

# The Cost of Delay

# Delay will . . .

- Risk the sustainability of any endowment plan
- Reduce the sustainable draw
- Risk a downgrade of Alaska's credit rating
- Damage the economy

# Risk to a Sustainable Plan

Status quo spending depletes savings in the CBR and the ERA

Balance of Savings Accounts (Median Case: 6.01% SNI)		
	CBR	ERA
FY16	\$ 7.0	\$ 6.3
FY17	\$ 3.9	\$ 6.8
FY18	\$ 0.7	\$ 7.3
FY19	--	\$ 5.8
FY20	--	\$ 3.4
FY21	--	\$ 0.9
<b>FY22</b>	<b>--</b>	<b>--</b>

- ERA depletion may occur sooner if near-term SNI is less than long-term median of 6.01%
  - 17% probability CBR depleted in FY18
  - 4% probability ERA depleted in FY20
  - 21% probability ERA depleted in FY21
- APFC 1-year SNI forecast is 4.88%

# Risk to a Sustainable Plan

- Delay compromises sustainability of the fiscal framework
- ERA needs \$3 billion from the CBR for a robust coverage ratio, but those funds won't be available if we maintain status quo
- Spending the corpus becomes the option of last resort

# Lower Sustainable Draw

- Every year of inaction, we spend around **\$2 billion** more than called for in the New Sustainable Alaska Plan
  - That money could be invested and produce income indefinitely
  - But, once it's spent, it's gone
- Overspending reduces the sustainable draw every year, ***forever***
- Reduction must be made up in future cuts or taxes

Reduced Sustainable Draw (millions\$)				
Excess Spending	Years of Delay			
	1	2	3	4
\$500	\$75	\$150	\$200	\$250
\$1,000	\$100	\$250	\$300	\$400
\$1,500	\$125	\$275	\$350	\$450
\$2,000	\$150	\$325	\$400	\$500

# Credit Downgrade

"[If] lawmakers do not enact significant fiscal reforms to reduce the state's fiscal imbalance during its 2016 legislative session, Alaska's downward rating transition will likely persist."

"As we see it, [the sovereign wealth model] constitutes the type of significant fiscal reform that will be necessary to avert a downgrade.... This approach has the benefit of shifting the effects of oil price volatility to the permanent fund, away from the general fund."



# Damage to Alaska's Economy

- Lower sustainable draw from financial assets requires
  - More taxes
  - Less government spending (services and jobs)
- Degraded confidence and less private sector investment
- Direct impacts on Alaskans
  - Job Market
  - Home Values



# Cost of a Downgrade

\$1.2 billion in bonding planned for next 2 years

## Additional interest cost at A2

- \$6 million per year
- \$120 million over term of bonds

When currently compressed credit spreads increase, cost of downgrade will increase