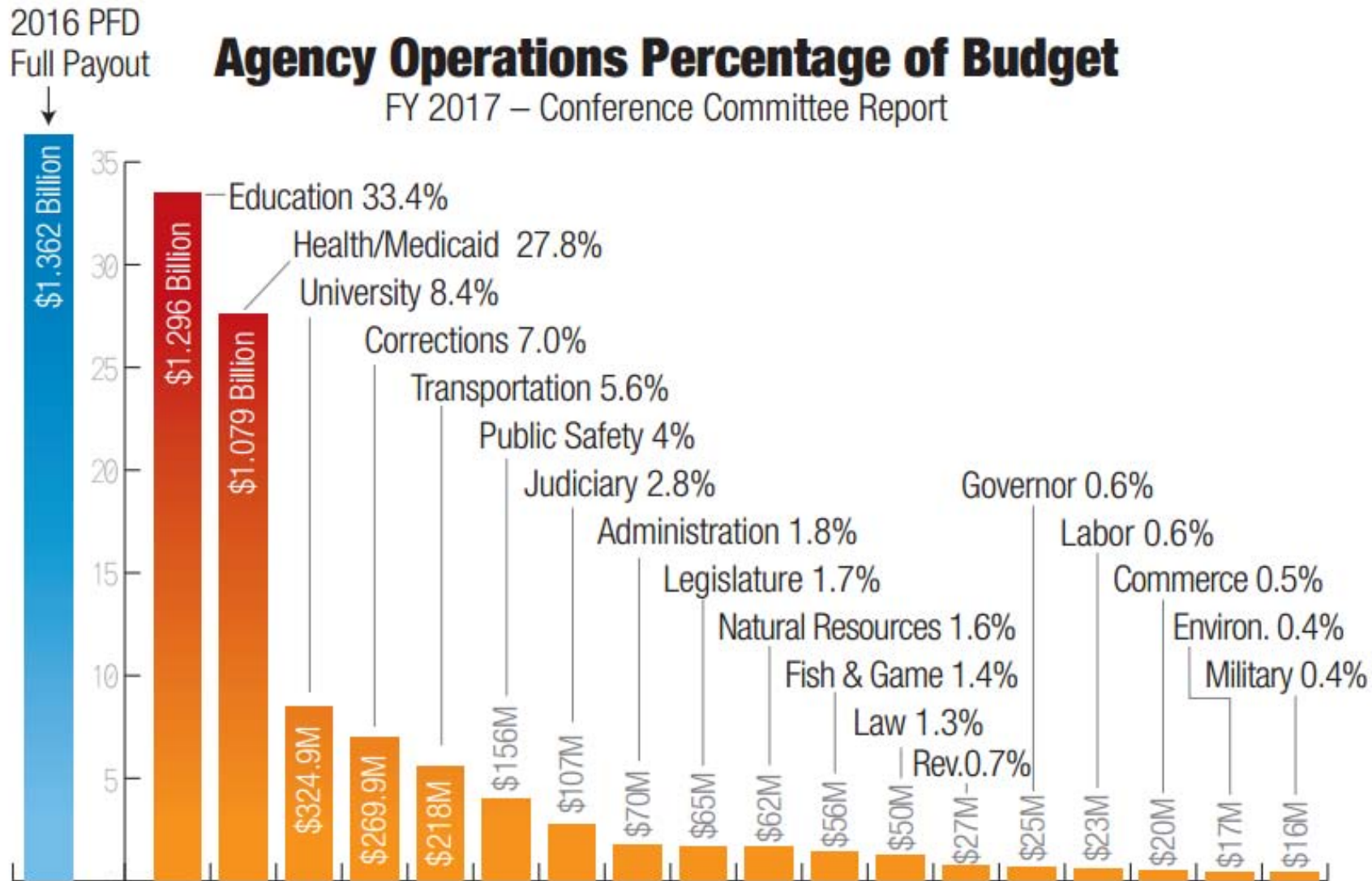
# Thank you

*from the*



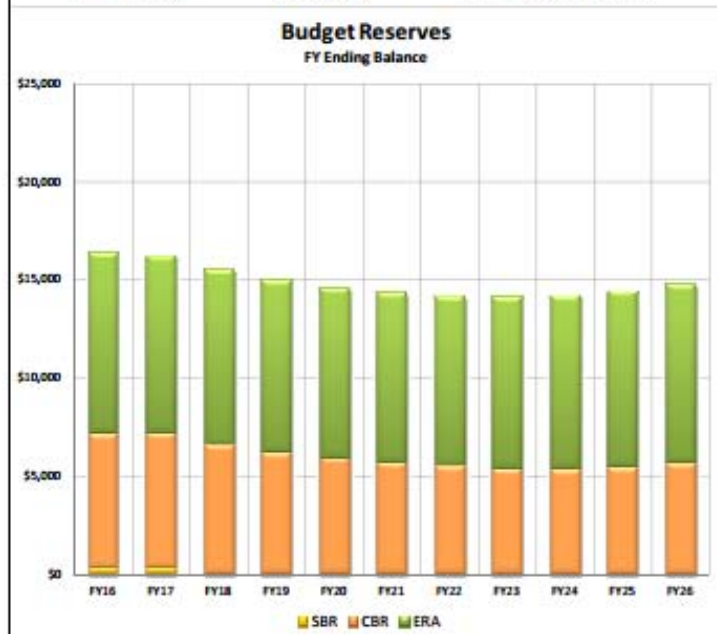
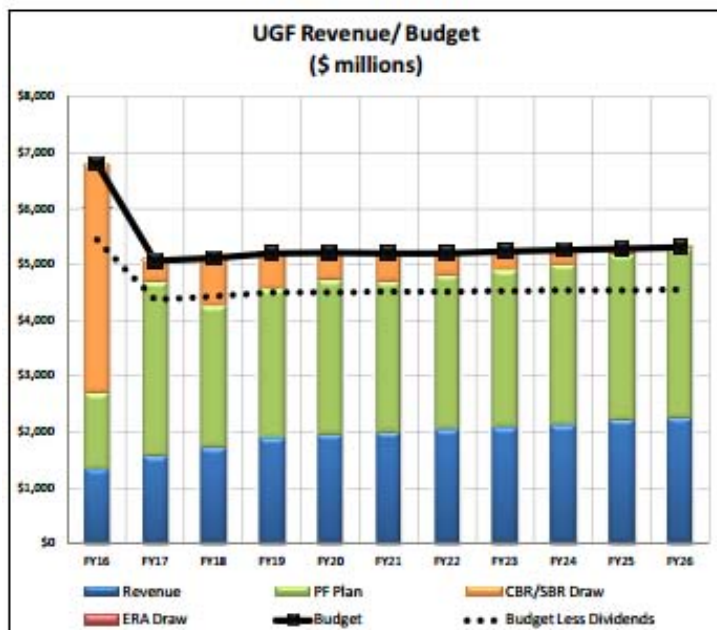
**SenateMajority@akleg.gov**

