

A SOUND FISCAL FUTURE:



Recommendations for the Sustainable Utilization
and Management of Alaska's Financial Assets



Craig W. Richards, Attorney General
Financial Opportunities Working Group

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WORKING GROUP GOALS

- Optimize use of sovereign wealth assets to stabilize the budget and maintain an equitable distribution across generations
- Identify opportunities to better manage our sovereign wealth assets for enhanced long-term investment returns

ALASKA'S SOVEREIGN WEALTH GOALS

Elements of an ideal sovereign wealth fund model:

- (1) Inflation proofing
- (2) Real growth that accounts for oil production declines
- (3) Formulaic draw that meets growth goals
- (4) Delink current budget from oil price volatility
- (5) Manage investments to maximize long-term returns
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- (6) Provide for a Permanent Fund dividend
- (7) Sustainably close the budget gap

METHODOLOGIES FOR FORMULAIC DRAWS

Element Three – formulaic draw

Endowment Model

- POMV
- Statutory POMV
- Fixed Draw

ENDOWMENT MODEL

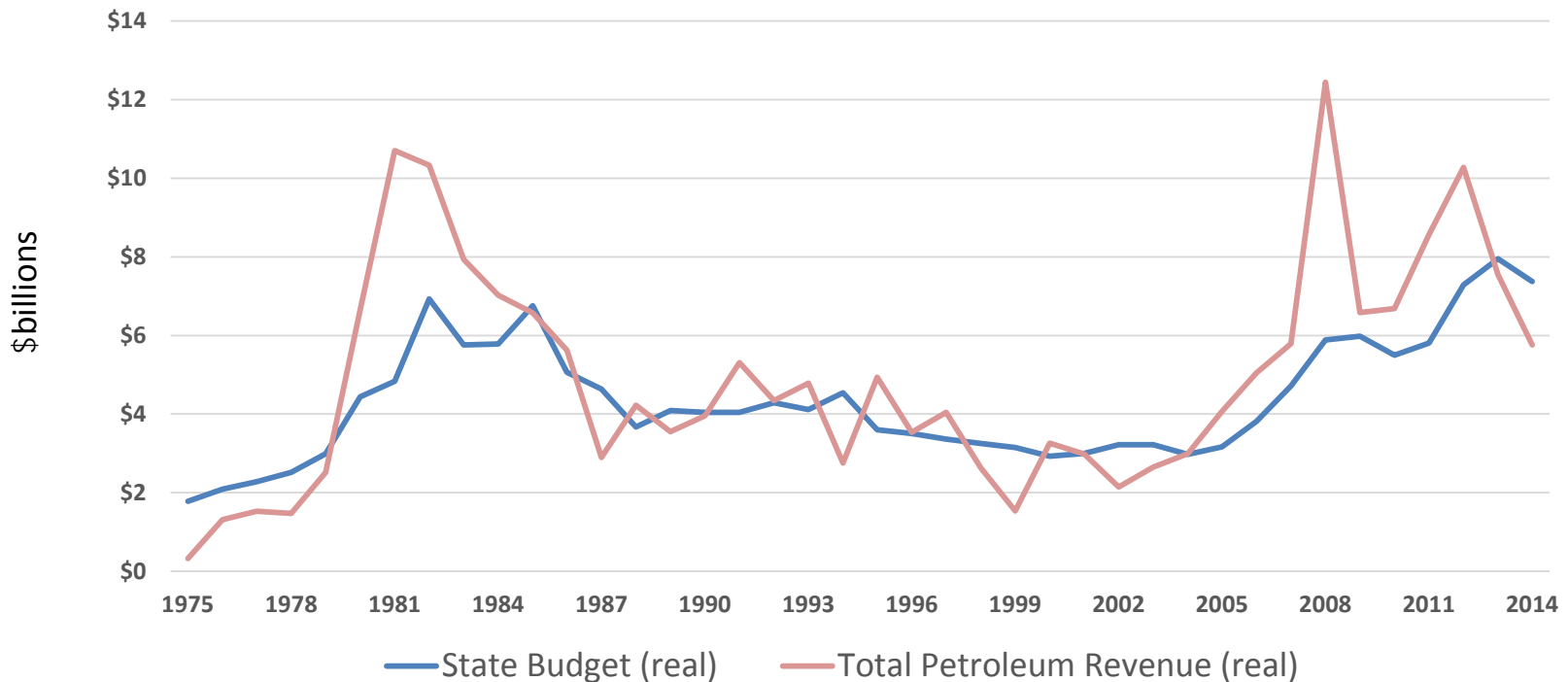
Element Three – formulaic draw

- Preliminary modeling:
 - \$2.4B (real) sustainable
 - \$1.4B PFD payout means \$1B for budget
- POMV vs. flat payment
 - Risk of insolvency vs. risk of lower returns

