OFFICE OF GOVERNOR MICHAEL J. DUNLEAVY

State of Alaska Fiscal Plan For FY20 – FY29

Office of Management and Budget

March 18, 2019

This document provides additional detail for the fiscal year 2020 (FY20) budget and the 10-year fiscal plan required under AS 37.07.020(b)(2). This 10-year plan was developed using the Governor's FY20 budget and legislative package as a starting point, and extrapolating the impact of those proposals over the nine subsequent fiscal years. This plan presents a vision of a smaller, optimized State government that maintains essential services, while paying full dividends, growing the Permanent Fund, and avoiding broad-based taxes on everyday Alaskans.

Governor Dunleavy's Vision for Alaska's Future

In the years since 2014, when oil prices last exceeded $100 per barrel, Alaska has spent $16 billion from its savings to avoid difficult decisions about the State's budget. When it became clear that State savings would run out before revenues would recover, policy makers decided to use a portion of the earnings of the Permanent Fund to support government spending.

Beginning in 2016 and continuing through 2018, executive and legislative actions reduced each Alaskan's Permanent Fund Dividend (PFD). These reductions in the PFDs contradicted the statutory formula for calculating dividends and set the stage for continued *ad hoc* reductions to continue.

Now, the State's savings accounts are nearly depleted and everyday Alaskans are demanding that their PFDs not be unilaterally reduced again; meanwhile, a $1.6 billion deficit remains. The time has come for the State to implement a permanent fiscal plan.

Governor Dunleavy has proposed a budget that is based on five core tenets:

- Expenditures cannot exceed existing revenue;
- Focus on core functions that impact most Alaskans;
- Maintain and protect our financial reserves;
- Minimize the financial burden on Alaskan families; and
- The budget must be sustainable, predictable, and affordable.

This plan presents a vision of a smaller State government, with more money in the pockets of Alaskans, planting the seeds for economic growth and providing higher levels of freedom and individual liberty. This is accomplished by reducing State spending and making statutory and constitutional adjustments to prevent future excessive growth in government spending at the expense of the people.

For those who support alternative approaches to solving the State's fiscal problem, additional scenarios are presented that do not reduce the size of government. Instead, those alternatives make up the revenue shortfall over the next decade through PFD cuts, unsustainable spending of savings, or imposing broad-based taxes.

These alternatives highlight that there is no simple solution to addressing the State's budget deficit. Every option comes at a cost. The question is, "What trade-offs are we willing to accept?" While reductions in State services are difficult decisions, it is important to recognize the cost of *not* addressing the structural gap between revenues and expenditures. In short, the alternative scenarios provided in this document illustrate the different visions they represent and demonstrate why Governor Dunleavy believes his plan is the best way forward for Alaska.

Revenue Forecast:

All scenarios in this 10-year plan are based on the Department of Revenue's Spring 2019 revenue forecast. This forecast assumes oil prices of $66 in real terms, which is essentially stable at current levels. With the emergence of shale oil as a market-balancing mechanism, sustained prices much above $70 or below $60 tend to incent additions or reductions to shale drilling activity. These responses quickly bring oil supply on or off the market and return prices back to current levels.

Over the next ten years, it would not be surprising for oil prices to periodically rise above $70 per barrel. But, given the unpredictable nature of oil prices couple with the market-stabilizing forces of shale producers and OPEC production, the more prudent approach is to plan around a long-term average price supported by market fundamentals.

In terms of oil production, Alaska North Slope production is assumed to be relatively stable around 500,000 barrels per day over the next 10 years. This assumption is based on the forecast prepared by the Department of Natural Resources, which suggests that production from new fields such as Willow and Pikka will roughly offset declines at older fields like Prudhoe Bay and Kuparuk.

Additional assumptions in the revenue forecast include company spending (lease expenditures), investment returns, and estimates for non-petroleum taxes and fees. Details about the revenue forecast can be found in the Spring 2019 *Revenue Sources Book* located at www.tax.alaska.gov.

State Unrestricted General Fund (UGF) revenue (before Permanent Fund transfers) totals between $2.2 and $2.7 billion per year over the 10-year forecast, of which petroleum revenue constitutes between 74% and 79%. Additionally, the Percent of Market Value (POMV) draw from the Permanent Fund, established in 2018 with Senate Bill 26 (SB26), offers an additional $2.9 to $3.7 billion per year over the 10-year forecast.

