

THE ALASKA ECONOMY AND THE CHALLENGE AHEAD


Scott Goldsmith

**Institute of Social and Economic Research
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Midnight Sun Republican Woman's Club

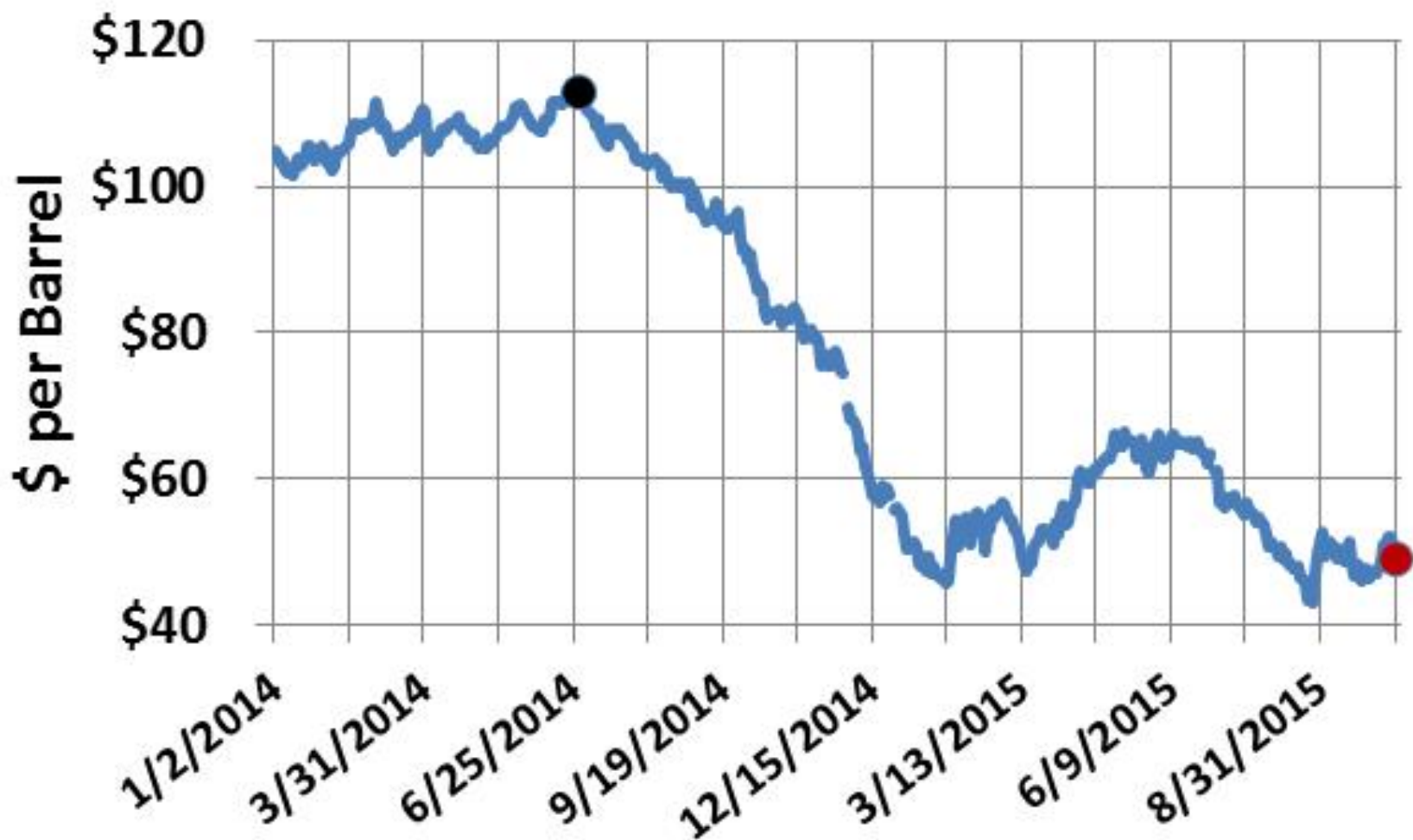
**Anchorage
November 17, 2015**

STATE GENERAL FUND SPENDING (MILLION \$)

