Alaska's Fiscal Crossroads
A Discussion

For years Alaskans have heard about the state's "fiscal gap," which is the result of recurring expenses exceeding recurring revenues (if you were a family, you would describe it as "living beyond your means.") The state has been "living beyond its means" in ten of the last 12 years.

This gap has been filled by spending from the Constitutional Budget Reserve (CBR), a savings account created by voters in 1990 that consists of one-time settlements from disputed oil and gas royalties and taxes. Over the years, $7.9 billion has gone into the fund; today only $1.9 billion remains. In spite of high oil prices in this current fiscal year that ends June 30, 2003, nearly $500 million still will be needed to prop up spending.

In developing the FY 04 budget, the challenge was to begin the process by which the state starts to "live within its means" (budget cuts) or gets another job to bring in more income (new revenues). For the long term, the Administration is committed to growing recurring revenues by developing Alaska's resources to pay for appropriate state responsibilities, such as public safety, transportation, and education.

But for the short-term, it is necessary to make different spending decisions. To get that process underway, Administrative Order 202, issued on the Governor's first day in office, outlined a process by which every department evaluated what it does, how it does it, and what results is it getting for the public dollars invested in those services—a "bottom line" for state government. The results from this evaluation formed the basis for many of the budget recommendations reflected in the proposed budget.

Throughout this process the Administration also was very focused on the bigger picture of the need to minimize the draw that will be required from the CBR to help pay for next year's spending. Again, there were two ways to do this—new revenues and budget cuts. The proposed FY 04 budget accomplishes both:

- $235 in additional revenues, of which $114 million is primarily user-related fees, and $121 million is the deposit of one-time monies in the General Fund;

- $55 million in operating budget cuts. This number understates the level of reductions; nearly $190 million in cuts were made but were offset by formula-driven increases and debt payment obligations.

Overall, comparing FY 2004 to FY 2003 General Fund spending:

Revenues:	$82 million higher
Operating Budget:	$55 million lower
Capital Budget:	$25 million higher
Debt, Other Appropriations:	$11 million higher
Total Spending:	$20 million lower

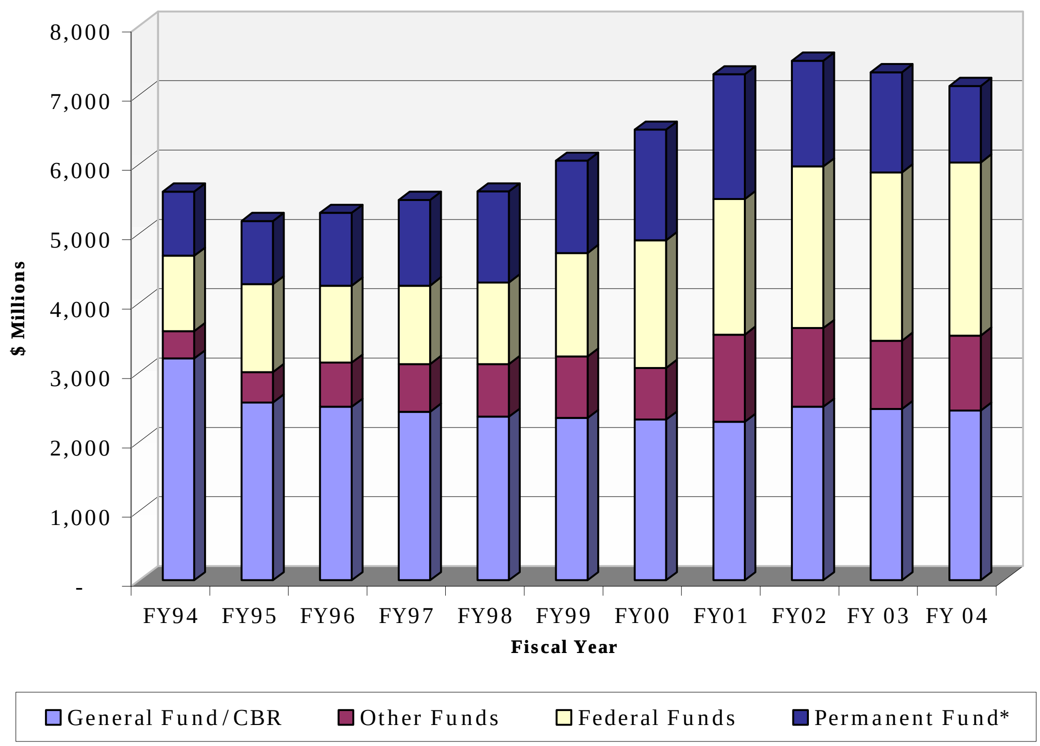
The following information provides background about state spending, revenues, and the context for developing the Fiscal Year 2004 budget.

FISCAL ISSUES

Historical Background

Chart 1 below shows appropriations by fund source for the Governor's FY 04 proposed budget compared to annual budgets in the past decade. What it demonstrates is that the main areas of growth by far in the total state budget have been federal funds and Permanent Fund payments for dividends and inflation proofing.

Chart 1
Appropriations by Revenue Source
Operating and Capital Budgets
FY 1994 - FY 2004 Proposed



Source: Legislative Finance Budget History File
*Permanent Fund includes appropriations for dividends and inflation proofing.

Federal funds have restrictions on how they may be spent and are largely devoted to transportation and health and social service programs. For the most part, the Legislature and Governor do not exercise much control over federal spending. Federal programs also often require a state general fund match ($356 million in the Governor's proposed FY 04 operating and capital budgets) or have maintenance of effort requirements. For the past several years, federal match requirements have made up about half of the general fund portion of the state capital budget ($139 million in fiscal year 2003).

Chart 2 focuses on state-controlled funding sources (excluding Permanent Fund earnings which are discussed in detail in a later section) and shows the relationship between general fund revenue, draws from the constitutional budget reserve (CBR) and other funds during the past decade.

The category of “other funds” in the budget includes such sources as university tuition and Alaska Housing Finance Corporation (AHFC) receipts and has grown as well, mainly to supplement and supplant declining general fund revenue. Beginning in 1992, there has been a concerted effort to separate out services that are fee supported from those that compete for general fund revenues. “Other funds” do not affect the fiscal gap or increase the draw on the CBR. Many fee-supported and self-funding programs have been reclassified from general fund to other state funds, which accounts for some of the growth in the other funds portion of the budget. The other funds portion of the Governor’s FY 2004 budget proposal is $91 million higher than the FY 2003 authorized budget.

General Fund Revenues

The “fiscal gap” between revenues and expenditures is defined solely in terms of state general funds and is the focal point of the Governor’s FY 04 budget proposal because reductions in general fund spending help close the gap. The general fund portion of the FY 2004 Governor’s proposed budget is $20 million less than the FY 2003 authorized budget. However what isn’t shown in the graph is that nearly $190 million in built-in general fund cost increases, mostly in formula programs and debt service, had to be cut out of the budget or otherwise accommodated to achieve a $20 million overall general fund savings.