SOVEREIGN WEALTH MODEL

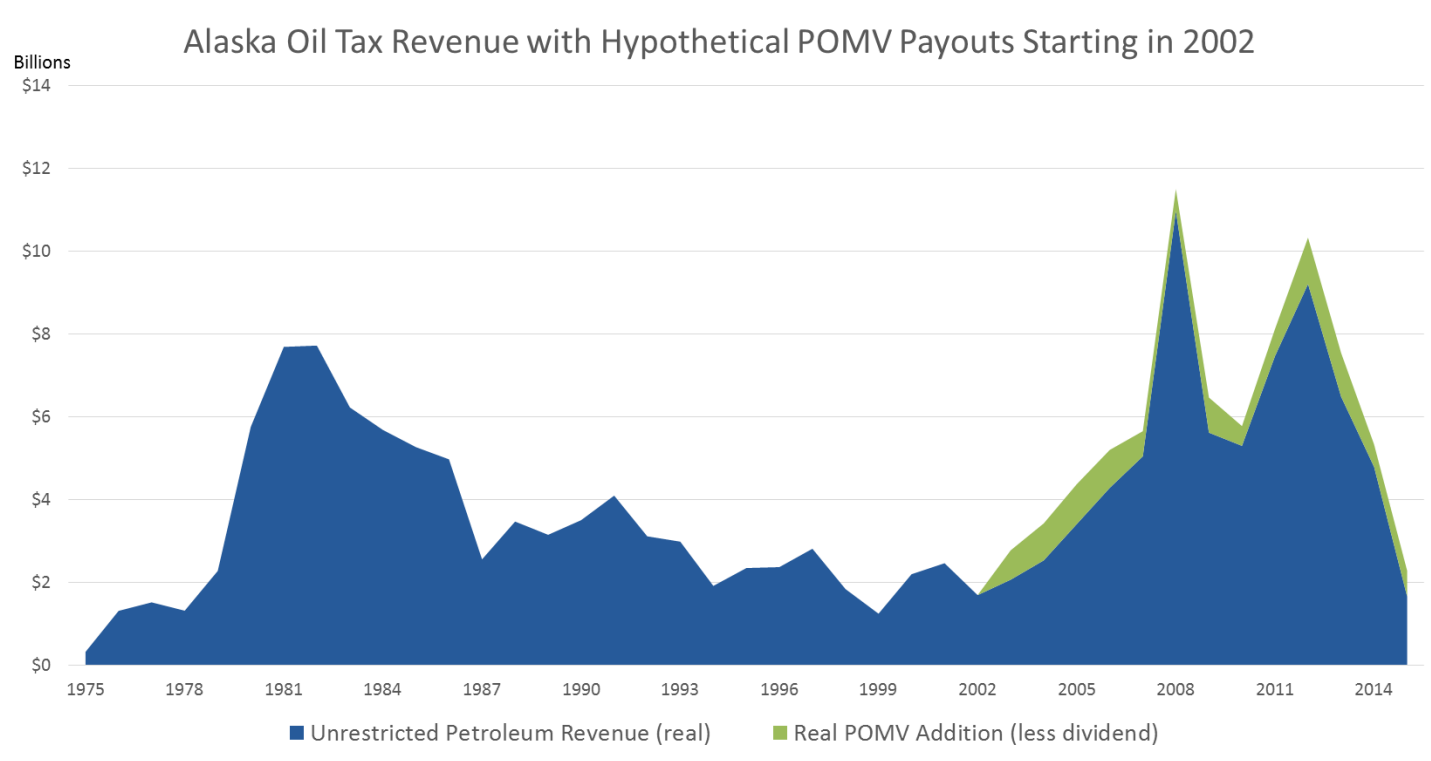
Element Four – delink budget from oil price volatility

State Budget and Petroleum Revenue



SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility



SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility

Where should oil price volatility reside?

