

ALASKA PERMANENT FUND PROTECTION ACT

Randall Hoffbeck, *Commissioner of Revenue*

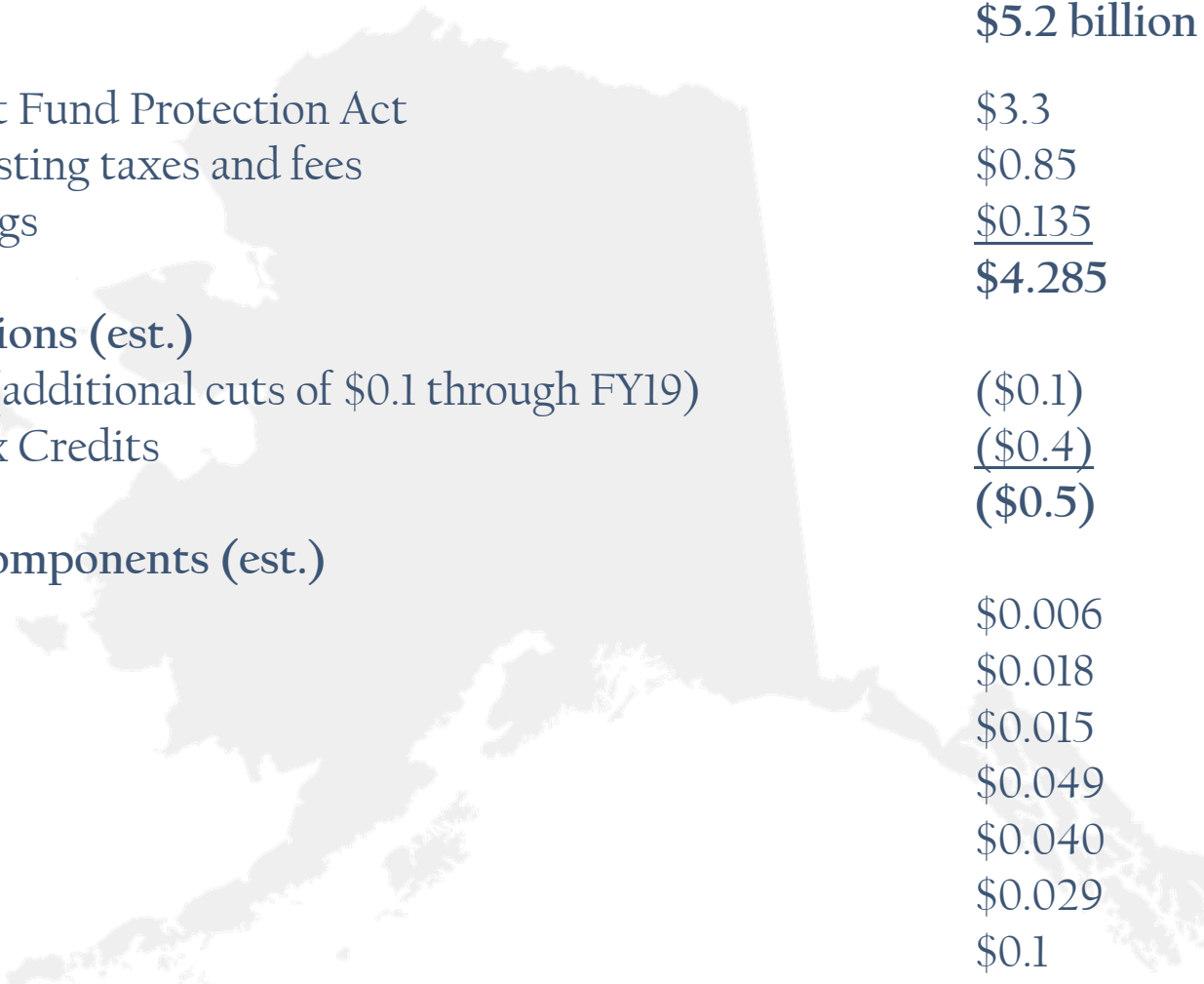
Craig W. Richards, *Attorney General*





INTRODUCTION

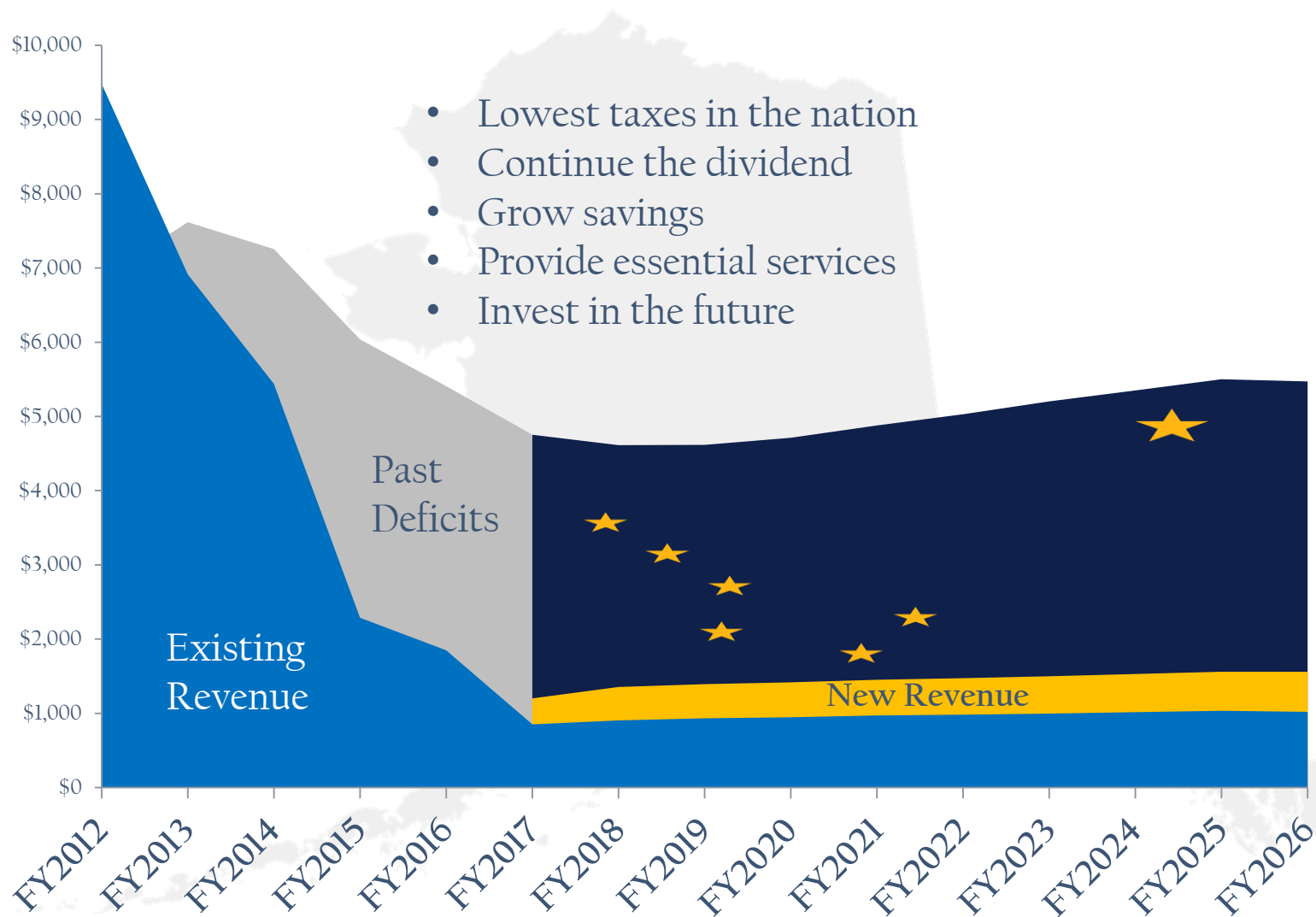
THE NEW SUSTAINABLE ALASKA PLAN



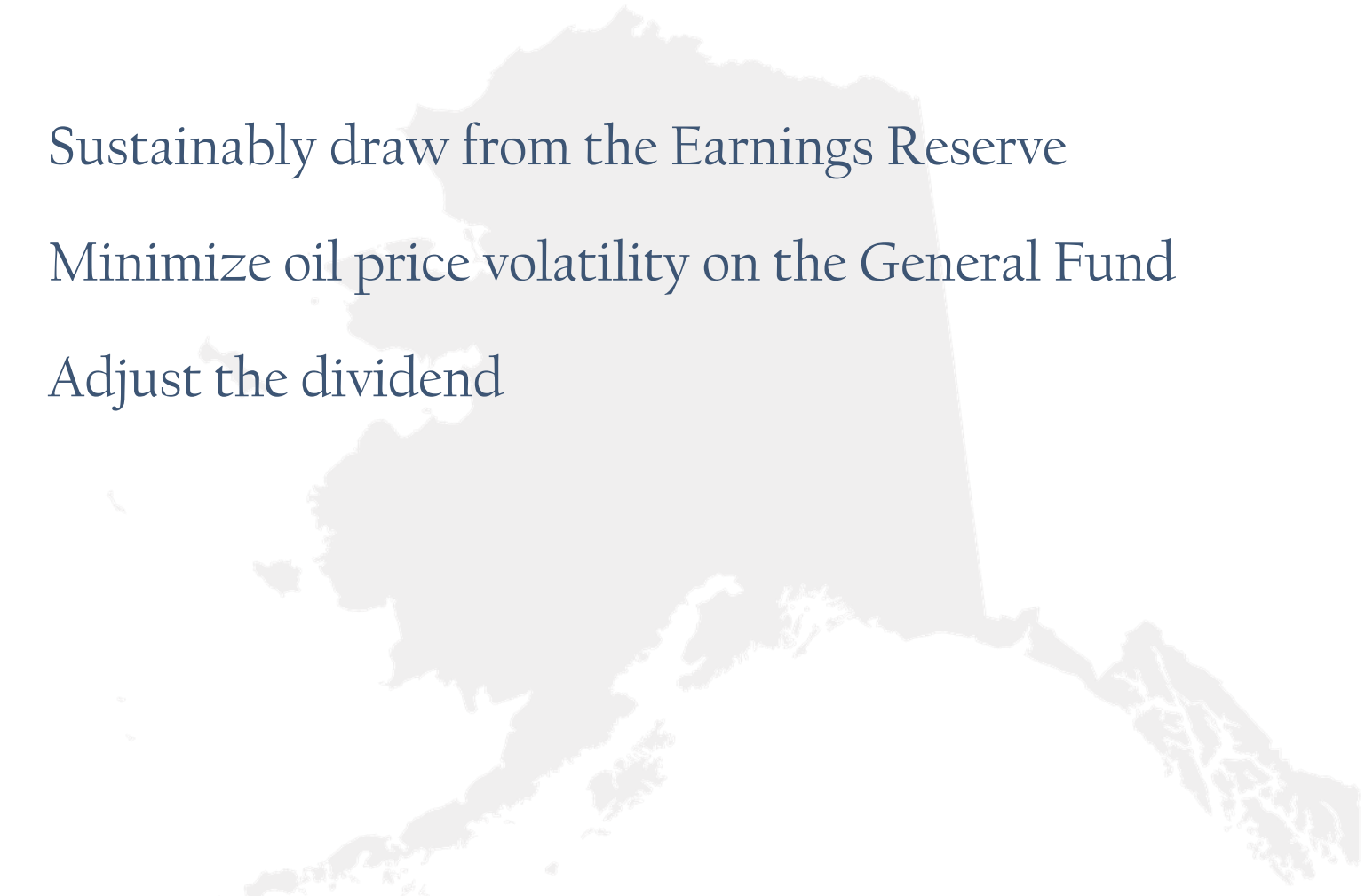
FY16 Budget	\$5.2 billion
Alaska Permanent Fund Protection Act	\$3.3
Revenue from existing taxes and fees	\$0.85
Earnings on savings	<u>\$0.135</u>
	\$4.285
Spending reductions (est.)	
Net cuts in FY17 (additional cuts of \$0.1 through FY19)	(\$0.1)
Reform O&G Tax Credits	<u>(\$0.4)</u>
	(\$0.5)
New Revenue Components (est.)	
Mining	\$0.006
Fishing	\$0.018
Tourism	\$0.015
Motor Fuel	\$0.049
Alcohol	\$0.040
Tobacco	\$0.029
Oil and Gas	\$0.1
Individual Alaskans (Income Tax)	<u>\$0.2</u>
	\$0.457



THE NEW SUSTAINABLE ALASKA PLAN



ALASKA PERMANENT FUND PROTECTION ACT

- 
1. Sustainably draw from the Earnings Reserve
 2. Minimize oil price volatility on the General Fund
 3. Adjust the dividend





The Fiscal Challenge

DEFINING THE PROBLEM

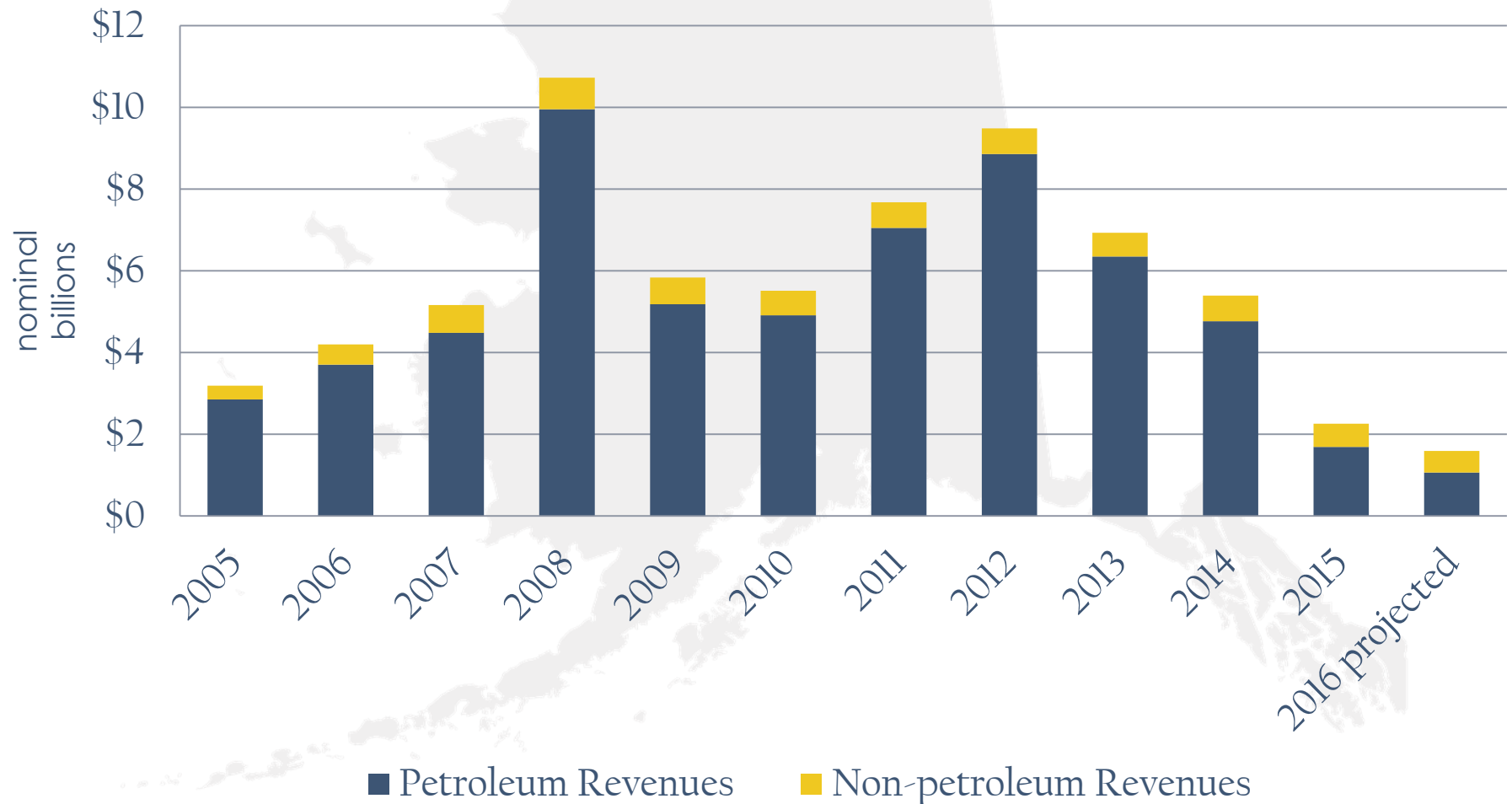
DEFINING THE PROBLEM

- Short-Term:
 - Drop in oil prices has resulted in large budget gaps
- Medium-Term:
 - State savings will be spent in about 4 years
 - Uncorrected, state budget hole will damage Alaska's economy
 - Dividend payments are unsustainable under the status quo
- Long-Term:
 - State's undiversified budget is highly dependent on petroleum revenues
 - There has been a declining trend in North Slope petroleum production
 - Cyclicity in petroleum prices creates an unstable state budget and economy

