

IMPLEMENTING A STATE FISCAL PLAN: Step 1. Tracking Maximum Sustainable Yield

Alaska State Legislature
House Finance Committee
Juneau, Alaska
April 5, 2013

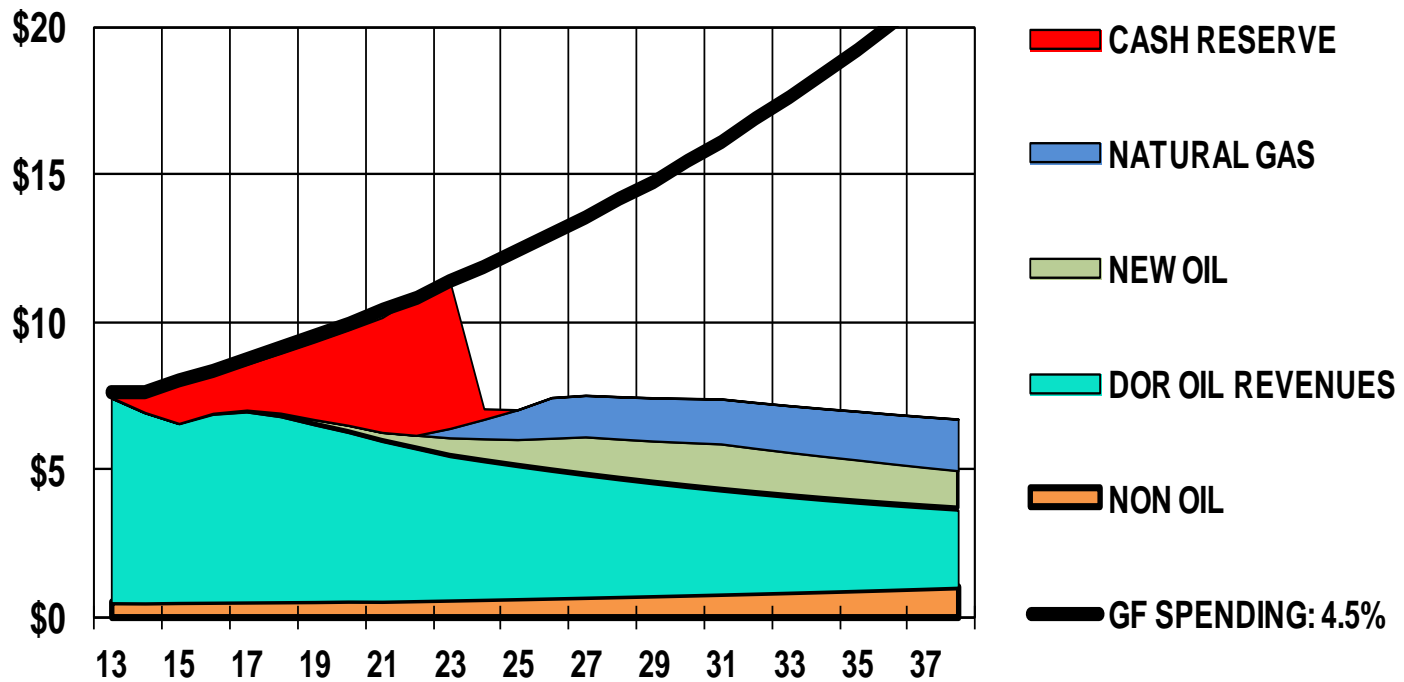
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A stylized, layered mountain range graphic in shades of teal and blue, located in the bottom right corner of the slide.

The Problem: Unsustainable Spending Growth

LOOKING BEYOND THE 10-YEAR HORIZON



The Solution:

RECOGNIZE AND MANAGE OUR PETROLEUM WEALTH LIKE A DEPLETABLE ASSET

1. How much is it worth?
2. How much of it can we spend without depleting it?
3. How can we invest it for maximum return?

Petroleum Wealth of the “Owner State”



