Alaska Permanent Fund Protection Act

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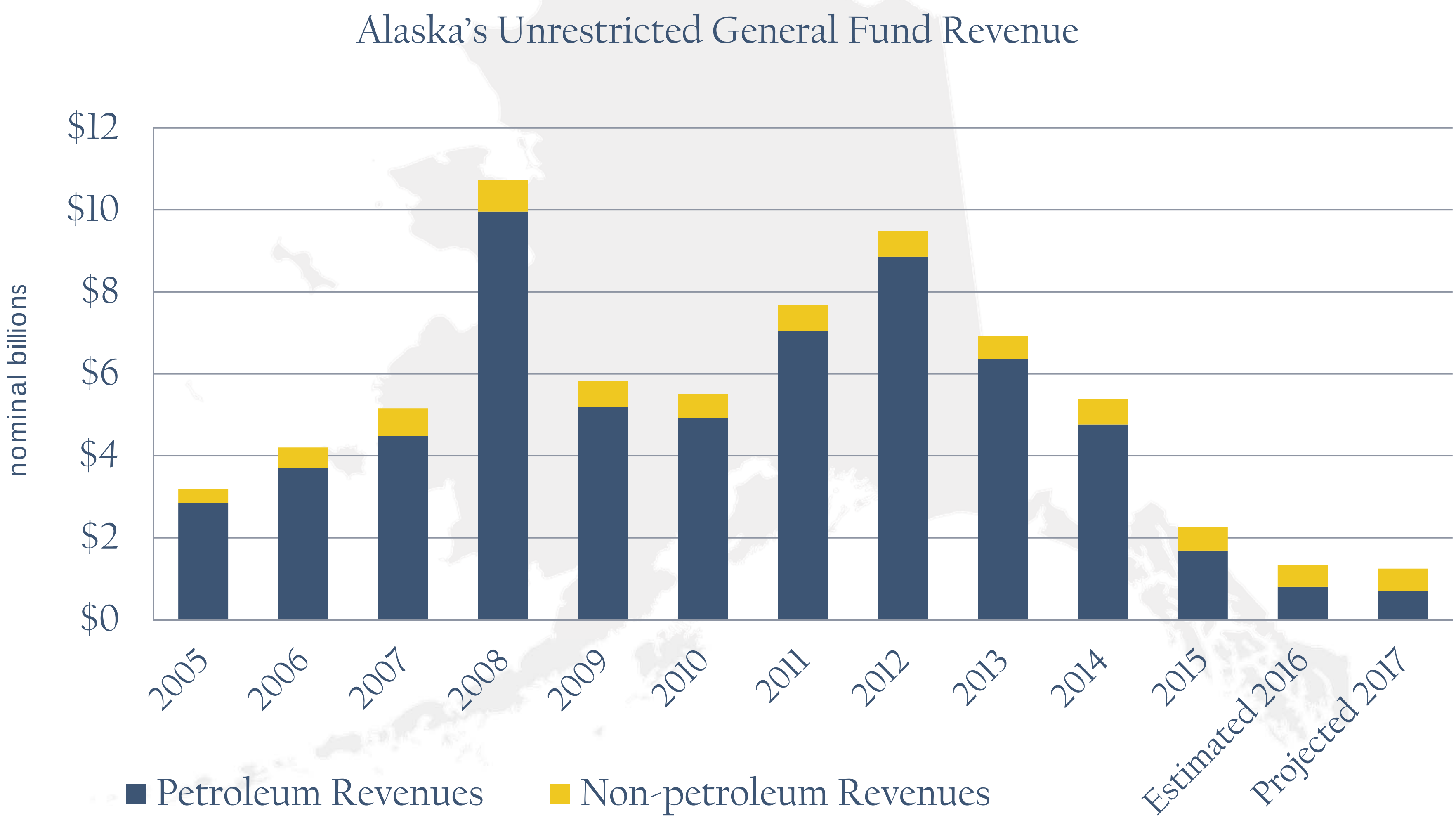
The Fiscal Challenge

