

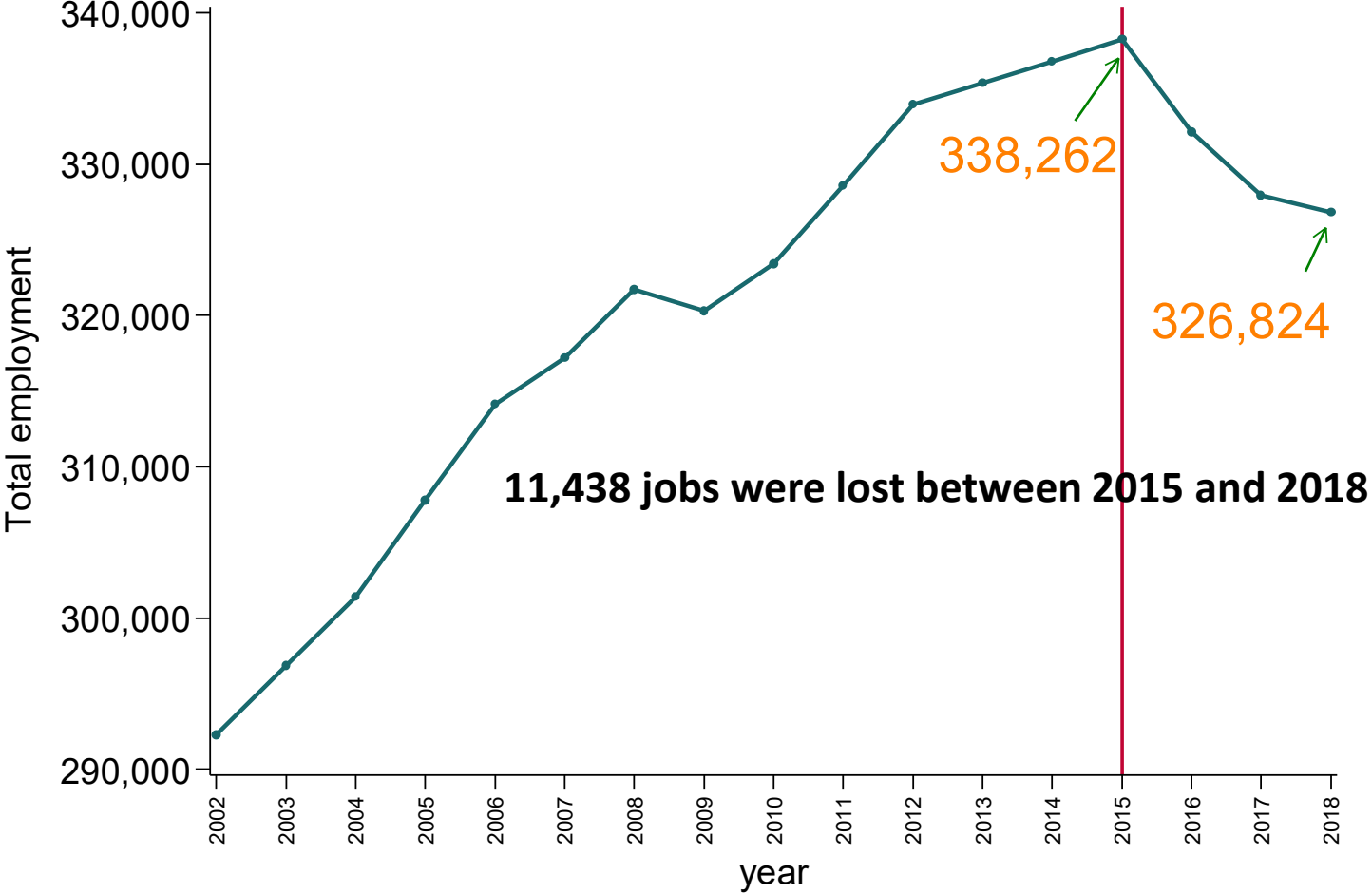
# Alaska's economic and fiscal situation

