

Accessing Permanent Fund Earnings to Reduce the Fiscal Gap

by

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Presented to


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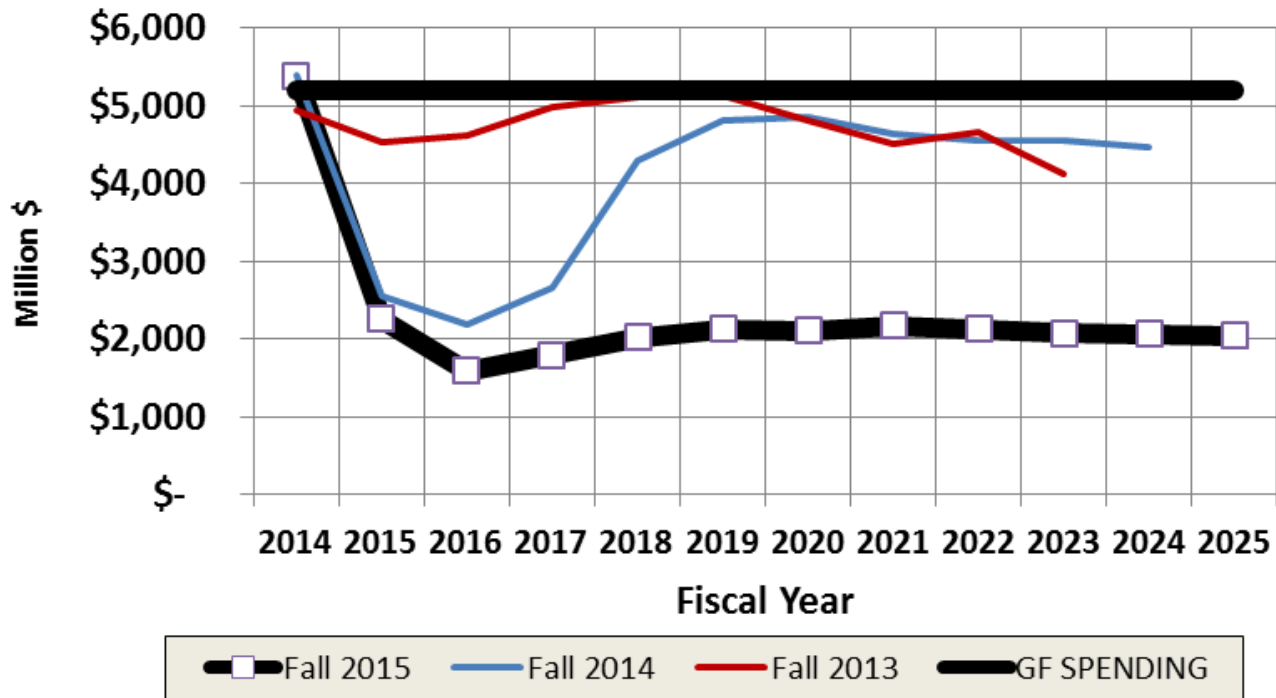
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Outline for Today

- The Gap
 - Bogus Solutions
 - 3 Real Tools in the Kit
 - The Biggest Tool—Use Asset Earnings
 - Compare Proposals to Use Earnings
 - Assumptions
 - Criteria for Choice
 - Fragile Economy
- 

Fiscal Gap: New Reality?


GENERAL FUND UNRESTRICTED REVENUE: FALL 2015 FORECAST



2015 based on \$50 oil

Oil and the Alaska Economy

Fiscal Gap : Bogus Solutions

- Higher Oil Price
 - Hold Our Breath
 - Gas Line
 - Nickel and Dime Solutions
 - Zombie Solutions
 - Silver Bullets?
- 

Fiscal Gap : 3 REAL Tools

- ❑ MORE BUDGET CUTS
- ❑ INCOME TAX/SALES TAX/PFD REDUCTION
- ❑ EARNINGS FROM STATE ASSETS

**PICK ANY 3 FROM THE
LIST ABOVE!**

Use Permanent Fund Earnings: Why Start Here & Why Start Now

- Biggest single tool in solution
- No solution without this tool
- Centerpiece of a workable GAME PLAN
- No negative economic impact
- Positive economic impact from confidence boost
- Relatively easy to implement
- And.....

