

# IMPLEMENTING A STATE FISCAL PLAN: Step 1. Tracking Maximum Sustainable Yield

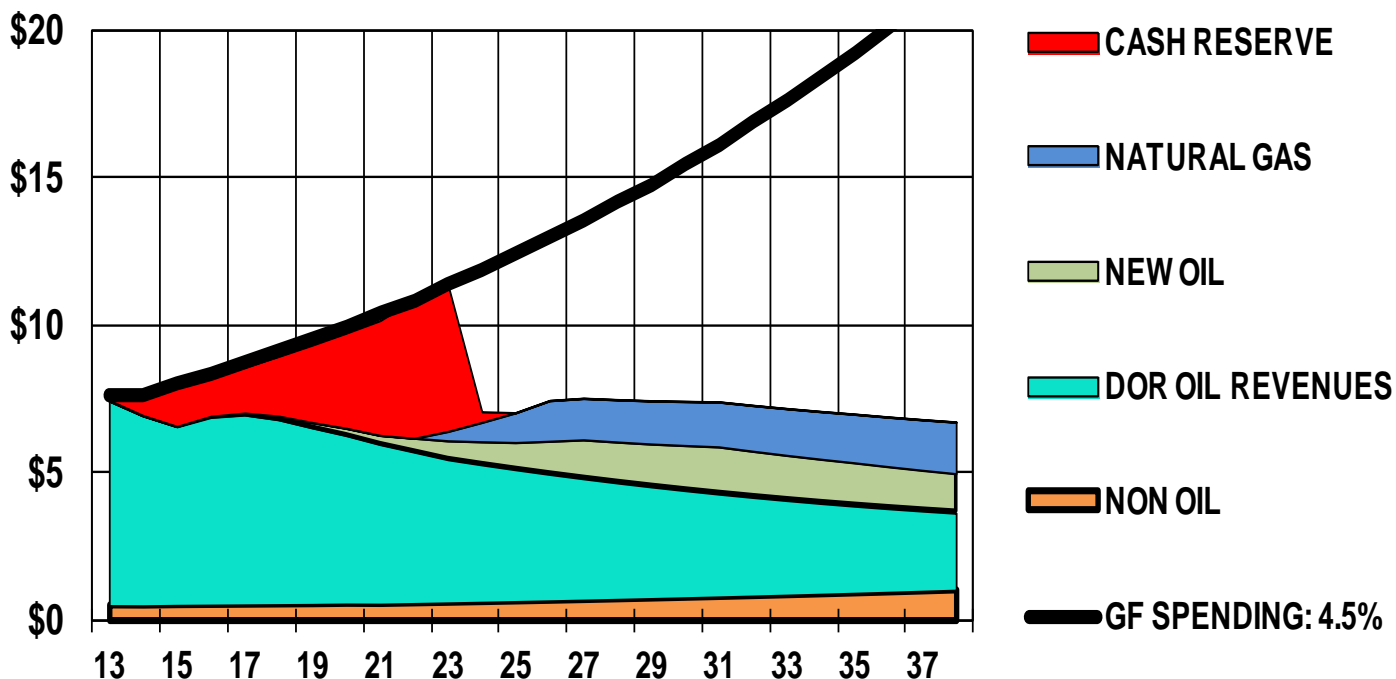
Alaska State Legislature  
House Finance Committee  
Juneau, Alaska  
April 5, 2013

Scott Goldsmith  
Institute of Social and Economic Research  
University of Alaska Anchorage

Bradford G. Keithley  
Perkins Coie LLP

# The Problem: Unsustainable Spending Growth

## LOOKING BEYOND THE 10-YEAR HORIZON



# The Solution:

## RECOGNIZE AND MANAGE OUR PETROLEUM WEALTH LIKE A DEPLETABLE ASSET

1. How much is it worth?
2. How much of it can we spend without depleting it?
3. How can we invest it for maximum return?