Defining the Problem

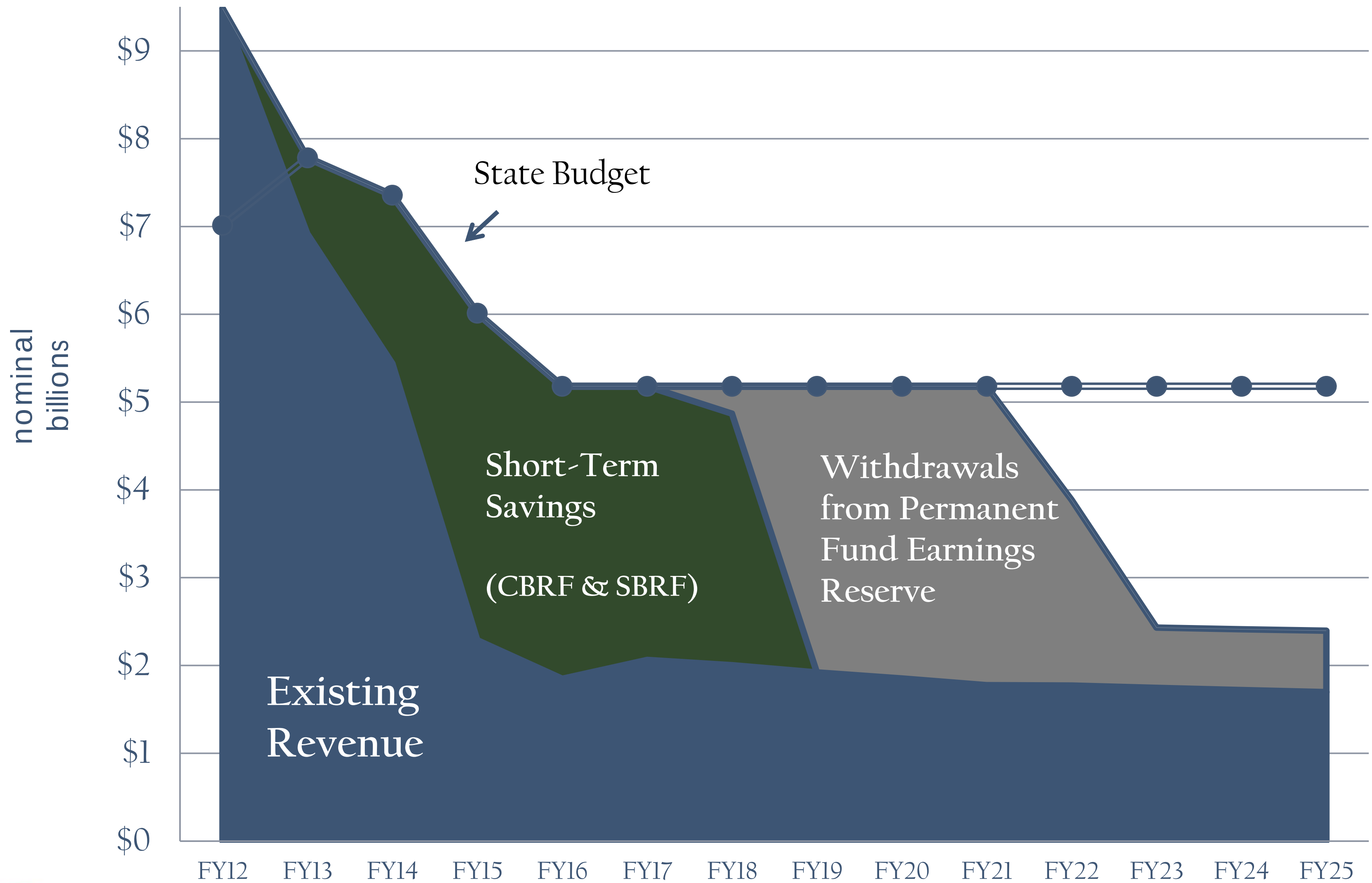
Defining the Problem

- Short-Term
  - Drop in oil prices resulted in massive budget gaps
- Medium-Term
  - State savings (CBR and ERA) will be spent within 4 years
  - Budget gap creates uncertainty, damaging the private sector economy
  - Current dividend payments are unsustainable
- Long-Term
  - State budget is highly dependent on petroleum revenue
  - North Slope production declining
  - Volatile oil price makes state budget unstable
  - Multi-billion dollar deficit going forward