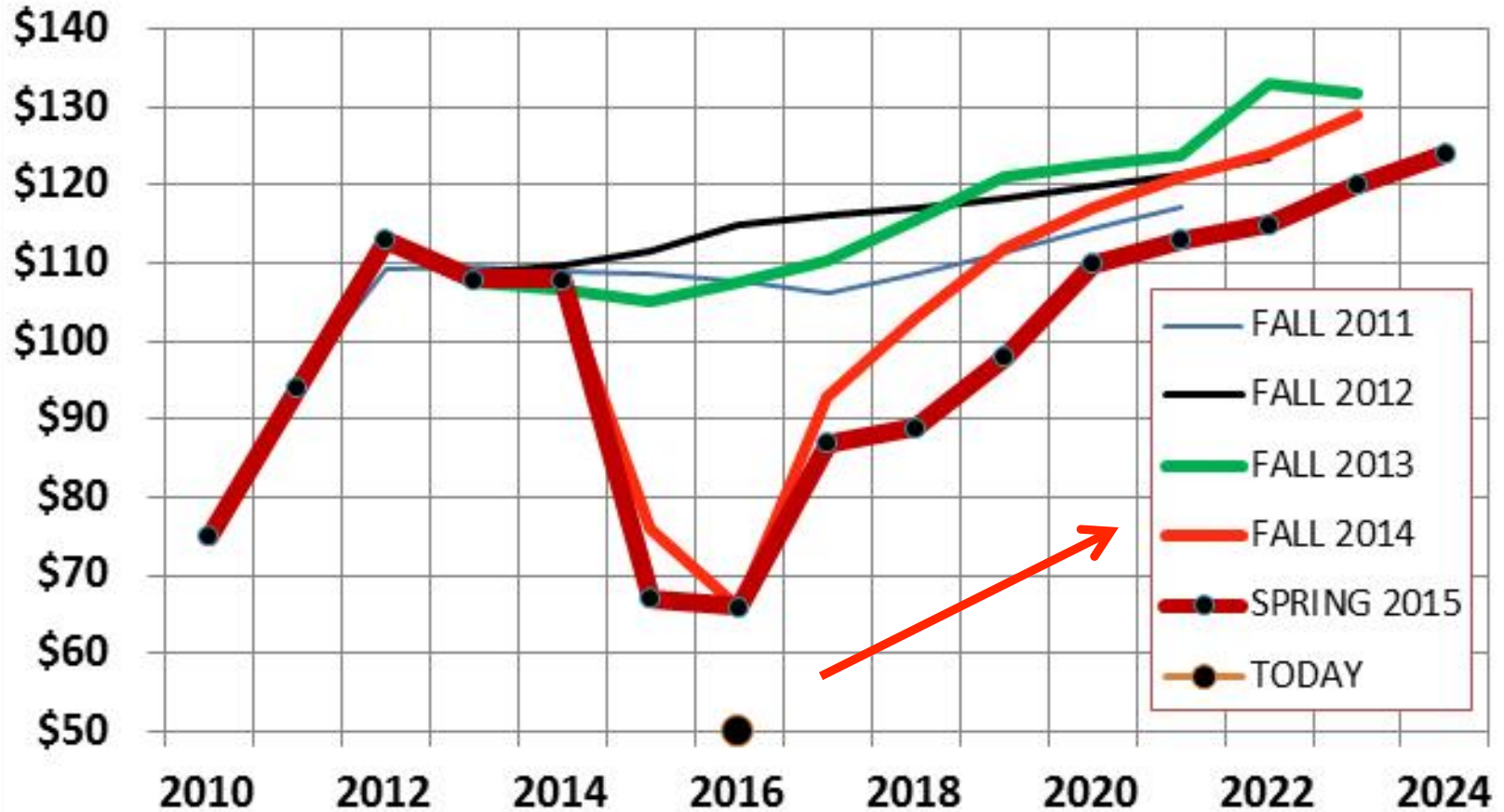
GENERAL FUND (Million)	FY 2015	FY 2016	FY 2016 CHANGE
TOTAL SPENDING	\$ 6,013	\$ 5,378	\$ (635)
Operations	\$ 5,405	\$ 5,260	\$ (145)
Agency	\$ 4,479	\$ 4,091	\$ (388)
Non-Formula	\$ 2,280	\$ 2,026	\$ (254)
Formula (inc K-12)	\$ 2,199	\$ 2,065	\$ (134)
Statewide	\$ 926	\$ 1,169	\$ 243
Debt Service	\$ 213	\$ 206	\$ (7)
PRS/TRS	\$ 5	\$ 263	\$ 258
Oil Tax Credits	\$ 625	\$ 700	\$ 75
Paid	\$ 625	\$ 500	\$ (125)
Deferred	\$ -	\$ 200	\$ 200
Revenue Sharing	\$ 52	\$ -	\$ (52)
Miscellaneous	\$ 31	\$ -	\$ (31)
Capital	\$ 608	\$ 118	\$ (490)
REVENUES	\$ 2,216	\$ 2,206	
Oil Price	\$ 67	\$ 66	
SHORTFALL	\$ 3,797	\$ 3,172	\$ (625)

Source: Office of Management and Budget, June 30, 2015. Deferred oil and gas tax credits added for FY 2016 by author.