Buy Time to Prepare for the Inevitable and Prolonged Tug of War

No
Income
Tax!

No
Sales
Tax!



No
Dividend
Cuts!

No More
Budget
Cuts!

Proposals for Use of Earnings

MECHANISMS

- ◆ STABILITY—SB128 ALASKA PERMANENT FUND PROTECTION ACT
 - Dump SB21 revenues and royalties into PF
 - Draw \$3.3 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
 - Pay PF Dividend from 50% of Royalties

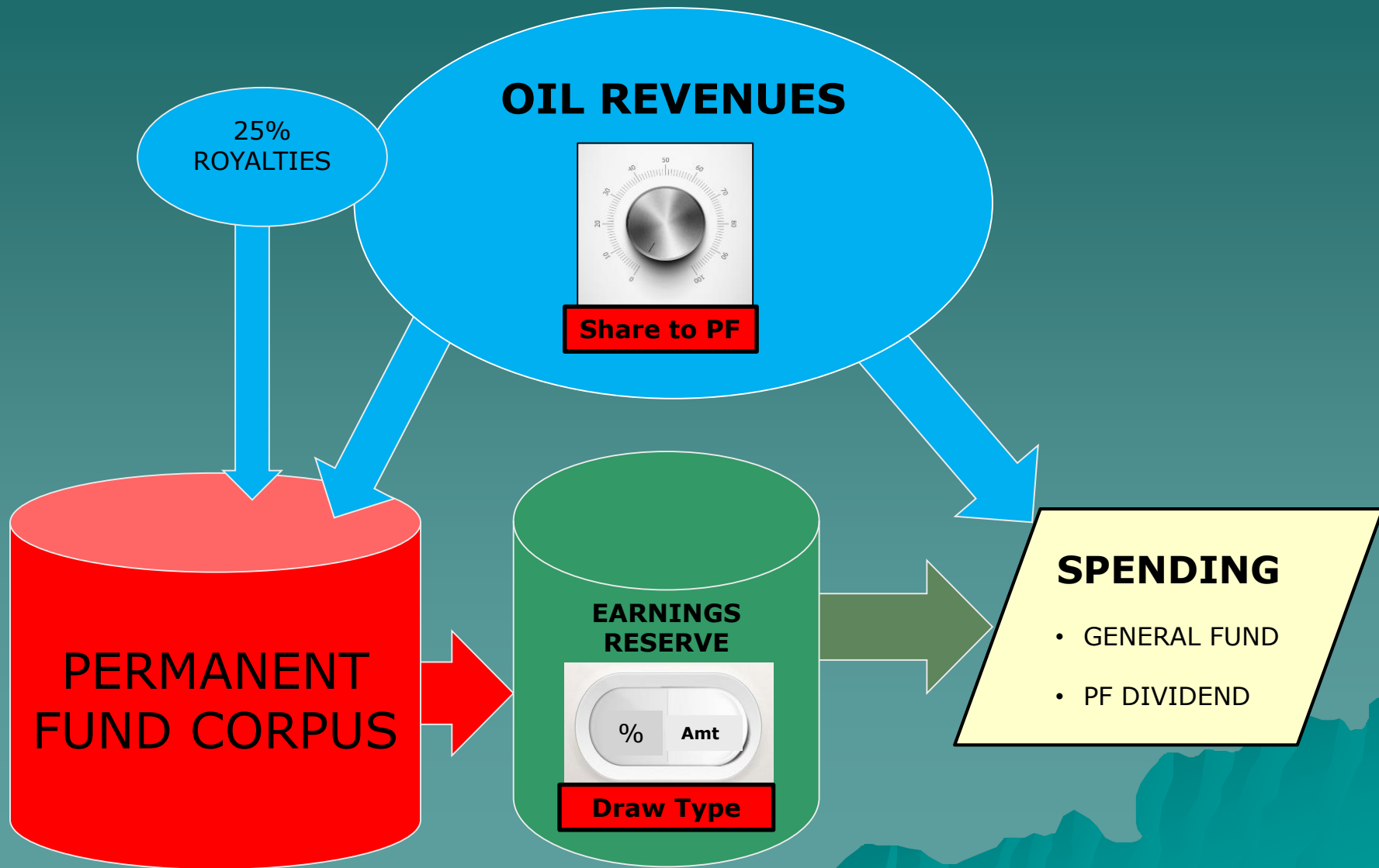
- ◆ IMMEDIATE PLUG--SB114
 - Draw 5% of PF value from PF Earnings Reserve for UGF
 - Pay PF Dividend from 50% of Royalties