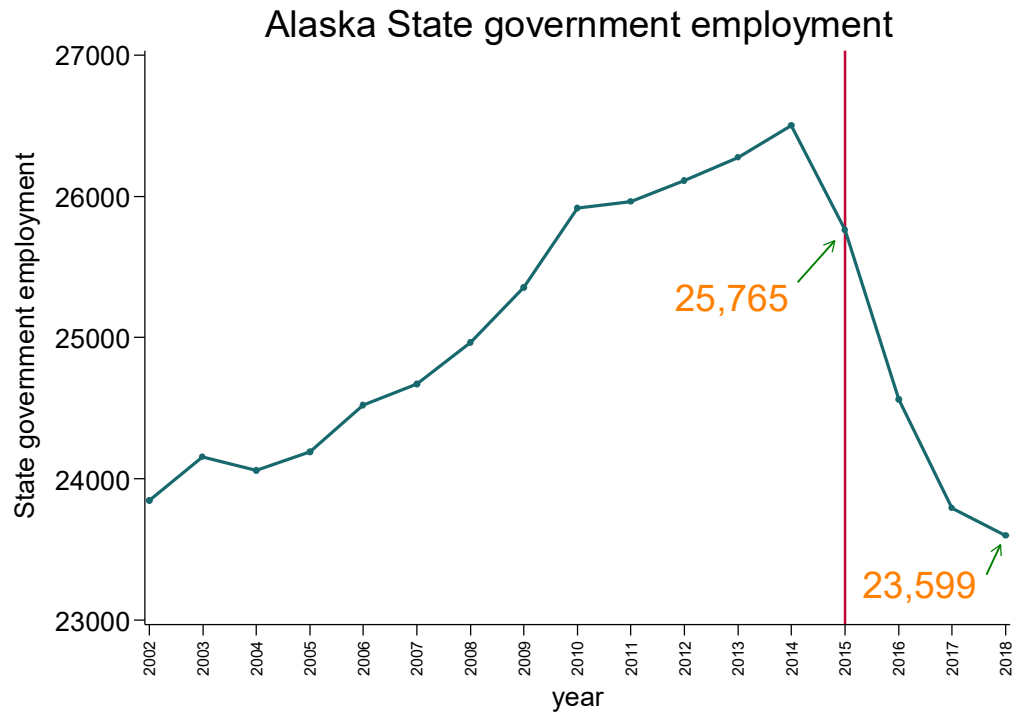
Mouhcine Guettabi, PhD

**2019 Annual AFN Convention**

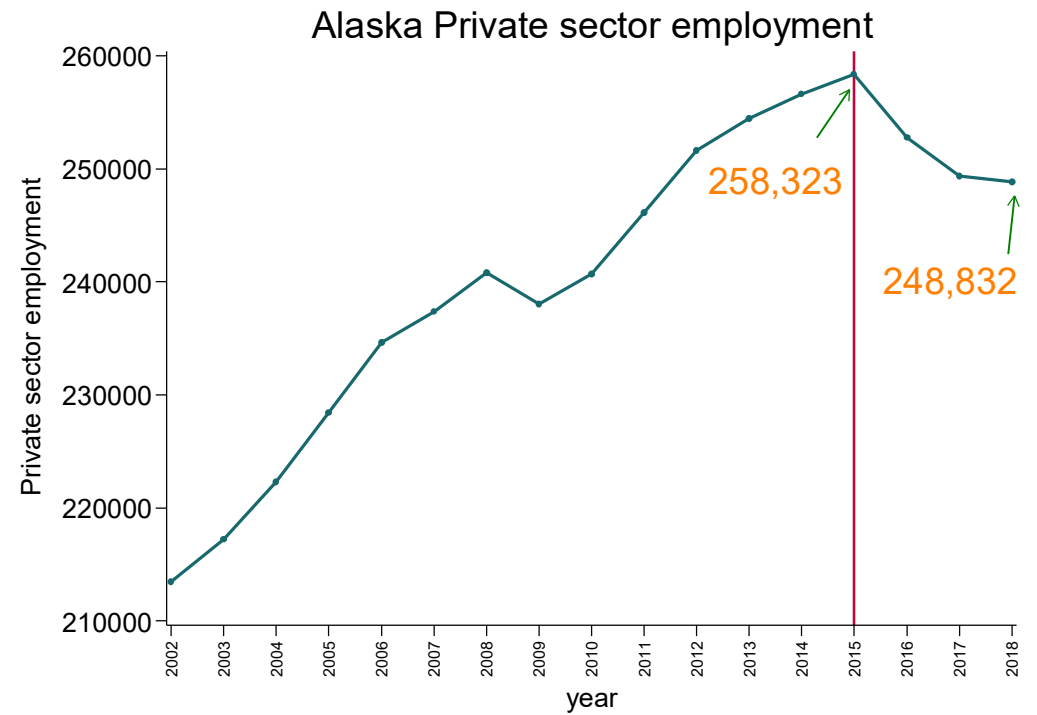
October 18, 2019

# Alaska Total employment



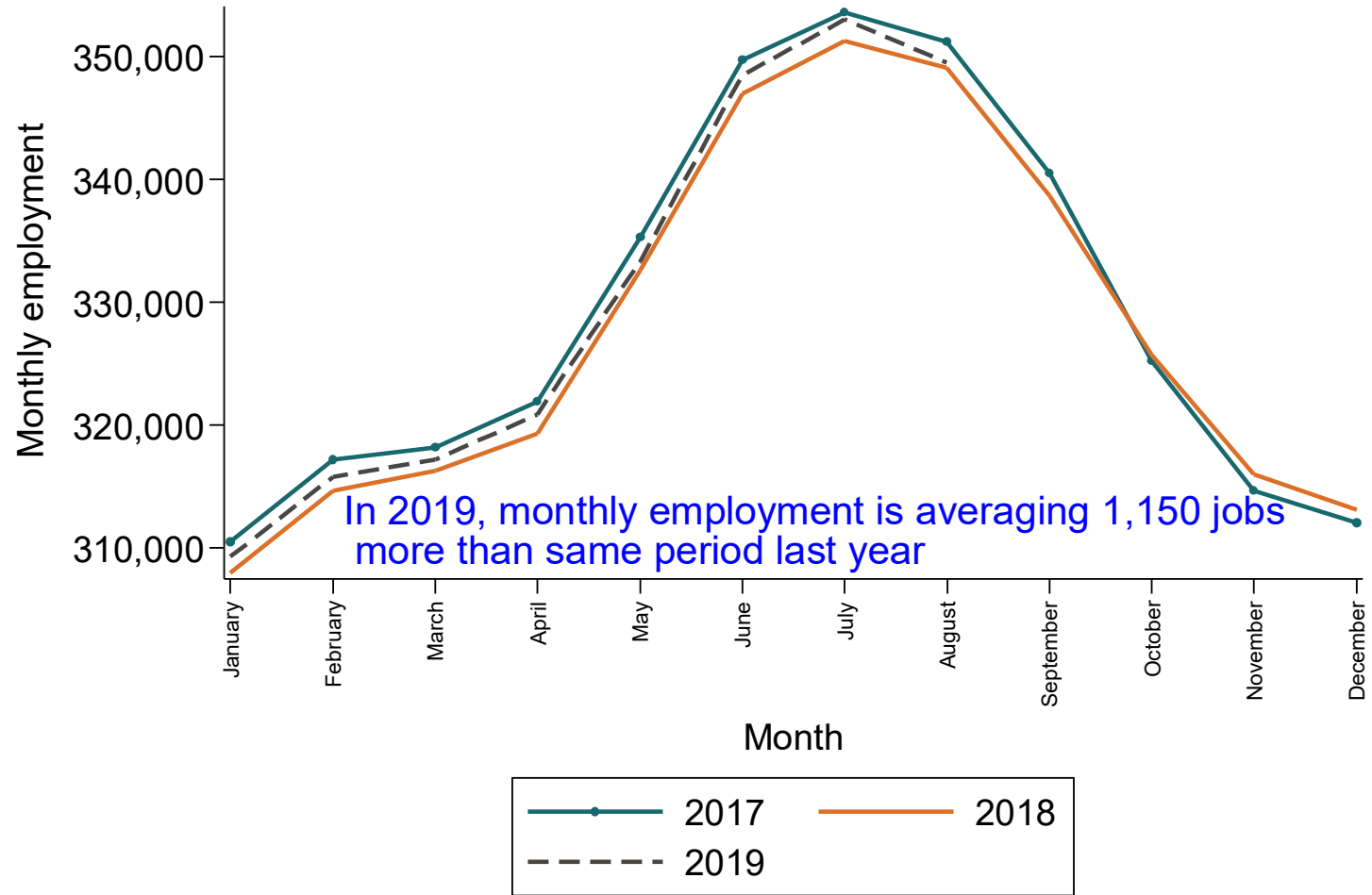