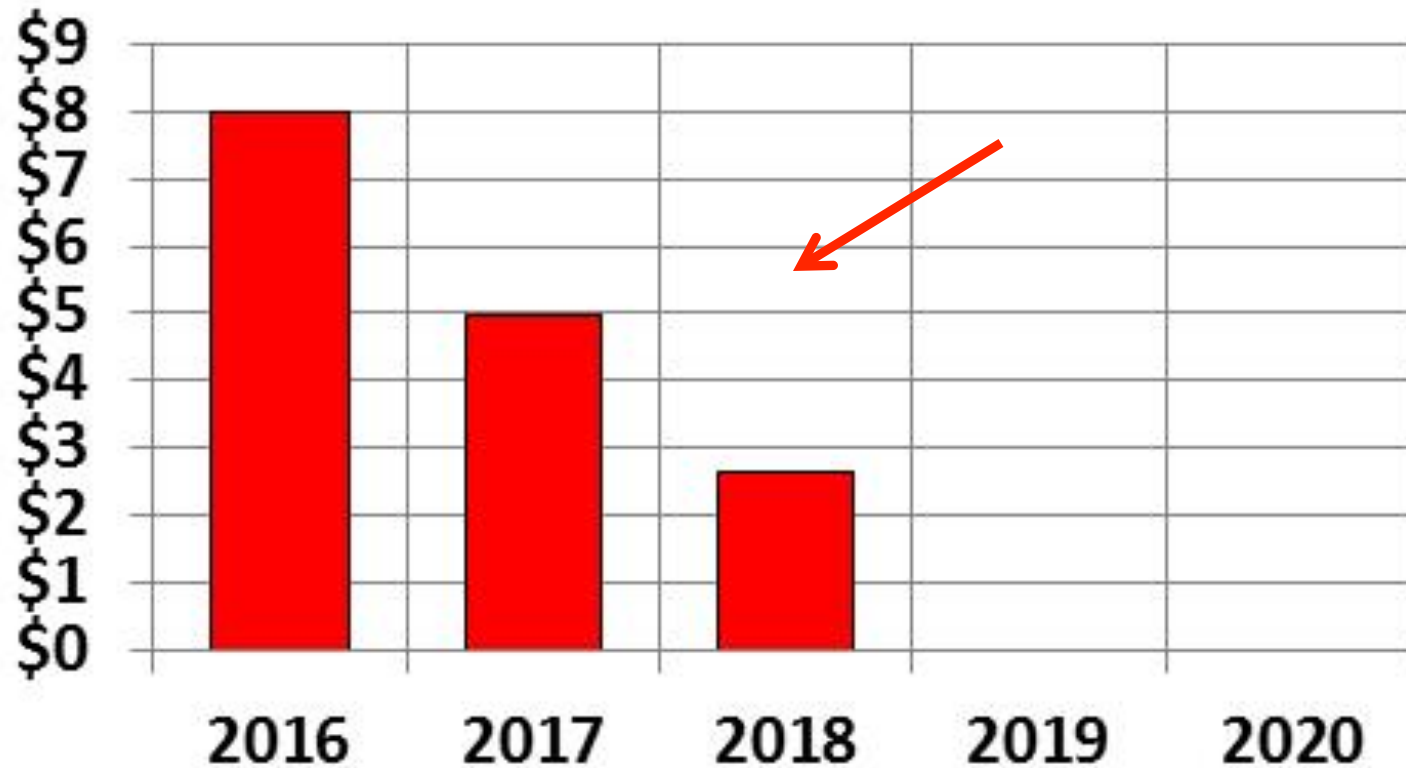
ALASKA NORTH SLOPE OIL PRICE



ANS MARKET PRICE: COMPARISON OF DOR PROJECTIONS



CONSTITUTIONAL BUDGET RESERVE (Billion \$) Start of Fiscal Year



FISCAL GAP : ZOMBIE SOLUTIONS

- Natural Resource Development
- Value Added Processing
- Economic Diversification
- Infrastructure Investments in Power and
Transportation
- Footloose Industry
- Renewable Energy

FISCAL GAP :

NICKEL AND DIME SOLUTIONS

- ✓ Lottery
- ✓ Marijuana Tax
- ✓ Increase
 - ✓ Gas Tax
 - ✓ Fish Tax
 - ✓ Mining Tax
 - ✓ Tourism Tax
 - ✓ Alcohol Tax
 - ✓ Tobacco Tax
 - ✓ School Tax
- ✓ Health Care Provider Tax

FISCAL GAP :

SILVER BLANK SOLUTIONS

- Squeeze Petroleum
 - Increase Production Tax Minimum
 - Eliminate GVR (lower tax rate on new oil)
 - Increase Production Tax Rate / Progressivity
 - Gas Reserves Tax
- Optimize Financial Asset Portfolio
 - Pension Obligation Bonds
 - Debt to Equity Ratio

BB TAXES / DIVIDEND REDUCTIONS

- **INCOME TAX** -- \$500 MILLION (15% of Federal Liability)
- **SALES TAX** -- \$500 MILLION (5% net food, meds, services)
- **DIVIDEND** -- \$1.4 BILLION