SHORT-TERM PROBLEM

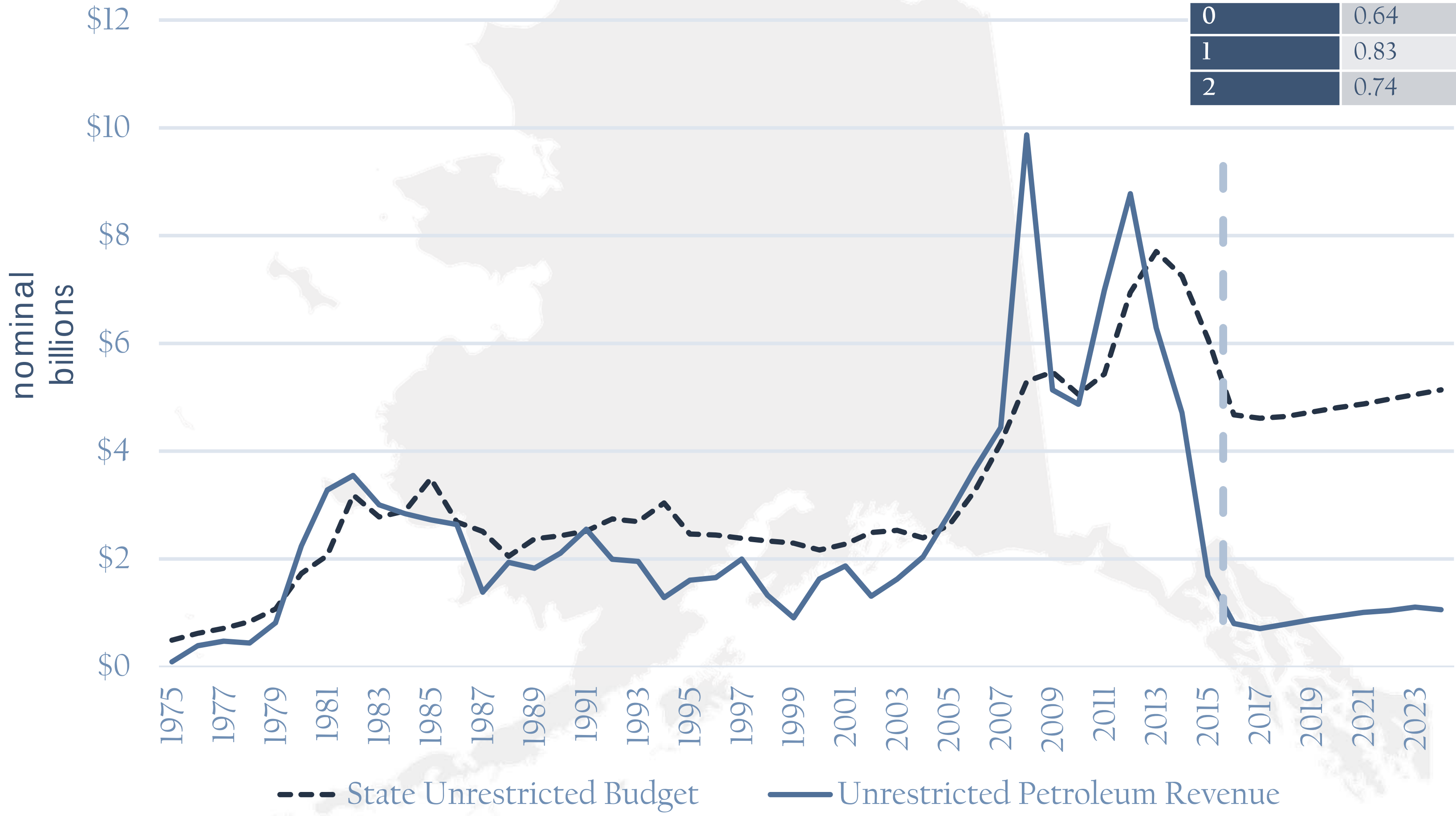


Medium-Term Problem



Long-Term Problem

Year Lag	R-Square Value
0	0.64
1	0.83
2	0.74



The New Sustainable Alaska Plan

Alaska Permanent Fund Protection Act..........$3.3 billion

Spending reductions..$500 million

New revenue components ....$450 million

Why use the Permanent Fund Earnings?

- Other pieces of the plan provide millions, the Fund can *sustainably* contribute billions

- There is no solution without
  1. Permanent Fund earnings and
  2. Adjusting the dividend

