

# Unlocking our Petroleum Wealth Potential: A Game Plan for Meeting Alaska's Fiscal Challenge

State of Alaska

House Special Committee on Economic Development,  
Tourism, and Arctic Policy

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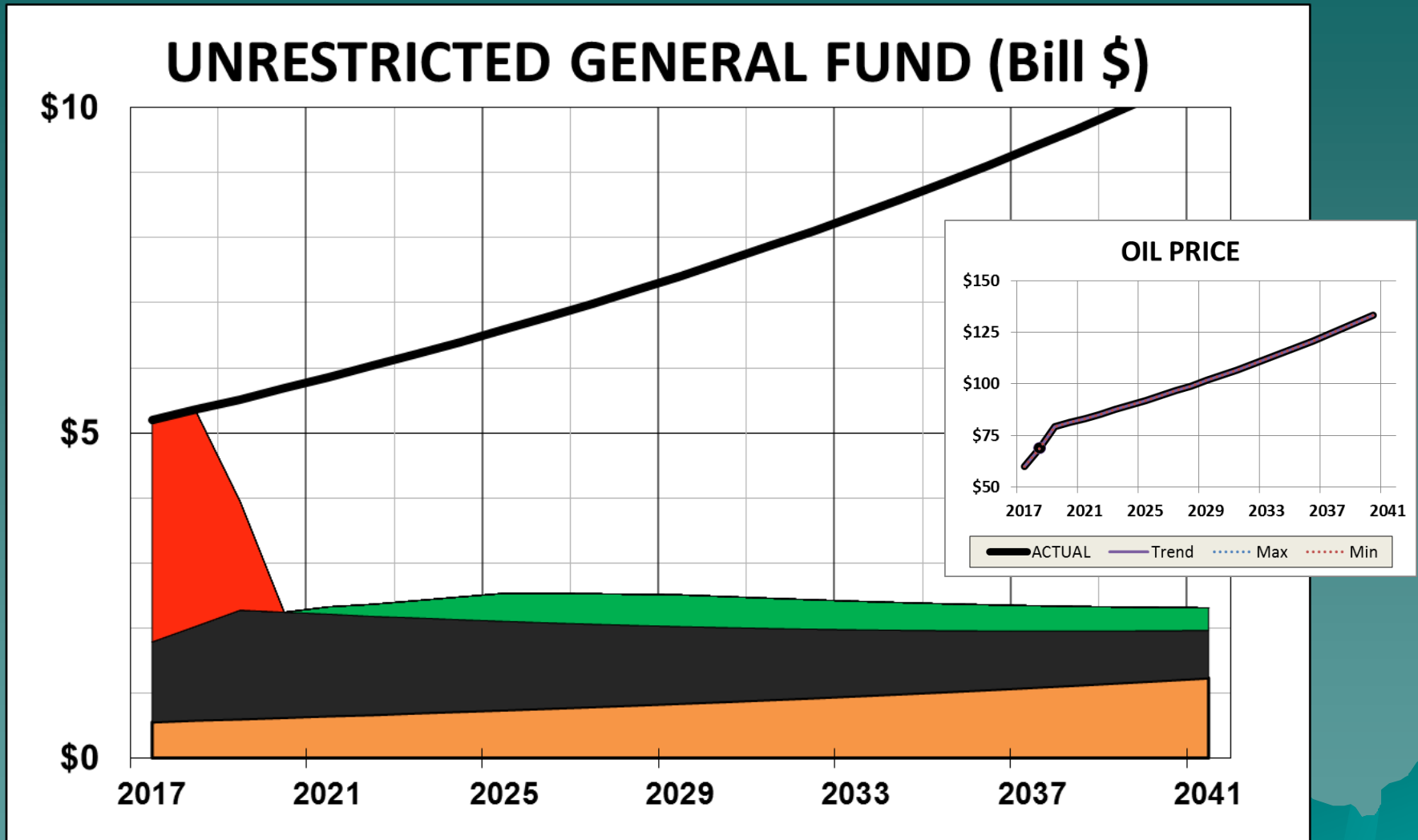
A stylized, dark teal mountain range graphic is located in the bottom right corner of the slide, partially overlapping the text of the presenter's affiliation.

# Take Away

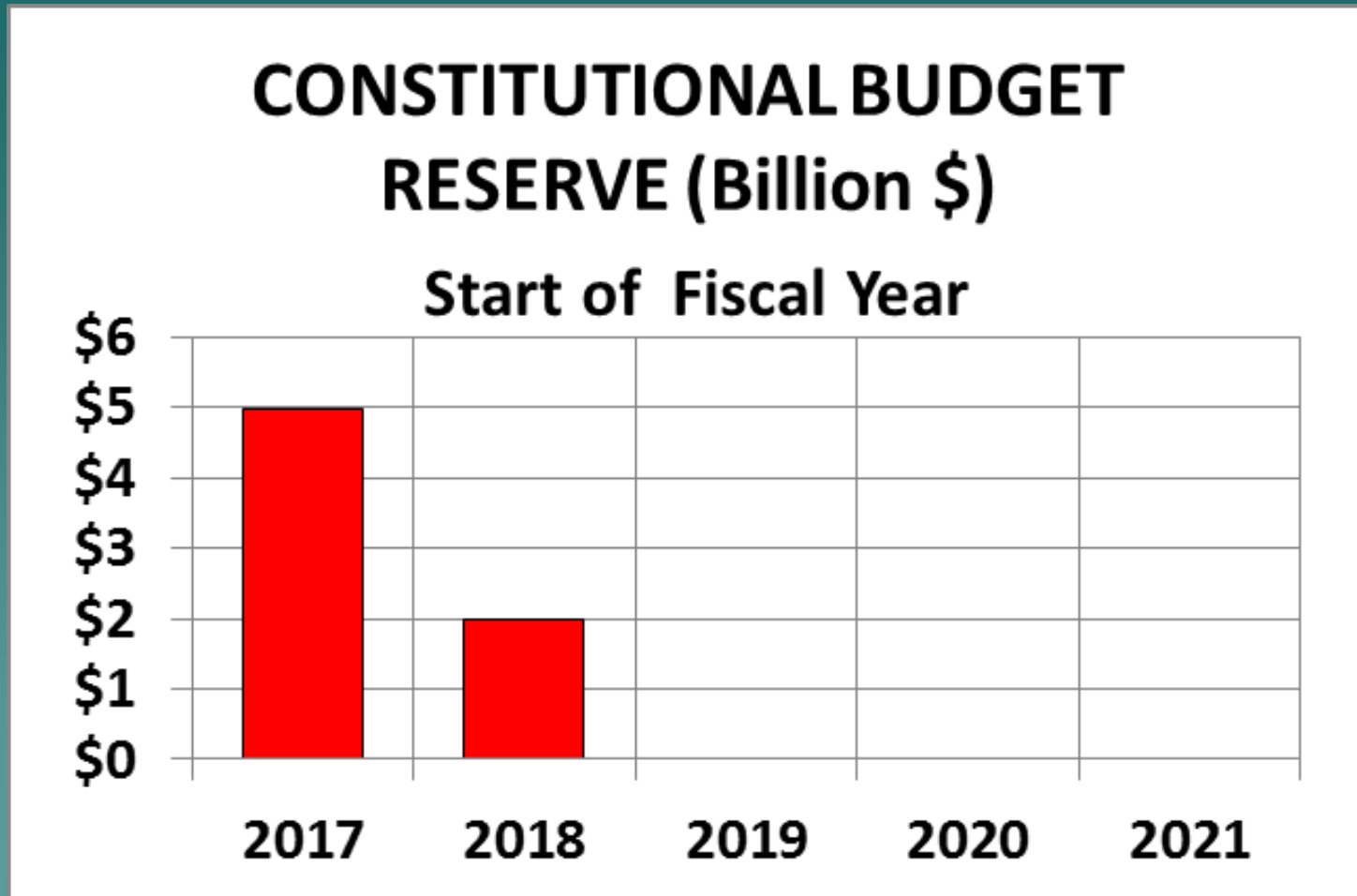
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- There is no solution to our Fiscal Challenge without use of the earnings of the Permanent Fund
- We can use the earnings without compromising either the Permanent Fund or the Permanent Fund dividend
- Use of the earnings is challenging since no other state, and probably no other nation, has had a fiscal structure relying primarily on the earnings of its accumulated wealth
- We have several proposals for implementing the use of earnings to help us start thinking about the best solution
- Crafting a successful solution (game plan) will require everyone working together

# Fiscal Challenge: Cautious View




# Time is Running Out




# Fiscal Gap : Zombie Solutions

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- Natural Resource Development
  - Value Added Processing
  - Economic Diversification
  - Infrastructure Investments in  
Power and Transportation
  - Footloose Industry
  - Renewable Energy
- 
- A stylized, dark teal silhouette of a mountain range is positioned in the bottom right corner of the slide, partially overlapping the list items.