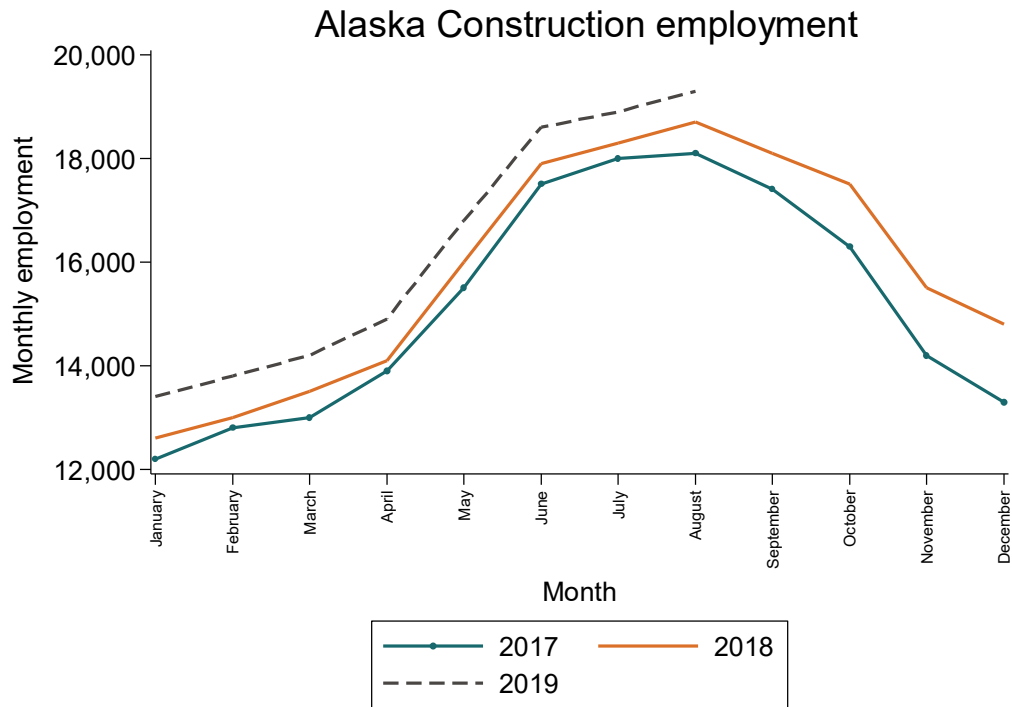
**8.4% decrease in state government employment between 2015 and 2018**



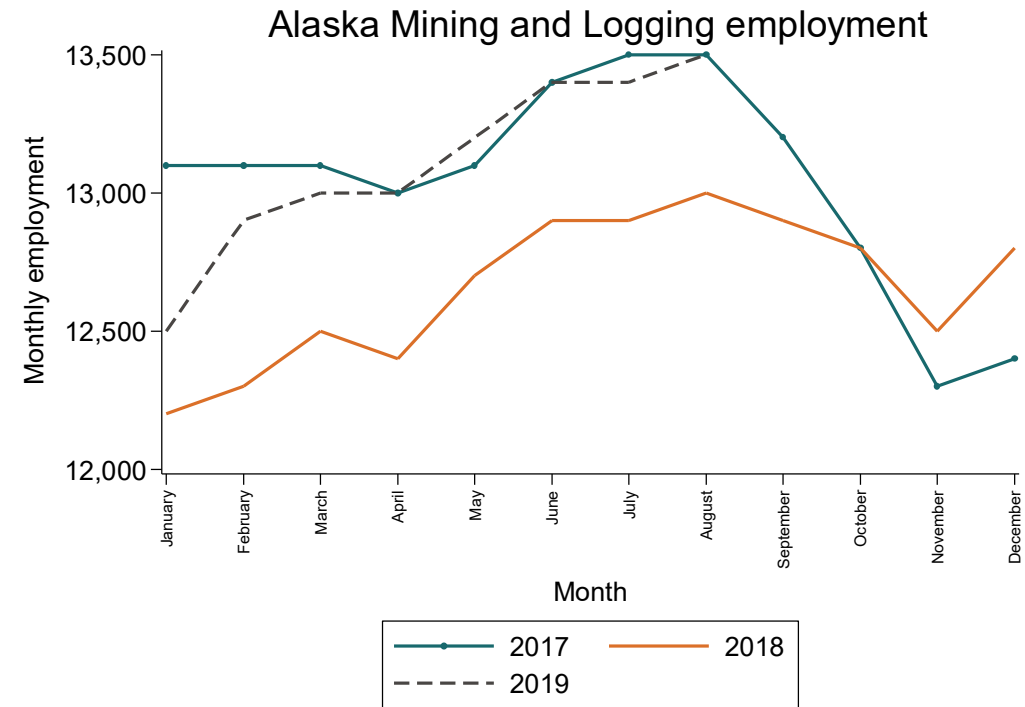
**3.6% decrease in private sector employment Between 2015 and 2018**