The state currently produces about half of the 2 million barrels per day of oil that it did at its peak in 1988. The long term decline in production is exacerbated by the fact that new production from smaller fields is taxed at a much lower rate than the declining super-giant Prudhoe Bay and Kuparuk fields. Petroleum royalties and taxes comprise about 84% of general fund revenues. Chart 3 shows historical and projected general fund revenue and demonstrates how the long-term underlying decline in petroleum revenue is affected by periodic spikes and troughs caused by oil price volatility.

Chart 2

State Funding Sources and CBR Draw
Operating and Capital Budgets
FY 1994 - FY 2004 Proposed

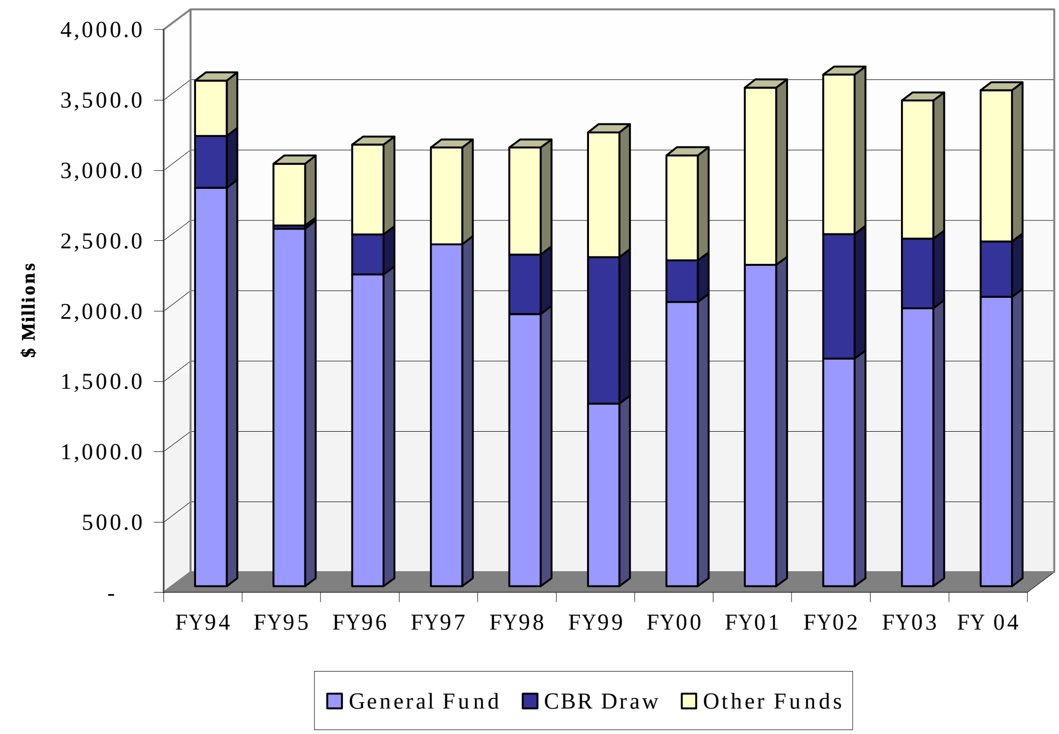
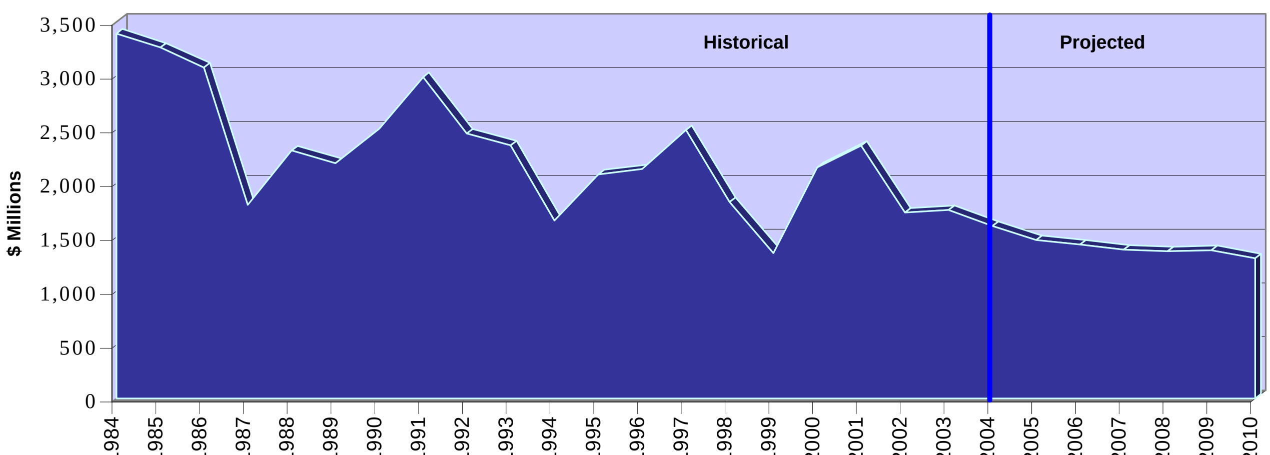


Chart 3

Historical and Projected General Fund Revenue
Status Quo



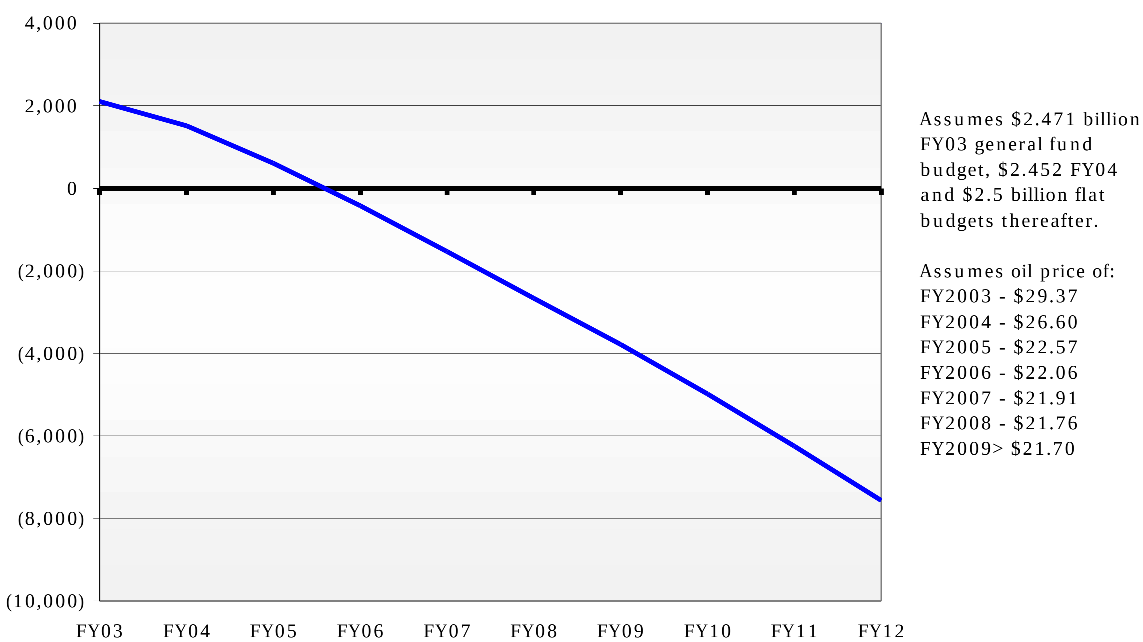
Department of Revenue, *Fall 2002 Revenue Sources Book*