# Petroleum Wealth of the “Owner State”



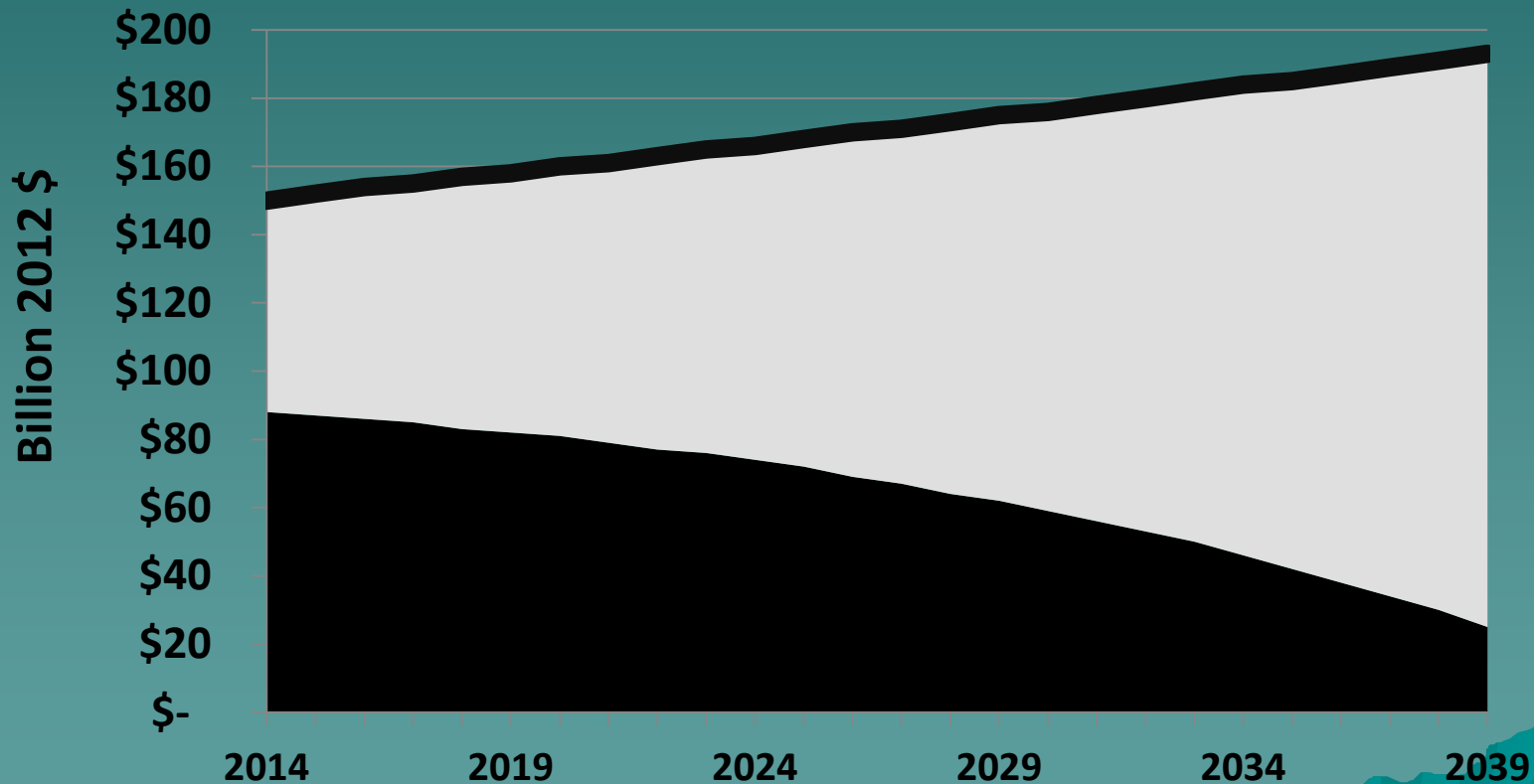
<b>TOTAL</b>	<b>\$149 Billion</b>
<b>In the Bank</b>	<b>\$60 Billion</b>
<b>In the Ground*</b>	<b>\$89 Billion</b>
Known Conventional Oil	<b>\$67 Billion</b>
Other Oil and Gas	<b>\$22 Billion</b>