SB26 did not change the PFD calculation, implying that the current law should be followed. Following the existing statutory PFD calculation leaves approximately $1 billion per year of the POMV available for General Fund uses.

Four Scenarios

Although the Governor's budget focuses on reducing government spending and transferring a full PFD to Alaskans, there has been discussion of alternative options. The scenarios provided in this document demonstrate various approaches to addressing the fiscal problem. For each scenario, expected revenues, expenditures, deficits, savings balances, and PFDs are presented.

Scenario 1 is the Governor's plan. It includes reduced State spending and makes statutory and constitutional adjustments to bring spending in line with projected revenues. This scenario is based on Governor Dunleavy's proposed FY20 budget and corresponding legislative package, which envisions a smaller State government that distributes the people's share of oil wealth to Alaskans as prescribed by existing law.

Scenario 2 essentially continues the trend in budgetary and spending policies of the past three years. It assumes the legislature continues to make *ad hoc* reductions to the PFD instead of reducing the cost of government operations. This scenario inevitably leads to the demise of the PFD program, as increased government spending eventually consumes the entire structured POMV draw from the Earnings Reserve. Ultimately, this scenario still requires a future solution to the same problems currently facing the State.

Scenario 3 is a more passive approach. It uses the remaining accessible savings accounts to maintain existing levels of State spending, while paying the full statutory PFD. This approach eventually fails, absent a dramatic rise in oil prices. In short, this scenario can be described as the "kick the can down the road" approach, as the same problems being debated today would exist again in the future, except future Alaskans would have fewer options to address them.

Scenario 4 maintains current State spending levels, pays the statutory PFD, and protects current assets, but it does so by imposing significant taxes on Alaskans. This high-tax scenario would ultimately lead to reduced household income and lower economic growth in exchange for more government services.

These scenarios represent the extremes on a continuum of options available to legislators. The Governor looks forward to comparing and evaluating the legislature's proposal, against his vision for Alaska.

Scenario 1: The Governor's Plan

FY2020-FY2029 Projected Source and Uses of State General Funds ($ millions)										
Sources of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Unrestricted GF Revenue per RSB	2,303.6	2,242.0	2,197.2	2,197.0	2,182.9	2,176.5	2,303.4	2,401.7	2,581.4	2,710.5
Restricted GF Revenue per RSB	472.9	455.7	456.9	458.5	459.7	460.8	462.2	463.7	465.2	465.7
Program Receipts not in RSB	508.2	519.6	531.3	543.2	555.5	568.0	580.7	593.8	607.2	620.8
Remaining POMV after PFD Payments	989.1	1,034.2	839.4	901.8	1,219.2	1,233.3	1,250.0	1,266.7	1,285.9	1,312.3
Transfers (to) Principal under new Savings Rule	-	-	-	-	-	-	-	(71.0)	(246.1)	(380.3)
Transfers from/(to) CBR	(50.0)	129.1	455.9	370.0	123.8	145.1	12.1	$ -	-	-
Net Revenues From Fiscal Notes	420.4	429.5	438.6	448.1	453.9	457.8	460.1	461.9	461.8	460.1
Total Available General Funds	**4,644.2**	**4,810.0**	**4,919.3**	**4,918.7**	**4,994.8**	**5,041.5**	**5,068.6**	**5,116.8**	**5,155.4**	**5,189.2**
Uses of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Agency Operations	4,019.0	4,089.2	4,181.2	4,144.7	4,209.7	4,242.7	4,261.2	4,299.4	4,326.4	4,353.6
Debt Service Payments	129.7	133.0	161.7	192.9	197.5	203.3	203.2	204.1	203.6	198.9
PERS/TRS Contributions	307.9	423.1	409.1	410.9	414.4	419.0	424.5	430.4	439.1	447.1
Capital Expenditures	143.4	144.8	148.1	151.4	154.8	158.3	161.9	165.5	169.2	173.1
Net Appropriations from Fiscal Notes	44.2	19.9	19.2	18.8	18.5	18.1	17.8	17.4	17.0	16.6
Total General Fund Appropriations	**4,644.2**	**4,810.0**	**4,919.3**	**4,918.7**	**4,994.8**	**5,041.5**	**5,068.6**	**5,116.8**	**5,155.4**	**5,189.2**
Appropriation Limit*	**10,565.4**	**10,911.1**	**5,339.0**	**4,918.7**	**4,994.8**	**5,041.5**	**5,068.6**	**5,116.8**	**5,155.4**	**5,189.2**
Total Dividend Funds ($ millions)	**2,506.6**	**2,743.1**	**2,990.5**	**2,347.7**	**2,122.9**	**2,164.3**	**2,200.5**	**2,241.4**	**2,287.4**	**2,334.8**
Per Person Dividend Base	**$2,998**	**$3,148**	**$3,416**	**$3,522**	**$3,150**	**$3,180**	**$3,202**	**$3,230**	**$3,264**	**$3,300**
Per Person Dividend Repayment	**$1,061**	**$1,289**	**$1,388**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Per Person Taxes	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
FY2020-FY2029 Projected Savings Account Balances ($ millions, end of year)										
	2020	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Permanent Fund Principal Account (non-spendable)	48,529.0	49,948.1	51,391.4	52,870.7	54,386.2	55,952.5	57,586.2	59,287.0	61,060.4	62,899.8
Permanent Fund Earnings Reserve Account	18,592.2	17,926.6	17,222.1	17,150.5	17,038.6	16,924.5	16,812.6	16,700.9	16,584.2	16,456.2
Permanent Fund Total	**67,121.1**	**67,874.7**	**68,613.5**	**70,021.2**	**71,424.8**	**72,877.0**	**74,398.8**	**75,987.9**	**77,644.5**	**79,356.0**
Savings Reserve Fund	**4,342.1**	**4,555.1**	**4,427.0**	**4,353.3**	**4,497.2**	**4,627.0**	**4,896.2**	**5,191.1**	**5,500.6**	**5,825.6**

