NEW SUSTAINABLE
ALASKA
PLAN
Pulling Together to Build Our Future

THE NEW SUSTAINABLE ALASKA PLAN
Frequently Asked Questions

Why is this plan necessary?

Global oil prices have dropped significantly over the past two years and are not expected to rebound for the foreseeable future. Alaskan oil production began to decline in 1989 and continues to decline. This has resulted in a huge state budget deficit, currently being funded with savings. Even with significant budget cuts, all state savings are projected to be depleted in just a few years. When this happens, most state services will cease, the Alaskan dividend program will end, the state's economy will likely crash, and the principal of the Permanent Fund itself will be threatened.

How does this plan work?

The heart of the New Sustainable Alaska Plan involves using the existing Permanent Fund in a new way. The concept is similar to what is sometimes referred to throughout the world as a sovereign wealth model. The sovereign wealth approach, in simplest terms, uses very large financial assets in a formulaic, sustainable way to provide a stable source of revenue. This concept is successfully being used around the world.

This approach requires "re-plumbing" the flow of funding in the state's fiscal structure by diverting volatile resource revenue (oil money) away from the state's annual budget and putting it directly into the Permanent Fund. By moving this revenue into our sovereign wealth account (Permanent Fund), excess money received from future spikes in global commodity markets will stay in our savings, rather than funding bloated and unsustainable budgets. A stable and consistent withdrawal from our sovereign wealth earnings is then made to fund the state budget, based on carefully calculated formulas and reasonable assumptions. This allows the Permanent Fund to grow over time, while absorbing the volatility of oil market price swings. The result is that Alaska is put on a stable spending allowance indefinitely; and for the first time we can employ long-term strategic budget planning.

What's the difference between this approach and a POMV (Percent of Market Value) model?

A POMV endowment model (all else being equal), simply provides another source of revenue from the Permanent Fund to the state's already volatile revenue sources, based on a percentage of the Fund's value that year. Such an approach helps when other revenues are low, but can unnecessarily inflate state spending when other revenues are high. The New Sustainable Alaska Plan adds new money (oil revenue) to the Permanent Fund and then calculates a sustainable, long-term fixed draw to pay for ongoing public services in a predictable and consistent manner.

Why have we changed the Alaskan dividend program and reduced the payout?

By using the Permanent Fund like a sovereign wealth fund, the strength of the earnings from the state's considerable savings is being harnessed to fill most of the current budget deficit. However, the state's financial wealth is not large enough to cover the majority of this deficit and still continue to fund the dividend program. So the dividend program must shift to another funding source.

Since the dividend payout is supposed to be Alaskans' share of the state's resource wealth, it will now be funded by the revenue received each year from one-half of all resource royalties paid to the state. This will tie all Alaskans directly to the resource development occurring in the state. If the state fails to develop its resources, dividends will likely go down; but if resource development increases (like building a gasline), dividends will go up. Based on current forecasts of royalty payments to the state, this approach should sustain a dividend in the $1000 range for the near future.

Does the New Sustainable Alaska Plan require a constitutional amendment?

No. The principal of the Permanent Fund is never touched. Earnings will continue to flow, just as they have historically done, to the Earnings Reserve. The general fund is then funded from an amount calculated to be a sustainable draw from the Earnings Reserve.

How does the New Sustainable Alaska Plan protect the Permanent Fund against inflation?

All future resource revenues (except those needed to fund the annual dividend program) would now be directly deposited into the Permanent Fund. The upside market volatility of this revenue, plus new revenue (from any new development, like a gasline) would be captured by the Permanent Fund and is expected to not only exceed the rate of inflation, but provide real growth. In other words, that which would otherwise have gone to fund spending sprees during the good years is now diverted into savings to ensure the long term health of the Fund.

Why are we reforming oil and gas tax credits?

The cost of the current oil and gas tax credit program has grown far beyond its original intent and has simply become unsustainable given the current budget environment. However, nurturing the continued development of our oil and gas industry is still very important. So as a substitute for tax credits, the state will establish a low interest revolving loan program; with interest rates tied to percentage of Alaskan hire.

Why are we proposing an income tax?

Deep budget cuts, along with new sustainable revenue from our sovereign wealth, can cover most of the state's huge budget deficit. However, to completely close the gap, some additional new revenue will also be needed. A lot of consideration went into determining how to balance the effects of this additional revenue. An income tax was chosen for several reasons. First, its progressive nature was seen as a way to help offset any regressive effects a potential reduced dividend payout might bring. An income tax enables us to capture revenue from out of state workers, without directly competing with many of our local governments for tax revenue (as a sales tax would). It can also address a weakness in our current system by establishing a revenue link between population/job growth and the resulting demand for state services.