FISCAL GAP: 3 REAL SOLUTIONS



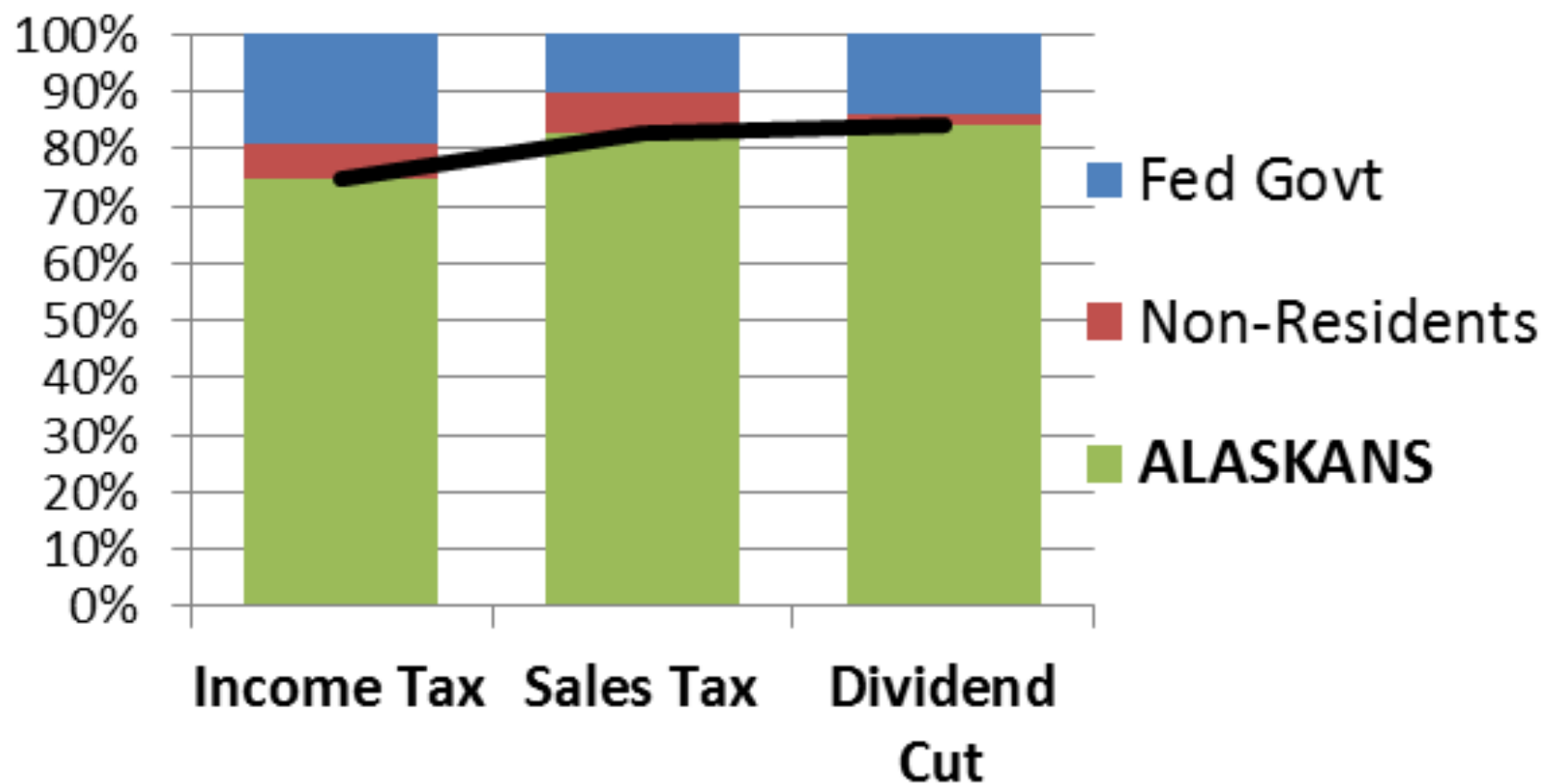
- MORE BUDGET CUTS
 - BROAD BASED TAXES / DIVIDEND REDUCTIONS
 - EARNINGS FROM STATE
ASSETS
- PICK ANY 3 FROM THE LIST ABOVE!**

STATE GENERAL FUND SPENDING (MILLION \$)