TARGET

SUSTAINABILITY—“Goldsmith Plan”

- Dump all Petroleum Revenues into Permanent Fund
- Draw amount from PF Earnings and Earnings Reserve that can be Sustained and allow PF to continue to grow
- Divide draw between UGF and PF Dividend

All Proposals: 2 Policy Switches Control Spending from Endowment



All Proposals: Common Objectives

Reduce
Deficit
Today



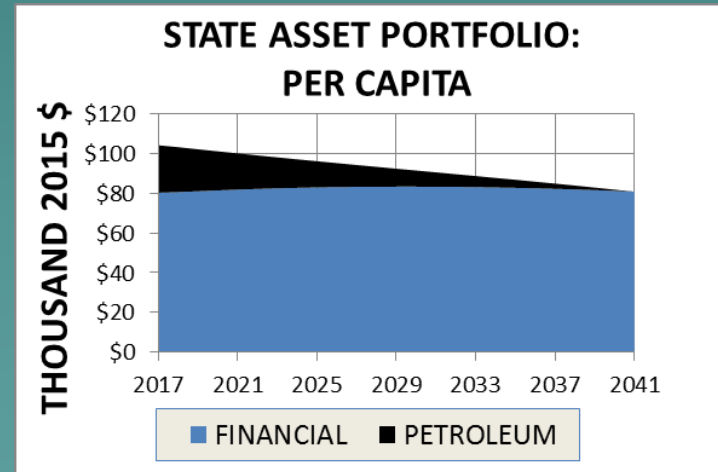
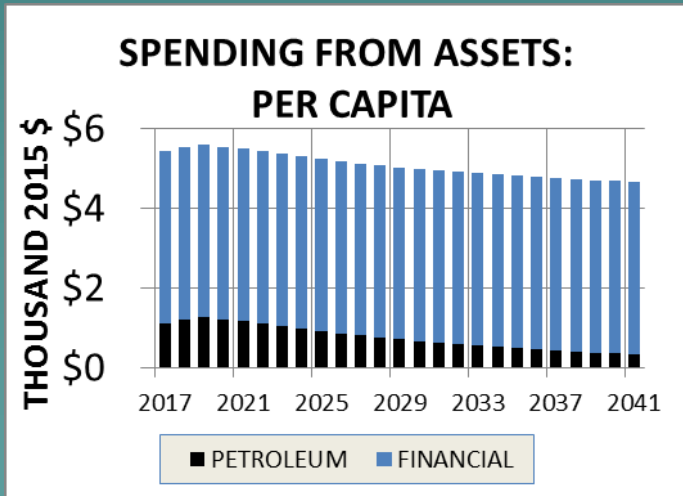
Sustain
Assets for
Tomorrow