# Alaska Total Nonfarm employment



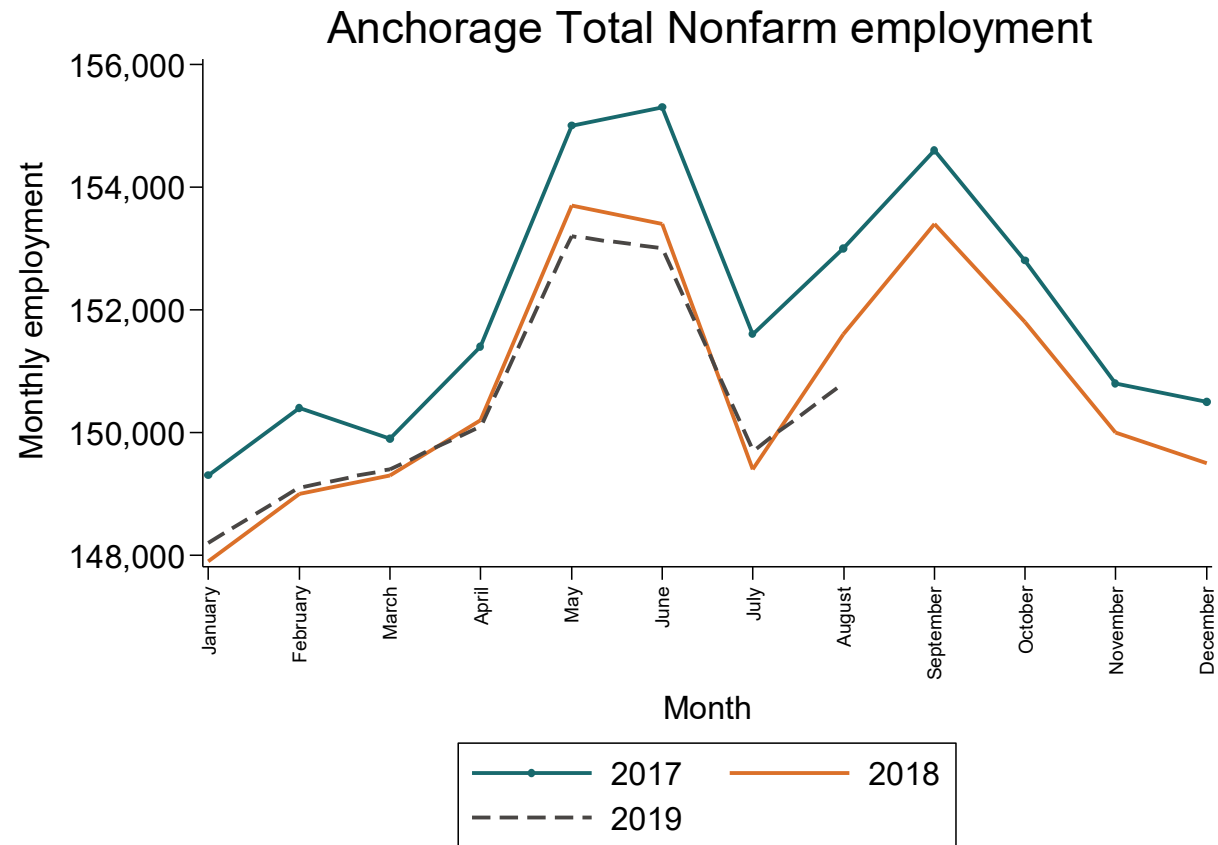


Construction employment is averaging 725 more jobs than during the same period last year



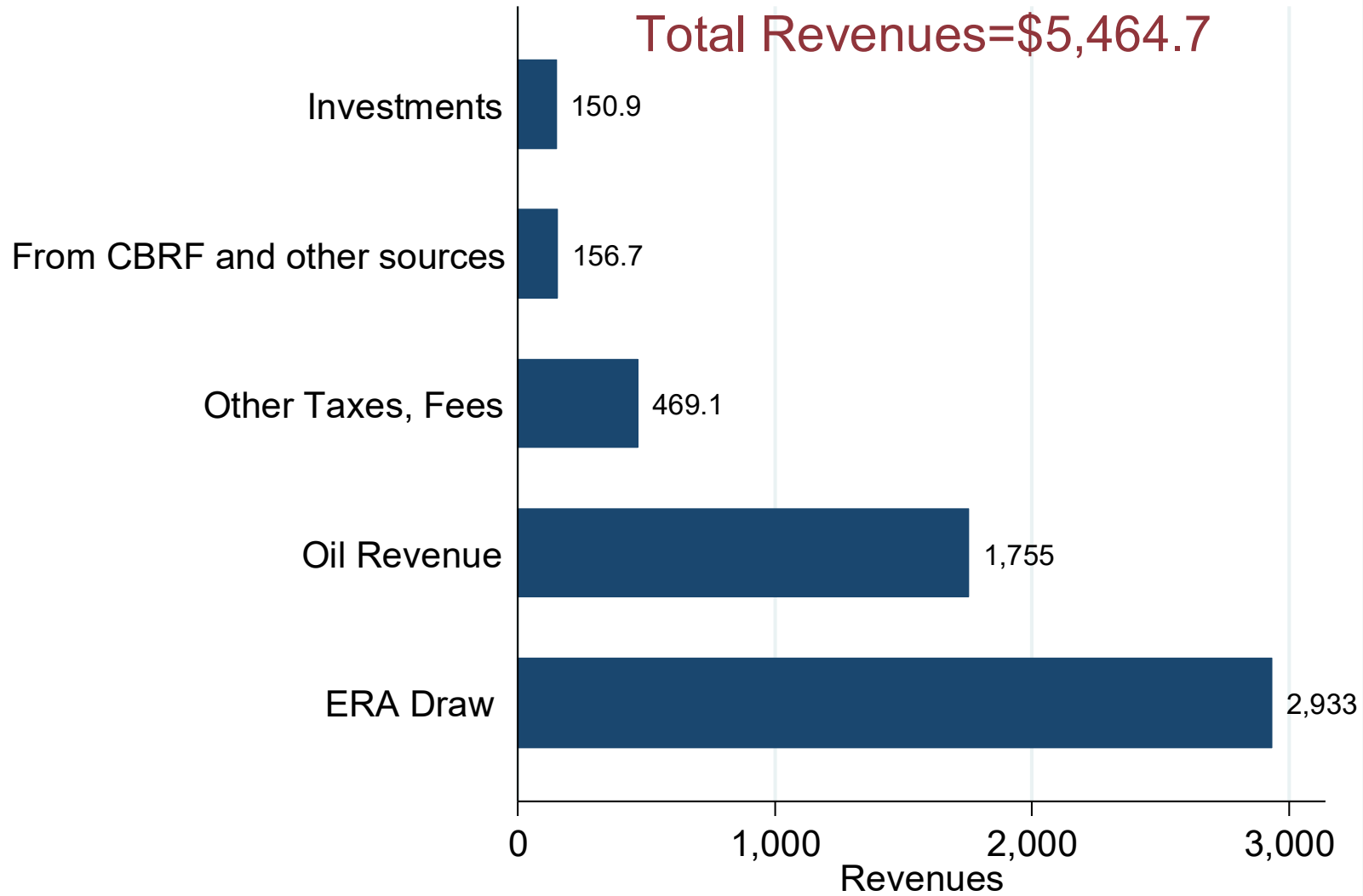
Monthly Oil & gas employment is averaging 500 more jobs than during the same period last year