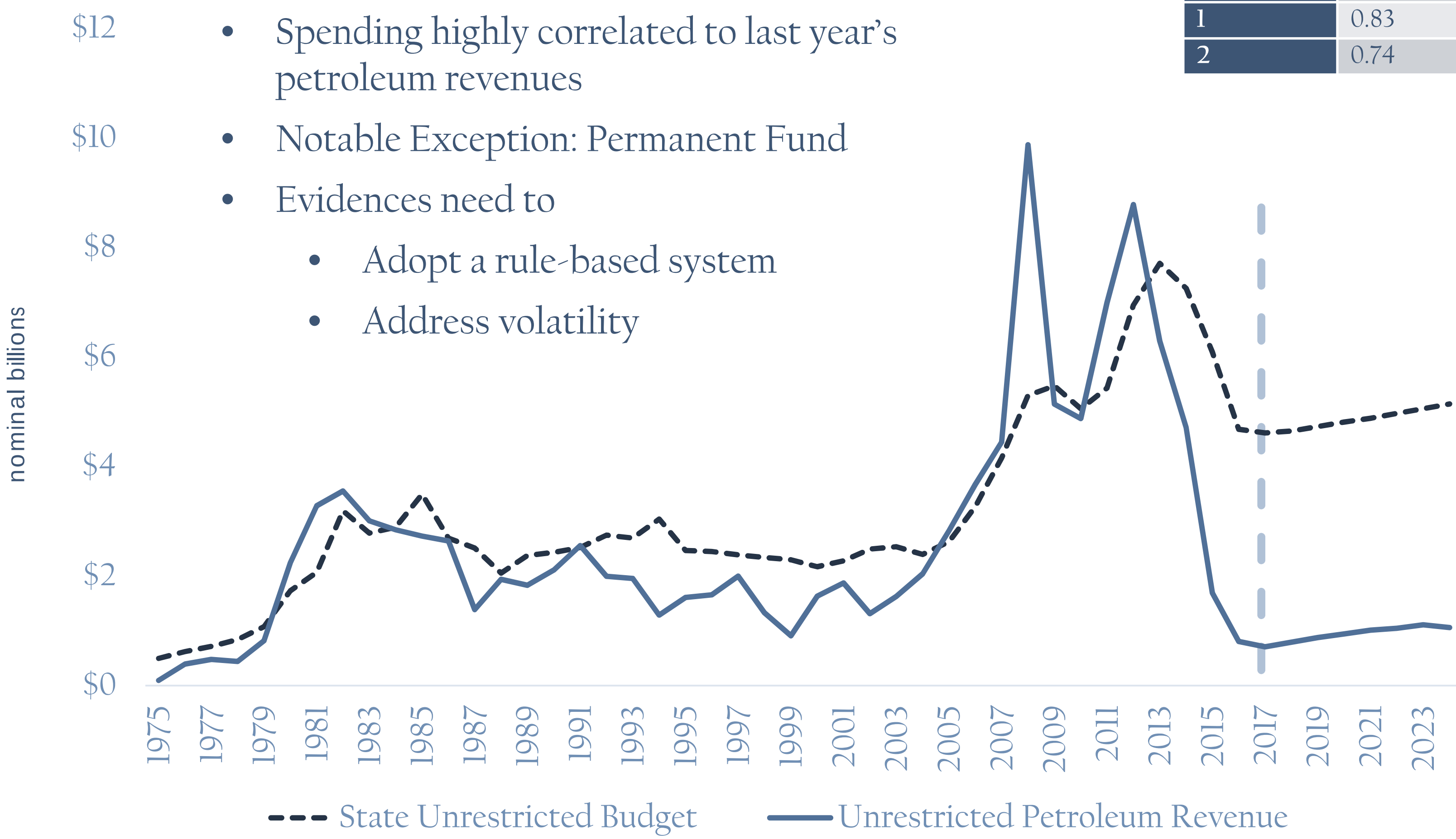
Fiscal Policy for Alaska

Alaska Permanent Fund Protection Act

Rule-Based Framework

Year Lag	R-Square Value
0	0.64
1	0.83
2	0.74

- Spending highly correlated to last year's petroleum revenues
- Notable Exception: Permanent Fund
- Evidences need to
  - Adopt a rule-based system
  - Address volatility



