



Alaska Fiscal Solution

March 2017

Commonwealth North

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)

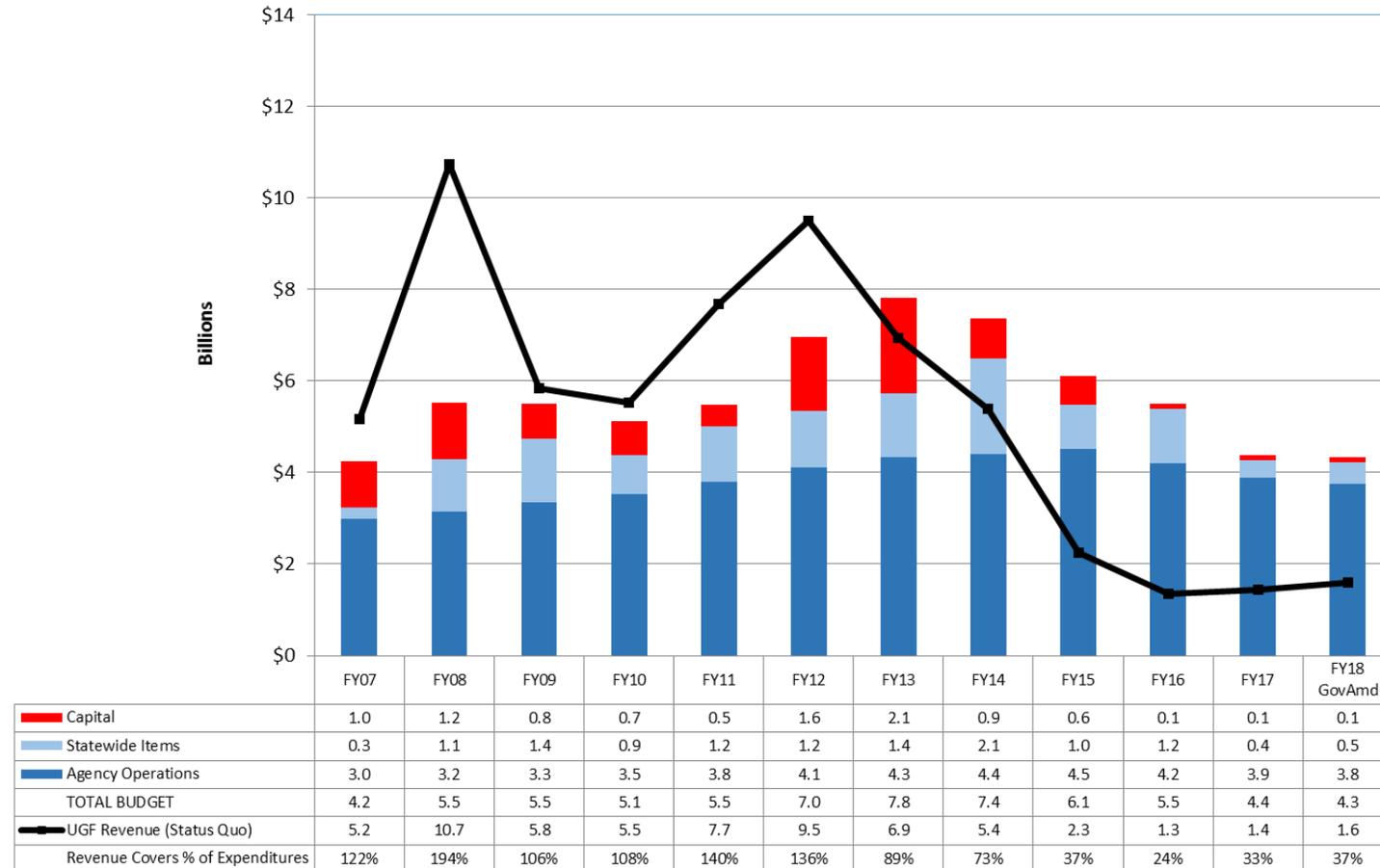
Current (proposed) budget:
\$4.3 billion