*The proposed constitutional amendment would take effect in FY22, but would use a 3-year average. So, the FY22 limit would be higher than expected spending.

One of the Governor's core tenets is that State spending should not exceed long-term projected revenues[1]. Thus, the Governor's plan includes a budget in which spending is balanced against revenue projections.

Right-Sizing Government

Spending reductions are found in three budget proposals: a FY19 supplemental budget, a FY20 operating budget, and a FY20 capital budget.

In most years, a supplemental budget requests additional funds from the legislature above the previously enacted budget. In Governor Dunleavy's FY19 supplemental budget, expenditures are offset by reversals from the FY19 budget, resulting in the return of $5.8 million to the General Fund.

In the face of significant fiscal challenges, commensurate changes are necessary. The FY20 operating budget proposal makes reductions in several areas of State government to help bring spending down to a level Alaska can afford. Most notable are reducing education funding to bring non-instruction spending in line with other states, promoting a self-sustaining University system, overhauling the Medicaid program, and seeking a public-private partnership for the Alaska Marine Highway System.

Governor Dunleavy has also focused on eliminating non-essential travel, consolidating and realigning government services across departments, reforming government salaries, leveraging public/private partnerships to unlock entrepreneurism, and realigning priorities to meet the needs of most Alaskans.

In total, the proposed budget reduces agency operations spending by over $1.1 billion, of which over $900 million is attributable to Unrestricted General Fund (UGF) spending. Additional detail for the FY20 budget can be found at https://gov.alaska.gov/wp-content/uploads/sites/2/02132019-FY20BudgetSummary.pdf.

The proposed FY20 capital budget is limited to the required State match for Federal transportation programs and essential deferred maintenance projects. The proposal includes just $143 million in general funds that leverage over $1 billion in federal dollars. In the Governor's plan, it is assumed that there are no increases in capital spending, other than inflation.

To prevent the government from returning to excessive levels of spending in the future, the Governor has introduced a constitutional amendment (SJR6/HJR7) that would correct a fatal flaw in the appropriations limit enacted in 1982. Passing this amendment would prevent future legislators from increasing spending if oil prices rise in the future and would convert the existing Constitutional Budget Reserve Fund (CBRF) into a savings fund, which would act to stabilize the reasonably sized budget if future oil prices fall.