APFPA

Committee Substitute

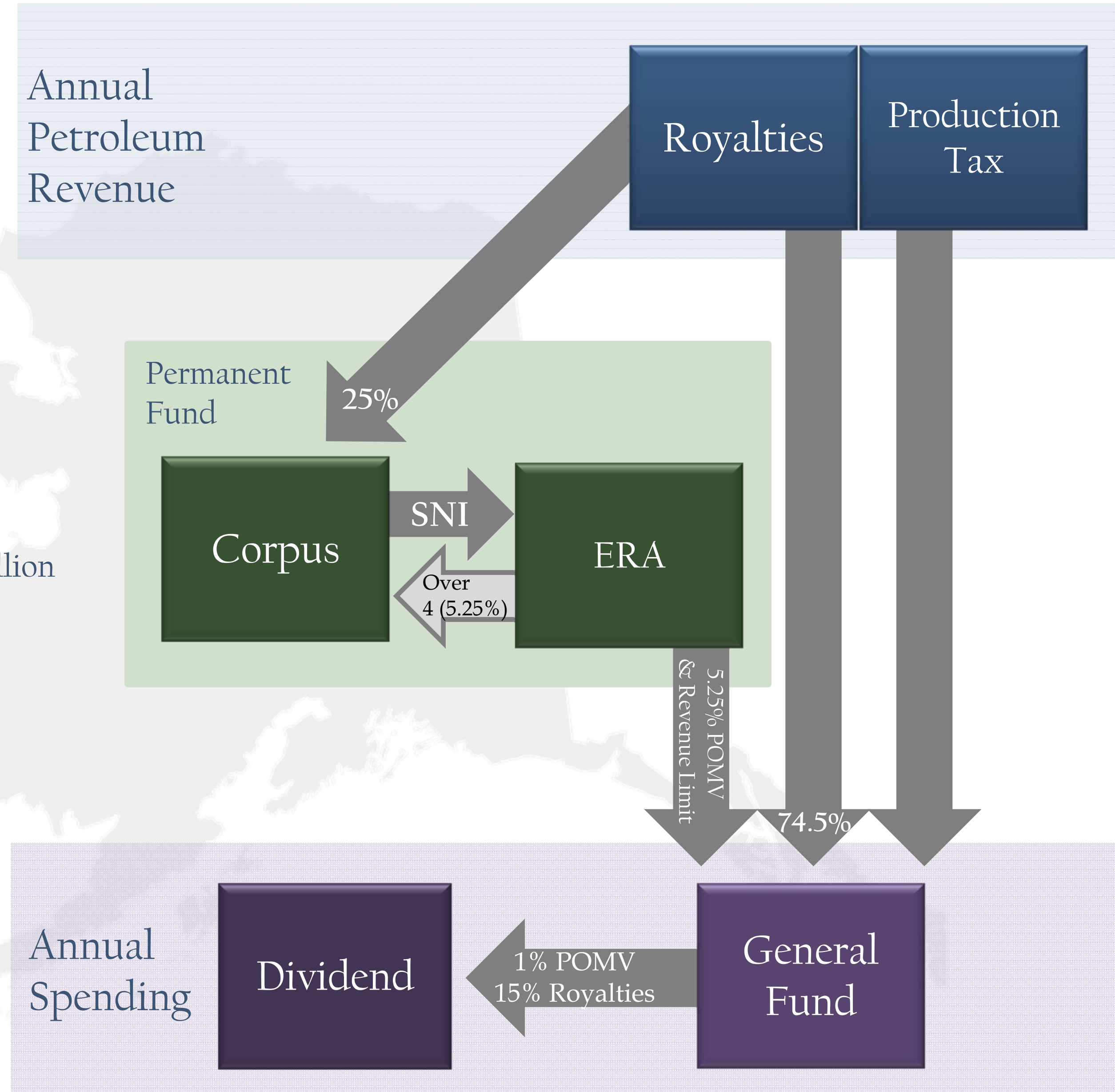
1. **5.25% POMV**

   draw to the General Fund

2. **Revenue Limit**

   reduces draw when royalties & production taxes exceed $1.2 billion

3. **Sustainable Dividend**
   - 20% of UGF royalties
   - 20% of ERA POMV draw



DEFINING "SUSTAINABLE"

- Maintain the real value of the Permanent Fund
- Provide for a dividend
- Earnings Reserve durability
- Grow the Corpus

DETERMINING THE ANNUAL DRAW

Section 9

- **5.25%** of the average value of the fund in the first 5 of the last 6 years
- Example: draw calculation for fiscal year 2017