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

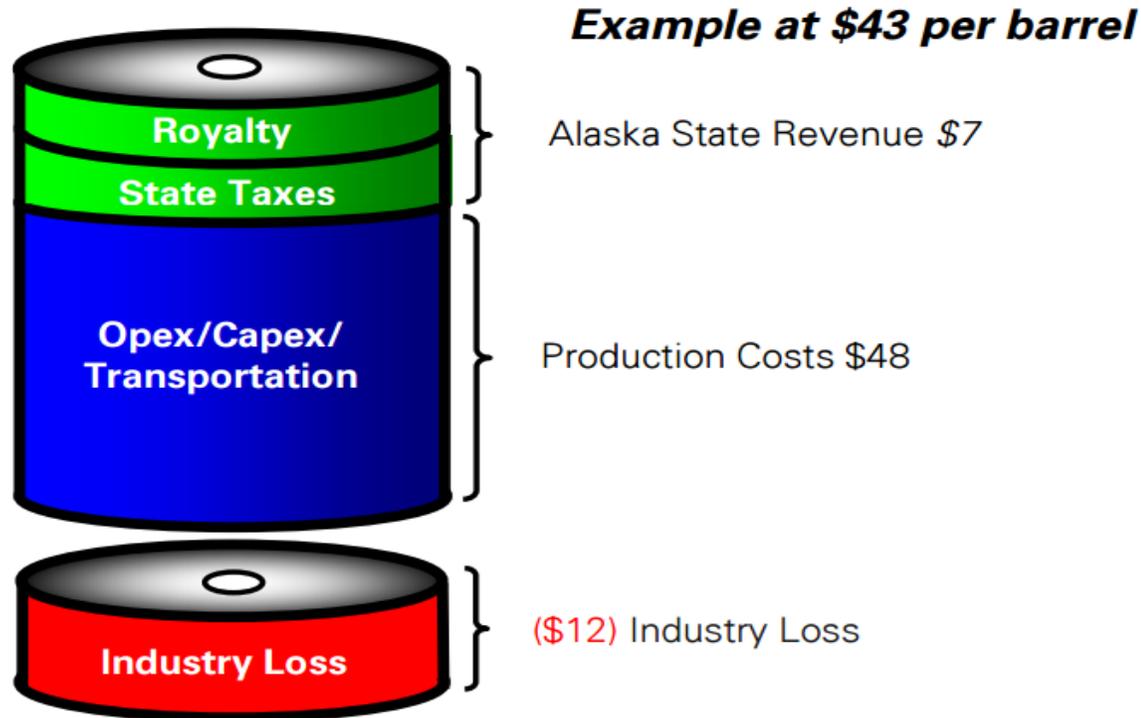
Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue
 (UGF Only--\$billions)
 (Excludes Permanent Fund ERA Appropriations)



Legislative Finance Division

Oil prices won't save us

Distribution one barrel in Alaska



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

Source Data: Alaska Department of Revenue, Tax Division, Revenue Sources Book Fall 2016

(Illustration from BP presentation to House Resources Committee, 2/1/2017)

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

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

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

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’