# Fiscal Gap : Nickel and Dime Solutions

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- ✓ Lottery
  - ✓ Marijuana Tax
  - ✓ Increase the....
    - ✓ Gas Tax
    - ✓ Fish Tax
    - ✓ Mining Tax
    - ✓ Tourism Tax
    - ✓ Alcohol Tax
    - ✓ Tobacco Tax
    - ✓ School Tax
  - ✓ Health Care Provider Tax
- 

# Fiscal Gap : Silver ~~Bullet~~ Blank Solutions

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- ◆ Squeeze Petroleum
  - Increase Production Tax Minimum
  - Eliminate GVR (lower tax rate on new oil)
  - Increase Production Tax Rate / Progressivity
  - Gas Reserves Tax
- ◆ Optimize Financial Asset Portfolio
  - Pension Obligation Bonds
  - Adjust Debt to Equity Ratio
  - Leverage Assets

# Fiscal Gap : 3 REAL Tools

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

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

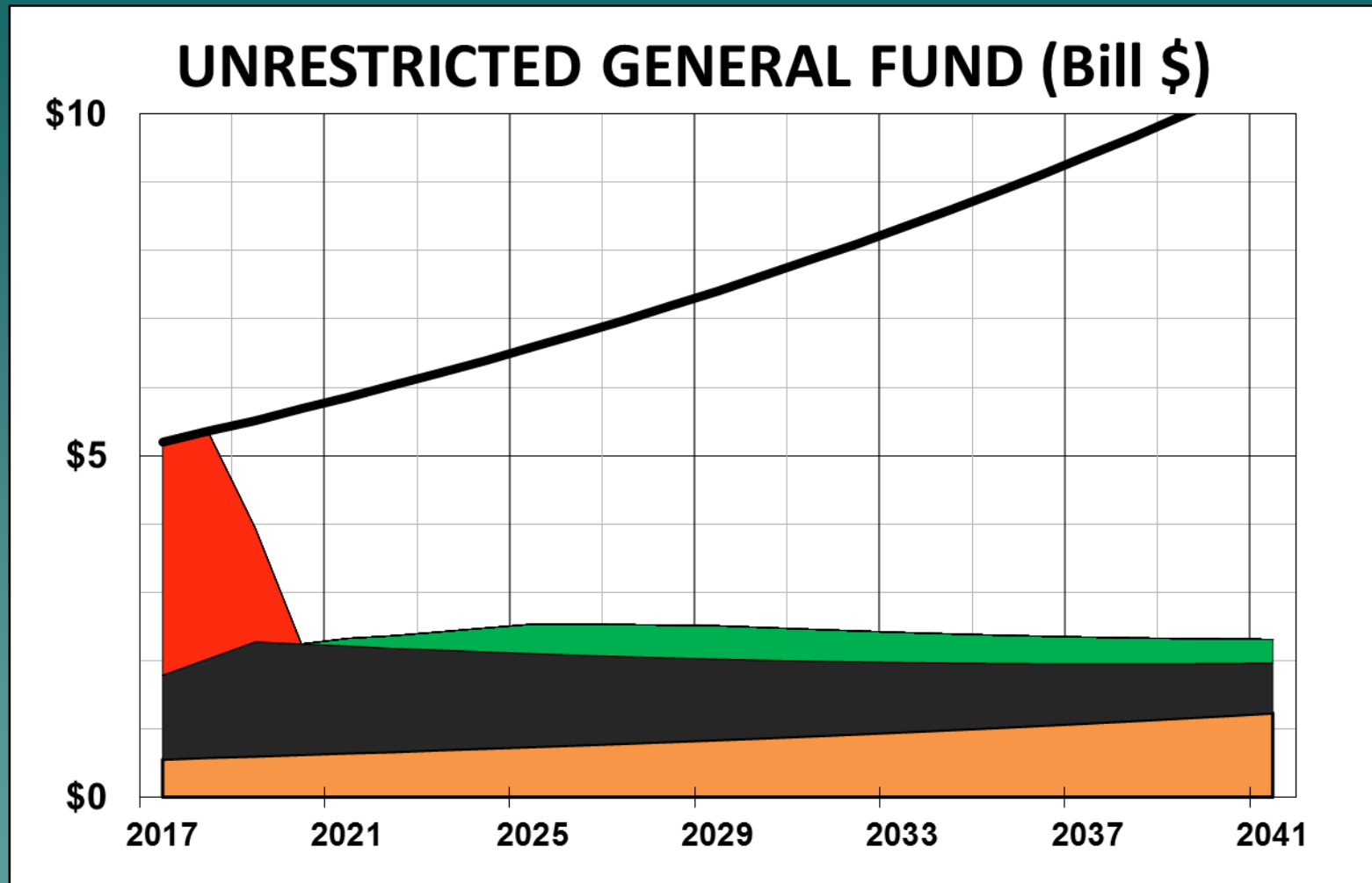
A stylized, layered mountain range graphic in shades of teal and blue, located in the bottom right corner of the slide.



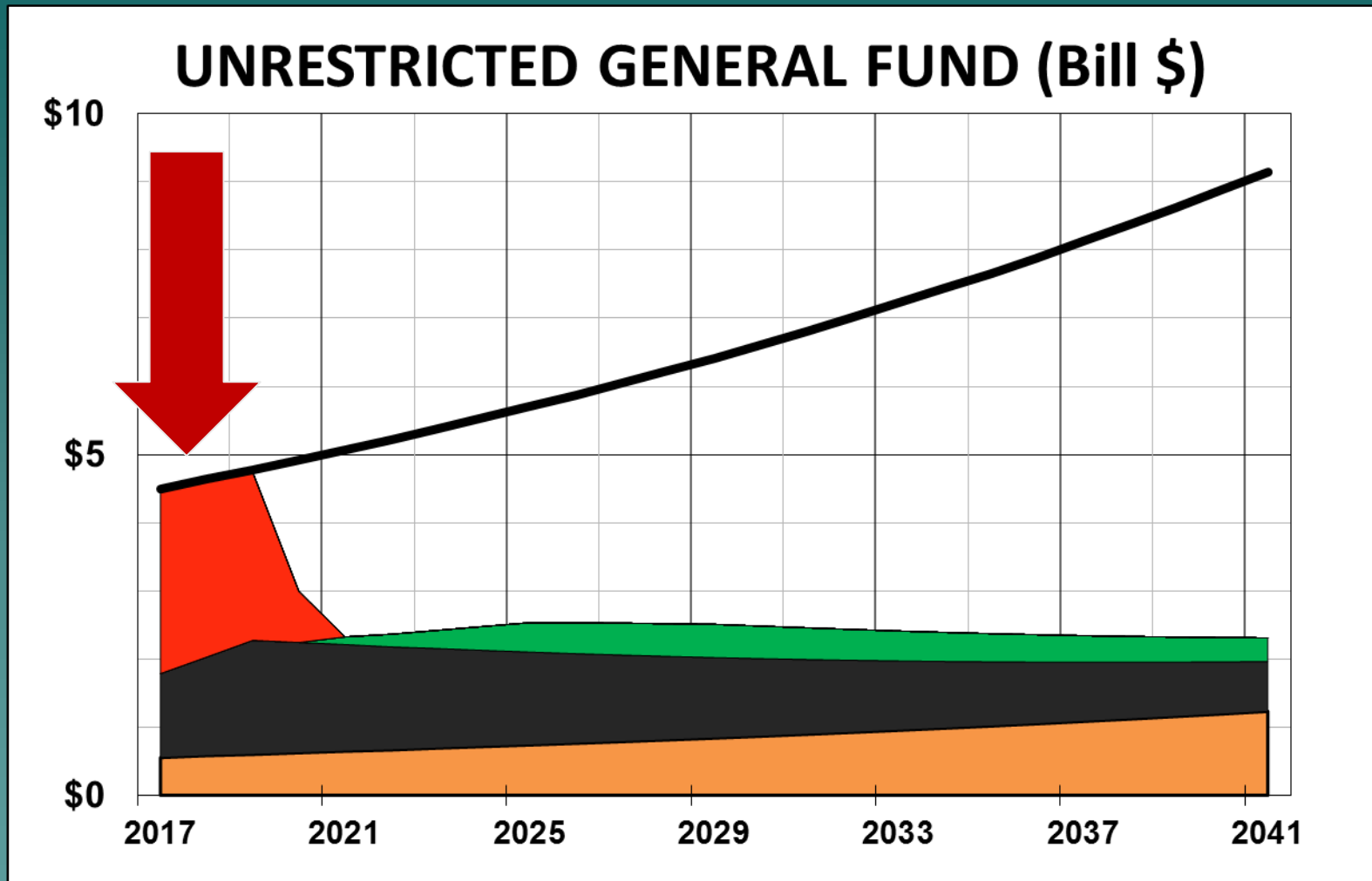
# Why Not Do Nothing?