# It is important to note that Anchorage is still in recession

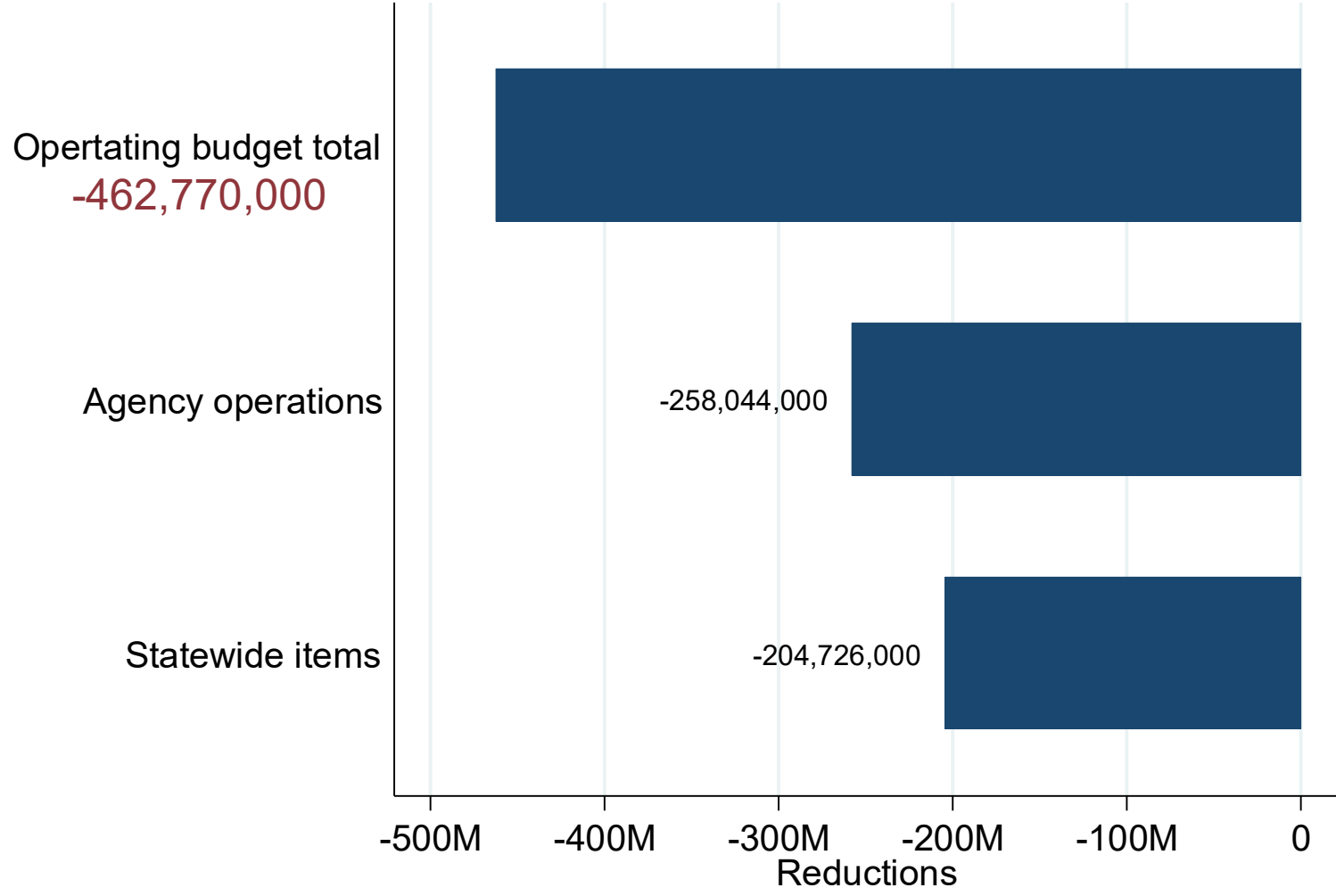


# Sources of Revenue for FY 2020

Total Revenues=\$5,464.7



# Unrestricted operating budget reductions



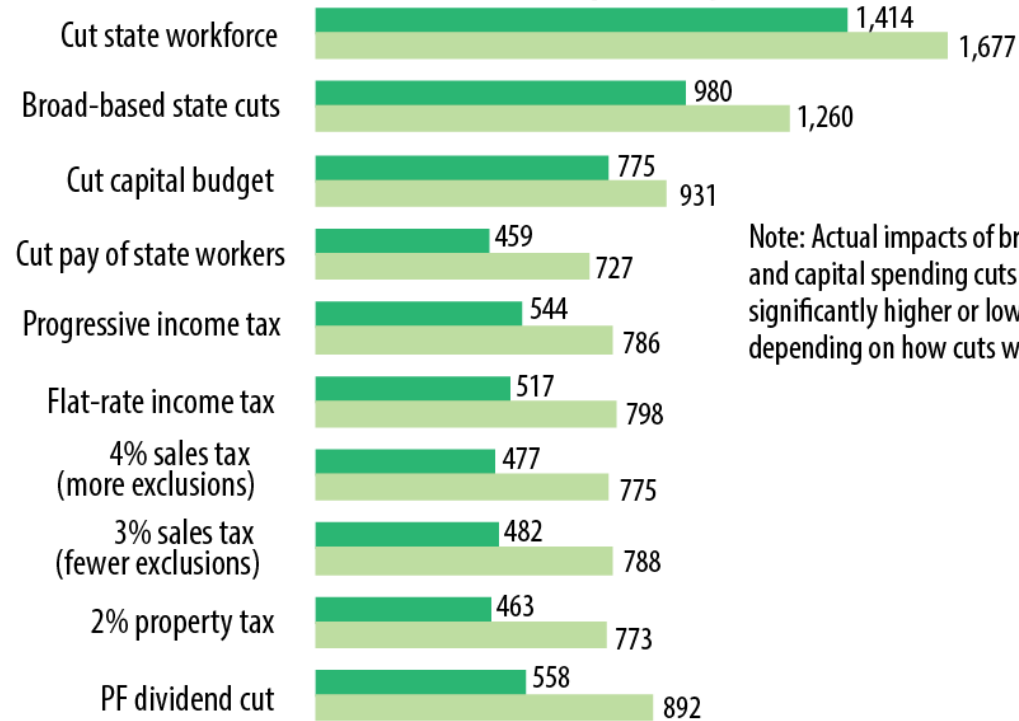


# Job Impacts

## Estimated Job Losses per \$100 Million of Deficit Reduction\*

(In Full-time equivalent jobs)

Low  
High

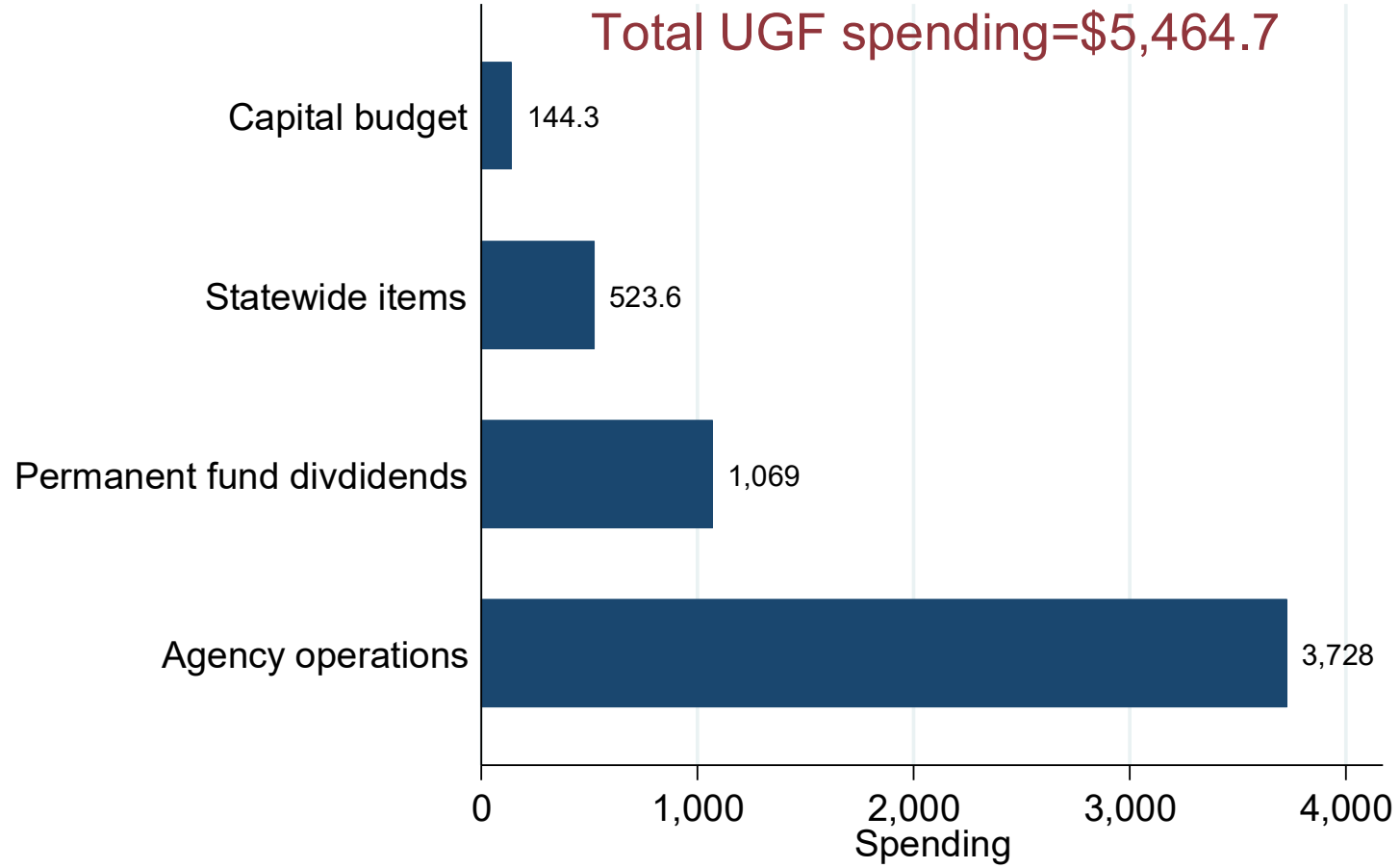


Note: Actual impacts of broad-based and capital spending cuts could be significantly higher or lower, depending on how cuts were made.

\*Low and high estimates are based on different assumptions about how households and markets would react to changes in disposable income.

Total UGF spending for FY 2020  
including the permanent fund dividends

Total UGF spending=\$5,464.7



# The structural problem

- In 2021, Unrestricted general fund revenues including the draw from the permanent fund will total **5.3 billion dollars**.
- The unrestricted general fund spending if held at the same as level as this year will be **4.3 billion dollars** which leaves **1 billion dollars** for the dividends.
- Paying the statutory dividends requires either increased revenues in the form of taxes, a significant reduction in spending, or some combination of the two options.
- This tension will continue to exist as long as there is no long term agreement on the right size of government, the size of the dividends, and the appropriate taxes.

Thank you

Mouhcine Guettabi, PhD

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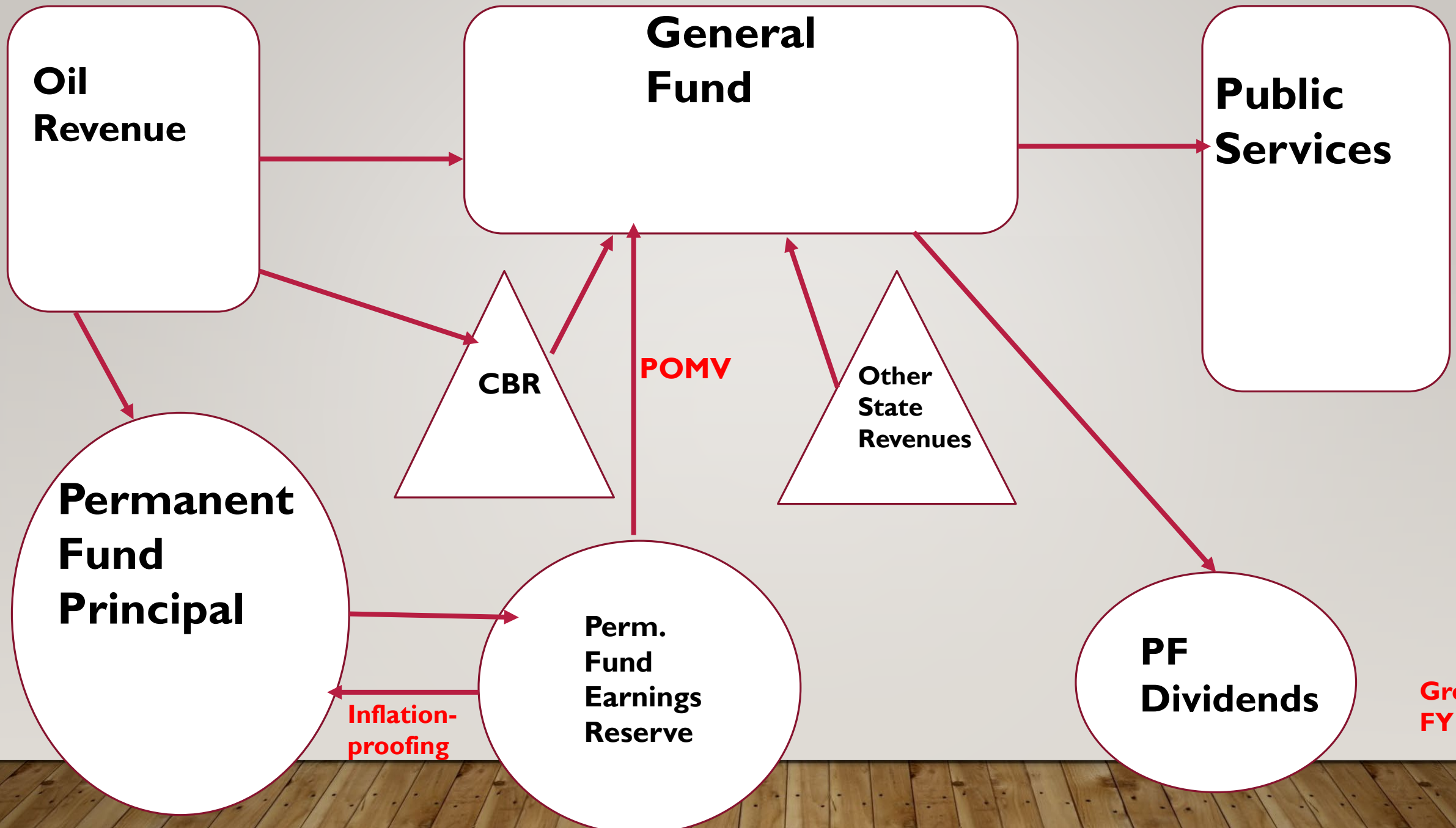
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# **ALASKA'S FISCAL SYSTEM: ELEMENTS, MYTHS, AND CHANGES**

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**CLIFF GROH / OCTOBER 18, 2019**

**ALASKA FEDERATION OF NATIVES CONVENTION**



**Groh Flow  
FY 20**

# **ORIGINAL ARGUMENTS FOR DIVIDENDS IN 1982**

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- **Protect Permanent Fund principal**
- **Distribute a portion of surplus oil wealth equitably**
- **Boost economy efficiently**
- **Recognize some concept of individual ownership of State-owned natural resources**

# MYTHBUSTING THE DIVIDENDS

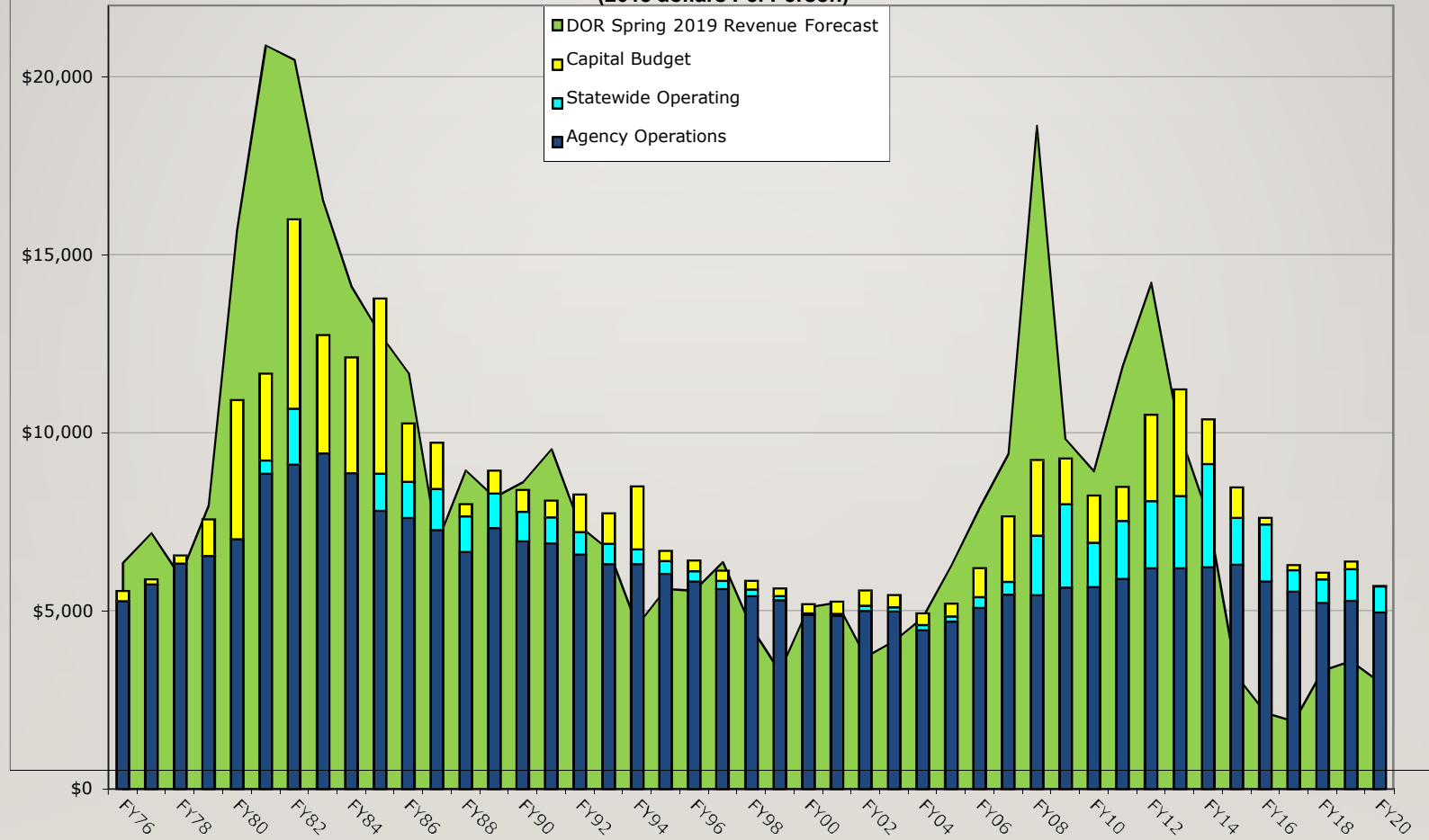
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- **Permanent Fund was created to save money, and not specifically to pay Dividends**
- **Dividends are not guaranteed in the Alaska Constitution**
- **Dividends require annual legislative appropriation**