Under the proposed amendment, spending would be capped at the lesser of (1) the average of the appropriations for the last three fiscal years, plus half the rate of inflation and population growth, or (2) two percent. In the event of surplus revenue, the amendment calls for it to be redirected to the reestablished savings fund or the Permanent Fund. Rather than allowing surplus revenues to be spent on growing government, saving surplus revenues will position the State on more stable ground in the event revenues decline in future years and allow for more growth in the Permanent Fund to the benefit of Alaska's future generations.

The new appropriations limit would exclude some categories of spending from the cap, such as money deposited into the Permanent Fund, the PFD program, money to pay obligations and revenue bond proceeds, money from trust funds, and the appropriation of Federal funds.

[1] Note: Expenditures matching revenues does not mean the State should chase oil prices each year. The Governor has proposed a constitutional amendment that prevents budgets from following increased revenues and converts the Constitutional Budget Reserve Fund to a savings fund, which better addresses downside revenue volatility.

Beginning in FY22, the amended constitutional appropriation limit prevents excessive growth in budgets over the remainder of the 10-year plan. In all, the total General Fund budget rises to just $5.2 billion by FY29, compared to nearly $8 billion in the other scenarios.

Giving the People a Voice

A second proposed amendment (SJR4/HJR5) would involve the public in any decision to establish or increase a State tax. Simply put, any new tax or tax increase would not take effect without an affirmative vote of the people. This proposal retains taxing power with the legislature, but ensures that the legislature and the people are in agreement.

Rationalizing State and Local Government Relationships

Governor Dunleavy believes that local problems are best addressed by local solutions. He envisions a State with minimal overreach from the State and Federal levels of government. He is appreciative of the feedback provided by local leaders around the State, and he looks forward to working with them as the State's financial situation is resolved.

Restoring and Protecting the PFD

Over the past three years, Alaskans have not received the full value of their mineral ownership. Through executive or legislative action, the PFD has been less than what the existing law prescribes. This left many Alaskans feeling that a process that had been in place for almost 40 years was violated without any public involvement. If the legislature passes the Governor's bills (SB23 & SB24 / HB46 & HB47), eligible Alaskans would receive the rest of their 2016, 2017, and 2018 PFDs.

The Governor's plan also proposes to eliminate the ability for unilateral reductions to the PFD to occur in the future. A constitutional amendment (SJR5/HJR6) would prevent future legislators from viewing the dividend as a budget item that can be reduced without the consent of Alaskans.

In the Governor's plan, the current PFD law is followed every year, resulting in an annual per-person PFD of over $3,000. After paying the full annual dividend, the remaining portion of the authorized structured draw is transferred to the General Fund.

Growing Our Savings

By enacting austerity measures in government spending, the Governor's plan maintains robust savings balances. By FY29, the Permanent Fund balance rises to almost $80 billion, of which $16.5 billion remains in the Earnings Reserve. That balance generates $3.6 billion per year in POMV draws, which helps allow future legislatures to pay for the reasonably growing budget without enacting taxes.

Meanwhile, the new Savings Reserve Fund (SRF) grows to $5.8 billion, which can stabilize futures budgets if oil price falls again and be there in the event of a disaster. This occurs, in part, by transferring the endowment funds that support power cost equalization, community assistance grants, and higher education scholarships, to the SRF. Those program costs will then become part of the General Fund budget discussion, where they belong. This change allows for a more honest and transparent accounting of the State's finances.

Getting Our Fiscal House in Order

All told, the Governor's plan signals to those wishing to invest in Alaska that it has its fiscal house is in order, and is open for business. The plan results in higher levels of household income to support a higher standard of living, avoids taxes that would hinder economic growth, and ensures that Alaskans continue to receive their individual share of Alaska's resource wealth. Removing uncertainty regarding future taxes will promote further investment and allow Alaska's economy to grow and diversify.

Understanding the Economic Impacts of the Governor's Plan

A 2016 report by the Institute of Economic and Social Research (ISER) titled "Short-Run Economic Impacts of Alaska Fiscal Options" is the best available research specific to Alaska's fiscal situation. While no study can predict exactly how future economic measures will unfold, it does provide valuable insights into the relative impacts of different policy choices.

According to the ISER report, the direct relationship between government spending and government jobs is one job per $127,028 of spending. As a theoretical secondary impact, assuming that a person losing a job stops spending money in the economy, each State employee that loses a job would result in one additional job loss in the economy. This is known as an indirect job loss. However, these lost indirect jobs are of lower economic value and would occur at some unknown point in the future.

