Time and money

PRESENTATION TO HOUSE FINANCE COMMITTEE - JAN. 6, 2021

Former Department of Revenue Deputy Commissioner Larry Persily

Time is short for Alaska, as is money

Permanent Fund Corp. Nov. 30, 2020, balance sheet shows \$9.45 billion uncommitted and available in earnings reserve

> That accounts for anticipated FY22 POMV 5% draw \$3.069 billion

Governor proposes a special \$1.2 billion spring 2021 draw on earnings reserve to pay additional \$1,900 PFD to Alaskans

Proposes additional \$2 billion FY22 draw on earnings reserve by the 2021 Legislature to pay 'full' \$3,000 dividend in the fall

Will the savings last?

POMV 5% draws for FY21 and FY22 and the two additional draws for spring and fall dividends will total more than \$9.3 billion

Permanent Fund Board of Trustees recommends keeping 4X annual 5% POMV draw in the earnings reserve to protect against market downturn and ensure viability — about \$12 billion

Before Alaska started drawing on fund earnings in FY19 to help pay for public services, it relied on Constitutional Budget Reserve for 30 years, but CBRF will be down to \$600 million at FY21 end

Longer-term solutions

Governor proposes Alaskans vote in a spring special election on an advisory question to share annual Permanent Fund draw 50-50 between dividends and state budget public services

> And then three November 2022 constitutional amendments:

- Eliminating the line between Permanent Fund principal and earnings and turning the state's oil-wealth fund into a true endowment model
- State spending limit
- A prohibition on any new taxes without a vote of the people

Matching spending with revenues

Governor proposes \$450 million more in budget cuts FY22, 23, 24

- And then 'Alaska's economy will rebound from pandemic-induced recession as soon as FY23 and may be healthy enough to bear additional revenue measures' — sounds like new state taxes
- Governor's 10-year budget counts on 'other revenue sources' of \$1.2 billion in FY23 and about \$1 billion each year thereafter

> No specifics of 'other revenues' or how they could appear so fast

Repair and rebuild Alaska economy

- Governor asks \$300 million to \$350 million bond issue of 'shovel-ready projects,' with a special election this spring
- No specifics: 'Roads to resources, renewable energy projects, ports, harbors, runways, bridges and other essential projects'
- > Vote of the public required for general obligation state debt
- If not approved by voters until spring, can the work and jobs really start to help rebuild the Alaska economy in 2021?

Is this a realistic calendar?

It poses a risk of draining the Permanent Fund earnings

Governor wants election for stat issue and PFD a Lawmakers may 5% Permanent pay for services 2021 S	tewide bond advisory vote. y well exceed Fund draw to s, dividends.	\$9.5 billion as 2020, balance	53.069 billion. manent Fund rve balance was of Nov. 20,	FY23 5% POM estimated at \$ Governor prop split between per person) ar services and s	3.2 billion. ooses 50-50 PFDs (\$2,378 nd public	to require pul what if PF ear can't hold up	Y23 if voters tution in FY23
2021 5	Spring			ry 2022	1	per 2022	LISKS
2021 Special e		July 1, 2021		July 1, 2022		FY2023	
		election	2022	session	Fall el	ection	
	Advisory vote on governor's proposal for 50-50 split of Permanent Fund draw between PFD and budget, and a vote on bond issue.		FY23 budget 1 \$1.2 billion u 10-year plan,	Legislature will need to build FY23 budget that is short \$1.2 billion under governor's 10-year plan, which assumes unspecified 'other revenues.'		Constitutional amendments on November 2022 ballot: Spending limit, no new taxes without public approval; and turn PF into an endowment.	

Support for constitutional amendment

Permanent Fund Corp. Board of Trustees has adopted resolutions 3 times in support of constitutionally protected endowment that eliminates distinction between principal and earnings

> The Board of Trustees has not weighed in on dividend formula

Until a constitutional amendment converts the fund into an endowment, Trustees recommend maintaining a balance in earnings reserve equal to 4 times the annual 5% POMV draw — without buffer, the risk of reserve shortfalls is 'meaningful'

Permanent Fund grows

Permanent Fund Corp. projection of Nov. 30, 2020, shows an estimated year-end market value of \$80 billion in FY30

> That assumes state adheres to 5% annual POMV withdrawal

> Projection assumes average 6.75% annual return on investments

FY2030 5% POMV draw projected at \$3.66 billion, that is about \$200 million more than if \$3.2 billion additional is withdrawn from account to pay spring 2021 and larger fall 2021 PFDs

Almost forgot — what about oil

> Fall 2020 state Revenue Forecast book projects \$48 oil FY22

- > Alaska North Slope crude closed Monday a few dollars higher
- If North Slope oil averages \$60 a barrel in FY22, the state would earn about \$270 million additional revenue for general fund
- Enough to maybe close the budget gap for FY22, but without PFD
- > Dreams of \$100 oil hard to find, much like 90-pound Kenai kings