# Real Per Capita Unrestricted General Fund Revenue/ Budget History

(2018 dollars Per Person)



# **EXISTING DIVIDEND FORMULA AND POMV SYSTEM DO NOT MESH**

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- **Dividend formula adopted in 1980s is earnings-based and thus volatile**
- **POMV system adopted in 2018 is value-based and thus predictable**

# **IT IS MATHEMATICALLY IMPOSSIBLE TO LEAVE UNCHANGED THE FISCAL SYSTEM'S ELEMENTS**

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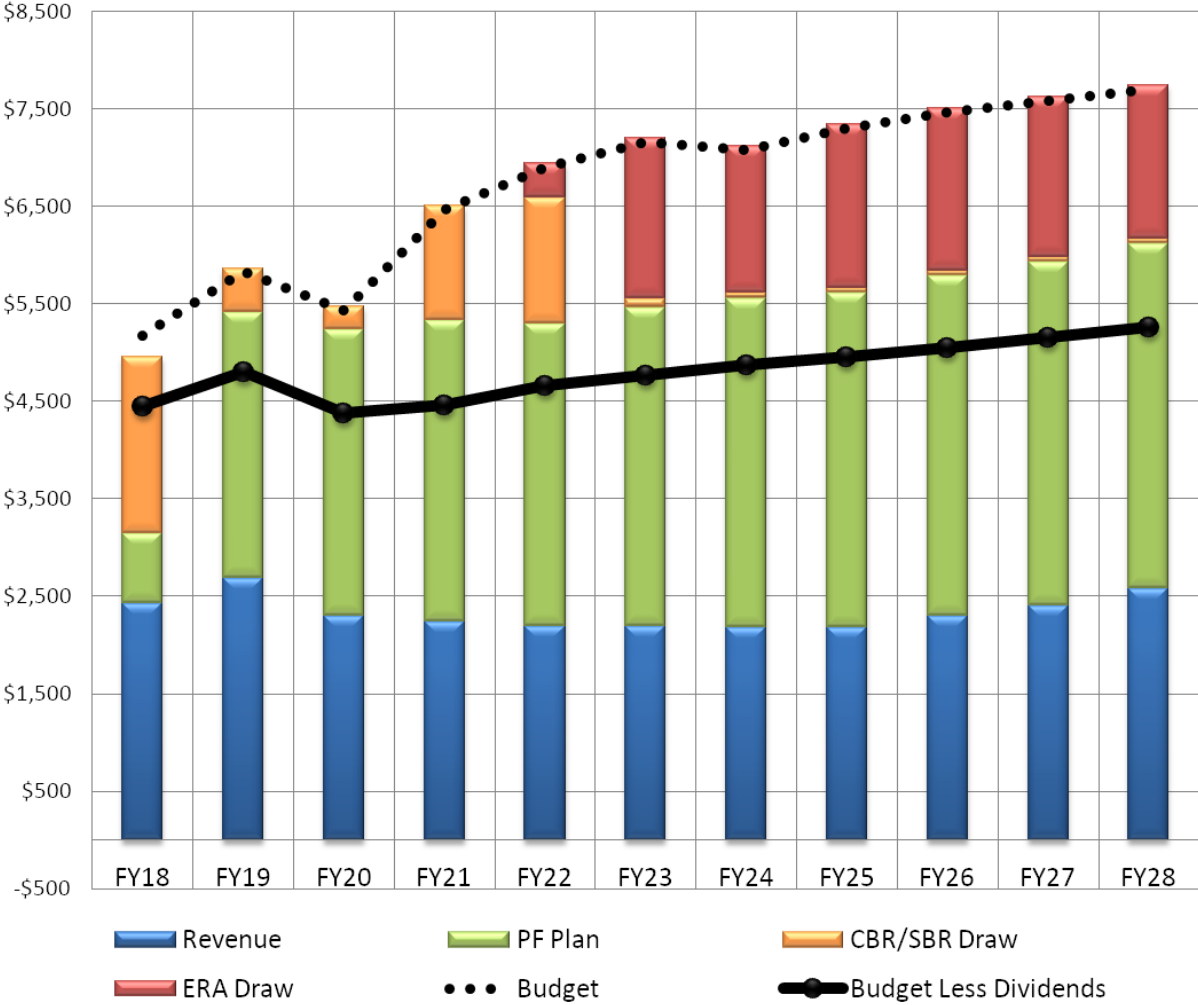
- **Revenues from existing taxes and royalties**
- **Additional revenues from POMV draw**
- **No broad-based taxes and no oil tax increase**
- **Budget growing with inflation**
- **Growth of the Permanent Fund at 7 percent annually**
- **Dividends paid under statutory Dividend formula**

# **NO CHANGE MEANS ANNUAL DEFICITS OF \$1 BILLION OR MORE**

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- **Maintaining all these elements wipes out the Constitutional Budget Reserve within two years and then begins eating into the Permanent Fund Earnings Reserve Account in FY 2022**
- **Spending down the Permanent Fund Earnings Reserve Account reduces future funding for public services and cuts future Dividends**

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



# CLIFF GROH

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