

Growing out of Recession: State of Alaska Fiscal Overview

**Department of Revenue
Sheldon Fisher**

The cost of inaction:

- “We need to get to the point where the largest employer in the state is not send a pink slip to all of its employees ever year....they are not buying houses, cars, etc....”
 - Banker
- “When it comes to capital, we’re competing against projects around the world....its hard to compete when headquarters is concerned that the budget gap will be funded with a new tax on the oil industry.”
 - Senior Oil Company Executive
- “When the legislature decided to fund the FY’18 Budget out of the CBR rather than [a structured draw on] the Earnings Reserve, I cut my capital budget...”
 - Senior Executive of major consumer services business



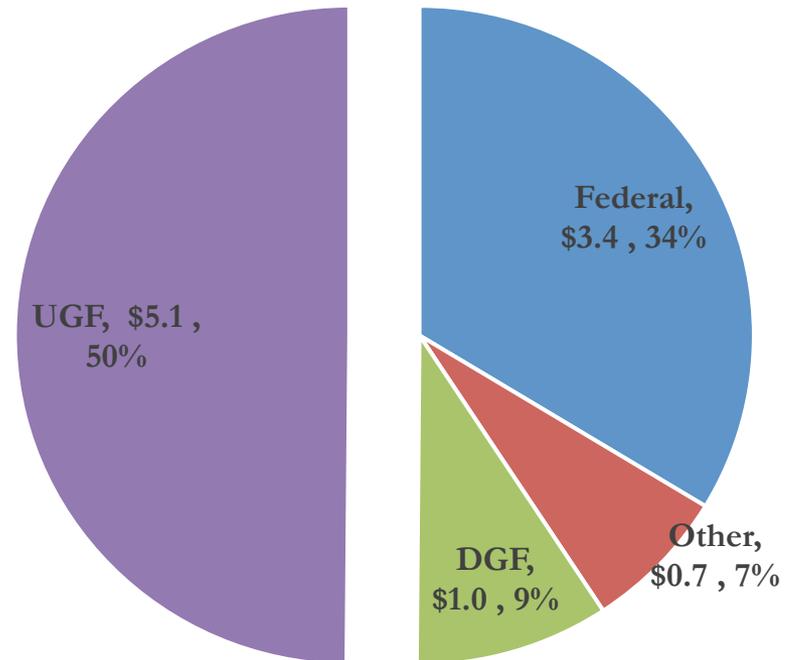
Spending: State Budget Overview

The total state budget is \$10.2 billion, comprised of:

- Federally funded programs
- Service generated revenue
- State funded programs and services

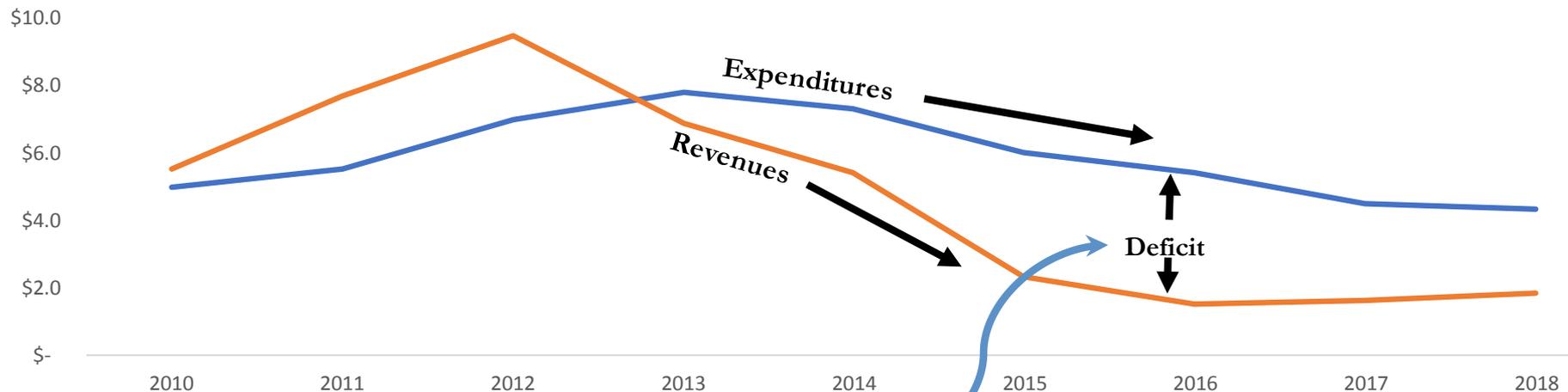
Only 50% of the budget is easily changed to help reduce the deficit. This is the unrestricted general fund (UGF) portion.

FY2018 Budget by Source
(\$billions)



Savings: State Budget Overview

FY2010-2018 State Revenue and Expenditure (Without Dividend)
(\$Billions)



The State has used reserves to fill the deficit

- CBR/SBR - 2013: \$16.3 billion
- CBR/SBR - 2018: \$2.1 billion
 - \$3bn was contributed to cover pension liability

The challenge is how will we fill this in the future

Closing the Gap

- Annual Deficits:
 - ~\$2.7bn
- Annual Funds available from Earnings Reserve 2019 - 2017:
 - ~\$2bn -> \$2.6bn
 - Assuming \$1,100 Dividend
- Unfunded deficit 2019 - 2027 (after ER draw):
 - ~\$700m -> \$130m

Options:

- Reduce Spending
- Raise additional revenue
- Draw more from Earnings Reserve



Structure Draw from Permanent Fund:

- Greatest threat to long term fund durability is unplanned withdrawals
- Withdrawals need to occur under a set of statutory rules that ensure fund stability and durability
 - Designed to protect the fund and guard against unsustainable uses
 - Ensure the ERA holds enough to bridge years of low earnings



The “bid” and the “ask”

Senate

- 5.25% - 5% POMV
 - \$1,000 Dividend
- Motor Fuel Tax

- \$275M Spending cuts

House

- 5.25% - 5% POMV
 - \$1,250 Dividend
- Motor Fuel Tax

- \$700M in taxes

Governor Called Special Session to bridge the gap between Senate and the House.

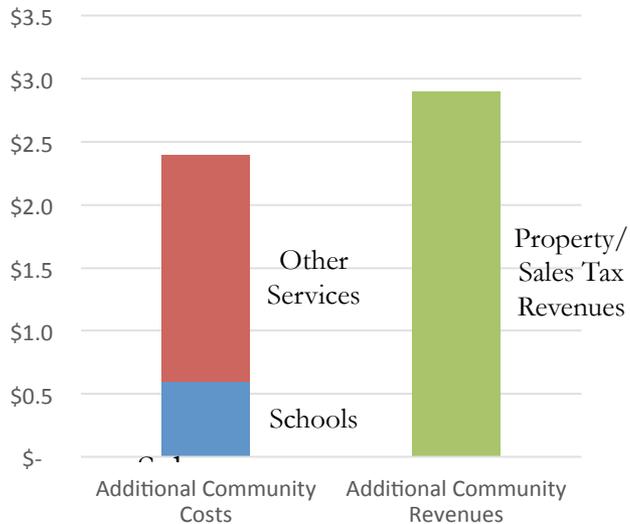
The status quo is worse than reasonable compromise.



The Alaska Disconnect

- Assume a company wants to expand operations in Alaska:
 - 1,450 new jobs
 - 3,700 new residents
 - 967 new children attending schools
 - 850 new homes

Community Experience:



State Experience:

