

# ALASKA'S ECONOMY

**Why we need a comprehensive fiscal plan for Alaska  
-and-  
Why broad-based taxes are being considered**

**Kenai Peninsula Borough Mayor Mike Navarre – House Finance Committee – March 28, 2017**

# The problem...

**\$2.8 billion\* annual state deficit,  
and no easy answers**

- 1. Budget cuts?**
- 2. Taxes (sales, income, oil & gas, others)?**
- 3. Permanent Fund earnings?**
- 4. Economic development?**

# The options...

## ❑ Budget cuts

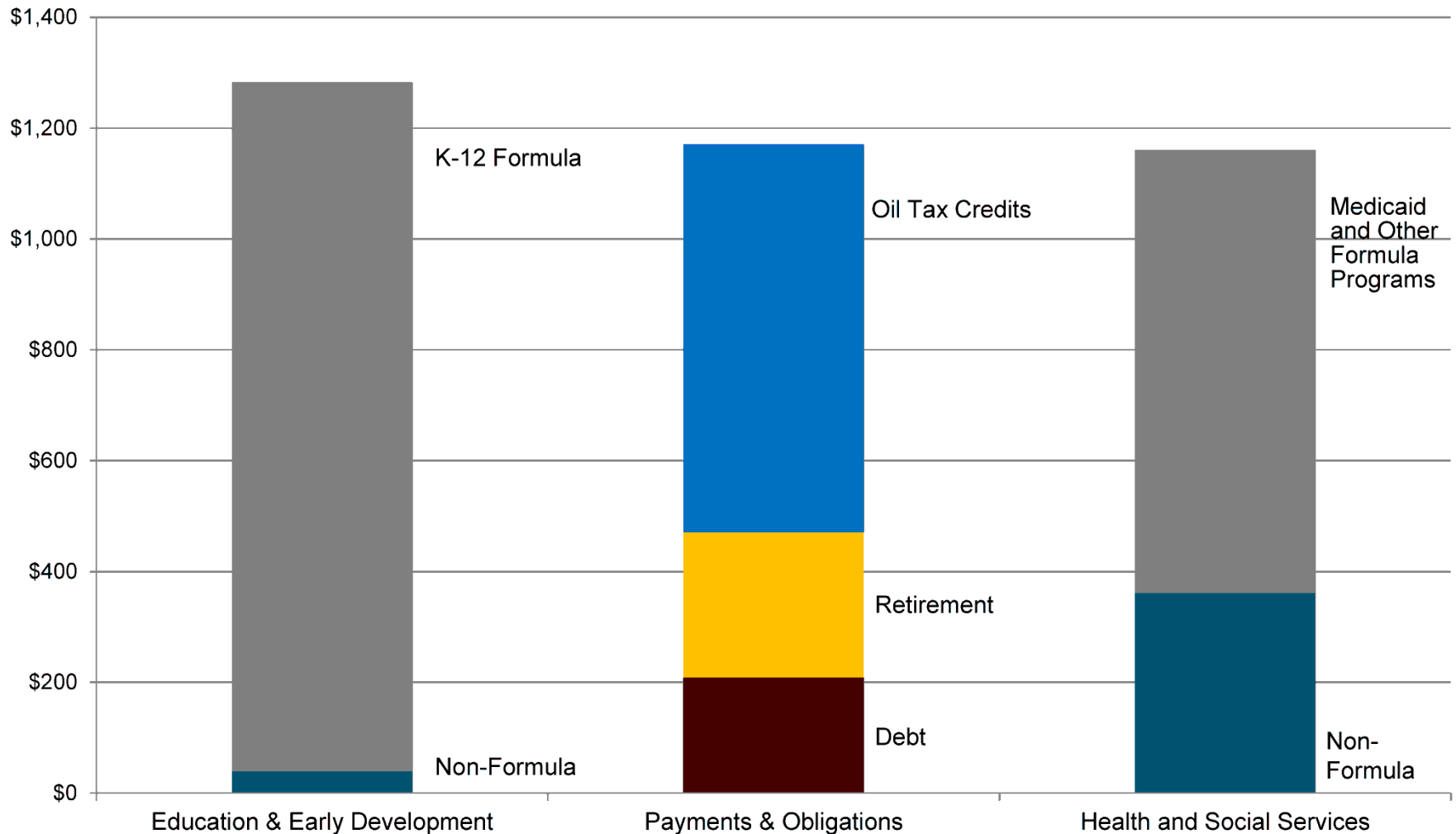
- Easier said than done for all the reasons
- Different priorities for state spending
- Philosophical differences about government
- Heated rhetoric exacerbates the differences
- And everyone worries of negative economic impacts