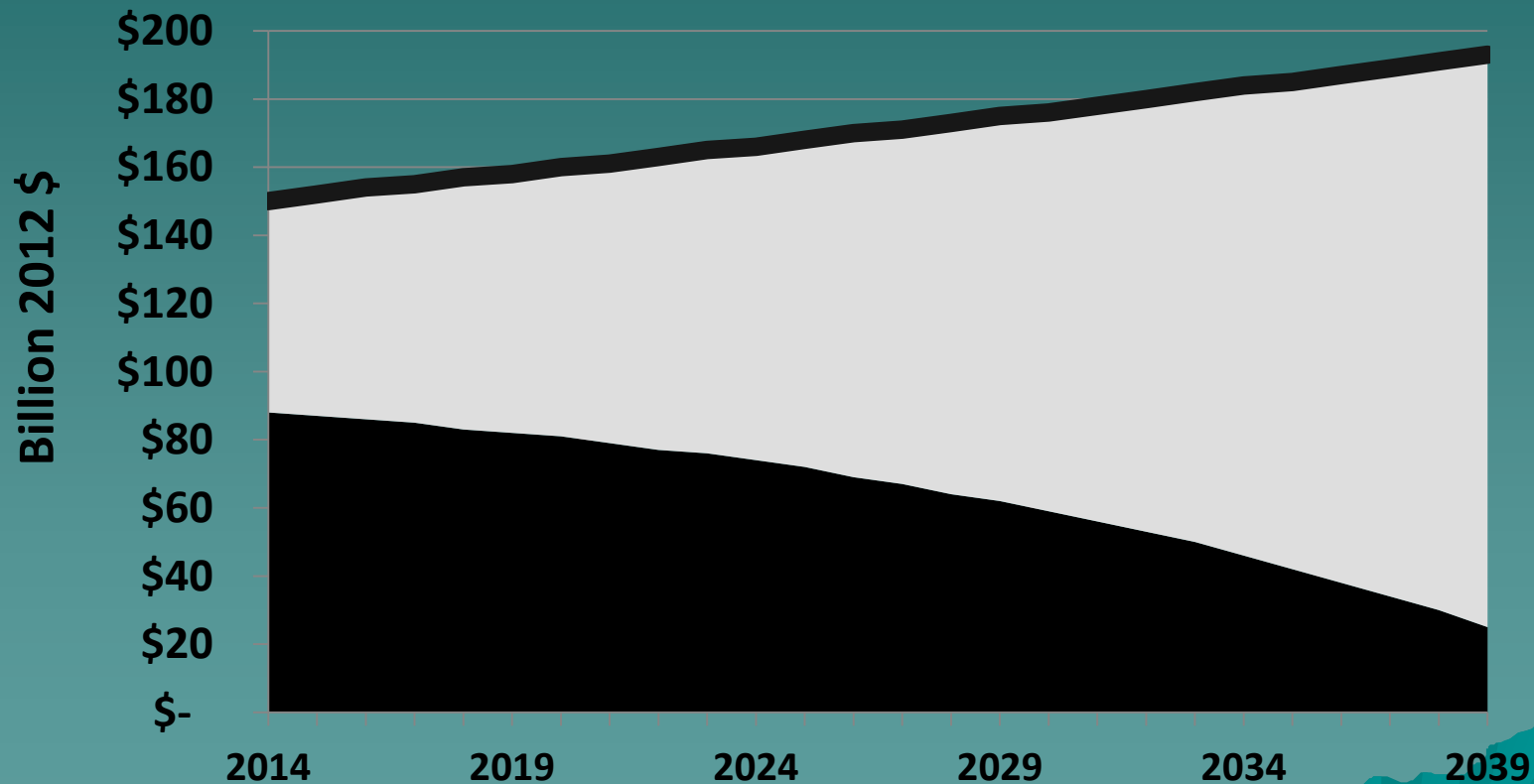
TOTAL	\$149 Billion
In the Bank	\$60 Billion
In the Ground*	\$89 Billion
Known Conventional Oil	\$67 Billion
Other Oil and Gas	\$22 Billion