# 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	-678	-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

<b>Operating Budget</b>	
Non-Formula	0.00%
K-12 Formula	0.00%
Medicaid Formula	0.00%
Other Formula	0.00%
Target cut (FY18+)	\$ -
<b>Statewide Budget</b>	
Tax Credit Payments	Statutory
<b>Capital Budget (FY19-26)</b>	<b>180.0</b>

#### REVENUE VARIABLES

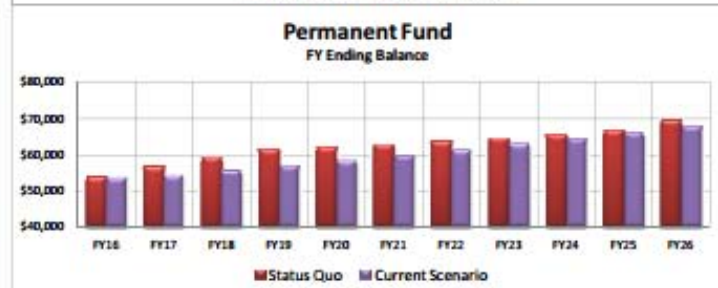
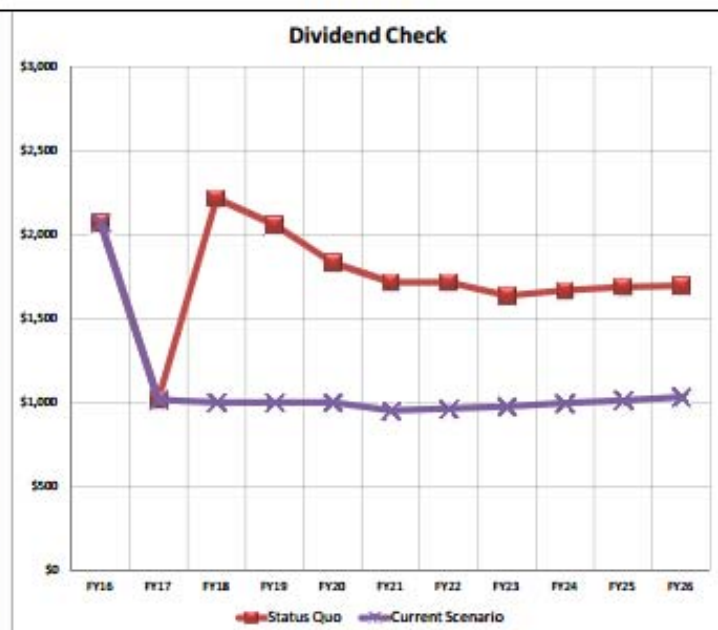
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Oil Tax Legislation	n
<b>Permanent Fund Plan</b>	<b>SB 70</b>

#### Assumptions

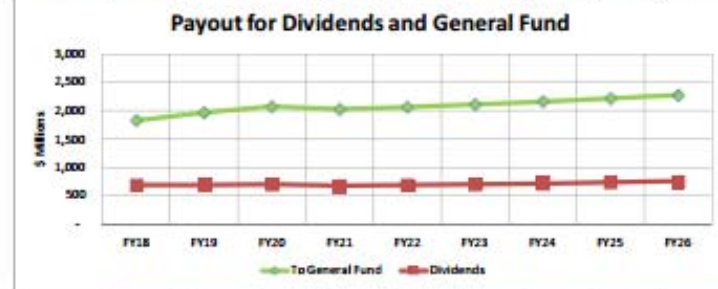
Inflation Rate	2.25%
PF Investment Return	6.95%
% Realized	57.25%
Population Growth Rate	Labor Stats
CBR Earnings	2.89%

#### Plan Specifications

<b>Payout</b>	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	20
% Statutory Net Income	0%
Draw Start Year	17
<b>Dividend</b>	
% 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
<b>Inflation Proofing</b>	
Status Quo Inflation Proofing	0
4x Draw Inflation Proofing	1
POMV Inflation Proofing	0.00%
<b>Other Provisions</b>	
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 %	4.58%	4.71%	4.79%	4.54%	4.52%	4.50%	4.49%	4.49%	4.49%



	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
To General Fund	1,833	1,971	2,076	2,028	2,067	2,112	2,165	2,218	2,275
Dividends	693	699	705	676	689	704	722	739	758

Source: Legislative Finance Division