Tradeoff SB128

TOTAL	\$4.25
PF	\$ 3.3
Pet Rev	\$.83

PF Draw (2017) -- a fixed amount that maintains future value of PF

Spend starts high, declines, and total asset value falls

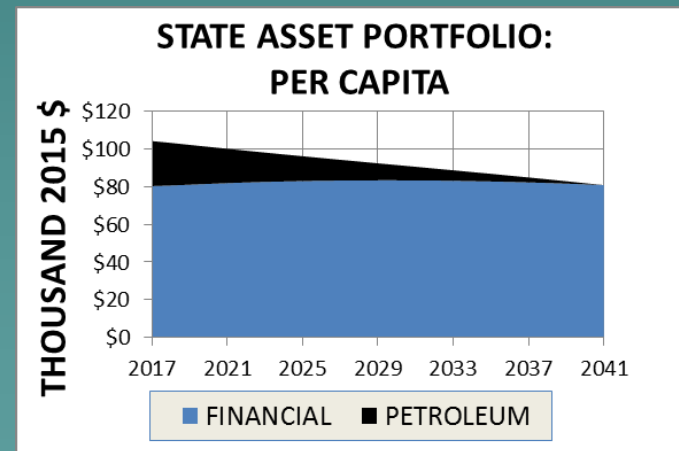
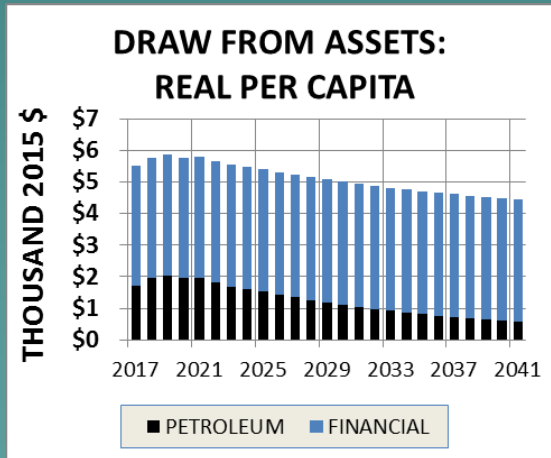


Tradeoff SB114

PF Draw (2017) -- a fixed percentage of PF value

TOTAL	\$4.07
PF	\$ 2.8
Pet Rev	\$ 1.27

Spend starts high, declines slowly, and total asset value falls slowly

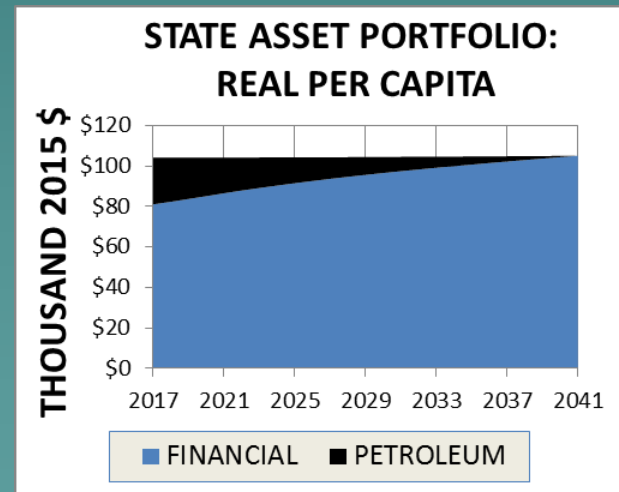
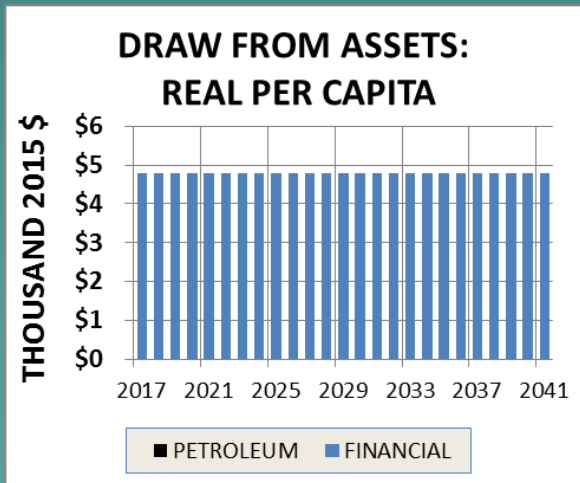


Tradeoff Sustainable Spending

PF Draw (2017) -- a fixed amount that maintains future value of PF + unproduced petroleum

TOTAL	\$3.55
PF	\$ 3.55
Pet Rev	\$ -

Spend starts lower, draw and asset value both stay constant



Which Draw Mechanism Produces the Best Sustainability Tradeoff?