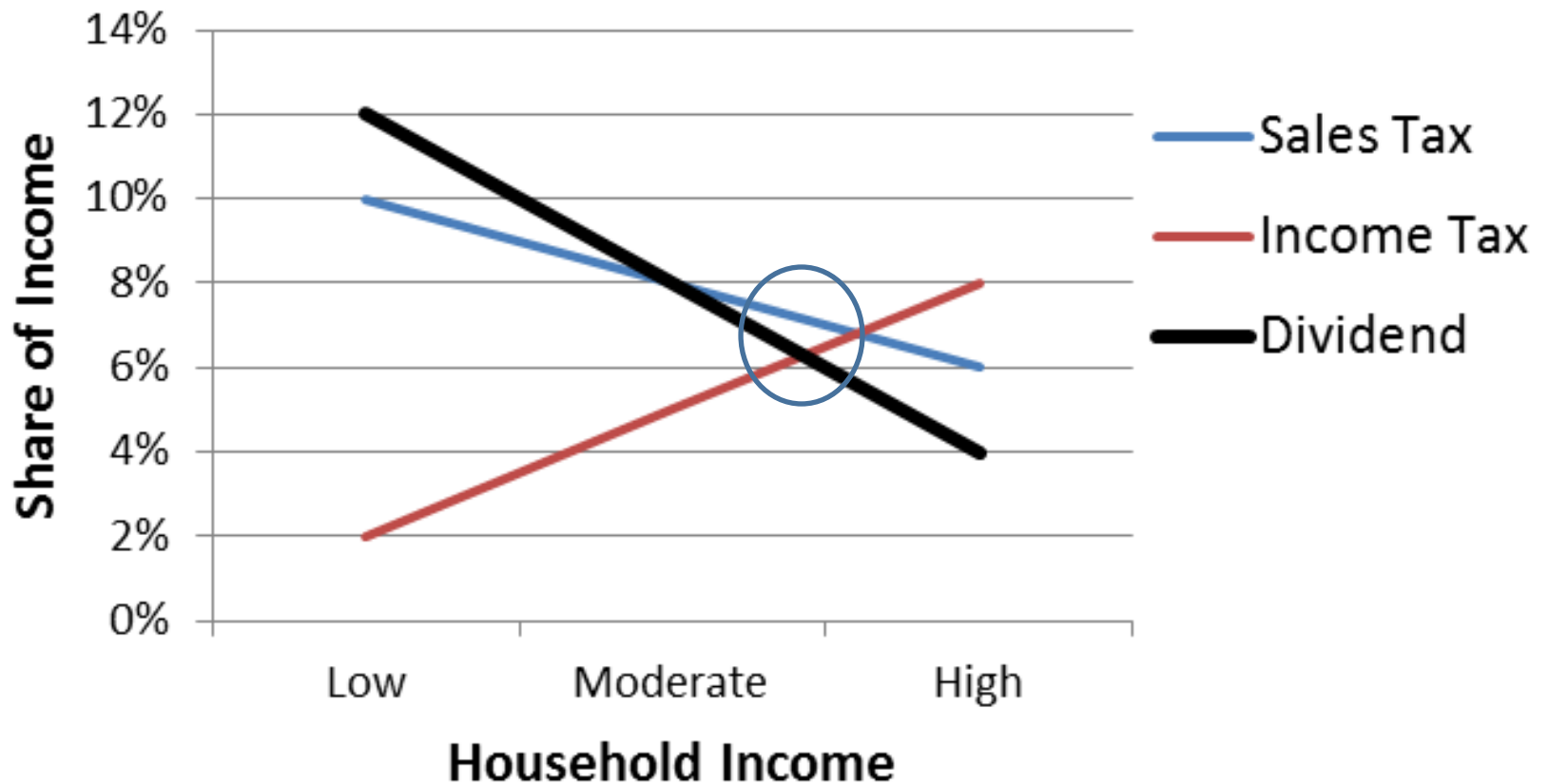
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REVENUE GENERATORS: SHARE PAID BY ALASKANS



REVENUE GENERATORS: WHICH ALASKANS BURDENED (HYPOTHETICAL)



“I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity.”

--Governor Jay Hammond, father of the Alaska Permanent Fund and the Alaska Permanent Fund Dividend

PETROLEUM WEALTH OF THE “OWNER STATE” as of July 1, 2015



TOTAL	\$135 Billion
In the Bank	\$ 66 Billion
In the Ground*	\$ 69 Billion
Known Conventional Oil	\$45 Billion
Other Oil and Gas	\$24 Billion

* Estimated Net Present Value of Future Petroleum Revenues

How Much Can We Spend Today: UGF Maximum Sustainable Yield

A spending level based on current and projected future revenue streams which, if adopted now, could be maintained consistently long into the future--adjusted for inflation and population growth.