\* Estimated Net Present Value of Future Petroleum Revenues

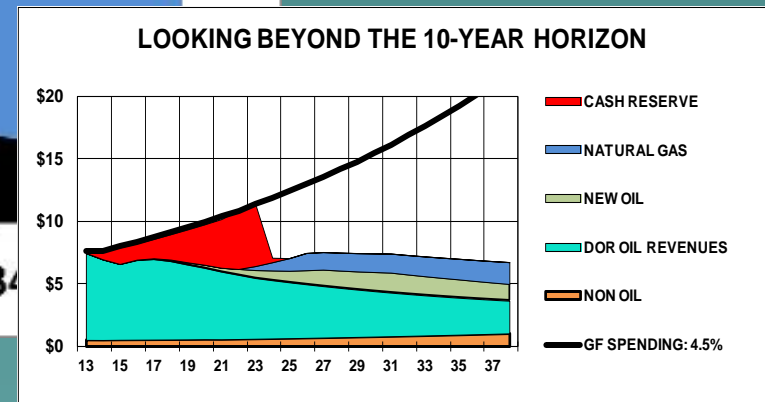
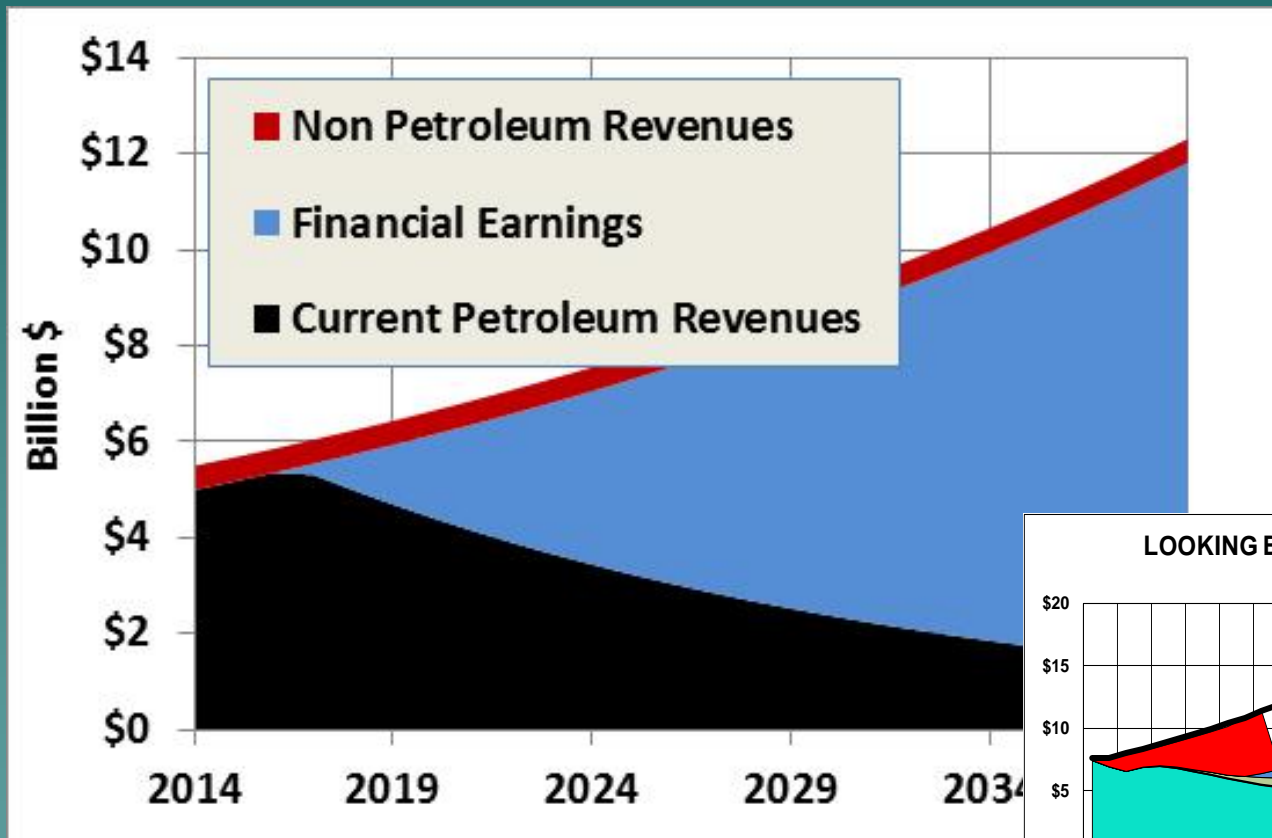
# How Much Can We Spend Today: GF Maximum Sustainable Yield

<b>NEST EGG</b>	<b>\$149 Billion</b>
Multiply: MSY Draw Rate	4% (5%-1%)
<b>Equals: MSY Draw</b>	<b>\$6 Billion =(\$149*4%)</b>
Minus: PF Dividend	\$ 1 Billion
Plus: Non-Petroleum GF Revenues	\$ .5 Billion
<b>General Fund Maximum Sustainable Yield (FY2014)</b>	<b>\$ 5.5 Billion =(\$6 -\$1+\$0.5)</b>

# Maximum Sustainable Yield: Nest Egg Growth



# Maximum Sustainable Yield: General Fund Growth



# Maximum Sustainable Yield: Implementation

---

- Manage financial assets for maximum long term return
- Proactively participate in management of petroleum in the ground for maximum return
- Establish monitoring system to track Nest Egg value, set MSY target, and track progress towards sustainability
- Gradually transition to GF Maximum Sustainable Yield level