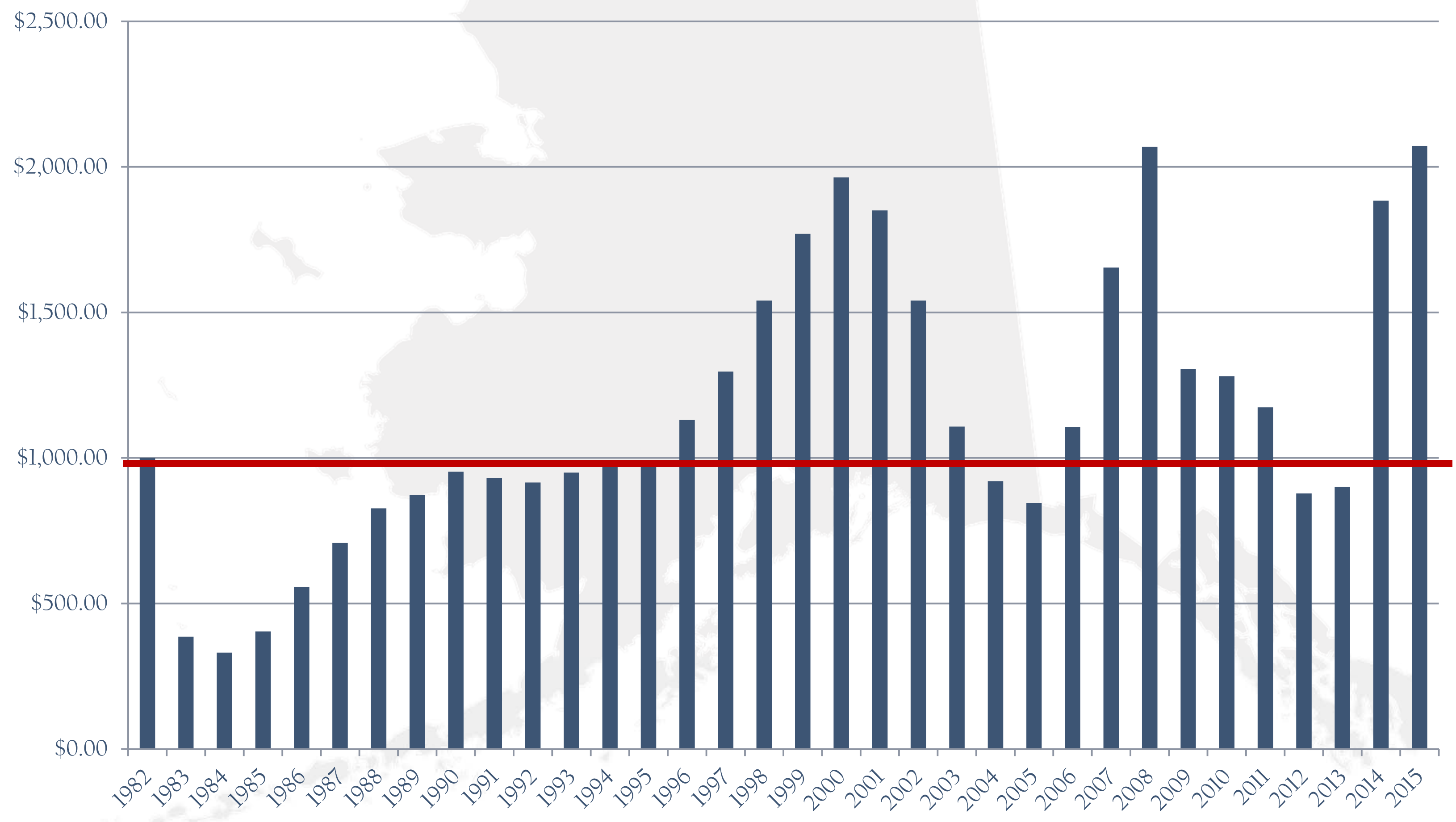
FY	Fund Value* (millions$)	First 5 of the Last 6 Years
2011	$40,140	Average = **$45,868**
2012	$40,333	
2013	$44,853	
2014	$51,214	
2015	$52,800	
2016	$52,081	
2017	---	

- Average fund value in the first 5 of the last 6 years = **$45,868**
- 5.25% of $45,868 = **$2,408**
- Effective POMV: $2,408 = **4.62%** of 2016 value