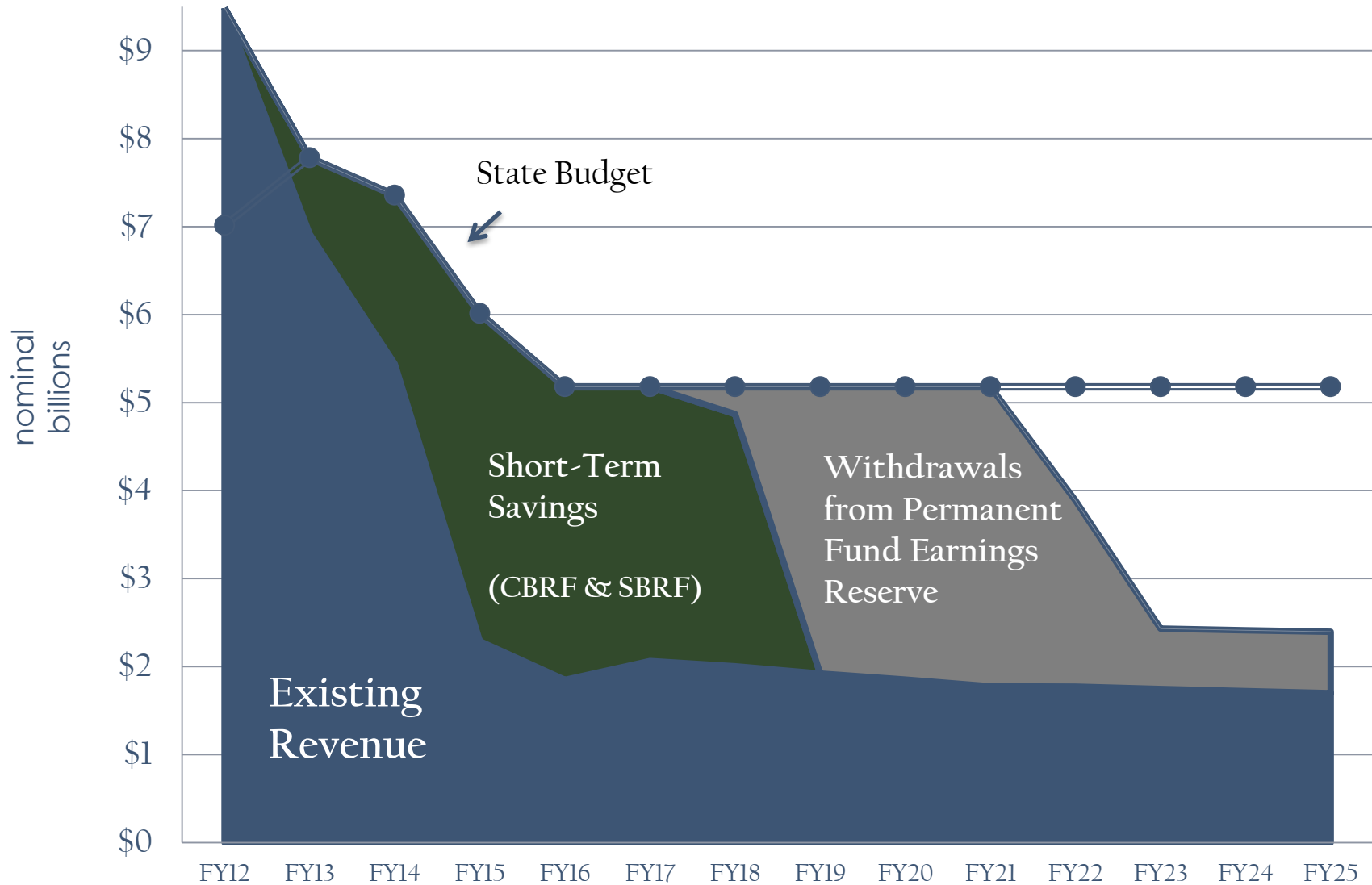


SHORT-TERM PROBLEM