New oil developments in NPRA and elsewhere on the North Slope will undoubtedly improve the long-term revenue picture but are at least a few years off. (For an excellent discussion of potential oil and gas production opportunities, link to the Department of Revenue *Fall 2002 Revenue Sources Book* at www.tax.state.ak.us.) Likewise the Governor's proposals for industrial roads to mining and other natural resource development prospects will take some time to bring revenue returns to the state treasury. For this reason it is important in the meantime to preserve the balance in the CBR so that it can help bridge until revenues from new development are available.

General Fund Revenues and the CBR Draw

The CBR was established by a constitutional amendment authorized in a statewide vote in the 1990 general election. It was capitalized by oil and gas royalty and tax settlements with petroleum companies and was designed as a buffer to insulate the state general fund from oil price swings that devastated the state economy in the mid '80s. At current production level, every $1 change in the average price of oil over the fiscal year results in a $65 million change in revenues. (In the mid-'80s every $1 change in the price of oil generated $150 million due to high production in high tax fields.)

Chart 4
CBR Balance
FY 2003 - FY 2012



Virtually all of the large tax and royalty cases have been settled, which means there are no more big deposits to replenish the CBR. During the past decade the CBR has served as a buffer to oil price volatility and it has been used to address the state's structural deficit.

For 10 of the past 12 fiscal years, the state has balanced its budget by drawing money from the CBR – a little over $5 billion so far of the $7 billion in total deposits. The FY 03 CBR draw is projected to be $494 million and the Governor's proposed FY 04 budget projects a $393 million draw. Even assuming flat general fund budgets and extraordinarily high oil prices, absent any new revenues, the CBR will be depleted in February 2006. If the Legislature approves the Governor's proposed one-time deposits to the general fund ($121 million) and revenue increases ($113 million), the date when the CBR is depleted will be delayed by about another 6 months. Chart 4 is a graphical depiction of the Department of Revenue projection of the Governor's FY 04 budget proposal.

The immediate goal expressed in the budget proposal is to slow the rate of CBR decline with a combination of budget cuts, one time fund transfers to the general fund, and new revenue sources so it can continue to function as an oil price buffer. Longer-term, the goal is to close the fiscal gap by balancing expenditures with recurring revenues.

The fiscal summary *(Table 1)* provides a broad outline of the Governor's FY 2004 proposed budget compared to the current year. Individual departmental budget detail is available by following the link: http.//www.gov.state.ak.us/omb/04_OMB/budget/budgethome.htm

Table 1

Fiscal Summary
FY 2003 Authorized Compared to FY 2004 Governor Proposed

(dollars shown in millions)

		FY2003 Authorized				FY2004 Governor				Difference	
		General Fund	Federal Funds	Other Funds	Total Funds	General Fund	Federal Funds	Other Funds	Total Funds	General Fund	Total
1	**Revenues**										
2	Unrestricted General Fund Revenues (A)	1,977.0			1,977.0	1,824.0			1,824.0	(153.0)	(153.0)
3	Proposed New Revenues				0.0	113.6			113.6	113.6	113.6
4	One-Time Deposits to the General Fund				0.0	121.2			121.2	121.2	121.2
5	Corporate Dividends (B)			77.4	77.4			52.0	52.0		(25.4)
6	Federal and Other Funds		2,429.9	906.1	3,336.0		2,497.3	1,022.8	3,520.2		184.2
7	Total Revenues	**1,977.0**	**2,429.9**	**983.5**	**5,390.4**	**2,058.8**	**2,497.3**	**1,074.8**	**5,630.9**	**81.8**	**240.6**
8	**Authorization to Spend**										
9	**Operating**	**2,222.3**	**1,416.4**	**773.2**	**4,411.9**	**2,167.3**	**1,458.9**	**792.2**	**4,418.4**	**(55.0)**	**6.5**
10	Agency Operations (non-formula)	1,116.0	738.1	1,220.1	3,074.1	1,089.0	721.5	1,245.7	3,056.1		
11	Formula Programs	1,106.4	678.3	117.1	1,901.7	1,078.3	737.3	141.0	1,956.6		
12	Duplicated Authorizations (C)			(564.0)	(564.0)			(594.4)	(594.4)		
13	**Capital**	**109.8**	**947.7**	**124.5**	**1,182.0**	**134.4**	**1,003.9**	**209.5**	**1,347.8**	**24.6**	**165.9**
14	Project Appropriations & Revised Programs	109.8	947.7	227.5	1,285.0	134.4	1,003.9	268.1	1,406.4		
15	General Obligation Bonds (D)			463.5	463.5				0.0		
16	Duplicated Authorizations (C)			(566.5)	(566.5)			(58.6)	(58.6)		
17	**Debt and Other Statewide**	**139.1**	**65.9**	**85.8**	**290.8**	**150.1**	**34.6**	**73.1**	**257.7**	**10.9**	**(33.1)**
18	Debt Service (E)	11.5	0.0	110.5	122.1	48.0	1.7	122.3	172.1	36.5	50.0
19	Loan and non-Debt Fund Capitalization	57.7	25.2	33.4	116.2	67.5	32.9	11.0	111.3	9.7	(5.0)
20	Supplemental Appropriations	69.9	40.7	(8.2)	102.4	33.0			33.0	(36.9)	(69.4)
21	New Legislation				0.0	1.6		0.7	2.3	1.6	2.3
22	Duplicated Authorizations (C)			(50.0)	(50.0)			(60.9)	(60.9)		
23	**Total Authorization to Spend (unduplicated)**	**2,471.2**	**2,429.9**	**983.5**	**5,884.6**	**2,451.8**	**2,497.3**	**1,074.8**	**6,023.9**	**(19.5)**	**139.3**
24											
24	AK Permanent Fund Dividends (and PFD division operations)			682.0	802.0			507.0	509.0		(293.0)
25	AK Permanent Fund Inflation Proofing and Other Transfers			205.0	642.0			590.0	594.0		(48.0)
26	Total AK Permanent Fund			887.0	1,444.0			1,097.0	1,103.0		(341.0)
27	**Totals with Permanent Fund**	**2,471.2**	**2,429.9**	**1,870.5**	**7,328.6**	**2,451.8**	**2,497.3**	**2,171.8**	**7,126.9**	**(19.5)**	**(201.7)**
28	**Draw from Constitutional Budget Reserve**	**494.2**				**393.0**				**(101.3)**	