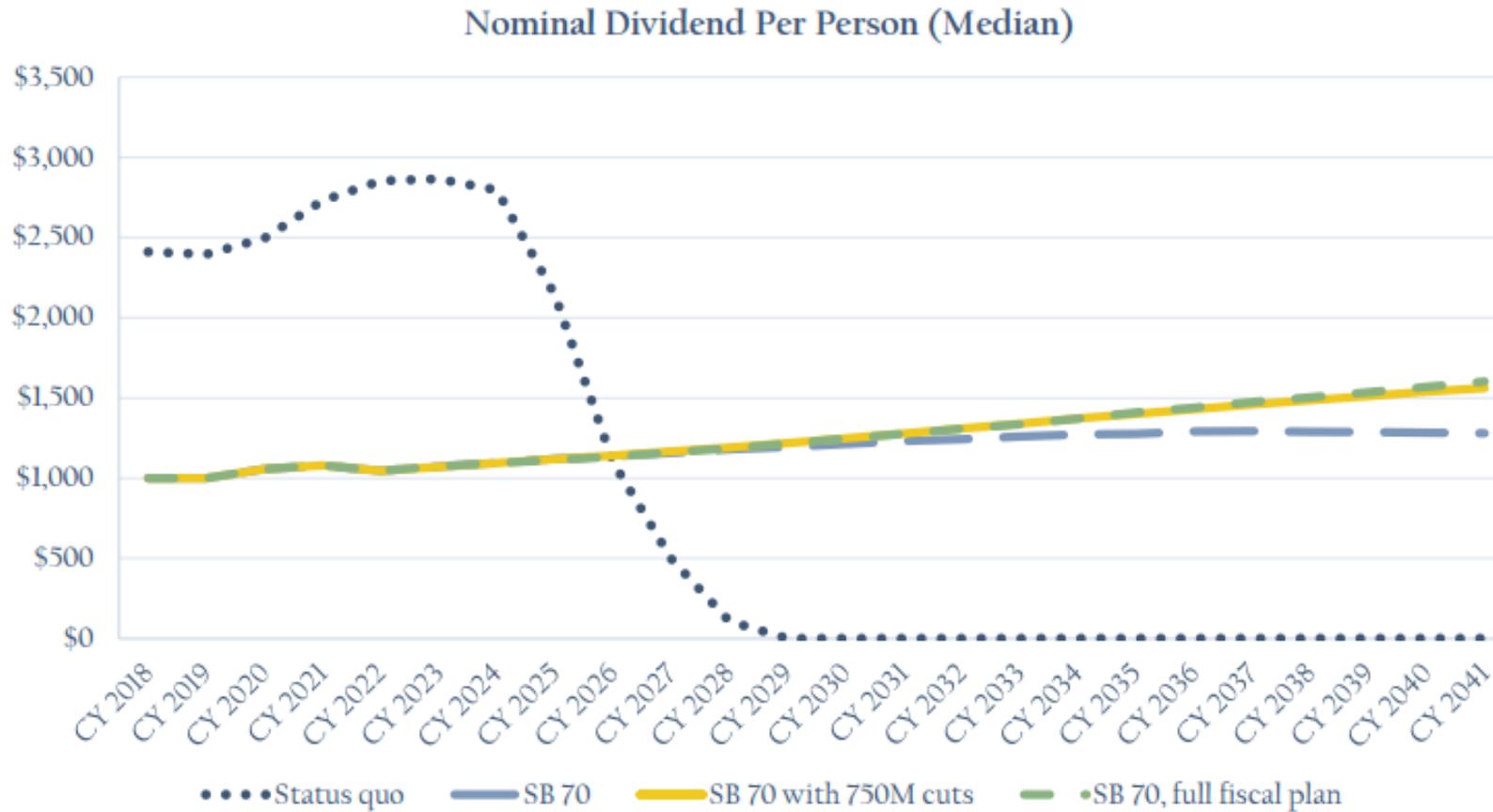
- Statutory first - \$4.1 billion
- In range of historic spending, minus the peaks
- Adjusts annually for inflation
- Does not include:
 - Dividends
 - Debt obligations
 - Capital budgets
- Constitutional next year

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

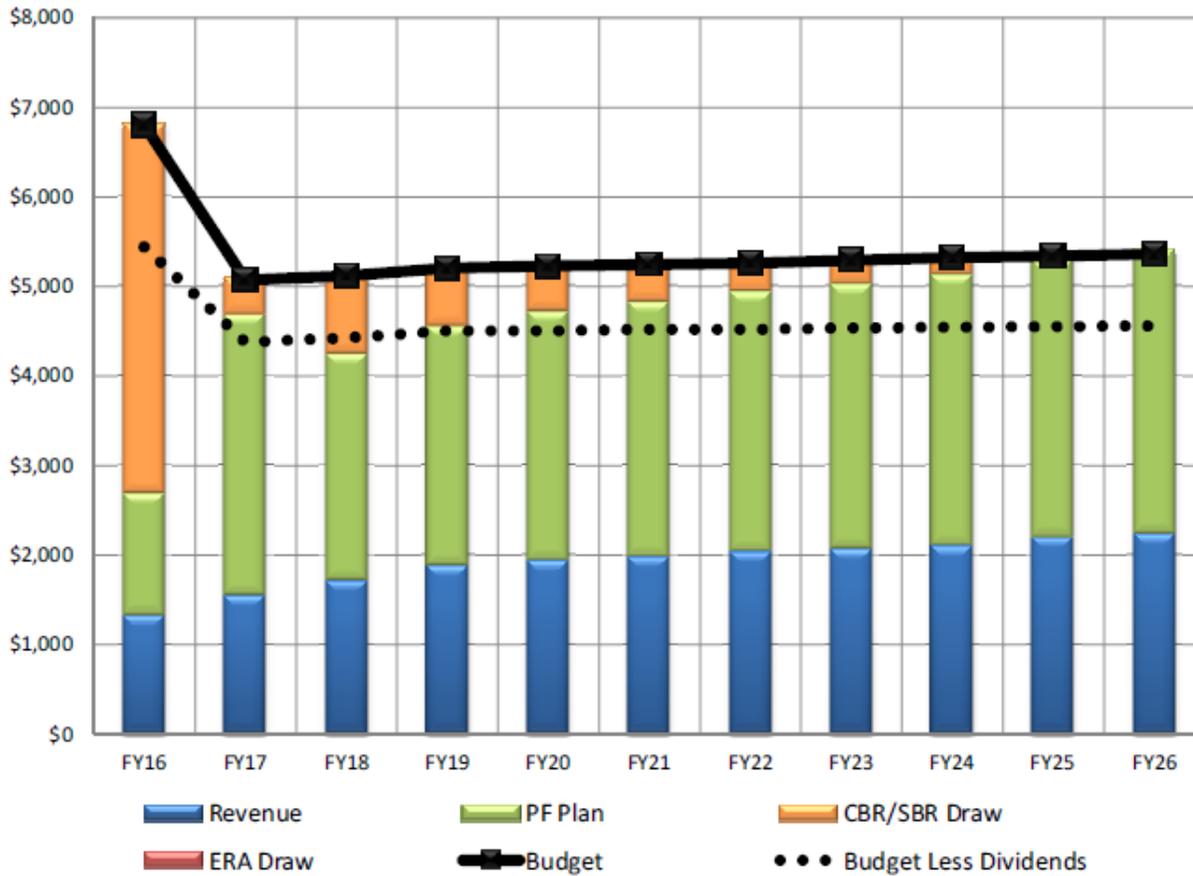
SB 70 MODELING COMPARISON: DIVIDEND



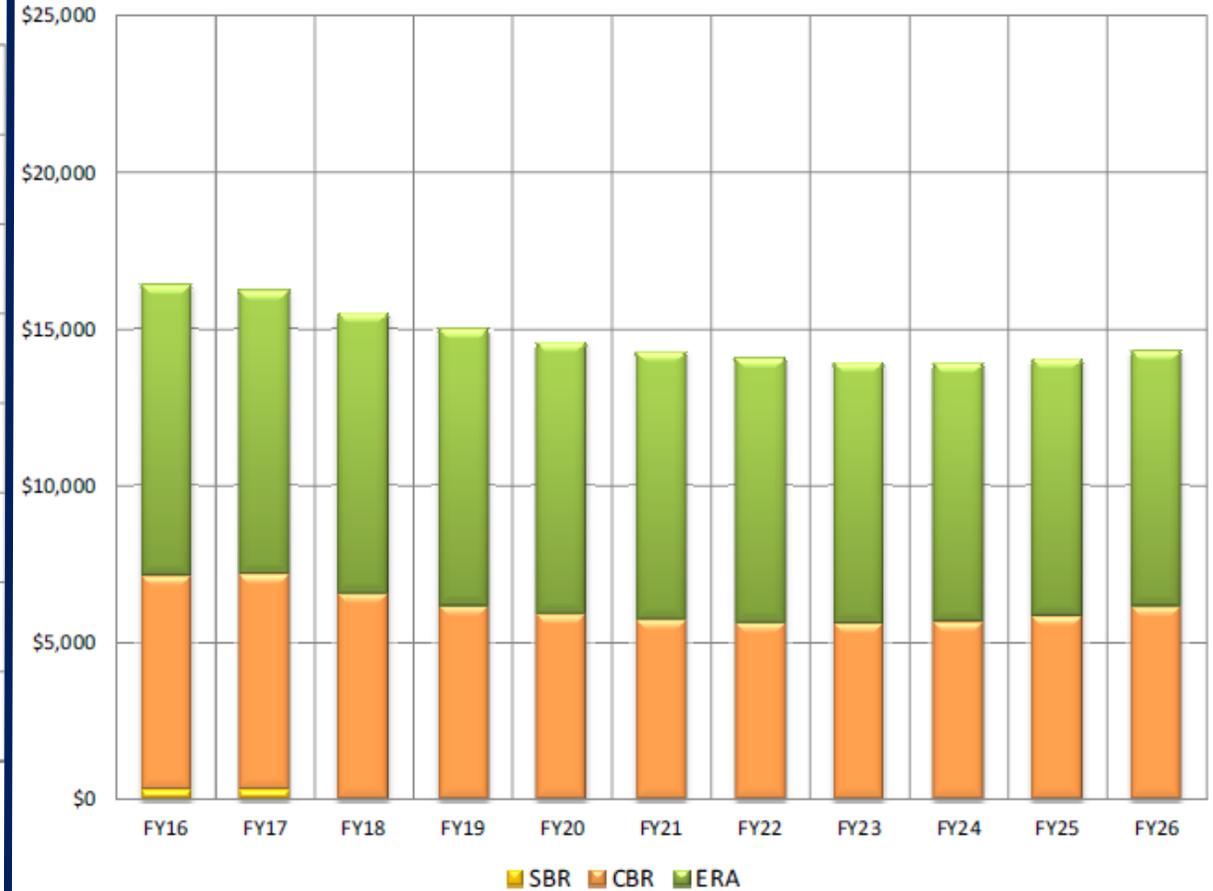
Slide from Department of Revenue presentation to Senate Finance Committee 3/1/2017

Solution - analysis

UGF Revenue/ Budget (\$ millions)



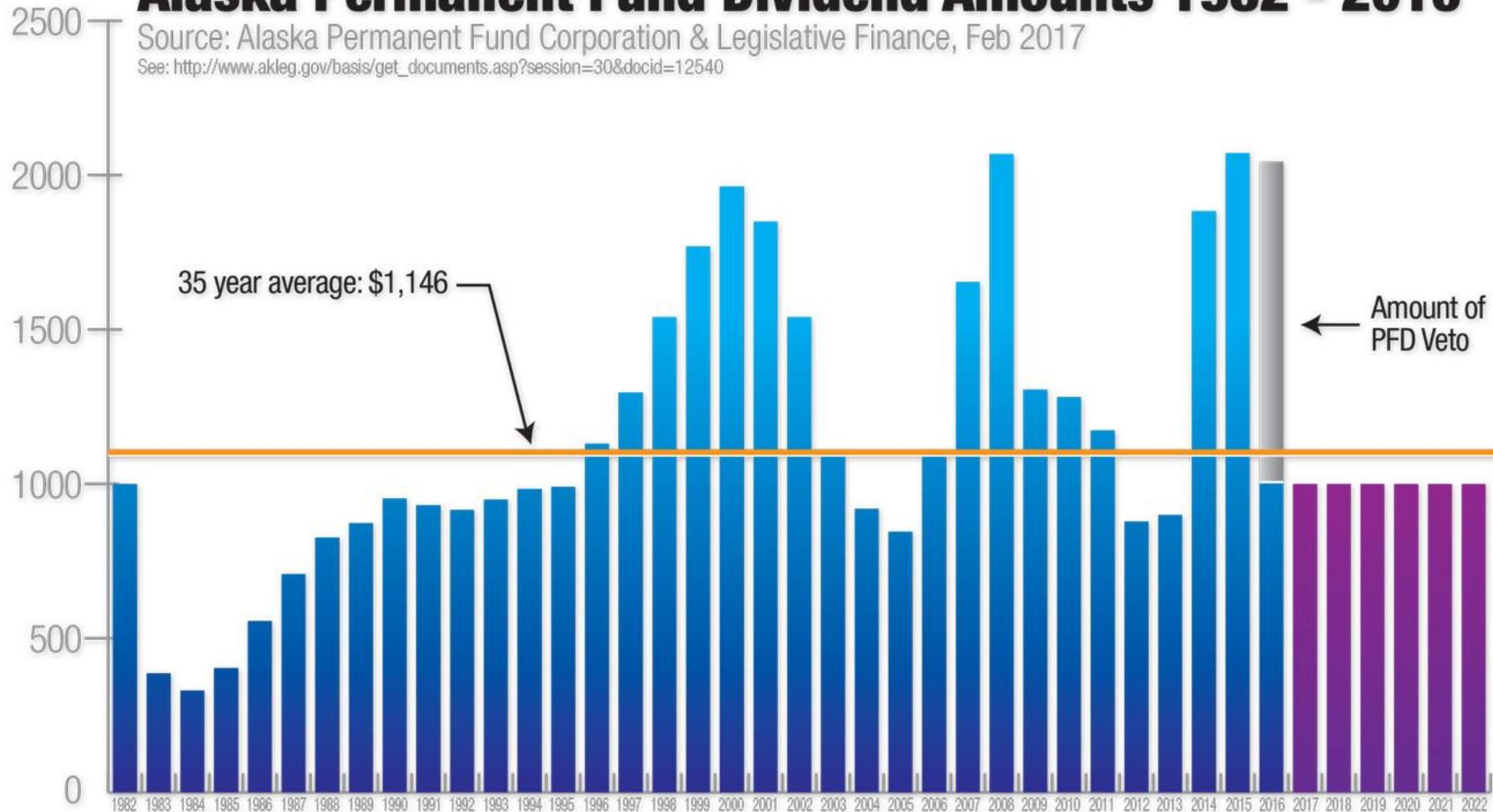
Budget Reserves FY Ending Balance



Dividend certainty

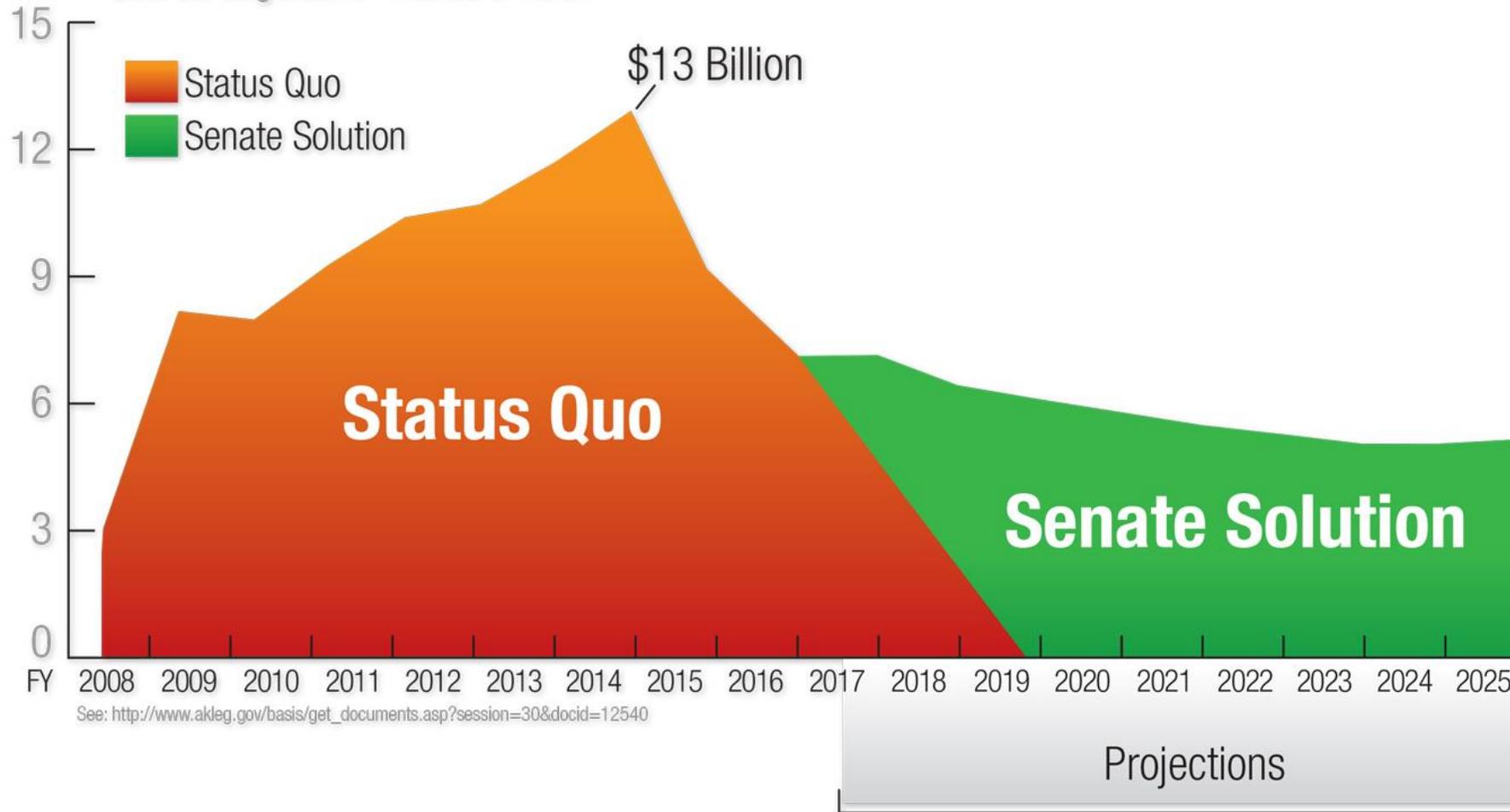
Alaska Permanent Fund Dividend Amounts 1982 - 2016