How Much Can We Spend Today: UGF Maximum Sustainable Yield

NEST EGG	\$135 Billion
Multiply: MSY Draw Rate	4% (5%-1%)
Equals: MSY Draw	\$5.4 Billion = (\$135 * 4%)
Minus: PF Dividend	\$ 1.4 Billion
Plus: Non-Petroleum GF Revenues	\$.5 Billion
Unrestricted General Fund Maximum Sustainable Yield (FY2016)	\$ 4.5 Billion = (\$5.4 - 1.4 + \$.5)

PETROLEUM WEALTH OF THE “OWNER STATE” (Billion \$) as of July 1, 2016

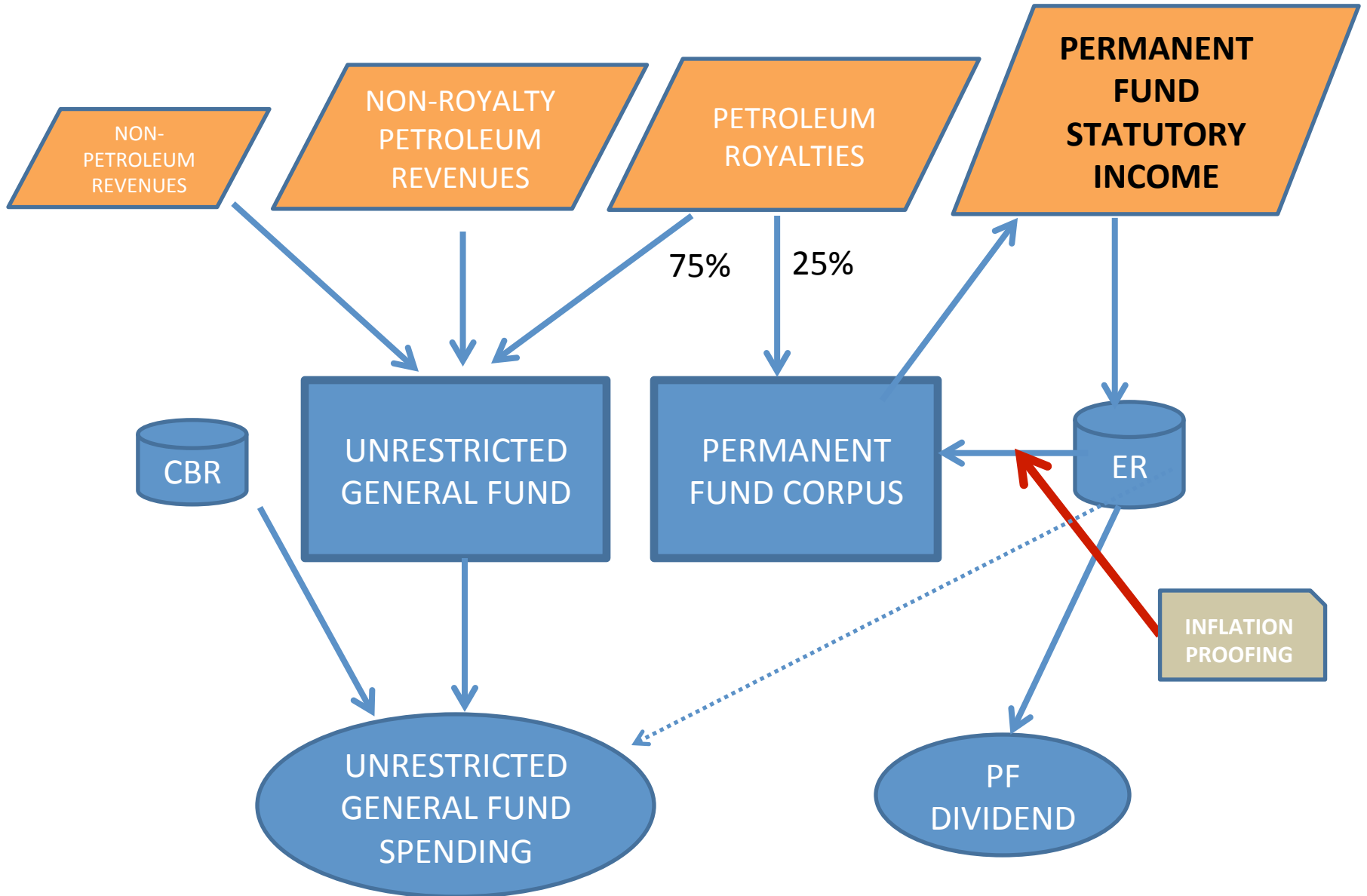
If Nest Egg is :	\$ 123	\$ 103	\$ 83	\$ 63
In the Bank	\$ 63	\$ 63	\$ 63	\$ 63
In the Ground	\$ 60	\$ 40	\$ 20	\$ 0
4.5% Draw* is :	\$ 5.5	\$ 4.6	\$ 3.7	\$ 2.8

* Draw is sum of financial earnings and petroleum revenues (net of depletion allowance).