The report also provides an estimated total economic impact of between 558 and 892 jobs per $100 million in PFD distributions. However, these jobs are most likely seasonal, part-time, and minimum wage jobs that occur between October and December (the holiday season). Therefore, a direct comparison of job impacts between changes in government spending and PFD distributions can be misleading. It is more valuable to make those comparisons based on total household income.

Importantly, the report ranks the fiscal options and demonstrates that budget cuts have a smaller disruption to household income than revenue measures do. Of the revenue measures, PFD cuts are the most damaging. Therefore, the Governor's plan to reduce the size of government while protecting the PFD generates the lowest level of economic harm.

ISER estimates the impact to household income at between $130 and $149 million per $100 million in the case of the PFD, and between $108 and $122 million per $100 million in the case of budget cuts[2]. This implies that the impact on Alaskans' standard of living is more sensitive to changes to the PFD than changes in government spending.

This occurs because PFD payments are direct income, all of which shows up in Alaskans' checking accounts. With government spending, part of the payment to employees goes to health insurance, federal taxes, and retirement savings. Therefore, the full amount of government spending is not available for employees to spend right away. As a result, the near-term economy reacts more severely and quickly to changes in the PFD than to budget cuts.

Using these impact estimates to household income, it is possible to compare the relative impact of the different scenarios[3]. The Governor's proposal makes reductions to the State budget, some of which would qualify as having a direct impact on the economy. In total, the Governor's proposal would result in the reduction of income, on those directly employed by reduced State and Federal funding, of roughly $1 billion[4].

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[2] The budget cuts numbers were derived by taking an average of the different budget cut options presented in the report.

[3] Note that these are impacts to the aggregate economy. Individuals within the economy will feel these impacts differently. Some will see significant changes in their lives; others will not notice a difference in theirs'.

[4] The Governor also envisions a University system that is more self-sustaining. He, therefore, reduced the State contributions, and authorized the University to raise more revenues from other sources. If that vision is fulfilled, there would be no economic impact of this shift. However, if the University cannot raise new revenues, and elects

Following this initial economic correction, the economy would adjust to the lower level of government spending. Because of lower household consumption by those who lost their jobs, the rest of the economy could see a reduction in household income by up to $400 million. However, if the initial losses in income do not translate to reductions in consumption, either due to retirement income, savings, debt, or replaced income, the secondary effects would be something less than that amount.

Conversely, the Governor is proposing a direct increase in household income through larger dividend disbursements. Compared to the $1 billion of distributions in FY19, the FY20 plan would inject $2.5 billion into checking accounts around the State. Those additional funds would improve the lives of over 630,000 Alaskans in a variety of ways. Some of those funds would improve the sales at Alaskan businesses, bolstering entrepreneurship.

In turn, those business owners would increase staffing levels to deal with higher sales volumes, and would see increased profits for their efforts. In total, the ISER report estimates those secondary and tertiary impacts would add up to over $750 million of increased household incomes around the State, mostly concentrated in the holiday season after the PFD is paid.

Comparing the direct effects of these two actions, the implications are over $1 billion in lost income from budget cuts, which would be felt largely by a few thousand State workers, and $1.5 billion of increased household income from PFDs, which would come in the form of a few thousand dollars in the pockets of over 630,000 Alaskans of all ages and income levels. When considering this trade-off, and the lower level of service implied by a smaller government, Alaskans will have to judge for themselves which impact carries more weight. Governor Dunleavy clearly articulated his view on the matter.

In terms of secondary effects, there is some difficulty in assessing those impacts. It should be expected that up to $400 million of reduced household income would eventually manifest as a result of lower wages. However, it may take several years for those impacts to be fully realized. On the other hand, PFD payments are direct injections into the economy, which have short-term impacts. It should be expected that up to $750 million of increased household income would be realized within a few months of the distributions.

In both cases, the secondary impacts are difficult to see in the economic data after the fact. This is due to a combination of factors, including propensity to spend, importation, savings draws, and external economic factors that introduce noise into the dataset. So, the most assertive statement that can be made with any credibility is that under the Governor's plan, FY20 household income should be higher than household income was in FY19.

While some individual incomes will be lower under the Governor's plan, the aggregate effect from direct changes to State spending is positive. As a result, the expectation would be a near-term reduction in job counts, but a higher level of total household income, and thus, a higher quality of life for most Alaskans.

This positive effect will be somewhat reduced by the reactions at the local government level. Some local governments would increase taxes, thus redirecting some of the higher PFDs. And, some local governments would reduce services, thus reducing some local jobs. While each local government would react differently, it is expected that the net reductions in household income that result from those reactions would not overtake the positive effects provided across Alaska.

to reduce its budget, there could be up to another $133 million loss of income to those faculty and staff members impacted by the cuts.

And the data clearly show is that spending $16 billion out of savings over the last 4 years, to support higher government spending, did not get Alaska out of a recession and did not significantly reduce unemployment.

Scenario 2: Continue to Balance the Budget by Reducing PFDs

FY2020-FY2029 Projected Source and Uses of State General Funds ($ millions)										
Sources of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Unrestricted GF Revenue per RSB	2,303.6	2,242.0	2,197.2	2,197.0	2,182.9	2,176.5	2,303.4	2,401.7	2,581.4	2,710.5
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Program Receipts not in RSB	508.2	519.6	531.3	543.2	555.5	568.0	580.7	593.8	607.2	620.8
Remaining POMV after PFD Payments	2,532.3	2,918.5	3,100.2	3,269.2	3,384.0	3,463.1	3,540.8	3,618.0	3,695.9	3,774.2
Transfers from/(to) CBR	-	-	67.9	131.5	210.1	332.7	310.5	329.4	203.4	199.3
Total Available General Funds	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Uses of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Agency Operations	4,952.2	5,113.1	5,279.3	5,450.9	5,628.1	5,811.0	5,999.8	6,194.8	6,396.2	6,604.0
Debt Service Payments	225.9	261.1	319.0	383.8	388.0	401.3	395.0	394.5	322.3	315.0
PERS/TRS Contributions	307.9	423.1	409.1	410.9	414.4	419.0	424.5	430.4	439.1	447.1
Capital Expenditures	331.0	338.4	346.1	353.8	361.8	370.0	378.3	386.8	395.5	404.4
Total General Fund Appropriations	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Appropriation Limit	**10,565.4**	**10,911.1**	**11,268.2**	**11,637.0**	**12,017.8**	**12,411.1**	**12,817.2**	**13,236.7**	**13,669.8**	**14,117.2**
Total Dividend Funds ($ millions)	**400.8**	**175.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Per Person Dividend	**$ 588.00**	**$ 234.00**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Per Person Dividend Repayment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Per Person Taxes	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

FY2020-FY2029 Projected Savings Account Balances ($ millions, end of year)										
	2020	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Permanent Fund Principal Account (non-spendable)	48,529.5	49,949.3	51,393.4	52,872.6	54,388.0	55,954.0	57,587.6	59,288.1	61,061.2	62,900.5
Permanent Fund Earnings Reserve Account	19,190.8	19,291.7	19,453.3	19,507.2	19,505.2	19,483.1	19,442.9	19,386.8	19,315.7	19,231.6
Permanent Fund Total	**67,720.3**	**69,241.0**	**70,846.7**	**72,379.8**	**73,893.2**	**75,437.1**	**77,030.5**	**78,674.9**	**80,377.0**	**82,132.0**
Constitutional Budget Reserve Fund	**2,507.1**	**2,757.5**	**2,927.5**	**3,017.4**	**3,008.2**	**2,875.8**	**2,759.1**	**2,617.8**	**2,595.2**	**2,575.7**

An alternative to reducing the size of government is to pay for the current level of spending by reducing the PFD. Scenario 2 shows how that strategy plays out. Government spending continues at FY19 levels, increasing with inflation and population growth. To make up the difference between revenue and spending, the scenario assumes the legislature will continue to balance the budget using *ad hoc* reductions to PFDs.

This scenario assumes no additional revenue is generated through legislation, and the entire difference between revenue and expenditures is funded by reducing dividends. To be consistent with the assumptions of this scenario, the payback of prior-year underpayments would not be authorized.