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



CBR Balance Status Quo vs. Senate Fiscal Solution

Source: Legislative Finance Division



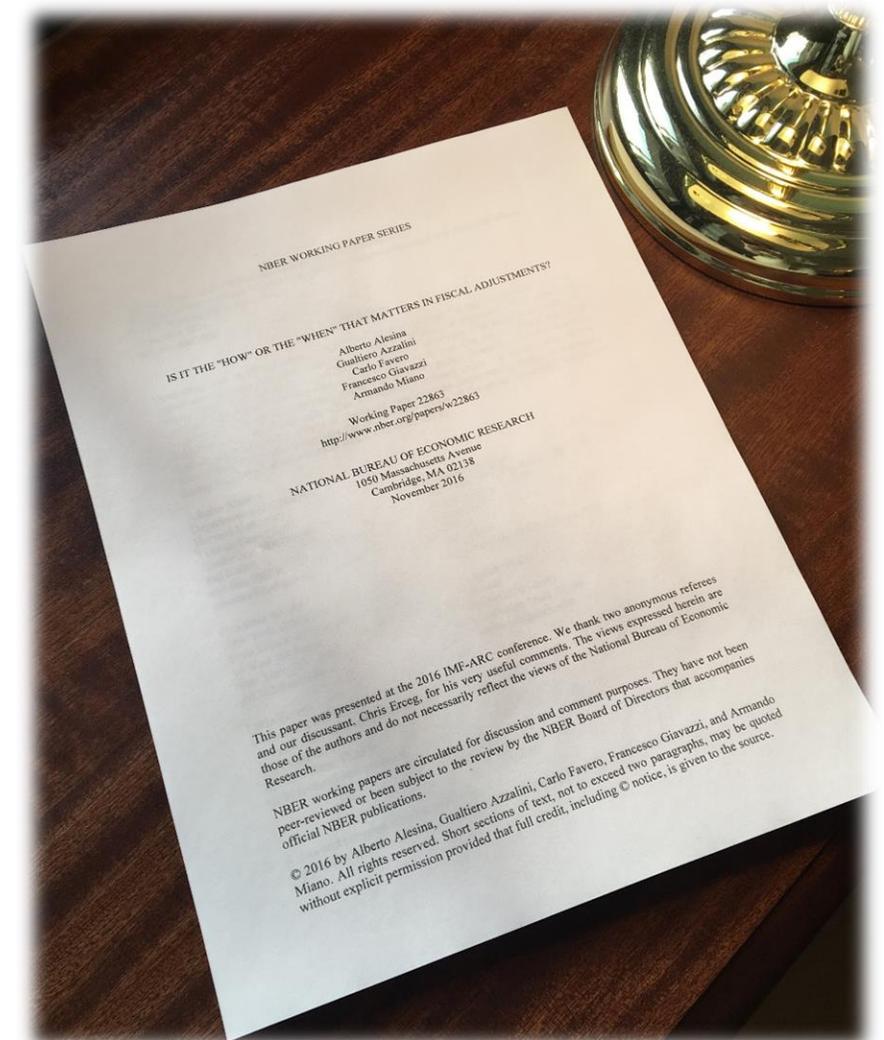
The No-Action Alternative

- Bigger deficits
- 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 this recession go?

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



Sen. President Pete Kelly

465-3709 in session

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Appendix – Guiding Principles

➤ **Defending individual freedom**

Government should be limited and people should be free.

➤ **Protecting the private sector**

All jobs are important, but private sector employment should have higher priority. Efforts to address Alaska's fiscal problem should support, not hurt, the private economy.

➤ **Requiring government accountability**

Government must be accountable to Alaskans; growth must be checked. No function will be immune to budget scrutiny.

➤ **Maintaining competitive investment climate**

Our oil tax system must continue to support increased production while delivering a fair share of oil and gas returns to Alaska.

Appendix – Budget reductions