PETROLEUM WEALTH POTENTIAL (Billion \$)

If Nest Egg is :	\$ 123	\$ 103	\$ 83	\$ 63
FY 16 Spend	\$ 6.6	\$ 6.6	\$ 6.6	\$ 6.6
= UGF	\$5.2	\$5.2	\$5.2	\$5.2
+ PF Dividend	\$1.4	\$1.4	\$1.4	\$1.4
Available Funds	\$ 6.1	\$ 5.2	\$ 4.3	\$ 3.4
= 4.5 % Sustainable Draw	\$ 5.5	\$ 4.6	\$ 3.7	\$ 2.8
+ Non-Petroleum Revenues	\$.6	\$.6	\$.6	\$.6
SHORTFALL	\$.5	\$ 1.4	\$ 2.3	\$ 3.2

ALASKA FISCAL STRUCTURE



UNLOCKING OUR PETROLEUM WEALTH POTENTIAL

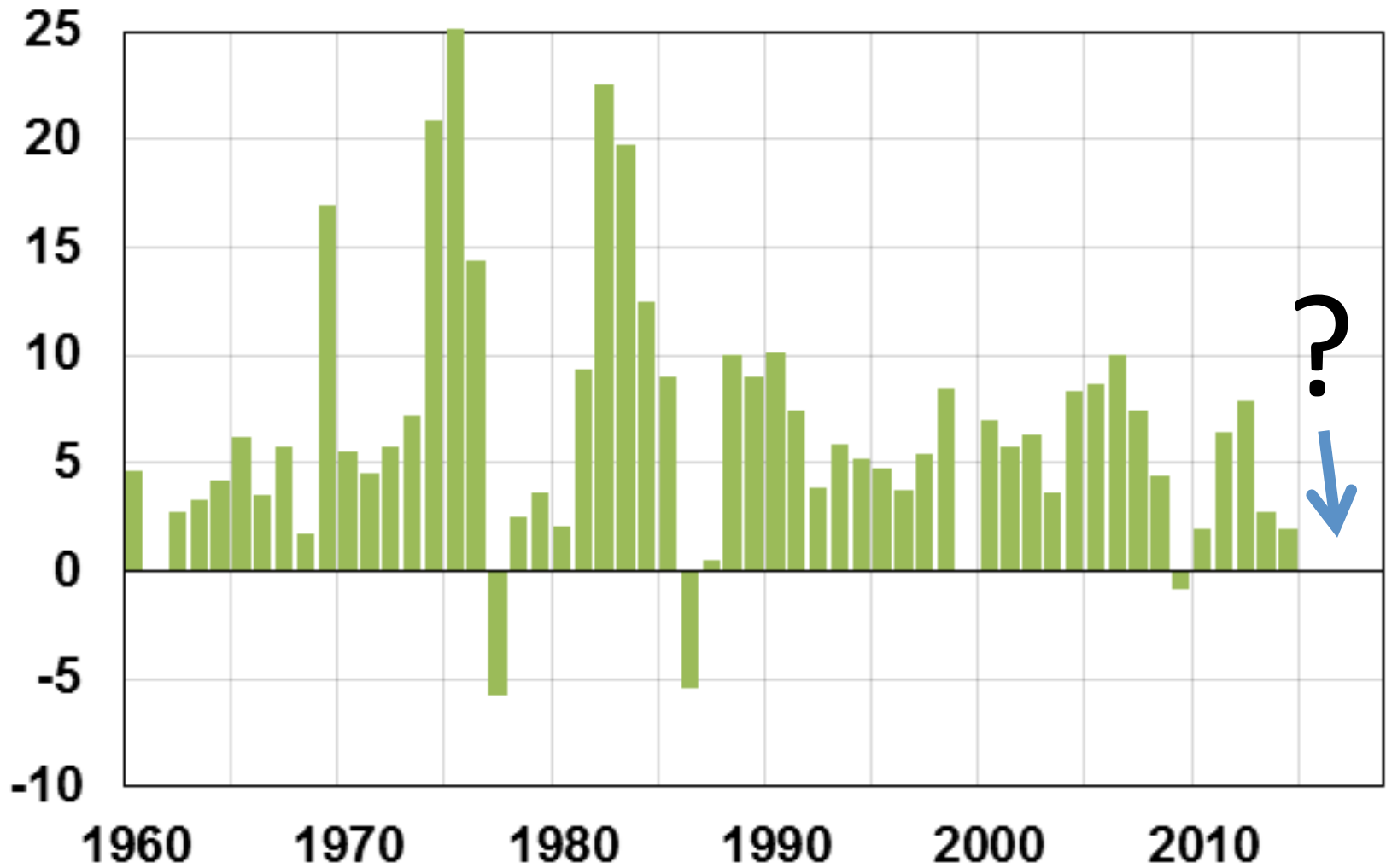
- POMV (Constitutional Endowment)
 - Fold Earnings Reserve into PF Corpus
 - Draw 4.5% - 5% of PF value from PF Corpus
 - Divide draw between UGF and PF Dividend
- SB114 (Statutory POMV)
 - Draw 5% of PF value from PF Earnings Reserve for UGF
 - Pay PF Dividend from 75% of Royalties (with a floor)
- WALKER PROPOSAL (Statutory Sovereign Wealth Fund)
 - Dump SB21 Revenues and additional 25% of Royalties into PF Corpus
 - Transfer \$3 Billion from CBR to ER
 - Draw % of PF value or \$3.1 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
 - Pay PF Dividend from 50% of Royalties