- Aggressive, but sustainable

Historic Dividend

50% of Statutory Net Income



NEW DIVIDEND FORMULA

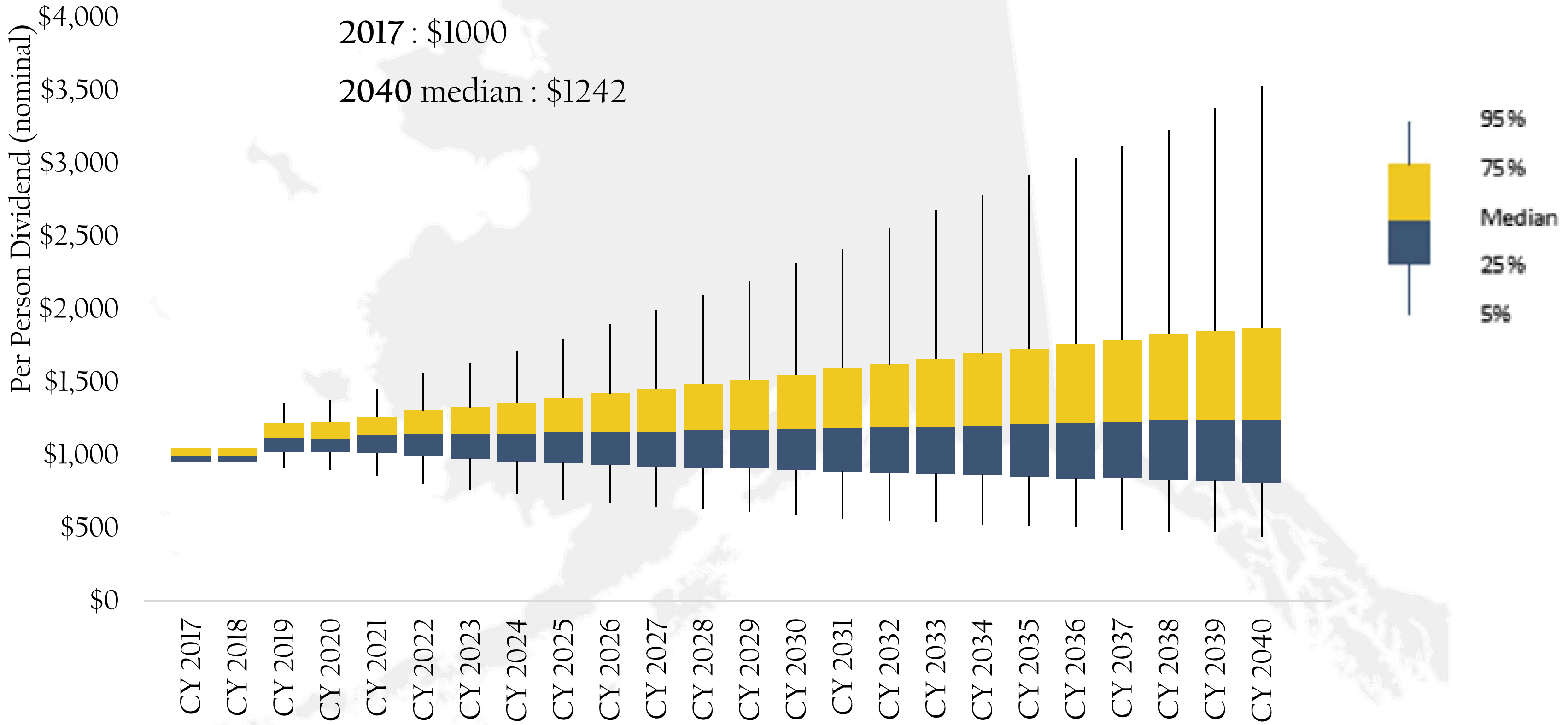
Section 11

- $1,000 per person for first 3 years

- Annual mineral royalties
  - 20% of UGF royalties (15% of all royalties)
  - Ties Alaskans to economic health of the state
  - Creates upside in dividend

- Value of the permanent fund
  - 20% of the 5.25% POMV draw (about 1% POMV)
  - Protects the permanent fund by
    - Encouraging actions to grow the fund and
    - Ensuring public attention to future proposals to change the fund

Dividend Forecast



INFLATION PROOFING TRANSFERS
Section 10

- AS 37.13.145(c) currently provides for annual inflation proofing transfers from the ERA to Corpus
- The ERA needs a sufficient balance to be able to meet draw each year
- CS provides that the ERA balance over 4 times the draw (after current year draw) is transferred to Corpus