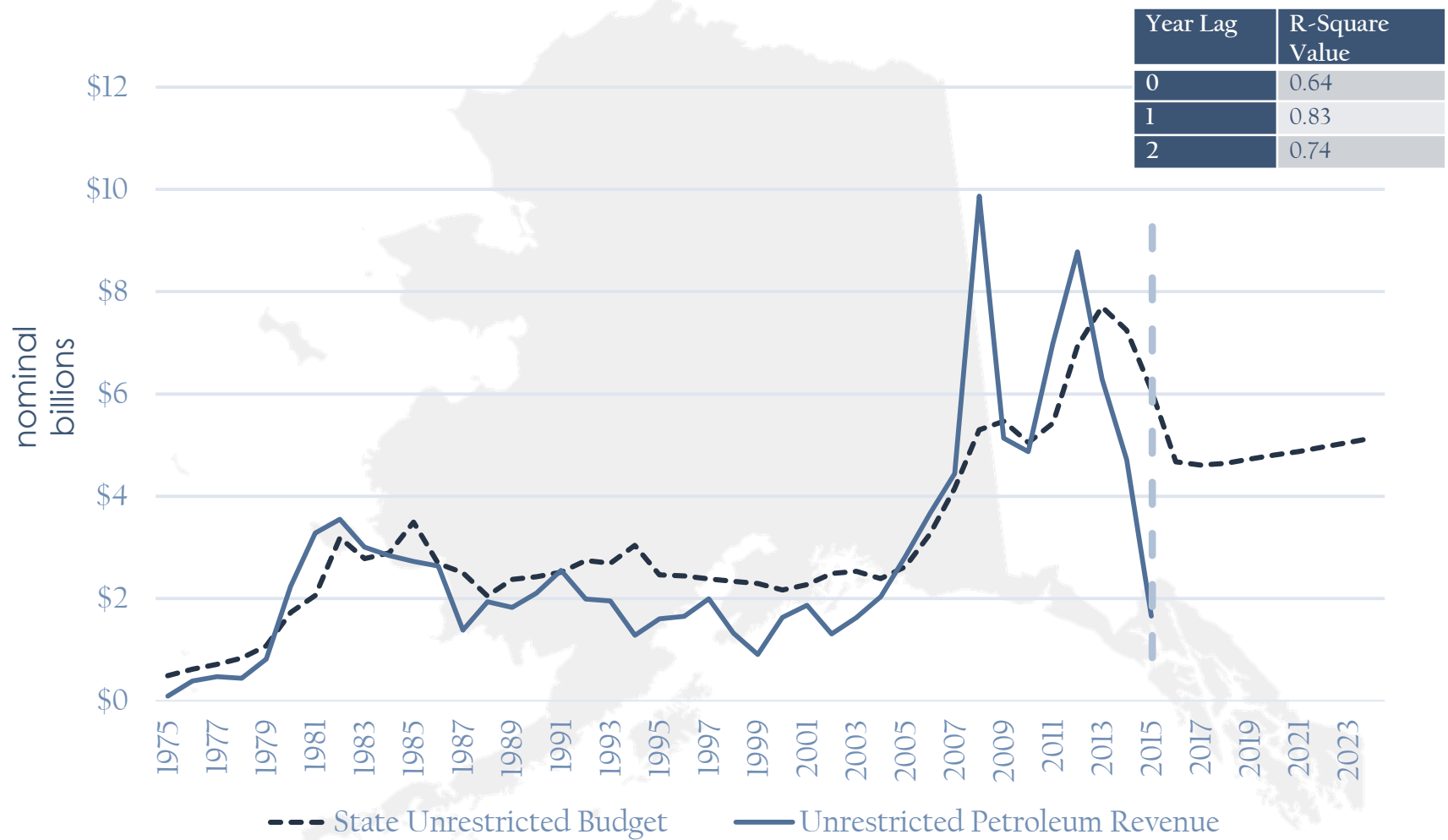
Alaska's Unrestricted General Fund Revenue