- General Fund
- Sovereign Wealth Fund
- Permanent Fund Dividend

SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility

- Deposit resource revenue in the Permanent Fund
- The Permanent Fund can better manage the volatility of resource revenue
- Presumption of savings in high oil price years

SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility

- Spending restraint and budget stability
- Stability for Alaska's economy
- Fiscal certainty for producers

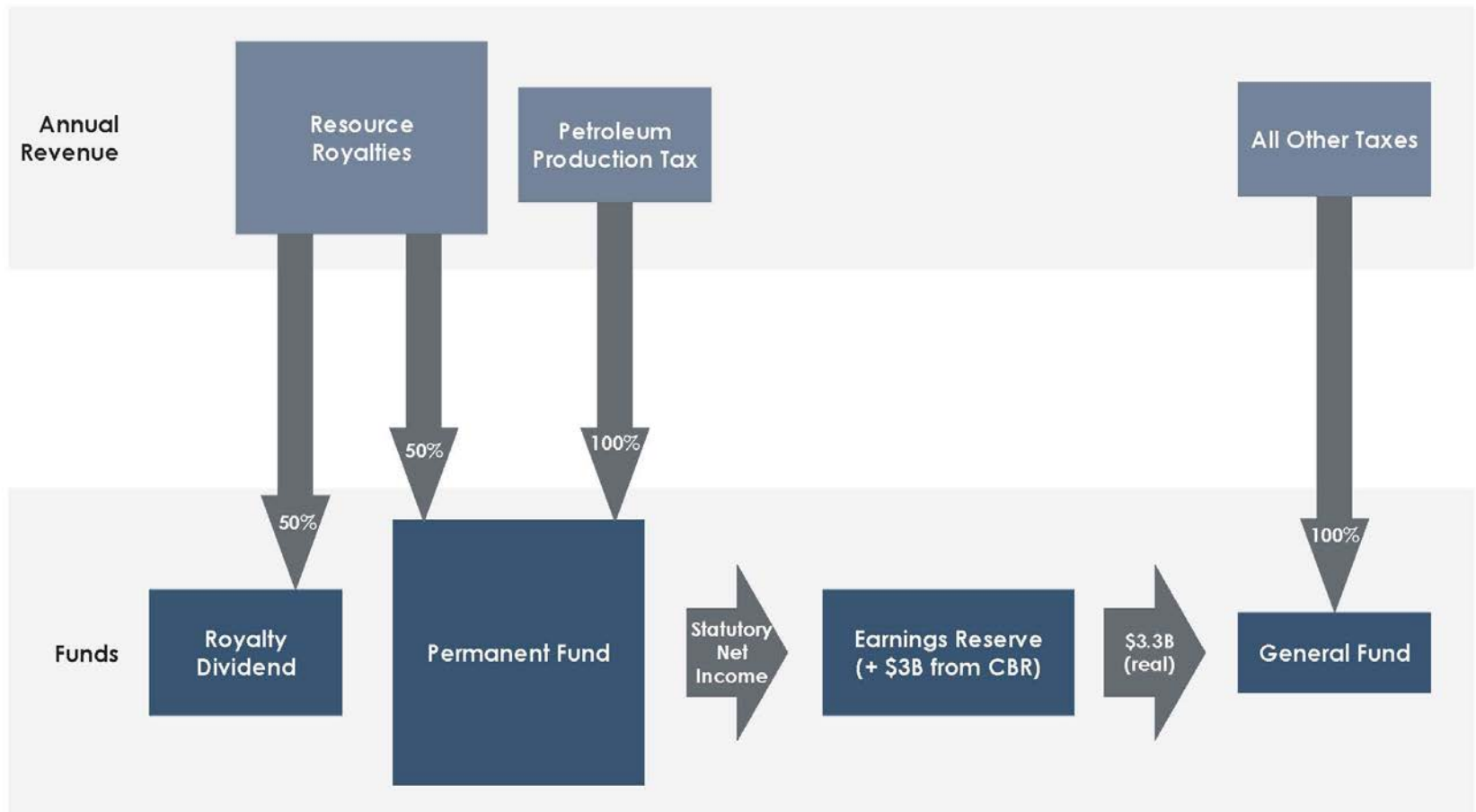
PERMANENT FUND DIVIDEND

Element Six – provide for dividend

- Draws today reduce funds available for future draws
- Current formulation
 - realized gains only
 - grows real value of dividend
- What volatility should dividends reflect?
 - Investment return volatility
 - Oil price and production volatility
 - Stable (i.e., fixed payment)

SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility



THE ALASKA PLAN

Element Seven – sustainably close the budget gap

2017 Revenues (\$billions)

Sovereign Wealth Fund Income	\$3.300
Non-petroleum Revenue	\$0.550
Other Petroleum Revenue	\$0.275
<u>SUBTOTAL</u>	<u>\$4.125</u>
Earnings from Other Assets	\$?
Pension Obligation Bonds	\$?
Capital Budget Bonds	\$?
Operating Cuts	\$?
Tax and Credit Reforms	\$?
Other New Revenue	\$?
<u>FY2016 Enacted Budget</u>	<u>\$5.180</u>