# Fiscal Challenge

## Top Three Unrestricted General Funds Spending Categories

**Total \$3.4 billion**

(\$ Millions)

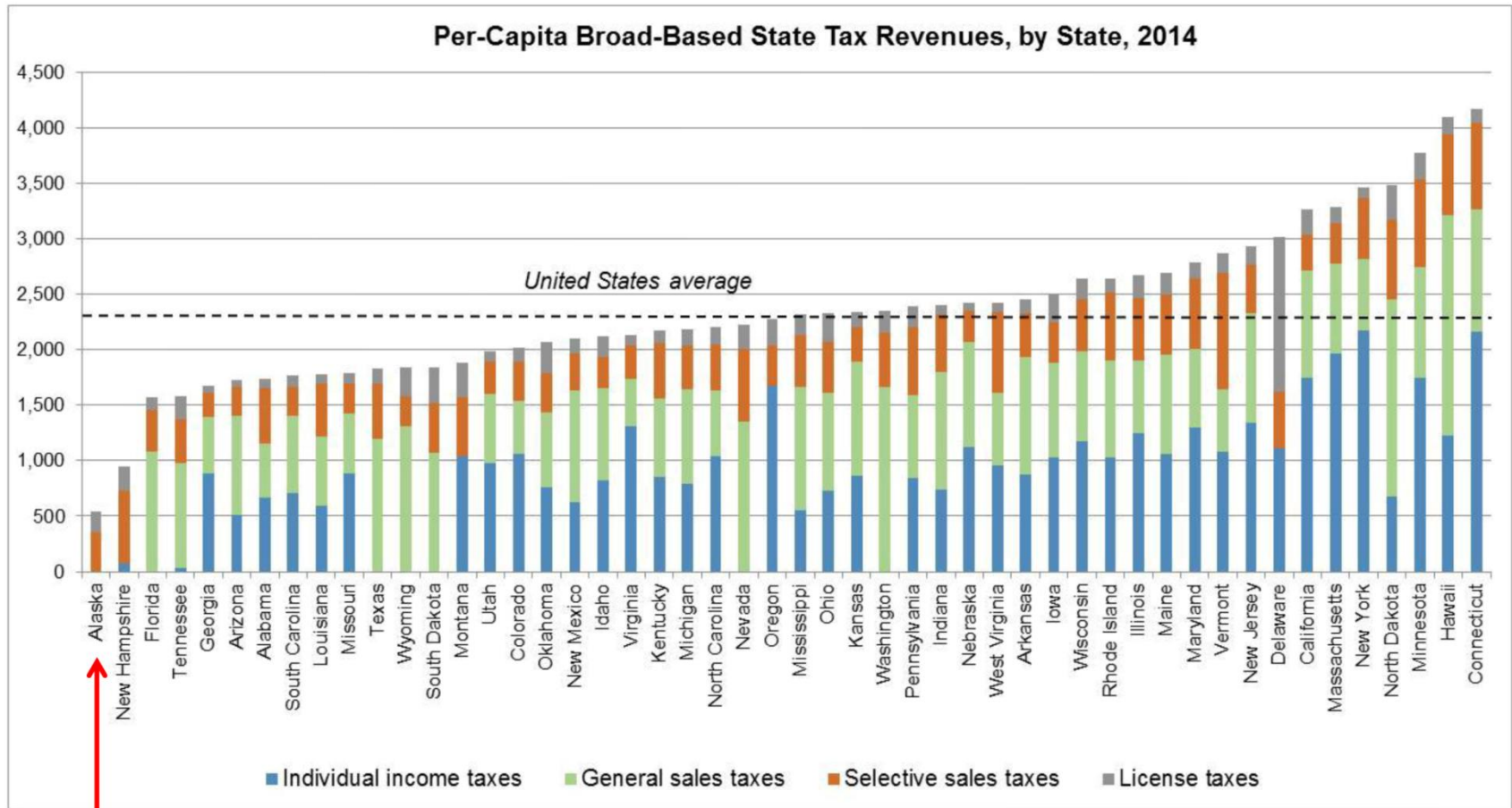


# The options...

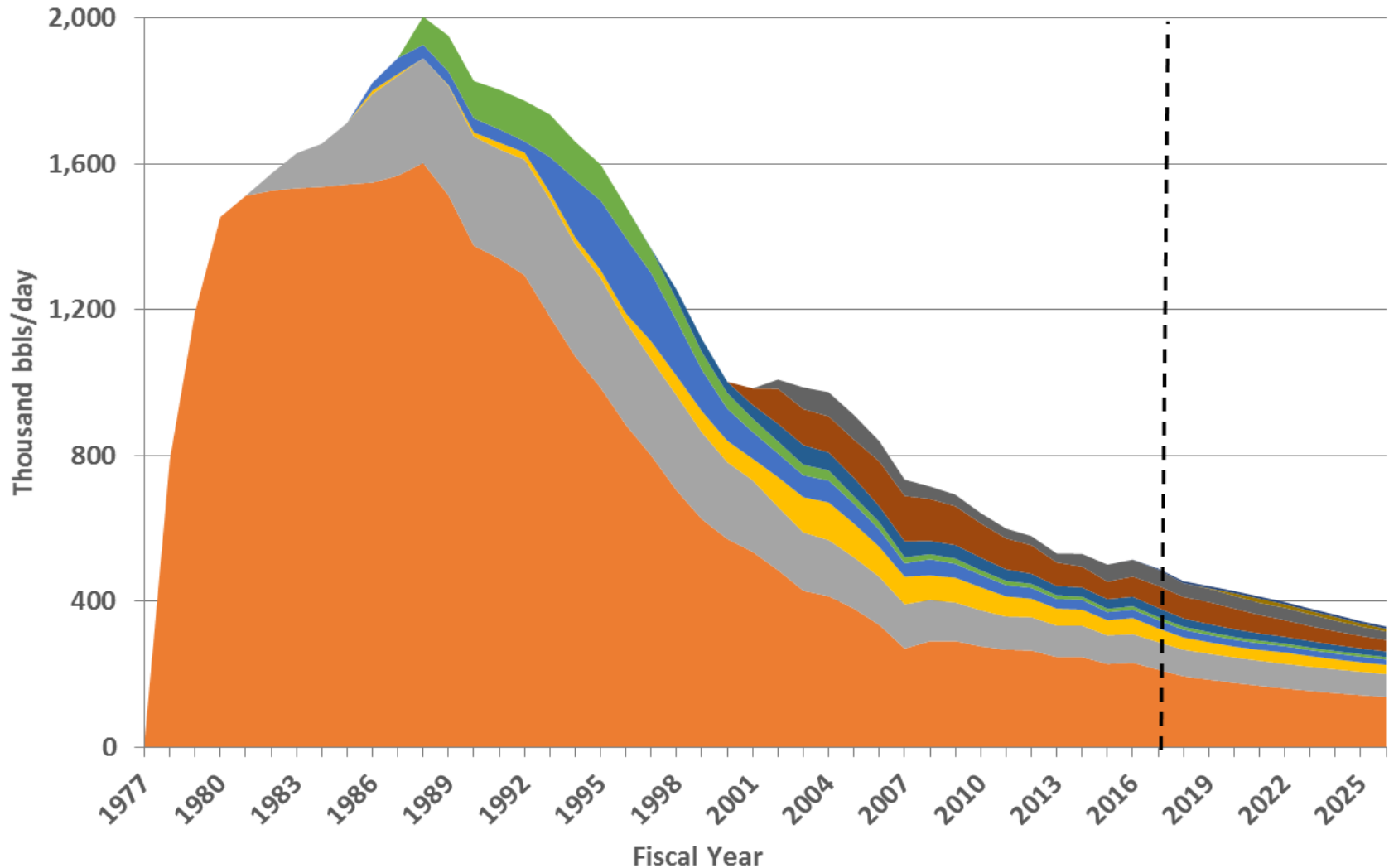
## Taxes

- Easier said than done for multiple reasons
- Takes time to adopt regulations and implement
- Philosophical differences about taxation
- Heated rhetoric exacerbates the differences
- And everyone worries of negative economic impacts

# Alaskans pay much less in state taxes than residents of any other state

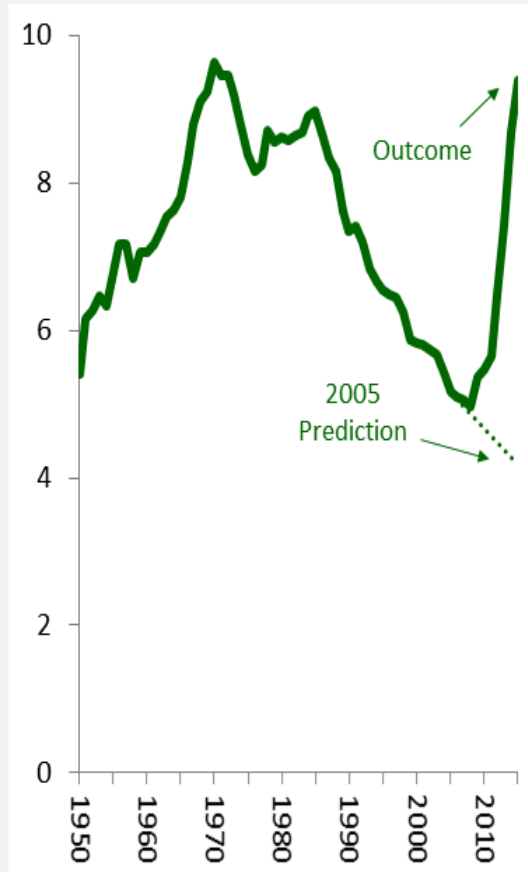


# What's different today?

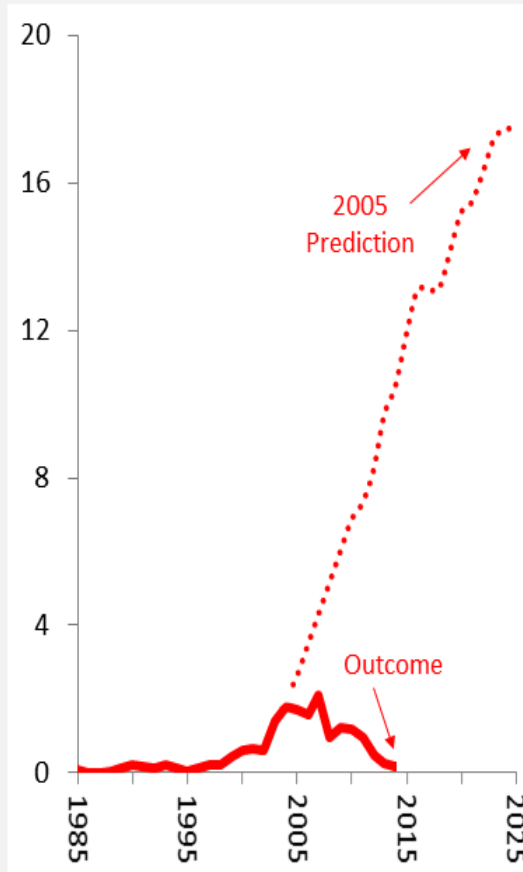


# The Unconventional Revolution has Vastly Improved America's Energy Outlook

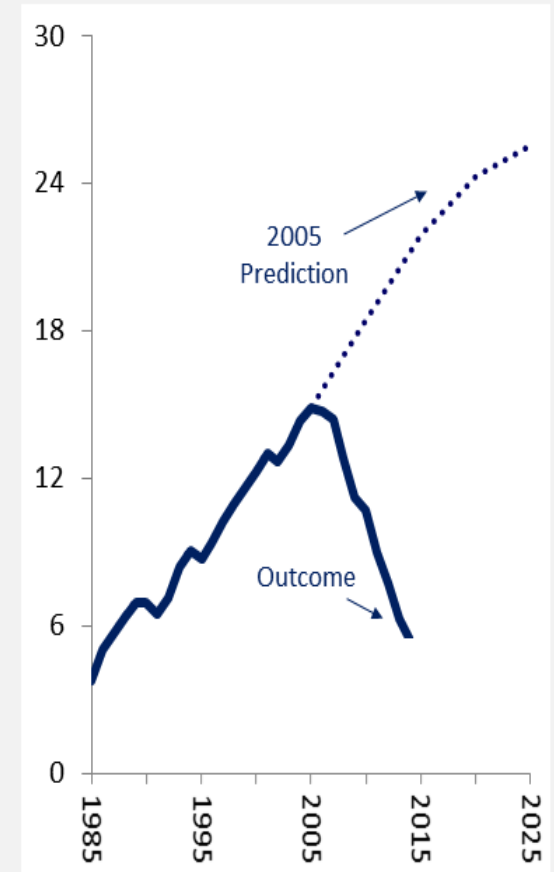
**U.S. Oil Production**  
(millions of barrels per day)