MEDIUM-TERM PROBLEM



LONG-TERM PROBLEM





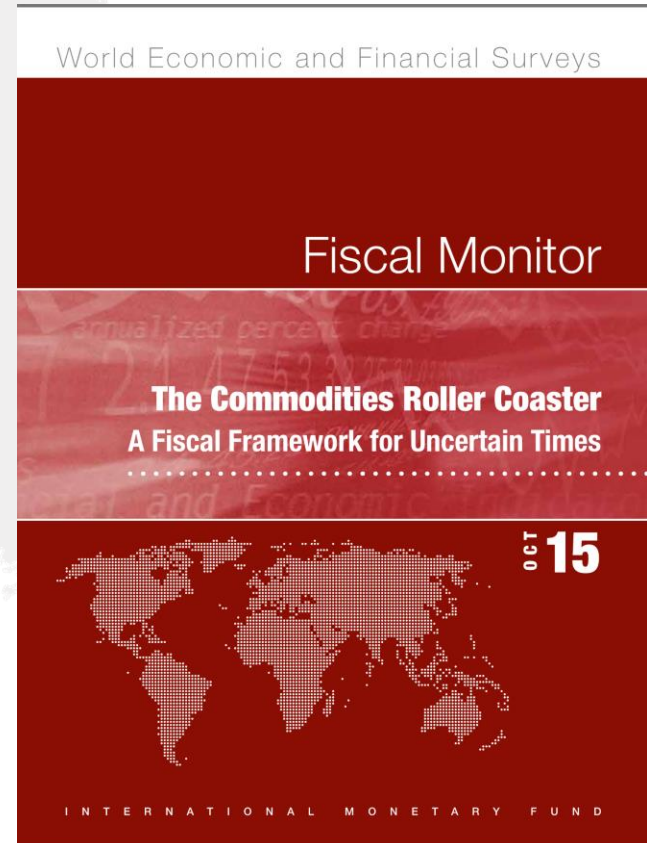
Solving the Long-Term Challenge

FISCAL POLICY FOR OIL ECONOMIES

THE COMMODITIES ROLLER COASTER

For better or worse, state spending impacts the broader economy

- Study of 85 economies over 3 decades
- Government spending in commodity-based economies tends to move up and down with commodity revenue
- Pro-cyclical government spending stunts economic growth
- Stabilizing fiscal policy has the inverse effect, increasing GDP growth by 0.3% annually



BREAK-EVEN OIL PRICE

- A widely used rule-of-thumb measure of the oil price required to balance the government budget in any given year
- Options for petroleum states to bring down break-even oil prices are generally
 - Diversify revenues through other types of taxation
 - Use sovereign wealth assets
- Alaska: \$109

Country	Break-Even Oil Price (2015)
Norway	\$40
Kuwait	\$54
Abu Dhabi	\$55
Russia	\$105
Saudi Arabia	\$106
Nigeria	\$122
Iran	\$131
Algeria	\$131
Venezuela	\$160



ALASKA: IN THE MIDDLE

Alaska lacks

- Revenue diversity
- Fiscal rules to address pro-cyclical spending

But, like Norway, Kuwait, and Abu Dhabi, Alaska has

- A large sovereign wealth fund
- Proven experience with rule-based fiscal policy
- An independent investment authority

Alaska has a cash flow problem, not a wealth problem.