Why are we increasing taxes on so many industries?

The goal was to spread any new revenue burden as widely as possible. This reduces the economic impact on any one industry, and promotes fairness among all who benefit from state services and investments. Corporate Alaska is stepping up to be part of the solution, the same as everyday citizens.

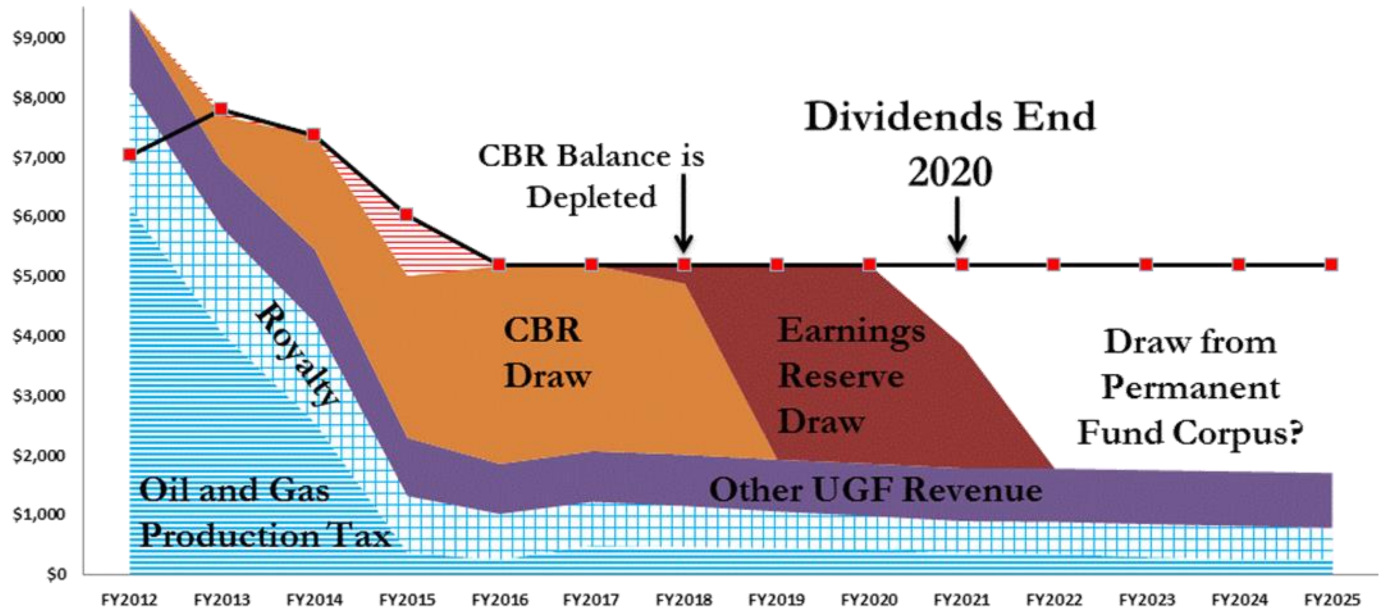
Why are we using GO bonds for a capital program?

The sheer size of the current budget deficit has made any capital budget problematic. For the short-term, until we can stabilize our budget, market conditions support the use of limited General Obligation Bonds to fund our minimum capital requirements. This means we would bond for only what we would otherwise have to pay for with cash. Currently we are earning more on our investments than it costs to borrow. So it is in the state's financial best interest to keep our money working for us, and borrow for what is truly needed. Over time, as other revenue sources are established, or if new resource development occurs, a more traditional general fund capital budget can be re-introduced.

Isn't this really just a raid on the Permanent Fund?

Not at all; the Permanent Fund will still be constitutionally protected, and in fact will benefit from additional deposits. On the contrary, unless something like this is done immediately to help protect the Fund; money currently used to pay the dividend program will be exhausted in just a few years. So it is actually the status quo that is the **real** threat to the Permanent Fund (and to dividends). The New Sustainable Alaska Plan is what will make the Permanent Fund permanent.

Status Quo Fiscal Future



If we keep the dividend program as it currently is and do nothing else (except to control spending), the Constitutional Budget Reserve will only be able to continue filling the fiscal gap until 2018. After that we will be forced to start drawing down the Earnings Reserve. The Earnings Reserve may be able to plug the gap for a few more years, and then the budget crashes and dividend payments stop. At that point the principal of the Permanent Fund is all that's left.