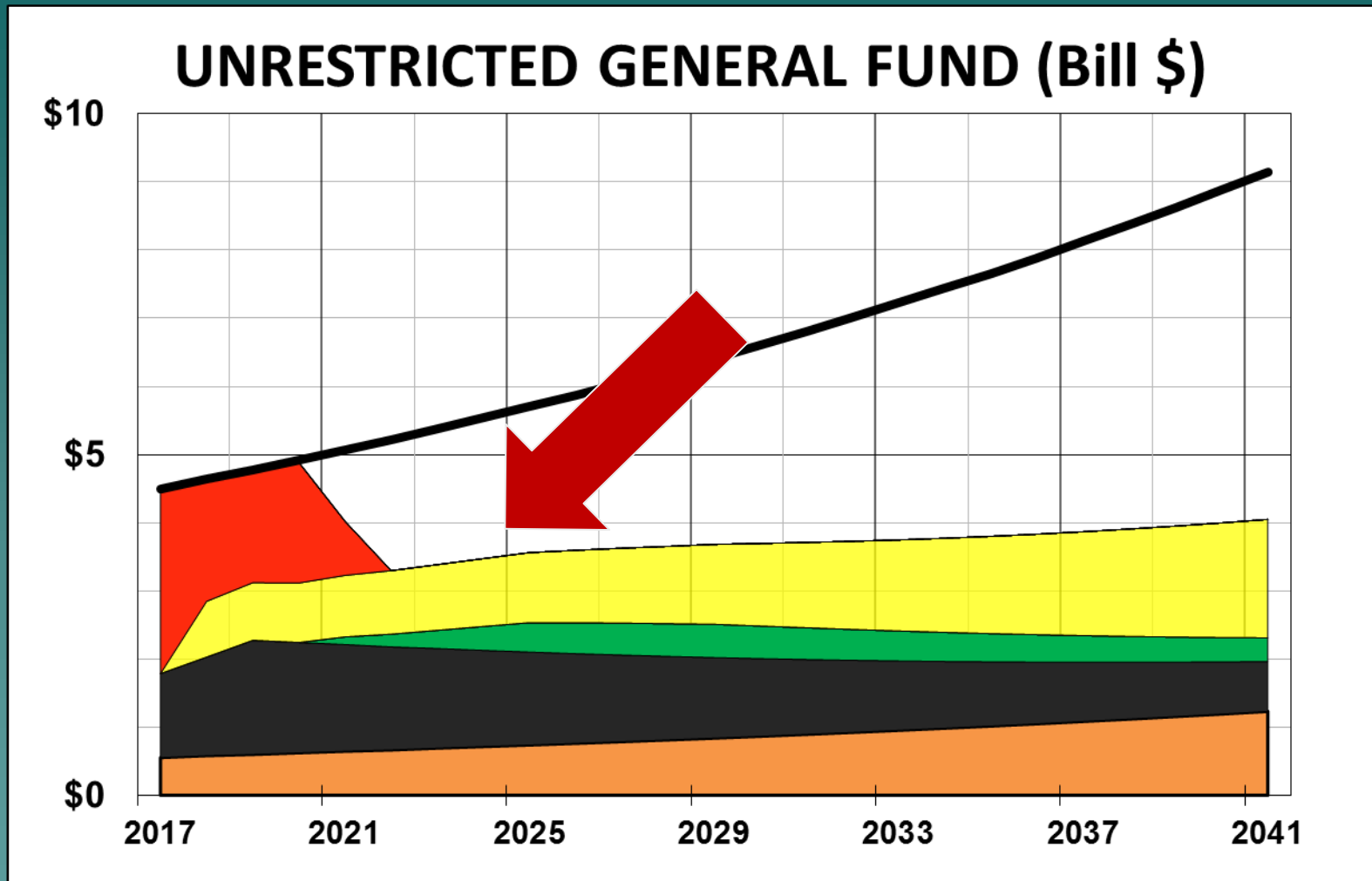
# Fiscal Challenge: Fill the Gap



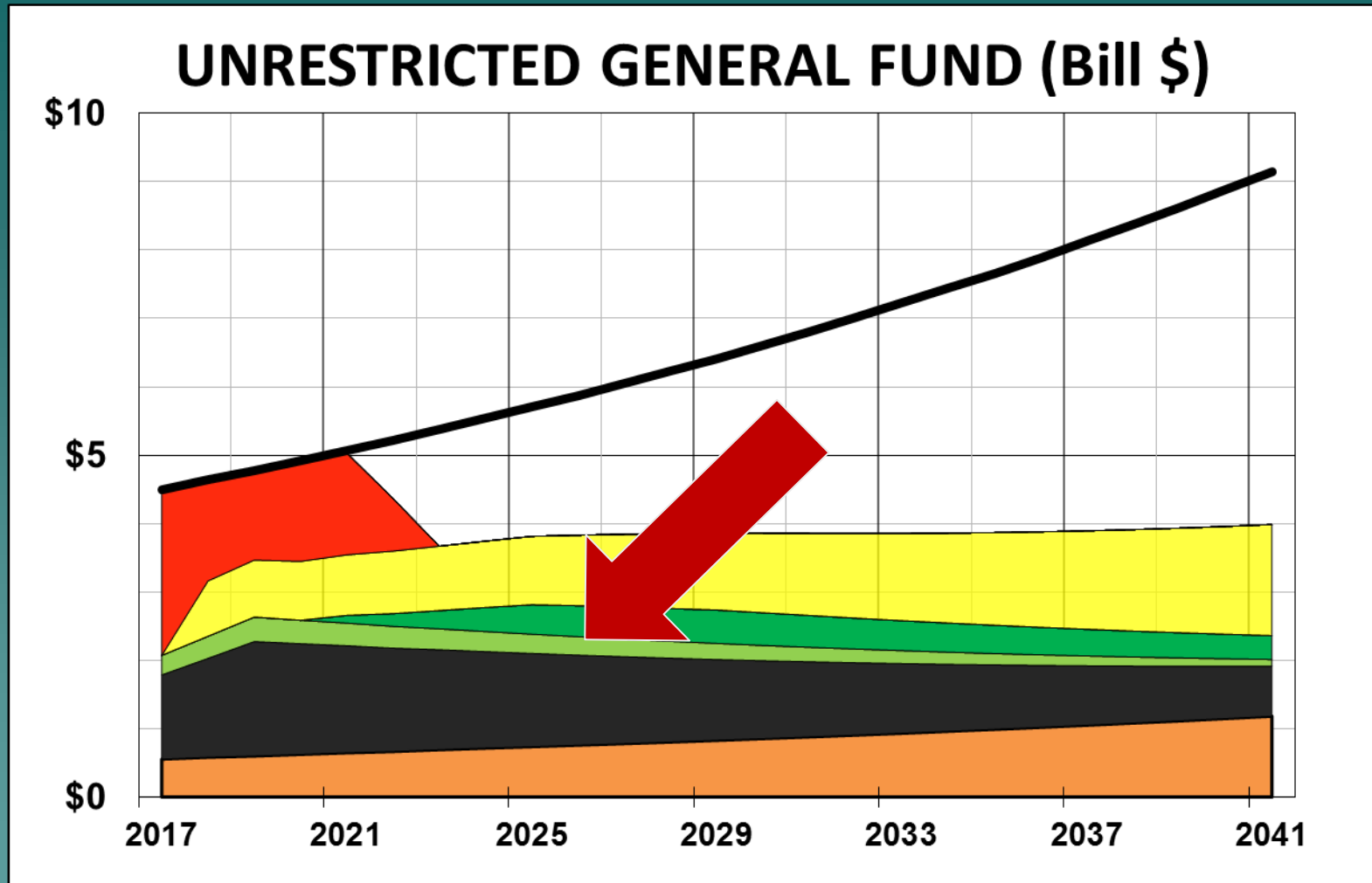
# Cut the Budget



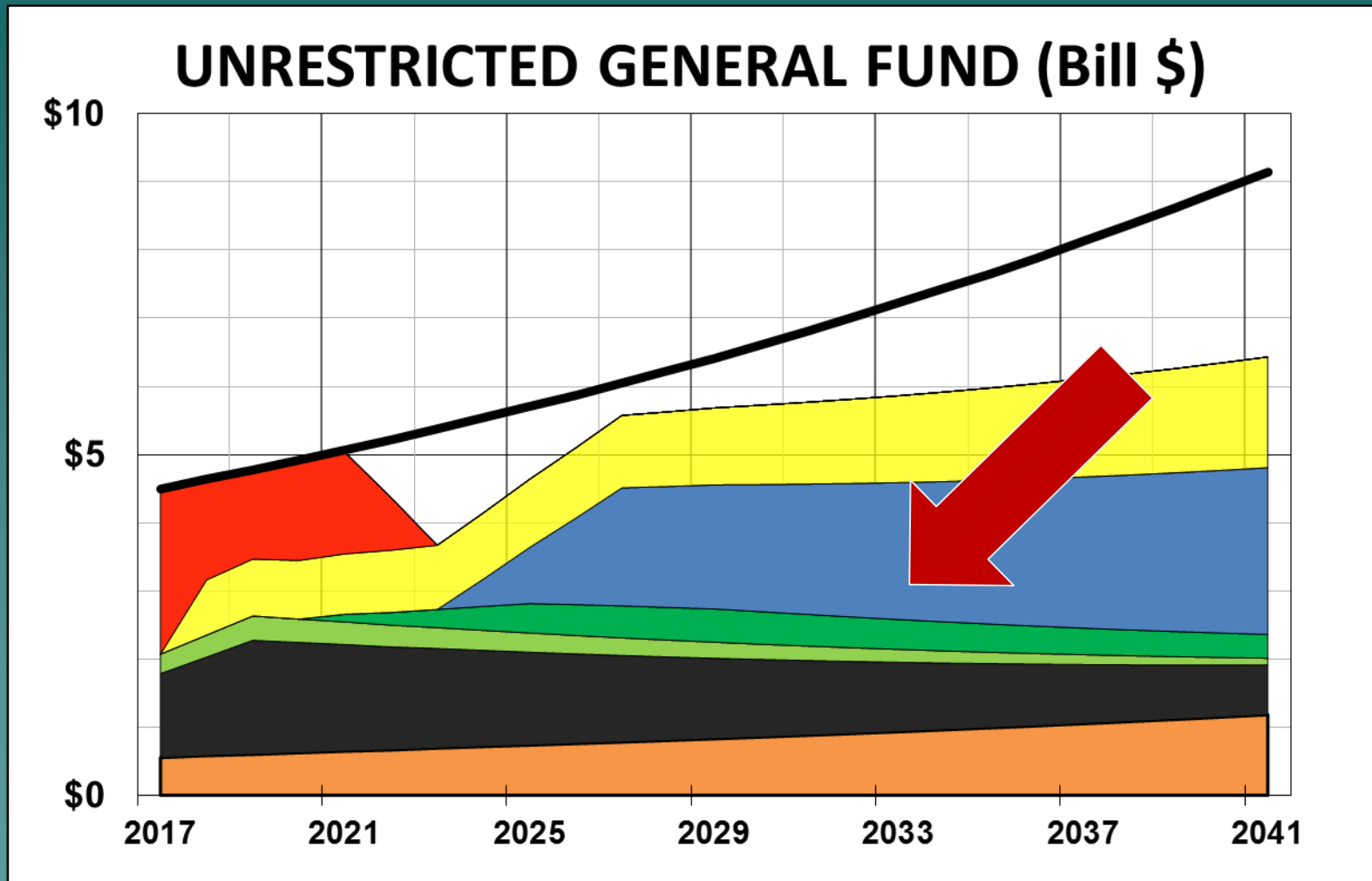
# Add Income or Sales Tax



# Double the Oil Production Tax



# Add Gas Line Revenues



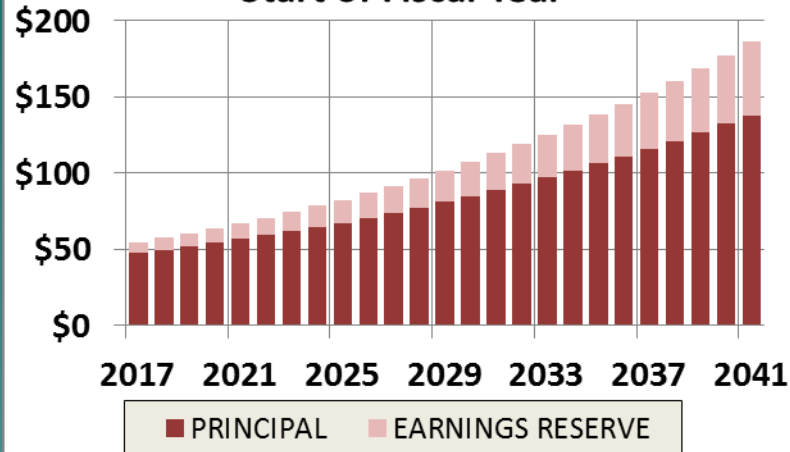
# Don't Use PF Earnings: Negative Economic Effects

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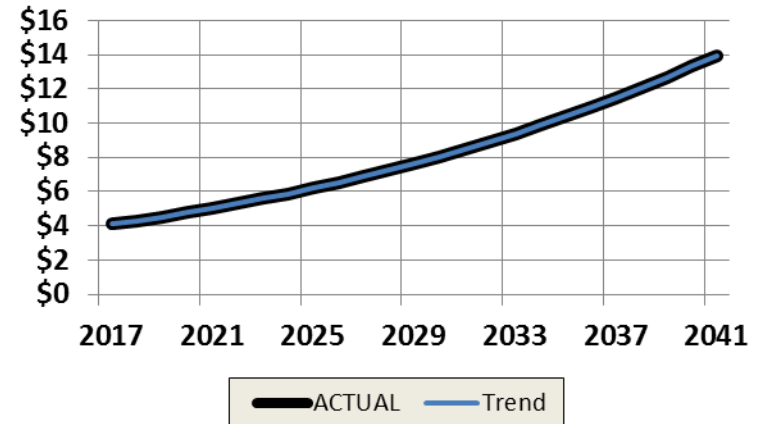
- Budget cuts
- Taxes on households
- Petroleum investment
- Business community confidence

# Meanwhile: Permanent Fund

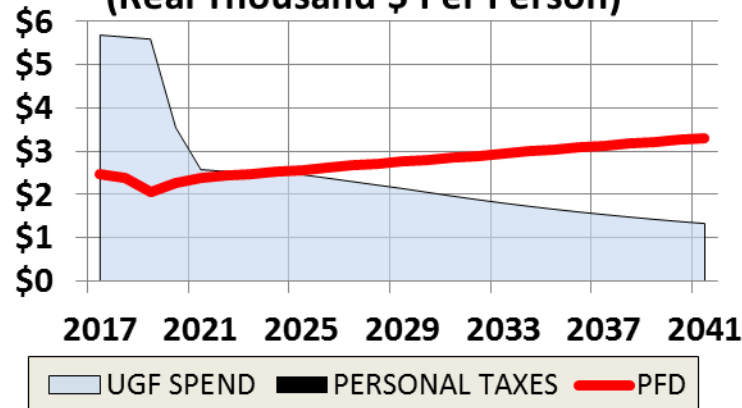
**PERMANENT FUND (Billion \$)**  
Start of Fiscal Year



**PERMANENT FUND:  
TOTAL EARNINGS (Billion \$)**

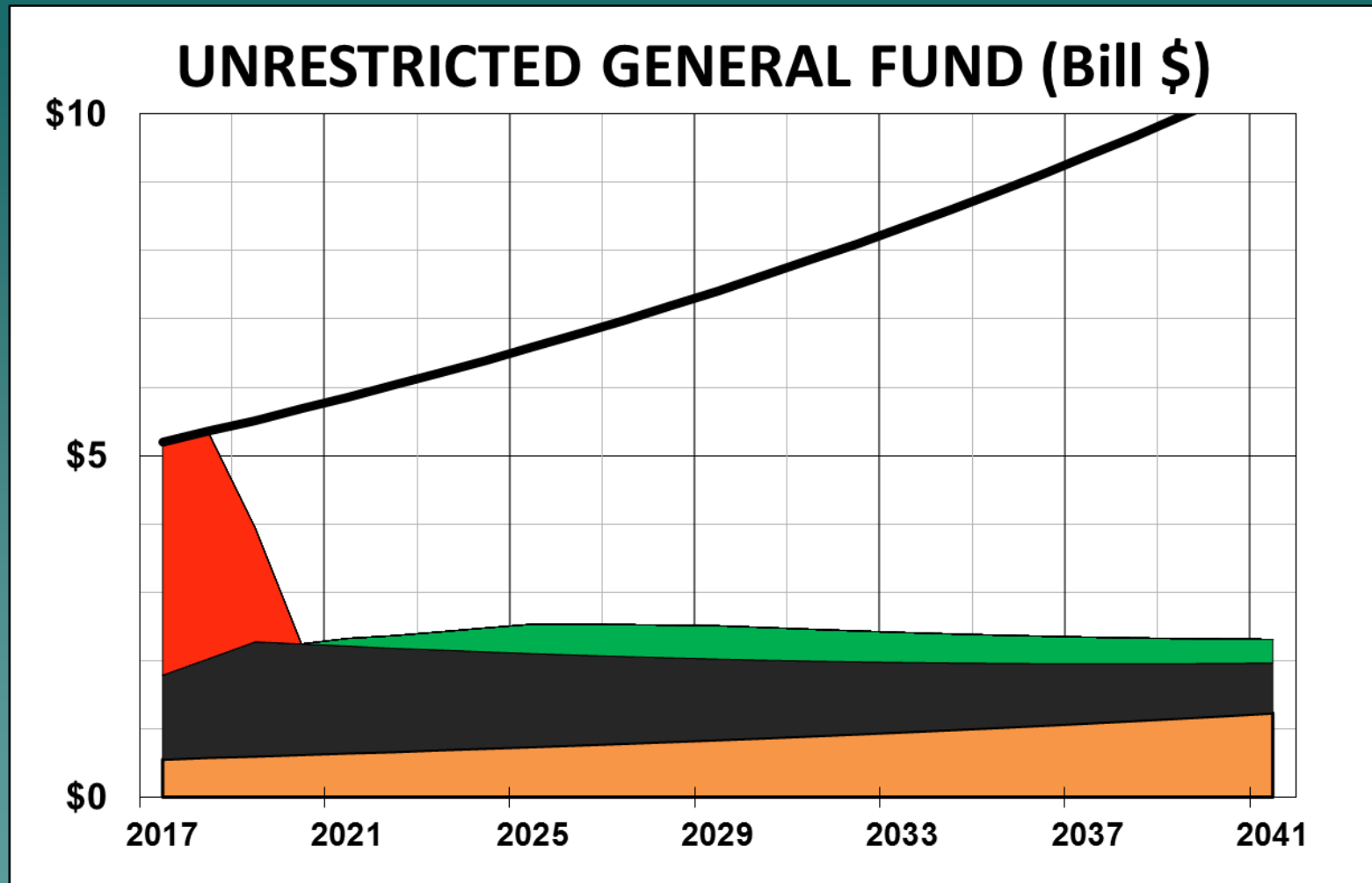


**PERSONAL INDICATORS**  
(Real Thousand \$ Per Person)

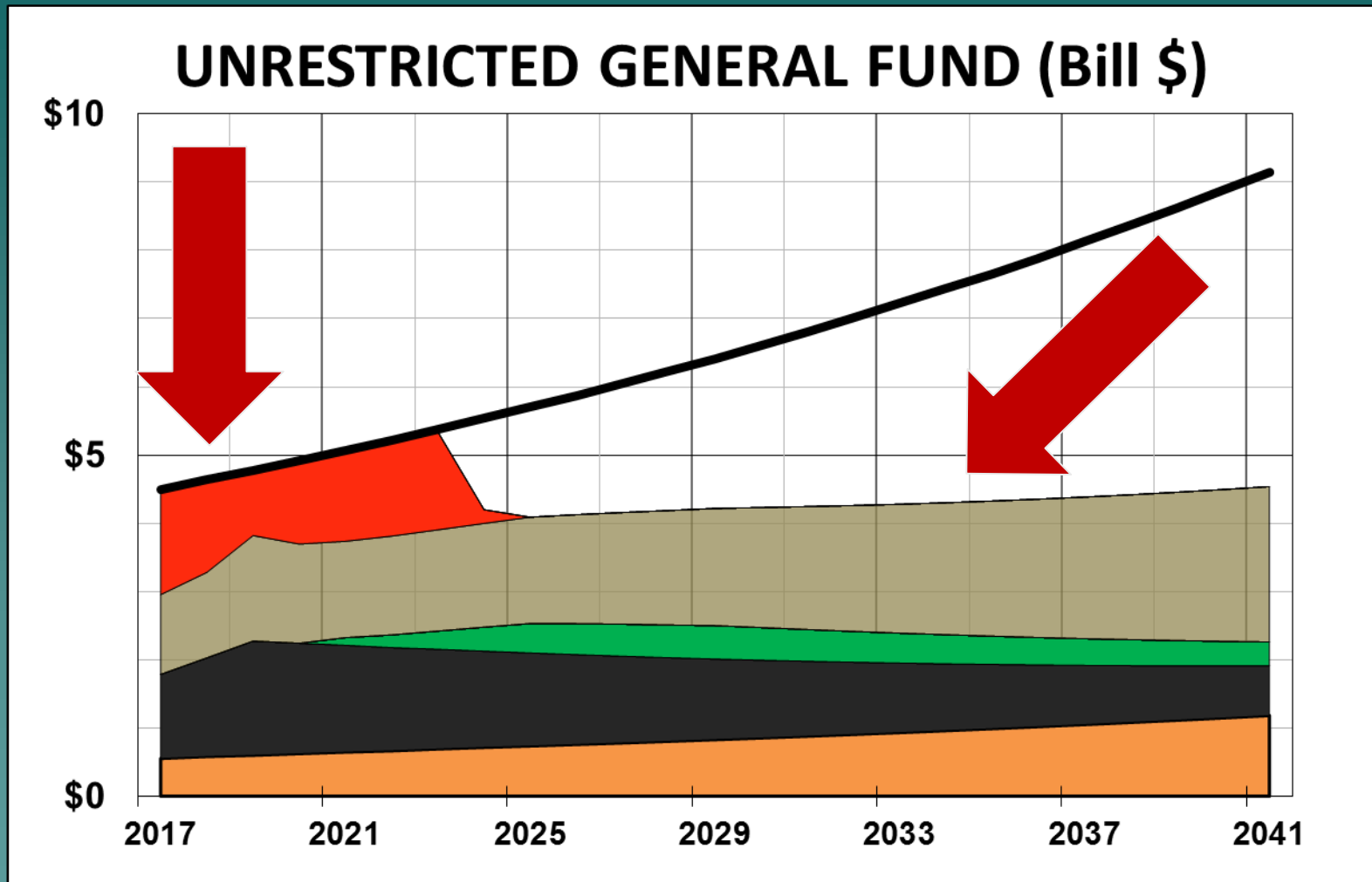




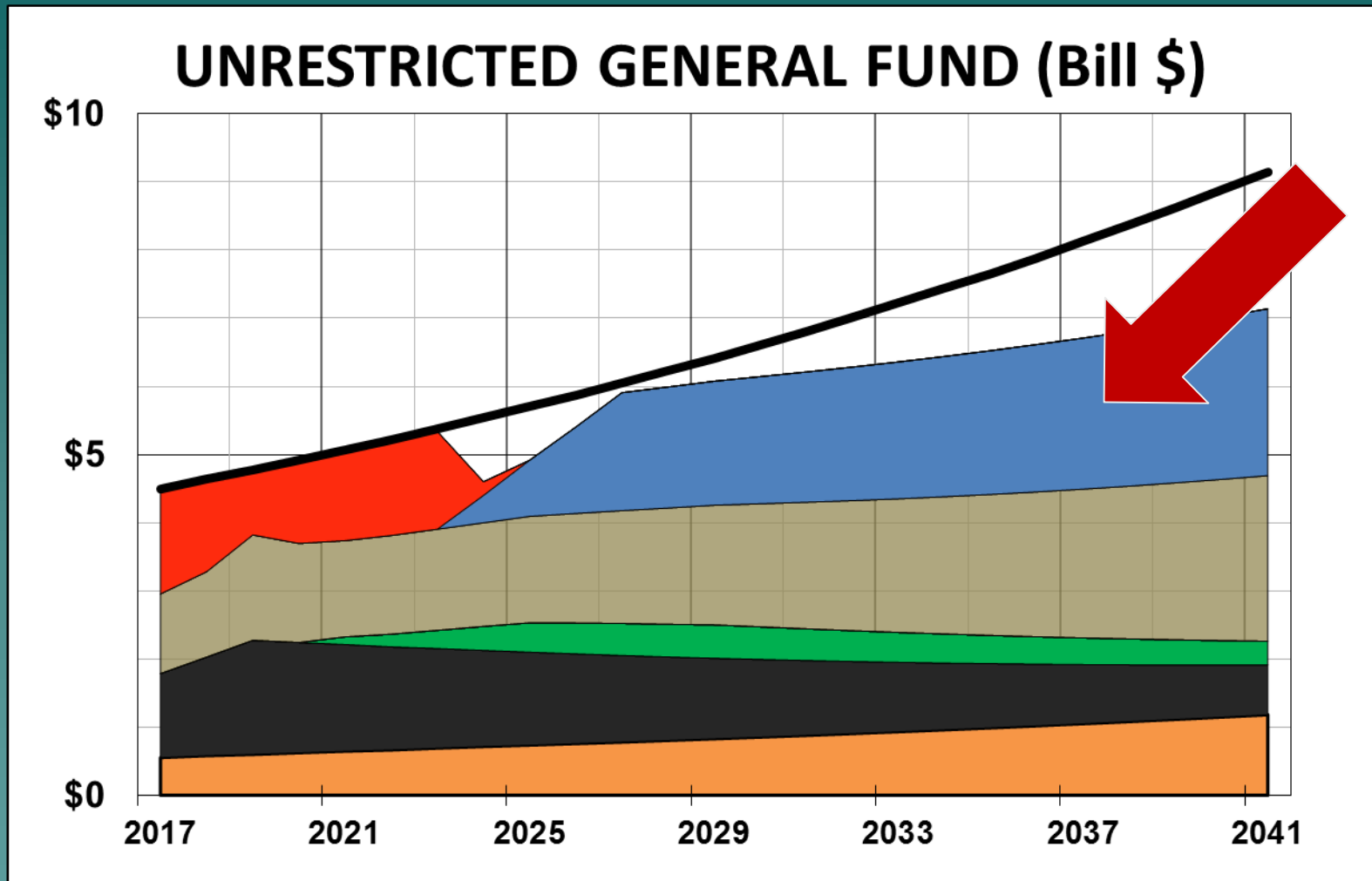
# Fiscal Challenge: Fill the Gap



# Cuts + PF Earnings Draw

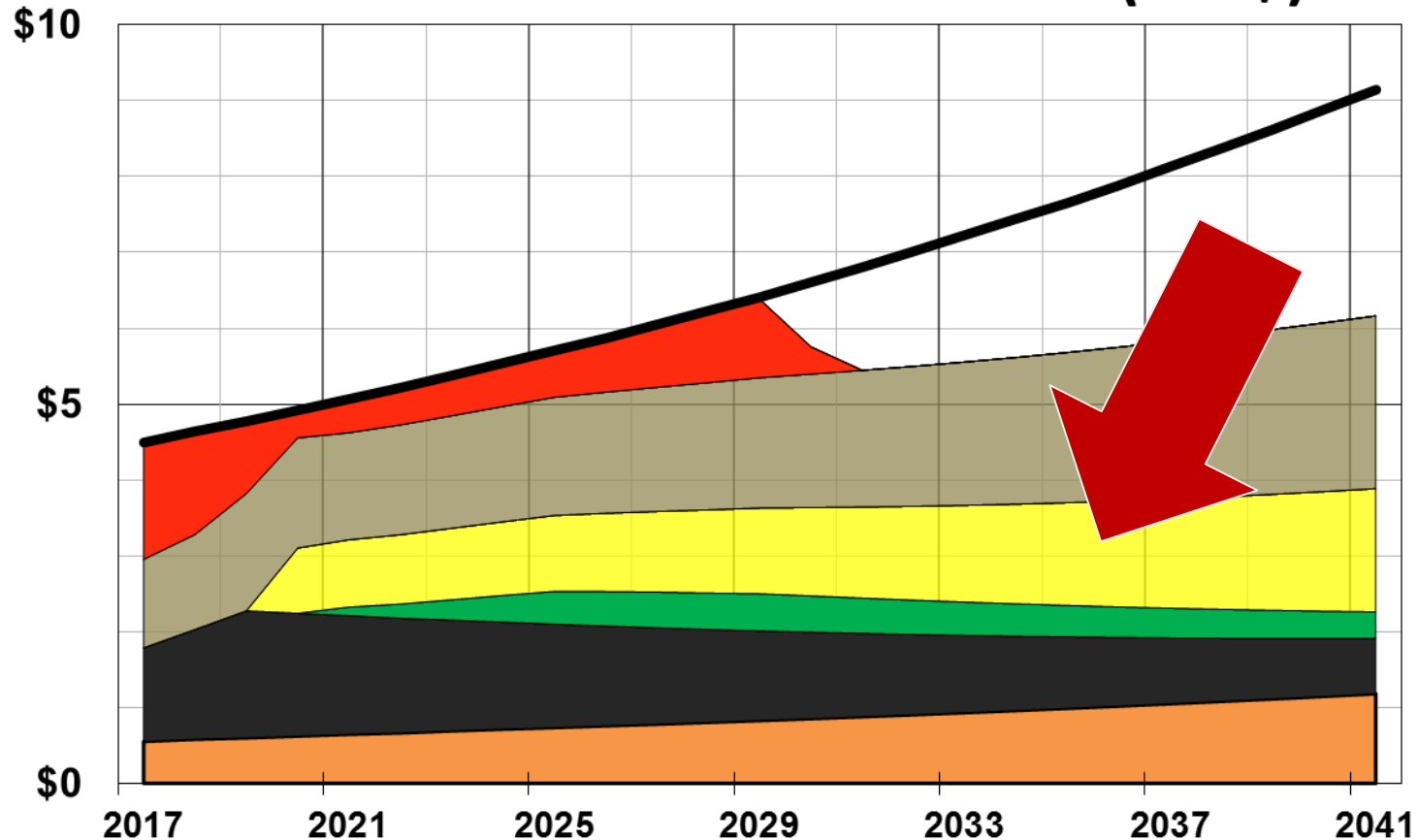


# Add a Gas Line?

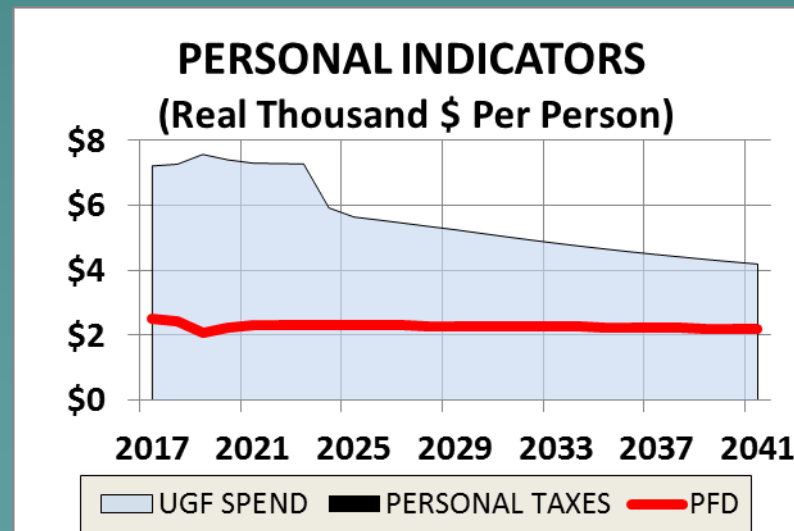
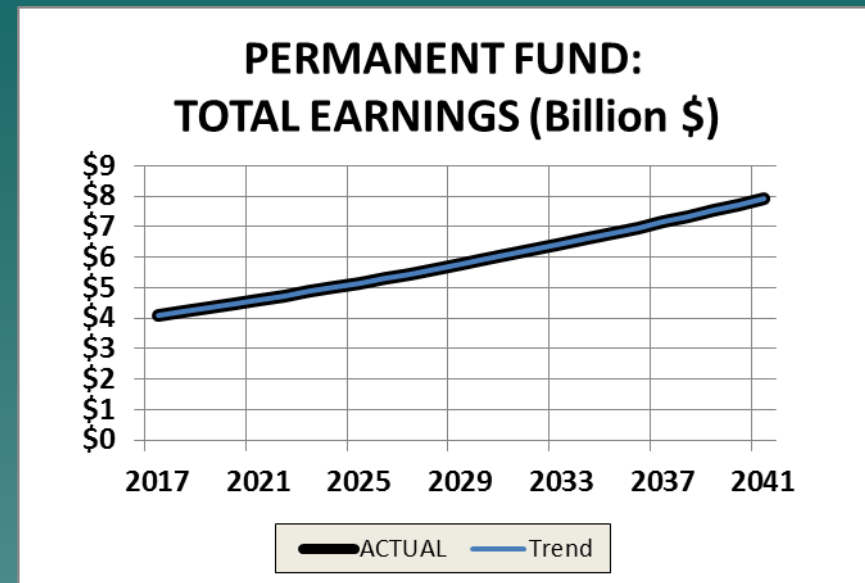
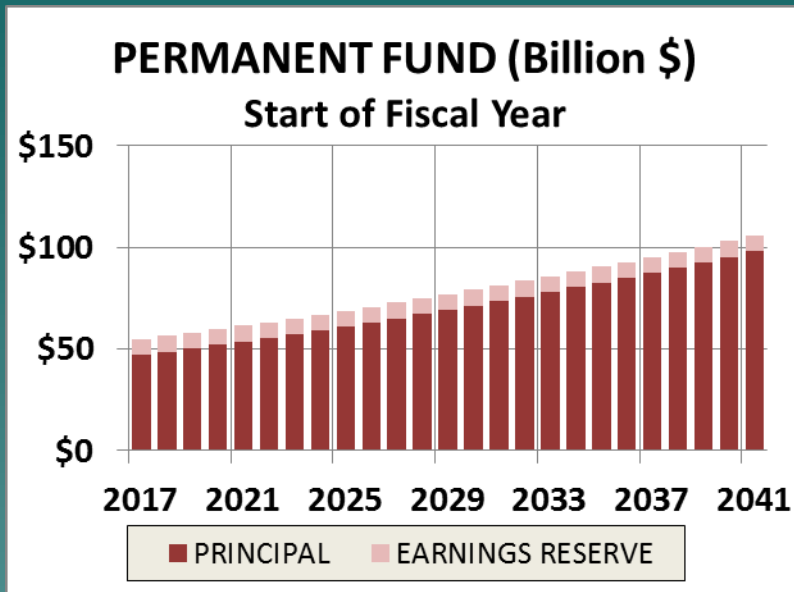


# Or a Tax?

## UNRESTRICTED GENERAL FUND (Bill \$)

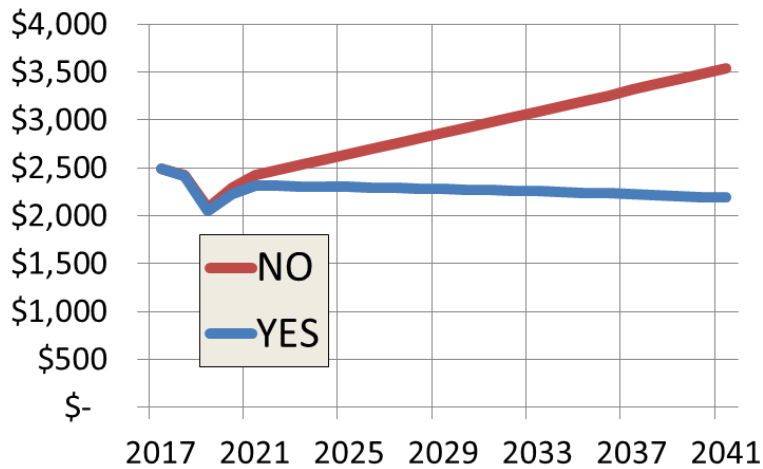


# The Permanent Fund

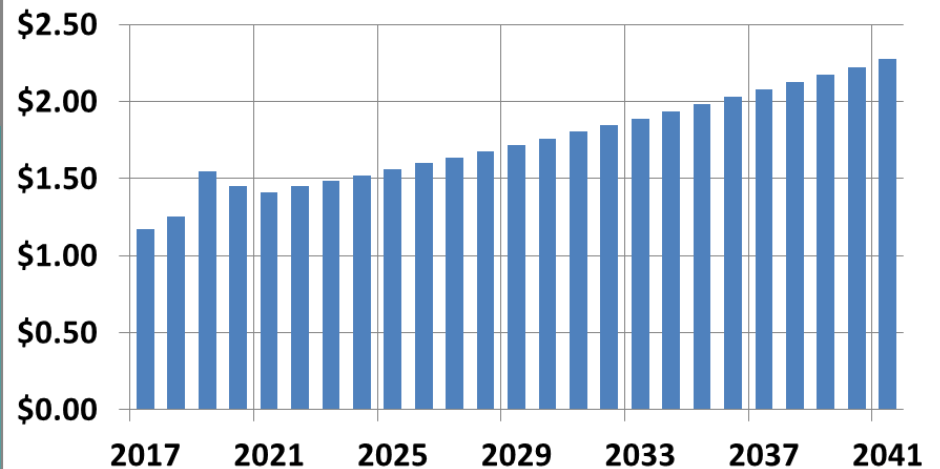


# Tradeoff

## PF DIVIDEND (2015\$)



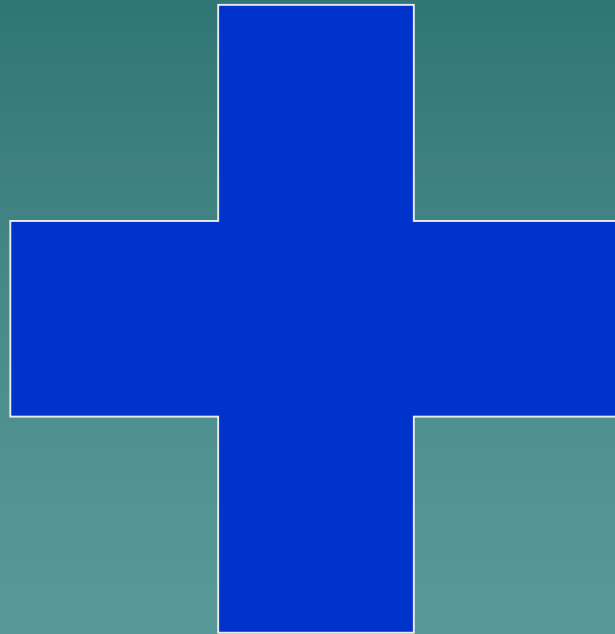
## PERMANENT FUND EARNINGS (Billion \$)



# Use Permanent Fund Earnings-- Economic Impact

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NO DRAW  
FROM  
POCKETS  
OF  
ALASKANS  
TODAY



SIGNAL OF  
CONFIDENCE  
FOR  
INVESTORS

# Postpone Inevitable Tug of War

No  
Income  
Tax!

No  
Sales  
Tax!

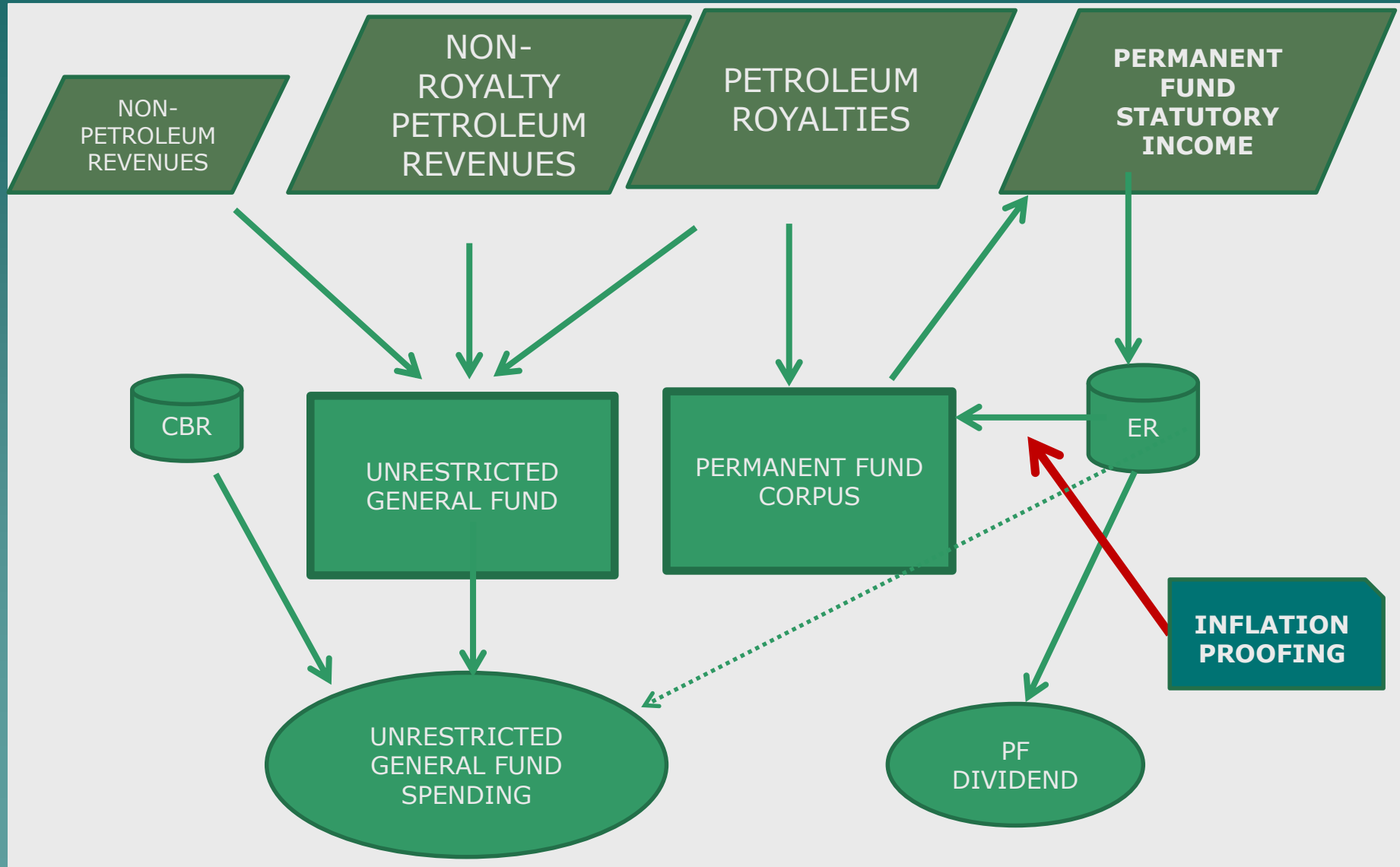


No  
Dividend  
Cuts!

No  
Budget  
Cuts!



# Implementation: Alaska Fiscal Structure



# Proposals for Use of Earnings

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- ◆ ACCESS TOTAL EARNINGS OF PF--POMV (Constitutional Endowment)
  - Fold Earnings Reserve into PF Corpus
  - Draw 4.5% - 5% of PF value from PF Corpus
  - Divide draw between UGF and PF Dividend
- ◆ IMMEDIATE PLUG--SB114 (Statutory POMV)
  - Draw 5% of PF value from PF Earnings Reserve for UGF
  - Pay PF Dividend from 75% of Royalties (with a floor)
- ◆ STABILIZE REVENUE STREAM—GOVERNOR WALKER PROPOSAL (Statutory Sovereign Wealth Fund)
  - Dump SB21 revenues and additional 25% of Royalties into PF Corpus
  - Transfer \$3 Billion from CBR to ER
  - Draw % of PF value or \$3.1 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
  - Pay PF Dividend from 50% of Royalties
- ◆ SUSTAINABILITY--SUSTAINABLE SPENDING (Statutory)
  - Draw amount from PF Earnings and Earnings Reserve) that, together with current Petroleum Revenues, equals the Sustainable level
  - Divide draw between UGF and PF Dividend

# Sustainability

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

# Some Criteria for Choice

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- STABILITY OF REVENUES
- DISCIPLINE SPENDING
- SUSTAINABLE
- FAIR TO ALL ALASKANS
- UNDERSTANDABLE
- IMPLEMENTABLE
- FLEXIBLE
- PROTECT ASSETS
- MINIMIZES UNINTENDED CONSEQUENCES

# Strategy Moving Forward

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- ◆ THIS YEAR

- Budget Cuts
- Structured Use of PF Earnings

- ◆ NEXT YEAR

- Budget Cuts continued
- Tug of War
  - ◆ Income Tax
  - ◆ Sales Tax
  - ◆ Dividend Reduction

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