**Liquefied Natural Gas Imports**  
(bcf per day)

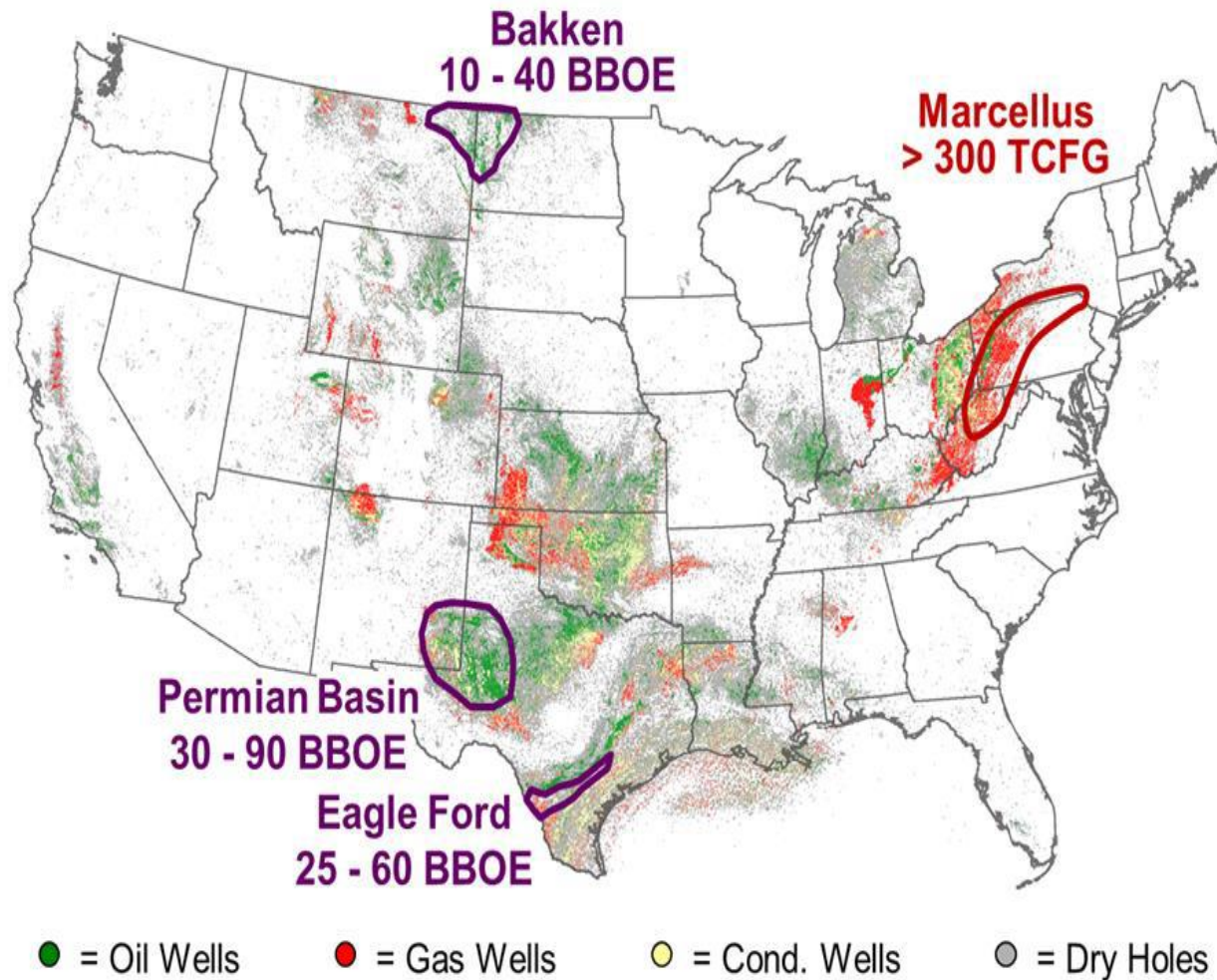


**U.S. Net Energy Imports**  
(millions of BOE per day)





# America's "Big Four" Unconventional Fields are World-Class Discoveries



# The options...

## ❑ Permanent Fund earnings

- Public perceptions (and anger over any changes)
- Political consequences of any changes
- Impacts to Permanent Fund growth
- Impacts to the Permanent Fund dividend
- And the constant concern over economic impacts

# Permanent Fund information...

- \$46 billion: Protected by the Alaska Constitution
- \$11 billion: Earnings reserve available for dividends, protecting the fund against inflation and public services — this number fluctuates as investments make or lose money
- Deposits to the constitutionally protected principal:
  - 40% came from oil and gas royalty payments
  - 40% came from legislative action to inflation-proof the fund
  - 20% came from legislative transfers of surplus oil dollars

# The options...

## ❑ Economic development

- Broad public support for economic development
- Provides opportunities for jobs
- Positive economic impacts for communities

**But does it help solve our fiscal situation?**

# **ECONOMIC DEVELOPMENT ON THE KENAI PENINSULA**

**Is it good for the Kenai Peninsula?**

**Is it good for Alaska?**

**Will economic development save us?**

# Funds from the State to Kenai Borough

## Kenai Peninsula Borough

- Revenue sharing
- School debt reimbursement
- Retirement liability (PERS)
- Fisheries tax share
- Capital and operating grants

## Fiscal Year 2016

\$2,048,004 (+\$502,876)\*  
\$2,893,727\*  
\$1,200,000  
\$750,000  
\$112,770

## Kenai Borough School District

- Foundation formula funding