- Do we care about the future?
- What do we think the future will look like as petroleum production continues to fall?

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

Dealing with Volatility & Risk: Future Petroleum Revenues?

		TOTAL	PFD	SS-UGF	Pet Rev
1	Early 2014	\$5.4	\$1.4	\$4.5	DOR price and production, + gasoline, new production
2	Early 2015	\$4.52	\$1.4	\$3.66	DOR price and production, + gasoline, new production
3	Early 2015 (3yr ma)	\$4.39	\$1.4	\$3.53	DOR price and production, + gasoline, new production
4	Early 2015	\$3.72	\$1.4	\$2.85	DOR price and production, + new production
5	Early 2015	\$3.55	\$1.4	\$2.68	DOR price and production

Approximating a Draw Mechanism: Total Spend from 3 Proposals

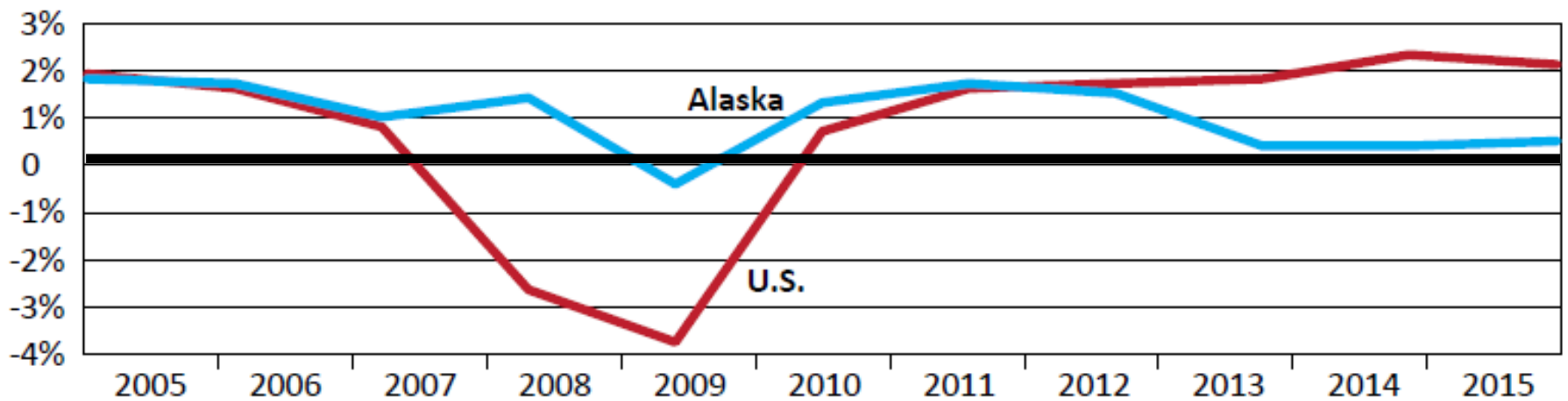
	2017 TOTAL SPEND	Tradeoff	Future Petroleum Revenues
SB128	\$4.25	Favor today	Conservative
SB114	\$4.07	Favor today	Conservative
SS	\$3.55	Balanced	Conservative
SS (3yr ma)	\$4.39	Balanced	More optimistic

Criteria for Choice for Draw Mechanism

- SUSTAINABLE
- IMPLEMENTABLE
- FAIR
- DISCIPLINED
- FLEXIBLE
- MINIMIZES UNINTENDED CONSEQUENCES

Fragile Economy

Job Growth in Alaska and the Nation⁴



Strategy Moving Forward ?

- ◆ THIS YEAR (at a minimum)
 - Budget Cuts
 - Structured Use of PF Earnings
 - Business and Use Taxes

- ◆ NEXT YEAR
 - 4 Sided Battle
 - ◆ More budget cuts
 - ◆ Income tax
 - ◆ Sales tax
 - ◆ Dividend reduction

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