Notes

A FY2003 Unrestricted Revenues are based on an oil price of $29.37 per barrel and estimated production of 0.994 million barrels per day. FY2004: $26.60 and 0.997 mbd

B Corporate Dividends include funds made available to the State by the boards of the Alaska Industrial Development and Export Authority (AIDEA), the Alaska Housing Finance Corporation (AHFC), and the Alaska Student Loan Corporation (ASLC). The AIDEA dividend for FY2003 is $20.1 million. Under current statutes, there will not be an FY2004 AIDEA dividend. The total AHFC transfer for divid capital projects, loan programs and debt service is $103 million for FY2003, and $103 million for FY2004. Since AHFC's debt payments for general government purpose bonds do not require appropriati the net transfers appropriated here are $52 million for FY2003 and $47 million for FY2004. The ASLC Dividend is $5.25 million in FY2003 and $5 million for FY2004.

C Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided.

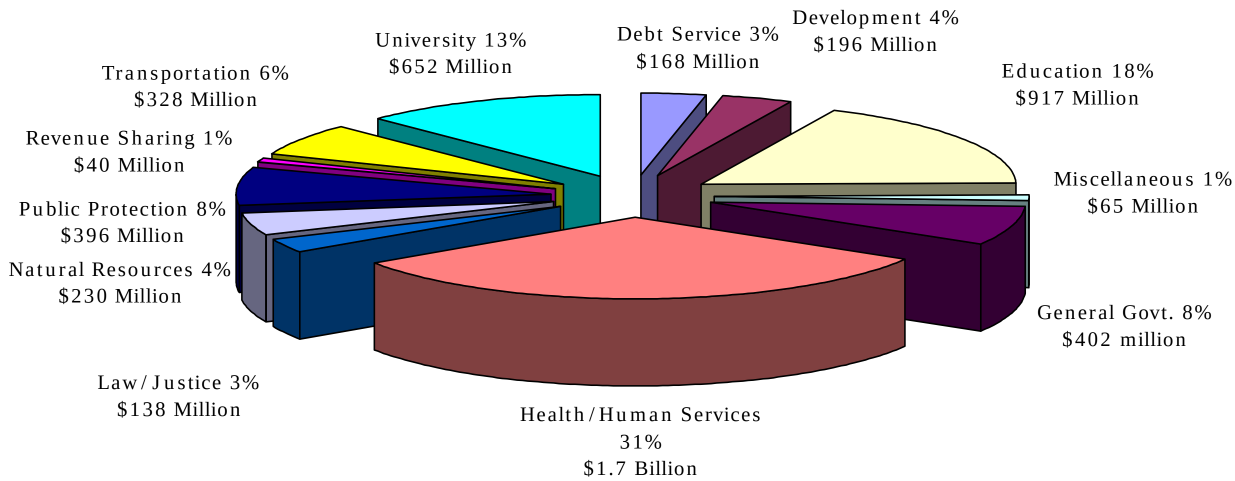
D General Obligation bonds are included in the FY2003 capital budget, however, are backed out as duplicated authorizations as the actual costs of the bonds will be incurred as debt payments in future ye

E This amount includes capitalization of Debt Retirement Fund. The legislature appropriated $20.0 million of the general funds amount needed to pay FY2003 debt as an FY2002 supplemental to the Debt Retirement Fund. It was vetoed down to $11.5 million to match the amount actually needed in FY2003.

The pie charts (*charts 5 and 6*) provide a sense of the relative share of spending by program area in the FY 04 proposed operating budget in terms of total funds and general funds.

Chart 5

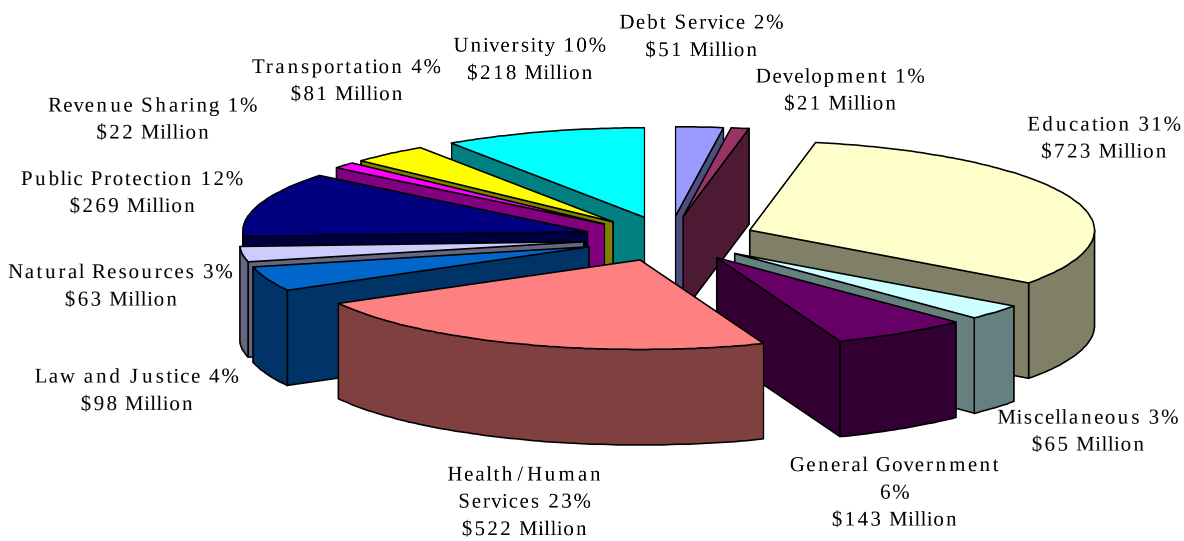
FY 2004 Proposed Operating Budget
All Funds Sources ($4.4 Billion)
by Program Category*



*Excludes Permanent Fund earnings appropriations for dividends and inflation proofing.