STRATEGY MOVING FORWARD

- THIS YEAR
 - Budget Cuts
 - Structured Use of PF Earnings

- NEXT YEAR
 - Budget Cuts continued
 - 3 Sided Battle
 - Income Tax
 - Sales Tax
 - Dividend Reduction

TOTAL EMPLOYMENT GROWTH



ECONOMIC LOSS: NO GAME PLAN, NO EXECUTION



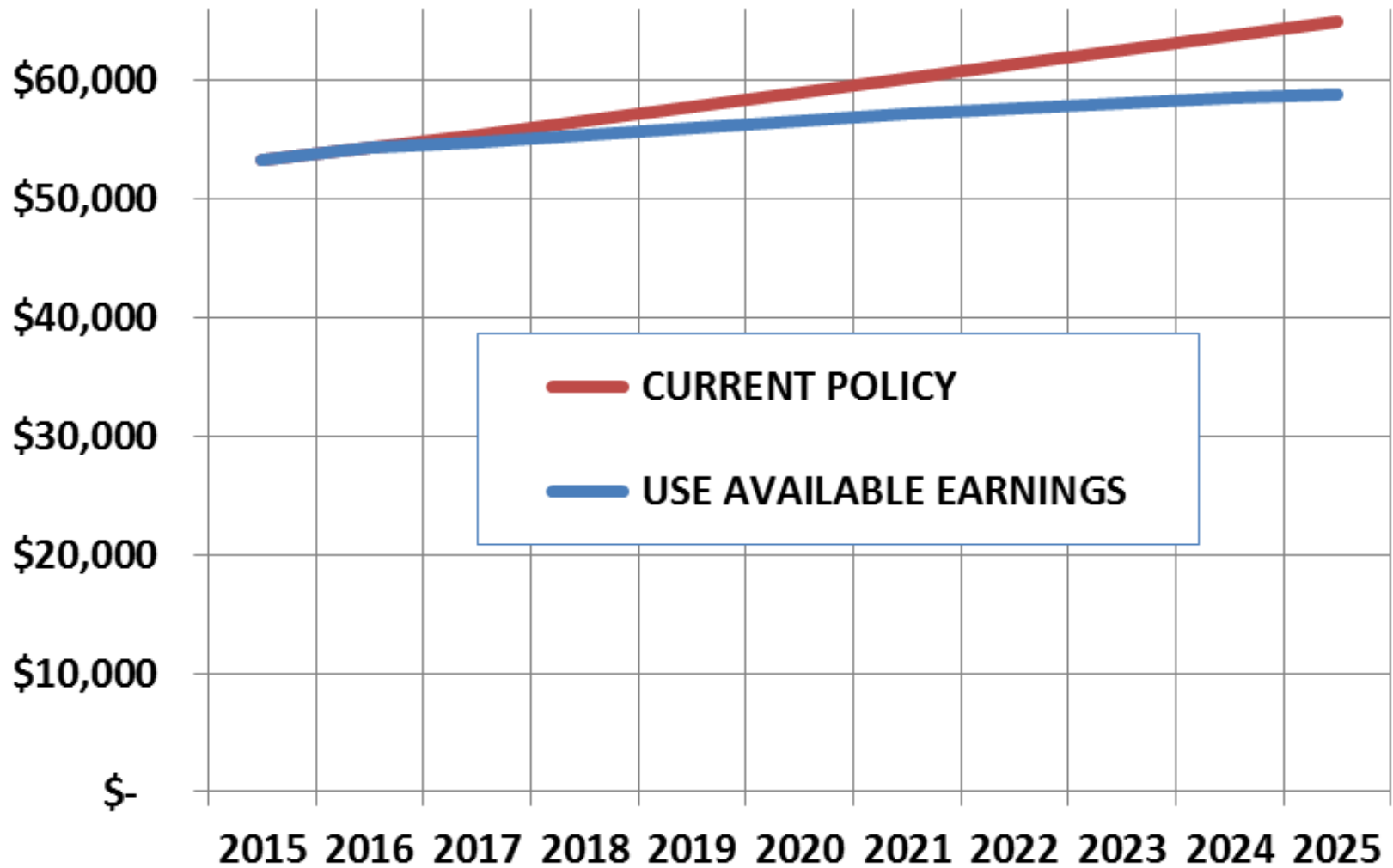
REVENUE GENERATORS: JOB LOSS FROM \$500 MILLION



JOB LOSS FROM USE OF AVAILABLE PERMANENT FUND EARNINGS

0

PF PROJECTION (MILLION 2015 \$)



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