- Retirement liability (PERS/TRS)
- Pupil transportation

## Fiscal Year 2016

\$79,262,094\*\*\*  
\$9,559,594  
\$8,071,440

**TOTALS**

**\$103,897,629**

You seem to be very  
well educated on stuff  
that you made up.



som<sup>ee</sup>cards  
user card

# Assumptions for hypothetical economic development scenario

- The economic development proposal on the Kenai Peninsula Borough must be approved by both the state and the borough
- The state and borough must both determine if the proposed economic development makes good fiscal sense, and decide yes or no



# Proposal: A new widget manufacturing plant wants to move to the Kenai Peninsula Borough



**10,000** new jobs



**10,000** new families



**5,000** new students for the school district



**10,000** new homes to house the families,  
at average assessed value of **\$200,000** per home



**\$1 billion** capital investment by the  
Widget Manufacturing Co. of America LLC

# Kenai Borough decision: New revenues



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

**\$5 million** a year in  
additional borough **sales taxes**

**\$20 million** a year in  
borough and service area  
**property taxes** on homes

**\$10 million** a year in borough  
and service area **property taxes**  
on widget factory investment

# Kenai Borough decision: Higher expenses



**10,000** new jobs



**10,000** new families



**5,000** new students



**10,000** new homes,  
**\$200,000** per home



**\$1 billion** capital  
investment

5,000 students would be more than a 50% gain over current school district enrollment. The state pays almost 2 / 3 of school district budget. A 50%-plus increase in the borough contribution is about **\$27.5 million a year.**