Chart 6

FY2004 Proposed Operating Budget
General Fund ($2.2 Billion)
by Program Category

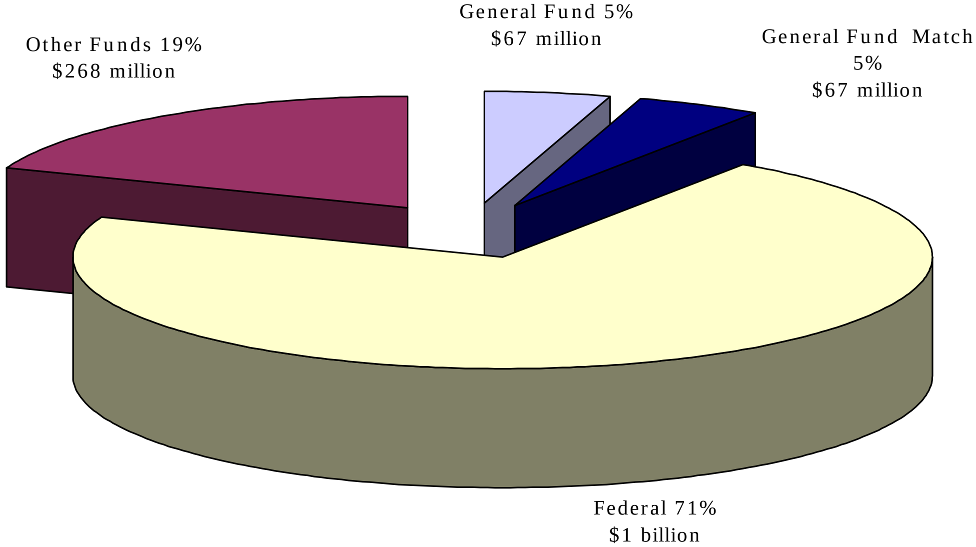


*Note that category totals add to more than $2.2 billion because they include duplications and fund transfers.

The capital budget is shown in charts 7 and 8 by major funding source and program category.

Chart 7

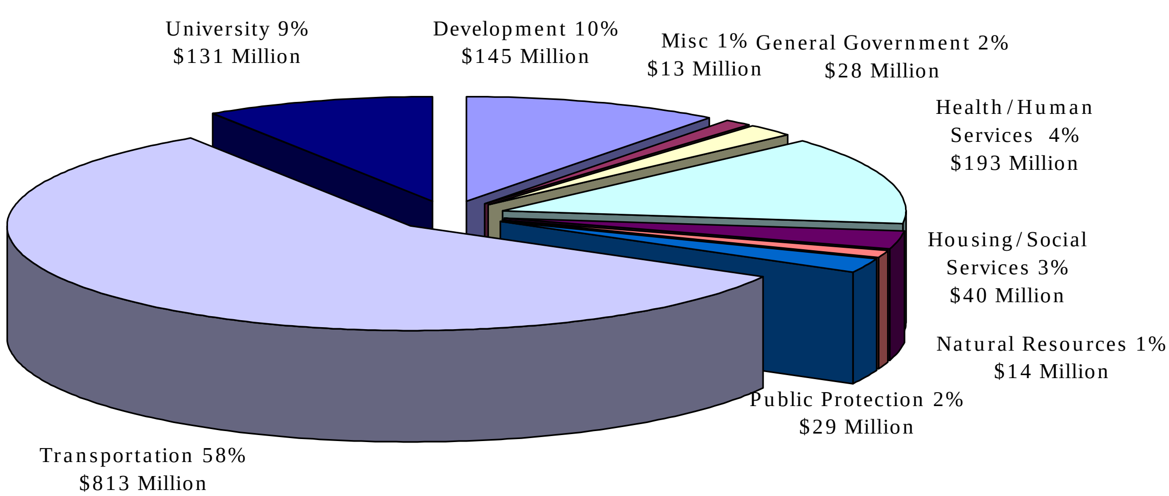
FY 2004 Proposed Capital Budget
All Fund Sources ($1.3 Billion)*



*Section dollar totals are greater than total due to rounding.

Chart 8

FY 2004 Proposed Capital Budget
All Fund Sources ($1.3 Billion)



Spending

In recent years, formula programs and debt service have been primary driving forces in state spending increases. To be successful, any long-term fiscal plan needs to come to grips with these areas of systemic budget growth.

Formula Program Growth

Charts 9 and 10 show formula program growth by fund source and provide some perspective on how their growth affects the state operating budget. Even though the focus here is on *state* spending, it is important to show the growth in federal funding, particularly for Medicaid, because of state match requirements ($288 million of the $2.2 billion in general funds for the FY04 operating budget).

Chart 9
Formula Program Growth by Fund Source FY 1999 - FY 2003

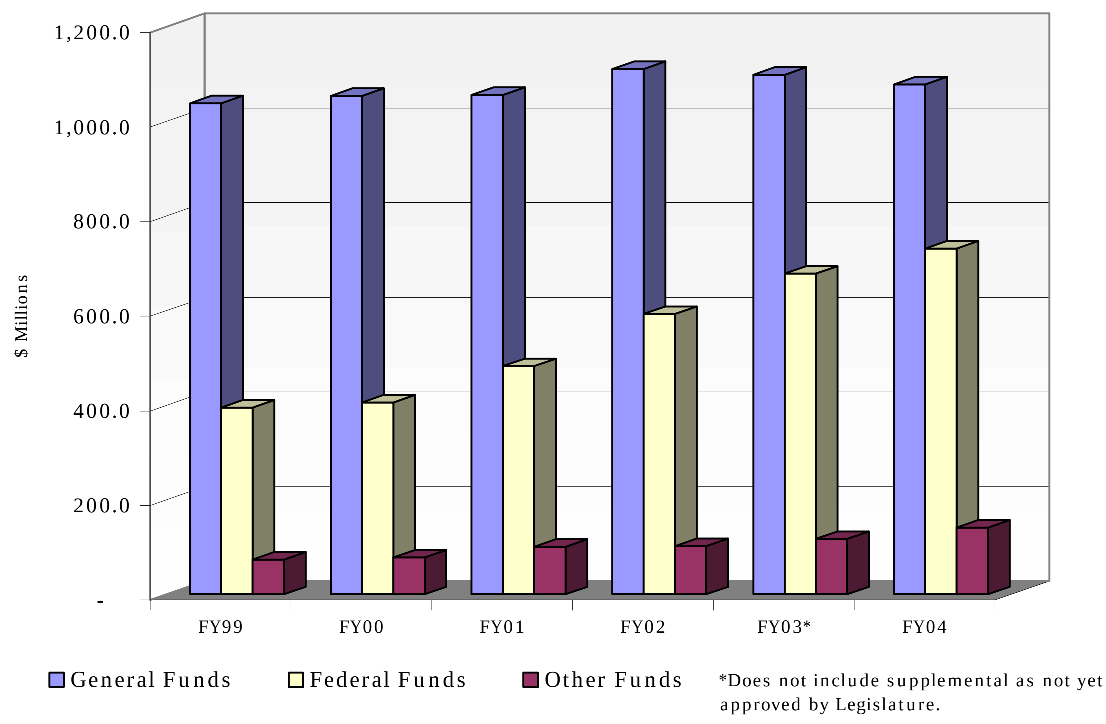


Chart 10
Operating Budgets vs. Formula Programs
General Funds
FY 1994 - FY 2004 Proposed