* Estimated Net Present Value of Future Petroleum Revenues

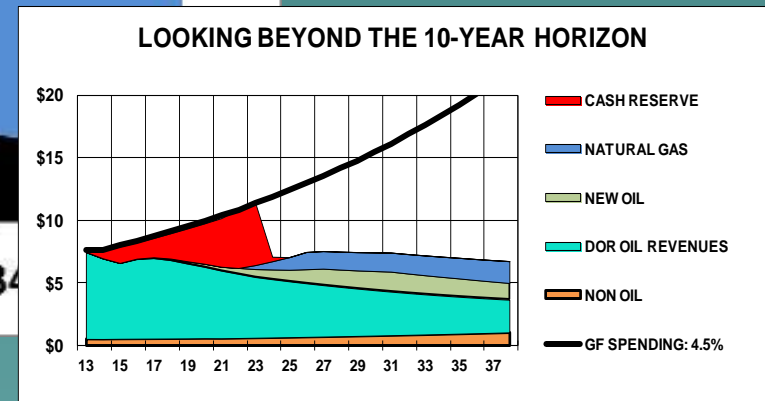
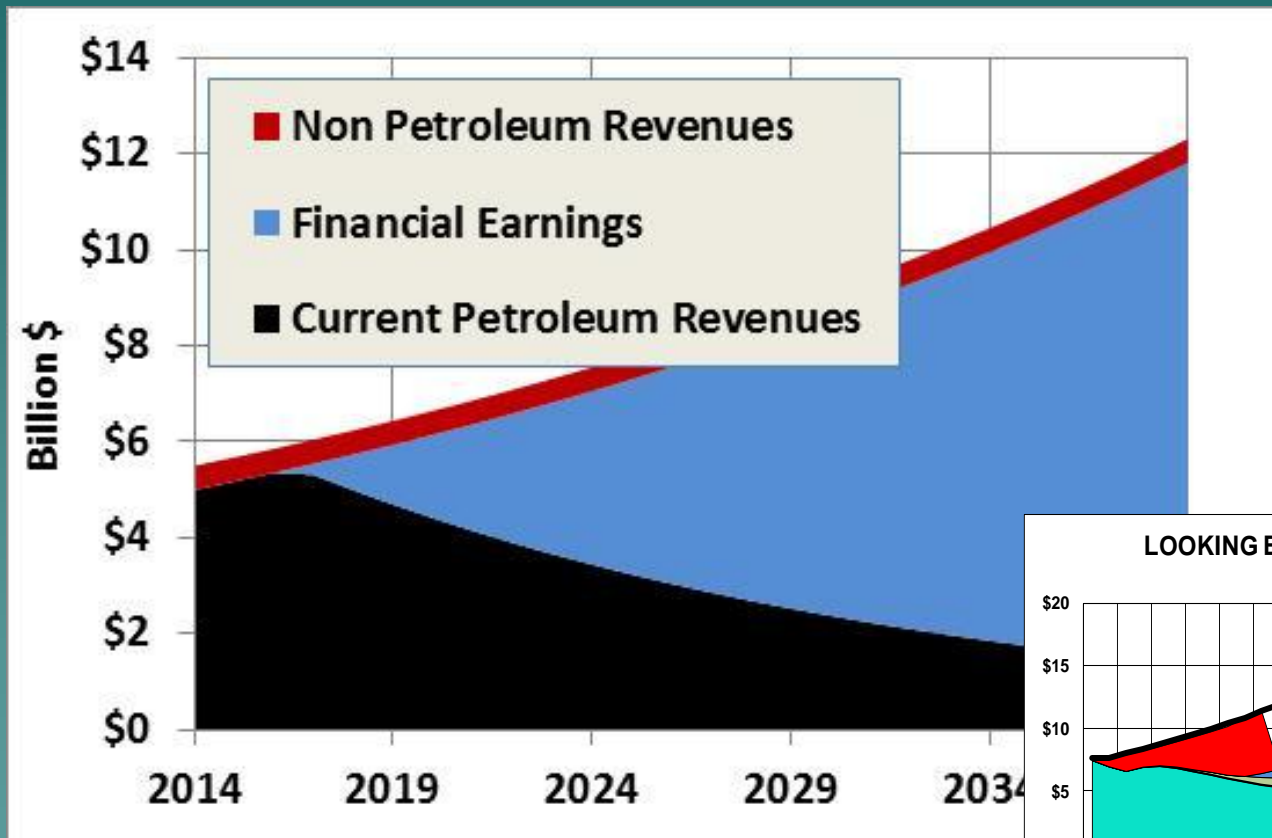
How Much Can We Spend Today: GF Maximum Sustainable Yield

NEST EGG	\$149 Billion
Multiply: MSY Draw Rate	4% (5%-1%)
Equals: MSY Draw	\$6 Billion =(\$149*4%)
Minus: PF Dividend	\$ 1 Billion
Plus: Non-Petroleum GF Revenues	\$.5 Billion
General Fund Maximum Sustainable Yield (FY2014)	\$ 5.5 Billion =(\$6 -\$1+\$0.5)

Maximum Sustainable Yield: Nest Egg Growth



Maximum Sustainable Yield: General Fund Growth



Maximum Sustainable Yield: Implementation

- Manage financial assets for maximum long term return
- Establish monitoring system to track Nest Egg value, set MSY target, and track progress towards sustainability
- Gradually transition to GF Maximum Sustainable Yield level
- Proactively participate in management of petroleum in the ground for maximum return

Track Nest Egg and GF MSY

Permanent Fund Balance

+ CBR Balance

+ SBR Balance

= Financial Assets

+ Value of Petroleum in Ground

= NEST EGG

Multiply by 4%

= MSY

+ Non-Petroleum GF Revenues

- Permanent Fund Dividend

= GENERAL FUND MAXIMUM SUSTAINABLE YIELD