# Kenai Borough decision: The math



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

**\$5 million** a year in  
additional borough sales taxes

**\$27.5 million** a year in  
increased school funding

**\$20 million** a year in  
borough and service area  
property taxes on homes

**\$10 million** a year in borough  
and service area property taxes  
on widget factory investment

# Kenai Borough decision: It adds up



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

\$5 million a year in additional  
borough sales taxes

\$7.5 million  
available for  
other expenses

\$1 million a year in  
school funding

\$1 million a year in borough  
service area property taxes

\$10 million a year in borough  
and service area property taxes  
on widget factory investment

# Kenai Borough decision: It's a winner



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

\$5 million a year in additional  
borough sales taxes

\$1 million a year in  
school funding

\$1 million a year in borough  
service area property taxes

\$10 million a year in borough  
and service area property taxes  
on widget factory investment

Decision: YES

# State of Alaska decision: New revenues



**10,000** new jobs



**10,000** new families



**5,000** new students



**10,000** new homes,  
**\$200,000** per home



**\$1 billion** capital  
investment



# State of Alaska decision: Higher expenses



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

**\$10 million** a year in  
higher expenses for  
troopers, highways, courts,  
prisons, Medicaid, child  
care assistance, etc.

**\$45 million** a year  
in increased school  
funding costs



# State of Alaska decision: It doesn't add up



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

**\$10 million** a year in  
expenses for troopers,

courts, prisons,  
child care

**\$55 million  
additional  
expenses, no  
new revenues**

**\$45 million** a year  
in increased school  
funding costs

# State of Alaska decision: Loser for the state



10,000 new jobs



10,000 new families



5,000 new students



10,000 new homes,  
\$200,000 per home



\$1 billion capital  
investment

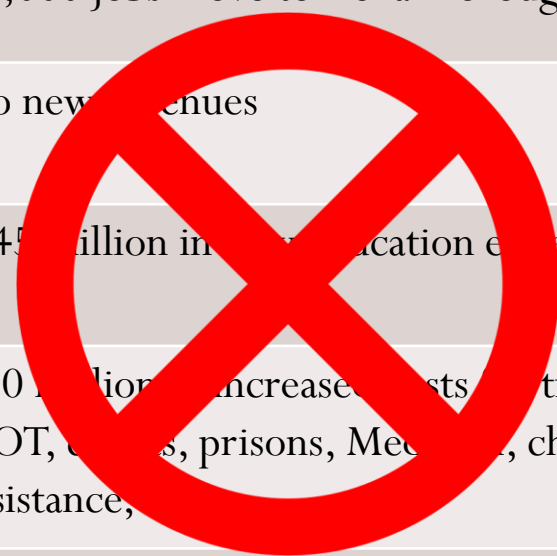
**\$10 million** a year in  
expenses for troopers,  
courts, prisons,  
child care

Decision: NO

**\$45 million** a year  
in higher school  
funding costs

# Economic development decision

Kenai Peninsula Borough	State of Alaska
10,000 jobs move to Kenai Borough	10,000 jobs move to Kenai Borough
\$35 million in new sales tax revenue	No new revenues
\$27.5 million in new expenses	\$45 million in new education expenses
\$7.5 million in new agency services	\$10 million in increased costs for troopers, DOT, courts, prisons, Medicaid, child care assistance
New revenues sufficient to match new expenses	\$55 million in additional expenses, no new revenues
<b>Decision: YES</b>	<b>Decision: NO</b>



# Why a broad-based tax...

- Without a broad-based tax,  
economic development could make  
the state's fiscal situation even worse
- S&P's warning: "By introducing a statewide income or sales tax ... the state could generate several hundred million in unrestricted revenue annually. ... In our view, therefore, the state has sufficient potential fiscal resources — if it can assemble the political will."

# No wonder it's so difficult...

“We all bring our own biases, experiences and philosophies to the debate. When multiplied by the governor and his staff, 60 legislators and their staffs, then adding in the population of Alaska, factoring in talk radio, political parties, election dynamics, the media, right- and left-wing splinter groups, lobbyists, special interests and a multitude of constituencies for every item in the budget ... the problem doesn't seem all that difficult.”

— *Kenai Peninsula Borough Mayor Mike Navarre*

# The perfect plan...





# QUESTIONS?

Photo by Branden Cochran