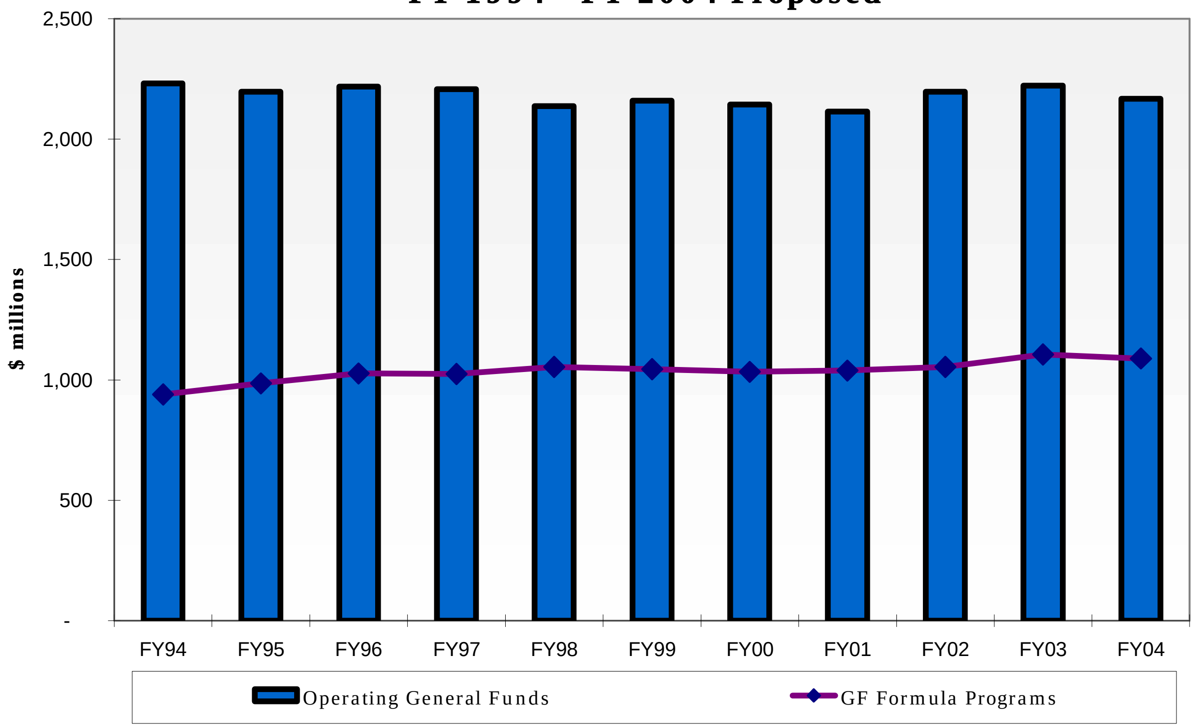


Table 2 is a list of formula programs that highlights changes in the Governor's proposed FY 04 budget. Proposed program cuts eliminate the Longevity Bonus program, reduce Pupil Transportation and the Revenue Sharing/Safe Communities programs. Table 2 highlights formula program changes from FY 03.