POMV DRAW LIMIT

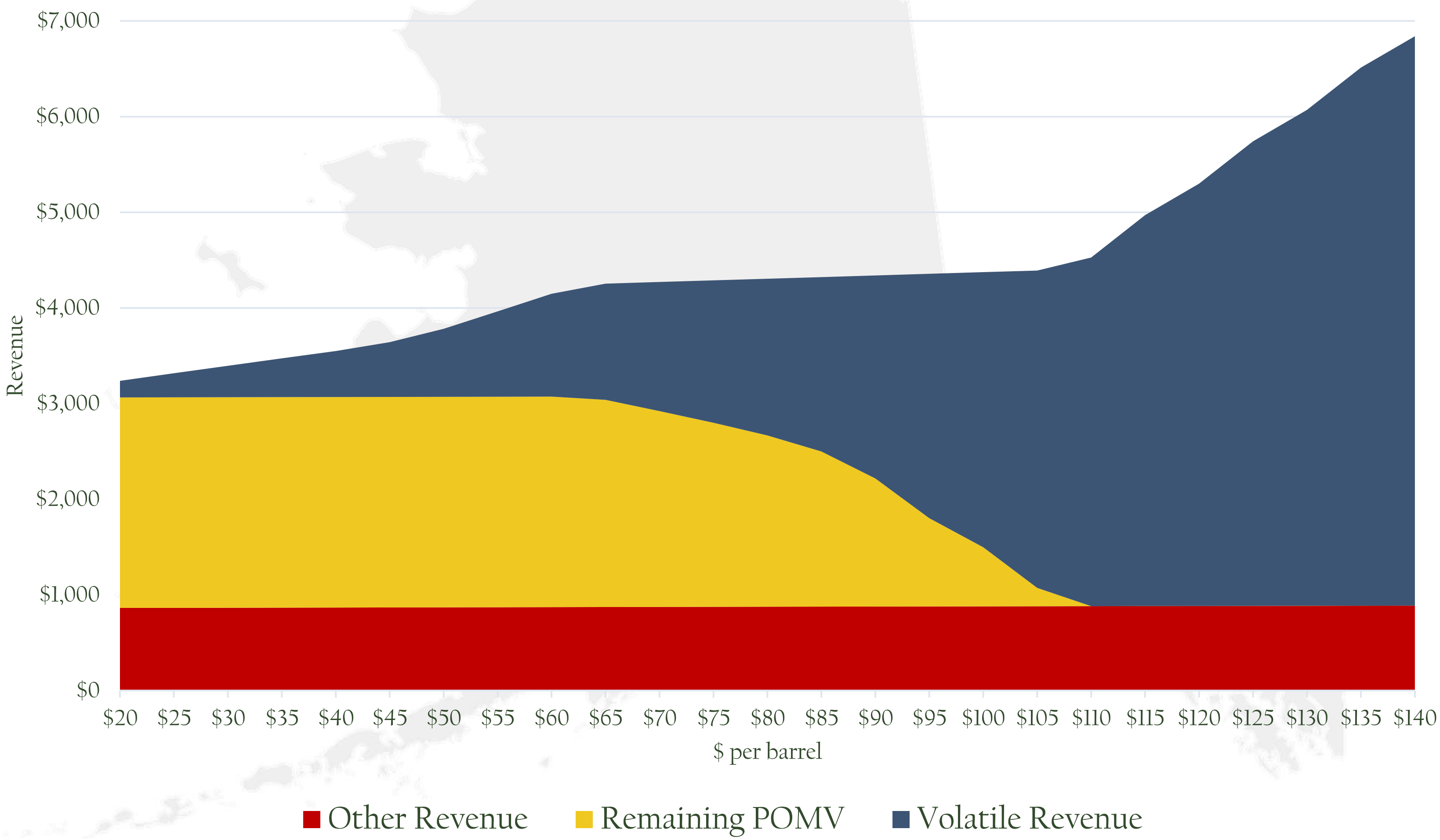
Section 9

- The POMV draw is reduced by a dollar for every dollar that UGF production taxes and royalties exceed $1.0 or $1.2 billion

- Does not apply to funds for the dividend

POMV Draw Limit

Section 9



POMV Draw Limit

Section 9

- Manages revenue volatility
- Avoids spending Fund earnings when oil price is high
- Allows for more growth in the Fund

The Fiscal Challenge

THE COST OF DELAY

Delay will . . .

- Reduce our savings
- Risk further downgrade of Alaska's credit rating
- Damage the economy

Reduce Savings

- Without action we will have a **$2 billion** deficit compared to the New Sustainable Alaska Plan

- These deficits reduce the revenue available from savings every year ***forever***

- Reduction must be made up in future cuts or taxes

Cost of a Downgrade

"The state sold $135 million of general obligation bonds yesterday [03/09/16], its first sale in almost a year. Tax-exempt securities maturing in August of 2035 sold at a top yield of 2.9 percent, about 0.35 percentage point higher than the benchmark securities due in 20 years. That gap is four times wider than what the state paid when it last sold debt in March of 2015."

Bloomberg News

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

Where we are Now

FY17 Operating and Capital budget	$4.4 billion
FY17 Oil and Gas Tax Credit Liability	$0.7 billion
Total FY17 UGF Expenditures	**$5.1 billion**
FY17 Non Petroleum Revenues (UGF)	$0.5 billion
FY17 Petroleum Revenues (UGF)	$0.7 billion
Total FY17 UGF Revenues	**$1.2 billion**
FY17 Funding Deficit	**$3.9 billion**

Where we are Now

Projected CBR at year end FY16	$6.5 billion
Deficit FY17 as of now	$3.9 billion
Projected CBR at year end FY17	$2.6 billion

The New Sustainable Alaska Plan

- Lowest taxes in the nation
- Receive a dividend
- Grow our savings
- Continue to provide essential services
- Invest in future