# Track Nest Egg and GF MSY

Permanent Fund Balance

+ CBR Balance

+ SBR Balance

= **Financial Assets**

+ Value of Petroleum in Ground

= **NEST EGG**

Multiply by 4%

= **MSY**

- Permanent Fund Dividend

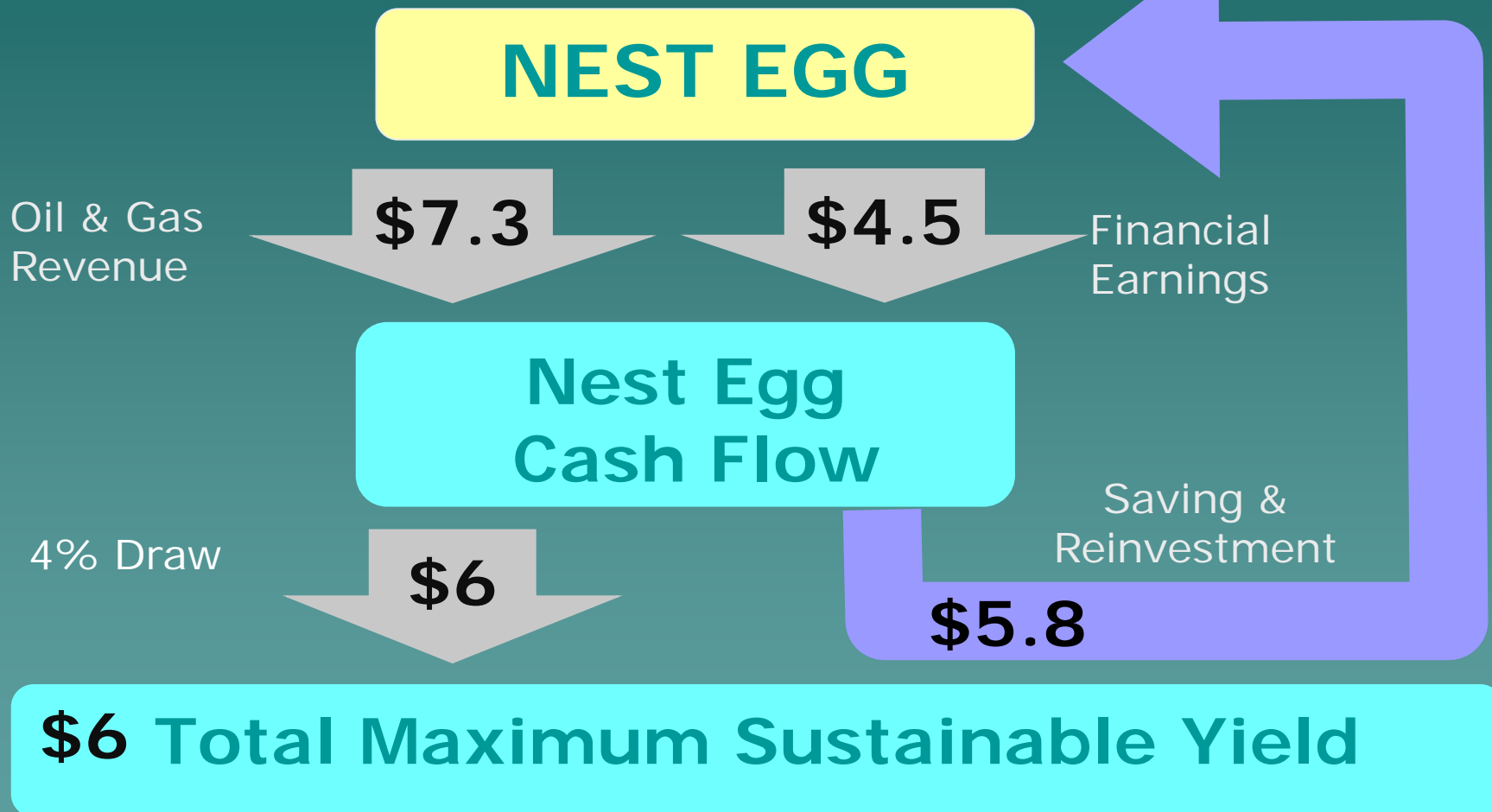
+ Non-Petroleum GF Revenues

= **GENERAL FUND MAXIMUM SUSTAINABLE YIELD**

# If Oil Revenues \$5 Billion Lower, How Much Can We Spend Today: GF Maximum Sustainable Yield

<b>NEST EGG</b>	<b>\$143 Billion</b>
Multiply: MSY Draw Rate	4% (5%-1%)
<b>Equals: MSY Draw</b>	<b>\$5.8 Billion</b> <b>=( \$143 * 4%)</b>
Minus: PF Dividend	\$ 1 Billion
Plus: Non-Petroleum GF Revenues	\$ .5 Billion
<b>General Fund Maximum Sustainable Yield (FY2014)</b>	<b>\$ 5.3 Billion</b> <b>=( \$6 - \$1 + \$.5)</b>

# Maximum Sustainable Yield: Mechanics



# Maximum Sustainable Yield: Disposition

**Total Maximum Sustainable Yield \$6**

**\$1**

**Permanent Fund  
Dividend**

**\$5**

**General  
Fund**

**GF Non  
Petroleum  
Revenues**

**\$5**

**\$.5**

**\$5.5 GENERAL FUND  
MAXIMUM SUSTAINABLE YIELD**