Table 2

Formula Programs

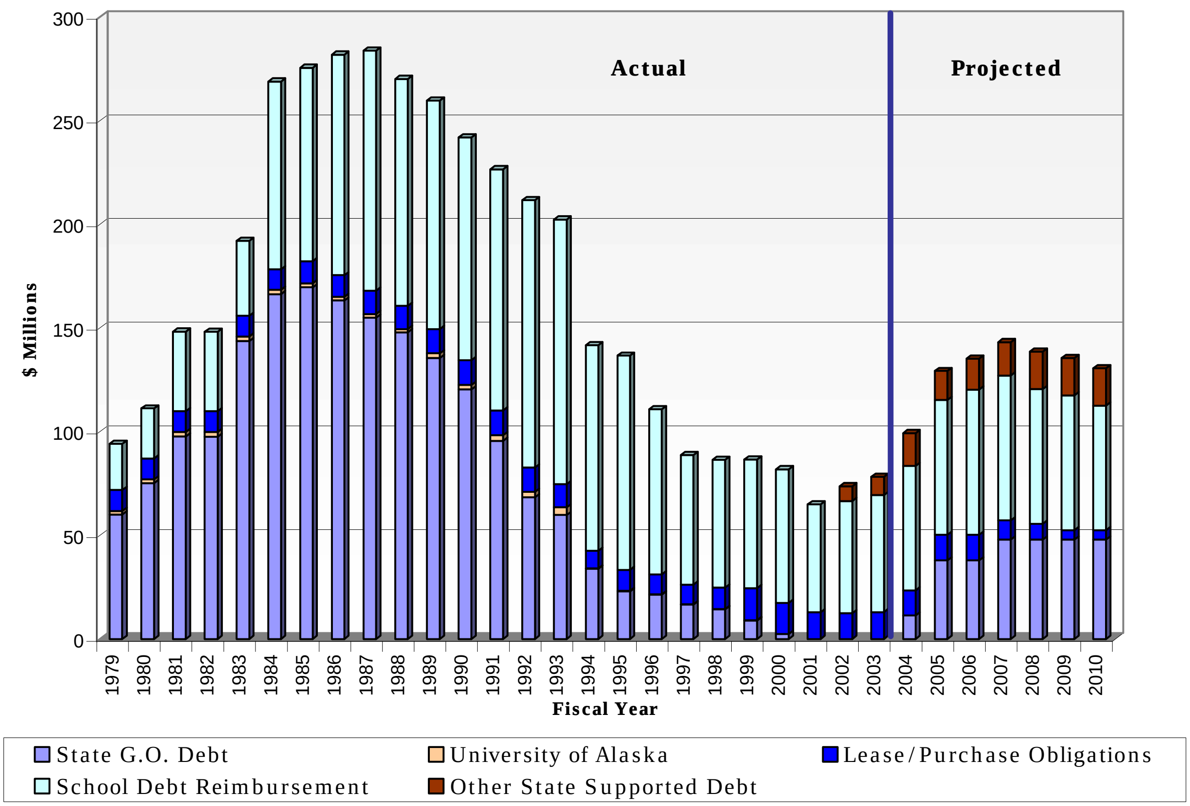
FY 2003 vs. FY 2004 Proposed

Agency	Program	FY 03	FY 04	Change
DOA	Elected Public Officers Retirement System Benefits	1,093.9	1,493.9	400.0
	Unlicensed Vessel Participant Annuity Retirement Plan	75.0	75.0	-
		1,168.9	**1,568.9**	**400.0**
				-
DCED	Power Cost Equalization	15,700.0	15,700.0	-
	State Revenue Sharing	12,855.2	9,641.4	(3,213.8)
	Municipal Assistance/Safe Communities	16,775.5	12,581.6	(4,193.9)
	National Program Receipts	15,830.0	15,830.0	-
	Fisheries Business Tax	1,150.0	1,600.0	450.0
		62,310.7	**55,353.0**	**(6,957.7)**
				-
Education	Foundation Program	707,324.3	687,668.1	(19,656.2)
	Tuition Students	2,225.0	-	(2,225.0)
	Boarding Home Grants	335.9	185.9	(150.0)
	Youth in Detention	1,100.0	1,100.0	-
	Pupil Transportation	53,933.8	43,188.2	(10,745.6)
	Community Schools	500.0	-	(500.0)
		765,419.0	**732,142.2**	**(33,276.8)**
				-
DHSS	AK Temporary Assistance Program	47,653.7	47,653.7	-
	Adult Public Assistance	54,357.5	57,811.5	3,454.0
	General Relief Assistance	1,061.4	1,549.0	487.6
	Longevity Bonus	47,519.3	-	(47,519.3)
	Old Age Assistance-Alaska Longevity Bonus (ALB) Hold Harmless	1,527.9	-	(1,527.9)
	Tribal Assistance	8,612.5	8,612.5	-
	Permanent Fund Dividend Hold Harmless	13,007.9	15,405.5	2,397.6
	Medicaid Services*	820,036.5	930,873.6	110,837.1
	Child Care Benefits	33,102.0	49,836.1	16,734.1
	Foster Care	17,545.8	18,908.9	1,363.1
	Catastrophic and Chronic Illness Assistance	2,000.0	2,000.0	-
	Children's Health Eligibility	2,588.3	2,279.6	(308.7)
	Subsidized Adoptions & Guardianship	14,610.1	19,011.2	4,401.1
	Schools for the Handicapped	6,846.9	6,297.2	(549.7)
		1,070,469.8	**1,160,238.8**	**89,769.0**
				-
DMVA	Retirement Benefits	**1,322.5**	**1,322.5**	**-**
				-
	Total	**1,900,690.9**	**1,950,625.4**	**49,934.5**
				-
	General Funds	**1,098,588.2**	**1,078,333.7**	**(20,254.5)**
				-
	Federal Funds	**678,301.4**	**731,314.2**	**53,012.8**
				-
	Other Funds	**117,072.1**	**140,977.5**	**23,905.4**

Debt Service Growth

Another area of recent and future growth in the state budget is debt service. During the past decade, the state was able to leverage non-general fund revenue sources to finance capital projects, e.g., tobacco settlement receipts, and the Alaska Housing Finance Corporation (AHFC) dividend. However that all changed last year when voters approved the first issuance of general obligation bonds since 1980 for transportation and school construction projects. The Legislature also approved a school debt reimbursement program for municipalities and capital project debt reimbursement for various university, harbor and power projects.

Chart 11
State Supported Debt Service
Historical and Projected



The net increase to the state general fund operating budget for debt service in FY 04 is $36 million. This would have been higher by $6.6 million if the Governor's proposal had not prorated school debt reimbursement by 10%. (Proration means that if the state approved share of a municipality's debt service is 60%, the Governor's proposal will actually fund it at 54% in the FY

04 budget.) Debt service will increase in the future as additional authorized bonds are sold. Table 3 provides a detailed breakdown of the state's debt obligations and the revenue sources used to meet them.

Table 3

FY2004 Proposed

Debt Obligations and Revenue Sources

($ thousands)

Debt	**FY2003**	**FY2004**	**Inc/(Dec)**
School Debt Reimbursement (estimated maximum per school districts)	52,536.0	59,421.7	6,885.7
Lease Finance			
API Replacement	1,635.9	706.0	(929.9)
Palmer Airport Fire Facility	759.7	756.8	(3.0)
Spring Creek Correctional Facility	4,002.0	3,991.2	(10.8)
Palmer Courthouse	415.5		(415.5)
Kenai Courthouse	566.4		(566.4)
Anchorage Times Building	789.4	789.3	(0.1)
Soldotna DOT Maintenance Facility	636.6	639.3	2.7
Anchorage Health Lab	2,287.6	2,319.1	31.5
Fairbanks Courthouse	2,899.5	2,900.3	0.8
Trustee Fees	100.0	100.0	0.0
Total Lease Finance	14,092.7	12,201.9	(1,890.7)
Atwood Building	3,549.4	3,549.4	0.0
AHFC Debt	50,000.0	56,002.0	6,002.0
HB528- University		1,412.9	1,412.9
HB528- Harbors		1,212.1	1,212.1
HB528- Power Projects		3,705.8	3,705.8
General Obligation Bonds- Education and Museum		6,693.5	6,693.5
General Obligation Bonds- GF Transportation		3,211.6	3,211.6
General Obligation Bonds- GARVEE Transportation		2,000.0	2,000.0
Tobacco Securitization- 2000	10,095.8	8,801.7	(1,294.1)
Tobacco Securitization- 2001	10,095.8	8,801.7	(1,294.1)
Total Debt	140,369.6	167,014.3	26,644.7
Fund Sources			
School Fund (Cigarette Tax)	31,600.2	28,600.0	(3,000.2)
AHFC Dividend (corporate debt)	50,000.0	56,002.0	6,002.0
Debt Retirement Fund Balance 1)	2,350.0	7,869.8	5,519.8
Tobacco Securitization- 2000	10,095.8	8,801.7	(1,294.1)
Tobacco Securitization- 2001	10,095.8	8,801.7	(1,294.1)
Investment Loss Trust Fund balance	100.0	2,944.7	2,844.7
ACPE Dividend	783.1		(783.1)
AHFC Dividend (DRF)	18,700.0		(18,700.0)
FY2002 Supplemental to Debt Retirement Fund	11,531.7		(11,531.7)
Atwood Building bond interest earnings		1,636.9	1,636.9
Atwood Building earnings from private tenant rent		1,081.6	1,081.6
Municipal Bond Bank interest on reserve account		775.0	775.0
Lease Retirement Account investment earnings		461.3	461.3
GARVEE Transportation Bonds Federal Revenue (estimate)		1,700.0	1,700.0
GARVEE Transportation Bonds AATP Match (estimate)		300.0	300.0
General Funds Required	5,113.0	48,039.7	42,926.7
Total Fund Sources	140,369.6	167,014.3	26,644.7
General Fund Appropriations			
Appropriation to Debt Retirement Fund	8,000.0	40,877.9	32,877.9
Appropriation to Administration for Atwood Building Debt	3,549.4	830.9	(2,718.5)
Appropriation to University for HB528 Debt		1,412.9	1,412.9
Appropriation to Transportation and Public Facilities for HB528 Debt		1,212.1	1,212.1
Appropriation to Community and Economic Development for HB528 Debt		3,705.8	3,705.8
Subtotal General Fund Appropriations	11,549.4	48,039.7	36,490.3

1) Reduce FY 2003 school debt reimbursment based on actual entitlements, plus increased cigarette tax receipts added $6,436.3 to the debt retirement fund balance.

The cost to the state for financing future debt is dependent on the state's credit rating. Currently the state enjoys an excellent credit rating – Aa2 Moody's, AA for both Standard and Poors and Fitch. While none of the rating agencies seem disposed towards downgrading the state's credit rating, they are quite aware of Alaska's long term fiscal situation and are watching closely to see how it is addressed. The importance of bringing recurring revenues and expenditures in line will have a significant impact on the state's future bond ratings.