As a result, the PFD is reduced by 83%, from $3,000 to around $500 in October 2019. The $2,500 reduction per person would be used to pay for government. In effect, this scenario phases out the PFD program without a vote of the people. By FY22, government spending would consume the entire allowable draw from the Earnings Reserve, leaving nothing to distribute to the people of Alaska. At that point, the scenario assumes that the legislature would use the CBRF to continue spending at higher levels.

Scenario 2 theoretically maintains savings, though these come at the expense of much lower PFDs. By FY29, the Permanent Fund balance rises to $82 billion[5], of which $19.2 billion remains in the Earnings Reserve.

Meanwhile, the CBRF maintains a $2.3 billion balance in this scenario. This occurs by avoiding draws on the CBR in the near-term (by reducing PFDs), which allows the fund to grow to nearly $3 billion. However, the fund is used to cover deficits in later years when the POMV draw becomes insufficient.

While this scenario protects government employees and maintains the level of government services currently provided, it results in a lower quality of life for most Alaskans. Thousands more residents would fall below the poverty line[6], small businesses would have a smaller income pool to market toward, and investors would remain uncertain about how future legislators will address the need for revenues when savings run out.

On whole, this scenario supports a larger government and at the expense of individual Alaskans. While the short-term economy maintains more jobs, it comes at a severe cost to the most vulnerable Alaskans.

The ISER report suggests that this scenario would result in a reduction of household income, stemming completely from smaller PFDs. The direct effect would be a PFD distribution of $360 million in FY20, versus a distribution of $1 billion in FY19 – a net direct loss of income totaling $640 million. Secondary effects suggest another loss of $320 million in FY20 versus FY19 could follow.

This scenario has a near-term net negative economic impact of nearly $1 billion. The Governor does not support the taking of the people's dividend income without their consent and insists that any change to the existing PFD statutory formula should only occur through a public vote.

[5] The Permanent Fund is larger than in Scenario 1, exclusively due to the refusal to repay previous PFD cuts.
[6] https://pubs.iseralaska.org/media/f5cc342d-2c33-4e60-bc0a-38687a2bf944/2016_12-PFDandPoverty-Summary.pdf

Scenario 3: Avoid Fixing the Problem by Making Unsustainable Draws

FY2020-FY2029 Projected Source and Uses of State General Funds ($ millions)										
Sources of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Unrestricted GF Revenue per RSB	2,303.6	2,242.0	2,197.2	2,197.0	2,182.9	2,176.5	2,303.4	2,401.7	2,581.4	2,710.5
Restricted GF Revenue per RSB	472.9	455.7	456.9	458.5	459.7	460.8	462.2	463.7	465.2	465.7
Program Receipts not in RSB	508.2	519.6	531.3	543.2	555.5	568.0	580.7	593.8	607.2	620.8
Remaining POMV after PFD Payments	989.1	1,030.4	833.0	892.6	1,207.5	1,210.9	1,212.1	1,202.3	1,184.5	1,161.9
Transfers from/(to) CBR	1,543.2	1,163.1	100.0	75.0	50.0	50.0	50.0	50.0	50.0	50.0
Excess Draws from ERA	-	724.9	2,235.1	2,433.0	2,336.7	2,534.9	2,589.1	2,695.0	858.9	496.5
Broad-Based Taxes	-	-	-	-	-	-	-	-	1,805.9	2,265.1
Total Available General Funds	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Uses of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Agency Operations	4,952.2	5,113.1	5,279.3	5,450.9	5,628.1	5,811.0	5,999.8	6,194.8	6,396.2	6,604.0
Debt Service Payments	225.9	261.1	319.0	383.8	388.0	401.3	395.0	394.5	322.3	315.0
PERS/TRS Contributions	307.9	423.1	409.1	410.9	414.4	419.0	424.5	430.4	439.1	447.1
Capital Expenditures	331.0	338.4	346.1	353.8	361.8	370.0	378.3	386.8	395.5	404.4
Total General Fund Appropriations	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Appropriation Limit	**10,565.4**	**10,911.1**	**11,268.2**	**11,637.0**	**12,017.8**	**12,411.1**	**12,817.2**	**13,236.7**	**13,669.8**	**14,117.2**
Total Dividend Funds ($ millions)	**1,944.3**	**2,063.7**	**2,267.2**	**2,369.3**	**2,139.2**	**2,158.6**	**2,152.1**	**2,126.4**	**2,085.2**	**2,038.7**
Per Person Dividend	**$ 2,998**	**$ 3,154**	**$ 3,434**	**$ 3,556**	**$ 3,174**	**$ 3,172**	**$ 3,130**	**$ 3,062**	**$ 2,972**	**$ 2,876**
Per Person Dividend Repayment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Per Person Taxes	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,606**	**$ 3,236**
FY2020-FY2029 Projected Savings Account Balances ($ millions, end of year)										
	2020	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Permanent Fund Principal Account (non-spendable)	48,529.5	49,949.3	51,393.4	52,872.7	54,388.4	55,955.0	57,589.3	59,291.0	61,065.6	62,908.5
Permanent Fund Earnings Reserve Account	19,190.8	18,566.7	16,445.8	13,877.2	11,209.3	8,208.2	5,027.7	1,639.7	-	-
Permanent Fund Total	**67,720.3**	**68,516.1**	**67,839.2**	**66,749.9**	**65,597.7**	**64,163.2**	**62,617.0**	**60,930.6**	**61,065.6**	**62,908.5**
Constitutional Budget Reserve Fund	**988.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

