

## 2015 SUSTAINABLE ALASKA PLAN NOTES

Governor Walker's Vision: to preserve jobs

The Sovereign Wealth Fund would be created through combining all Permanent Fund monies with natural resource extraction royalties and production taxes. The Governor's *Sustainable Alaska Plan Narrative* continues to use the title of the Permanent Fund for the newly created Sovereign Wealth Fund. In order to differentiate between these old and the proposed Permanent Fund, this document refers to the combined fund as the Sovereign Wealth Fund or Wealth Fund.

### Facts:

- \$3.4 Billion deficit between spending and government takings (fees, fines, production taxes and royalties).
- 35% reduction in state spending since 2013 (from \$8 to \$5B budget = \$3B reduction)
- Constitutional Budget Reserve (\$8.69B Dec. 2015) gone by 2018 (2.5 years)
- Permanent Fund Earnings Reserve (\$7.6B Nov. 2015) another by 2020 (2.25 years) with no dividend payouts. (\$6.4B in Reserves with 2016 dividend payout (2020
- Permanent Fund Corpus (protected funds) of about \$53.2B for another 15.6 years using current spending and \$3.4B deficit.

The above assumes no reduction in state spending.

### Strategy

- Reduce spending
  1. 2013 to 2015 reductions = 35% - from \$8B to \$5B (\$3B reduction)
  2. 2016 budget reduction of 8% (\$400 million [M])
  3. 2016 Hiring Freeze/ 600 fewer state employees (unfilled jobs removed from budget)
  4. 2017 Another \$100M in agency cuts (2%)
    - Reduce agency spending
    - Evaluate privatization of some government spending (see above)
    - Implement cross-agency efficiencies to improve services and reduce costs
- Key Investments for Alaska's Future
  - Infrastructure protection
    - Bond for a Capital Projects budget to support projects that would require cash payments (transportation and deferred maintenance)
  - Public education
  - Natural Gas Pipeline
  - Re-introduce a sustainable general fund budget only after stabilizing the operating budget, and once it can be shown to be compatible with the performance of new revenue sources.
- Use Sovereign Wealth Approach for Permanent Fund (Government can spend)
- Adjust existing Taxes upward (natural resource extraction production taxes and royalties), implement broad-based statewide taxes
  - Decrease oil and gas tax credits
  - Add income, motor fuel, alcohol and tobacco/e-cig taxes

### Transition to a Sovereign Wealth Plan

- Actually moves Constitutional Budget Reserve into Permanent Fund Reserves
  - Move Permanent Fund into Sovereign Wealth Fund

- Moves natural resource extraction and production taxes and royalties into Permanent Fund Reserves
  - Put production taxes and royalties into Sovereign Wealth Fund
- Provides for government withdrawals from Permanent Fund Reserves/Sovereign Wealth Fund
  - Provide for a stable and *consistent* withdrawal from earnings on Wealth Fund
- Evidence of current spending levels less \$100M is the carefully calculated formula
  - Use carefully calculated formulas and assumptions to determine government withdrawal amounts
- Distribute Wealth Fund Dividends based upon 50% of natural resource extraction and production taxes and royalties
  - Taxes and royalties are currently diminishing rapidly, isn't that the problem?
- The current protections require a vote by Alaskans
  - Maintain current protections for Permanent Fund Corpus amount and deposit the CBR into the Earnings Reserve account to form the Sovereign Wealth Fund
- Taxation without significant cuts in spending is presumptive
  - Implement income tax as well as increasing alcohol, motor fuel, tourism and tobacco taxes.

## What this does ...

### Strategy

- Reduce spending
  - Applies past credit for reduction achievements today and gives much credit to what has not happened
    1. 2013 to 2015 reductions = 35% - from \$8B to \$5B (\$3B reduction)
    2. 2016 budget reduction of 8% (\$400 million [M] does not make 8%)
    3. 2016 Hiring Freeze/ 600 fewer state employees on payroll, travel limitation.
  - Doesn't provide for the additional \$300M promised in the Plan
  - 4. 2017 Another \$100M in agency cuts (2%) but not anywhere near the \$2B needed
    - Reduce agency spending
    - Evaluate privatization of some government spending (see above)
    - Implement cross-agency efficiencies to improve services and reduce costs
- Key Investments for Alaska's Future
  - Infrastructure protection – we can do this right now without the Plan
    - Bond for a Capital Projects budget to support projects that would require cash payments (transportation and deferred maintenance)
    - The plan either continues to support existing spending or does not address any reductions or savings in this.
      - Public education
    - Alaska is a 25% owner – this changes nothing either
      - Natural Gas Pipeline – Alaska is already a 25% partner in the project
  - Sustainable Budget – no concrete statements of how or what is to be done
    - Re-introduce a sustainable general fund budget only after stabilizing the operating budget, and once it can be shown to be compatible with the performance of new revenue sources.

- Use Sovereign Wealth Approach for Permanent Fund
- Adjust existing Taxes upward (natural resource extraction production taxes and royalties)  
implement broad-based statewide taxes
  - Decrease oil and gas tax credits