Long Term Fiscal Plan

Some analysts believe that the most viable option under discussion for bridging the fiscal gap is the Percentage of Market Value (POMV) proposal that has been recommended in the past by the Permanent Fund trustees. The trustees say that the POMV payout proposal would solve a major portion of the fiscal gap, guarantee that Permanent Fund dividends will continue and extend the life of the CBR before additional revenue measures need be considered.

The basic elements of the Board's proposal are straightforward: Five percent of the market value of the Permanent Fund would be paid out each year (about $1.2 billion). The trustees have made no recommendations on how the payout is to be spent. (For modeling purposes we assume it is split evenly between dividends and the general fund.) On average, the Fund is expected to earn about 7.95% per year so the payout rule would add 3% each year to the value of the Fund to offset the effects of inflation and maintain its real value into the future.

The 5% payout rate is at the upper end of what other endowments have found to be sustainable and was chosen by the Fund trustees as a balance between spending for the current generation of Alaskans and maintaining the purchasing power of the Fund for future generations.

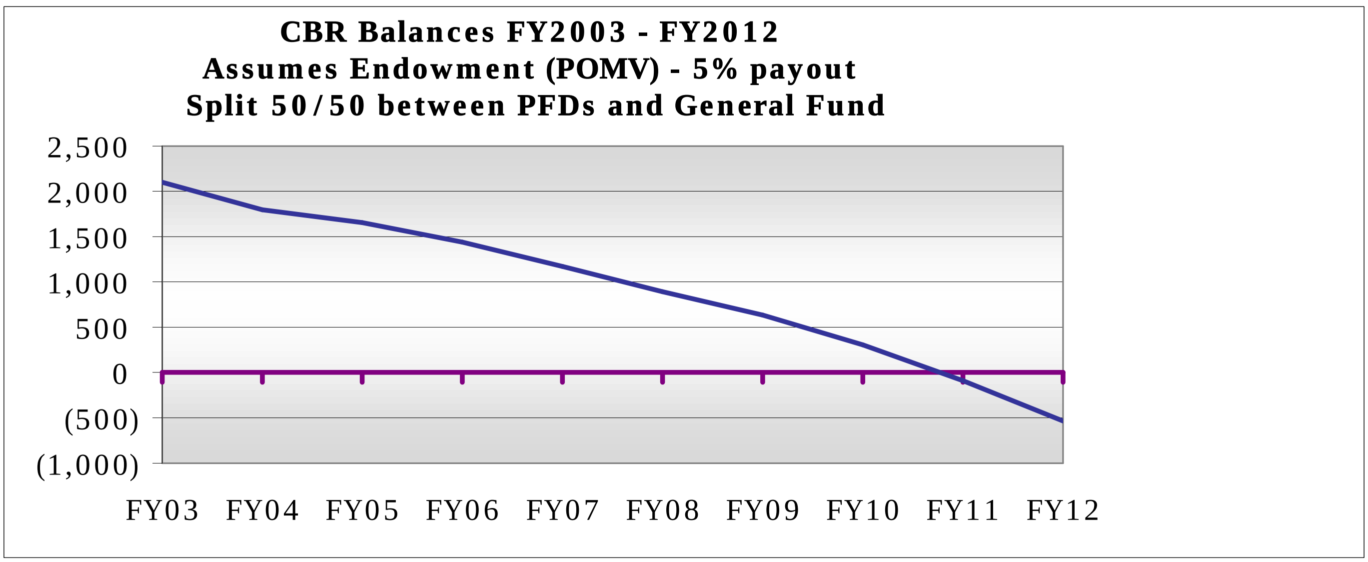
Currently dividends are paid out of the Earnings Reserve Account (ERA) of the Fund. Because of market losses, the balance in the ERA in September 2002 was zero, prompting speculation that funds might not be available to pay a 2003 dividend. A POMV approach would ensure that there would be funding available each year to pay dividends regardless of market volatility.

The Governor has said that no change will be made to the Dividend Program without a vote of the people. If offered as a constitutional amendment, a POMV formula as proposed by the Trustees would require a 2/3 vote approval of each house of the Legislature and then be approved by voters in a statewide election. If approved in 2004 by voters, with an effective date of January 2005, $623 million would be available for dividends and an equal amount to the general fund.

If the state were not to adopt the POMV approach, but instead continue the status quo, the CBR can be expected to be drained completely by February 2006. Without a major source of new revenue at that time, there would be no choice but to make severe cuts in state programs or use Permanent Fund earnings, which could put both the dividend and inflation-proofing at risk.

The POMV provision by itself would extend the projected depletion date for the CBR to August 2008. Combined with the Governor's FY 04 budget and legislation proposals, the date of CBR depletion is pushed out to April 2011, giving time for additional recurring resource development revenues, such as those that would come from production of natural gas from the North Slope or from ANWR.

Chart 12



Permanent Fund and CBR Summary

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Permanent Fund Earnings to General Fund	-	-	623	629	646	673	698	719	742	764
Permanent Fund Expected Earnings	(516)	1,651	1,756	1,813	1,872	1,932	1,993	2,054	2,116	2,178
End-of-year market value of Permanent Fund	22,694	24,173	24,953	25,766	26,596	27,425	28,266	29,114	29,967	30,823
End-of-year Earnings Reserve balance	382	614	-	-	-	-	-	-	-	-
End-of-year CBRF balance	2,100	1,796	1,655	1,438	1,169	892	633	304	(88)	(533)
Projected Dividend (by Calendar Year)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Status Quo	*1,120*	*820*	*650*	*700*	*950*	*1,220*	*1,410*	*1,540*	*1,660*	*1,760*
POMV 5% Model	*1,120*	*820*	*1,000*	*990*	*1,010*	*1,040*	*1,070*	*1,090*	*1,120*	*1,140*
Projected Date of CBR Depletion										
Status Quo				February '06						
POMV 5% Model									April '11	

Department of Revenue Shortcut Model

Summary

The initial focus of the Governor's proposed FY 2004 budget is on the fiscal gap between general fund revenues and expenditures. The first step is to slow the drawdown of the CBR balance to maintain its usefulness as a buffer to oil price volatility. The proposed budget cuts nearly $190 million in built in general fund cost increases, mostly in formula programs and debt service to achieve $20 million in overall savings compared to FY 2003. The Governor also proposes $113 million in new revenues from a variety of sources and one time transfers of $121 million in funds from other sources to the general fund. Altogether these actions (plus higher oil prices) would decrease the draw on the CBR from $494 in FY 2003 to $393 million for the Governor's FY 2004 proposed budget. This compares to the 842 million CBR Draw that was projected when the Legislature approved the current year budget last May.

For the longer-term, the Governor has asked the Permanent Fund trustees to make recommendations on how to best protect the Permanent Fund itself as well as how to provide stable and predictable distribution of earnings for dividends. If a similar POMV proposal as that discussed in this overview could extend the life of the CBR to August 2011. This would allow more time for resource development revenues to come on line and postpone the day when broad-based taxes need be considered.