An alternative to addressing the fiscal issues currently facing the State is to simply ignore them and hope they solve themselves. While it is possible for oil prices to increase, or investment returns to beat projections, hoping for those outcomes cannot be considered a plan.

This scenario demonstrates what happens if State agency spending is held at FY19 levels increasing with inflation and population growth, without cutting the PFD or raising new revenues (until it is the only remaining option). To make up the difference between revenue and spending, Scenario 3 balances the budget using continued draws from State savings accounts.

In this scenario, the CBRF is entirely depleted next year. Beyond that, the POMV draw, as enacted with SB26 in 2018, is not followed. The entire difference between revenue and expenditures is funded by unstructured draws from the Earnings Reserve that exceed the 5% POMV limit, until those funds are gone as well. The inevitable depletion of the Earnings Reserve occurs by FY28 under the assumptions in this scenario, which in turn has negative implications on the overall growth of the Permanent Fund. From there, the scenario assumes that the legislature seeks new revenues through broad-based taxes.

A full PFD is paid every year until the Earnings Reserve is empty. This results in a per-person dividend of $3,000 in FY20, but the smaller asset base generates less earnings every year thereafter. No payback of prior-year dividends is assumed to be authorized in this scenario, as legislators would be relying on the Earnings Reserve to balance the budget, and they would therefore seek to protect the existing assets.

This scenario completely depletes all savings balances by FY28, due to overdrawing the Earnings Reserve. As a result, only the principal of the Permanent Fund balance remains, and its balance is limited to just $63 billion at the end of the 10-year period. With no accessible savings, this scenario leaves few options and fewer assets for future Alaskans. Taxes or budget cuts would still be required, but the conversation would just be delayed for a decade.

The short-term benefits are highest in this scenario, as no money is removed from the current economy, and PFDs are greater than in FY19. As a result, total household income in FY20 increases by about $1.3 billion, and no subtractive impacts are felt by the current economy.

The Governor does not believe it is just to saddle future generations with the questionable fiscal decisions of today. Therefore, he does not support this scenario.

Scenario 4: Balance the Budget with New Taxes

FY2020-FY2029 Projected Source and Uses of State General Funds ($ millions)										
Sources of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Unrestricted GF Revenue per RSB	2,303.6	2,242.0	2,197.2	2,197.0	2,182.9	2,176.5	2,303.4	2,401.7	2,581.4	2,710.5
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Program Receipts not in RSB	508.2	519.6	531.3	543.2	555.5	568.0	580.7	593.8	607.2	620.8
Remaining POMV after PFD Payments	989.1	1,030.4	833.0	895.0	1,219.8	1,242.0	1,271.0	1,299.3	1,328.3	1,356.9
Broad-Based Taxes	1,543.2	1,888.1	2,335.1	2,505.6	2,374.4	2,553.9	2,580.3	2,648.0	2,571.0	2,616.5
Total Available General Funds	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Uses of Funds	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Agency Operations	4,952.2	5,113.1	5,279.3	5,450.9	5,628.1	5,811.0	5,999.8	6,194.8	6,396.2	6,604.0
Debt Service Payments	225.9	261.1	319.0	383.8	388.0	401.3	395.0	394.5	322.3	315.0
PERS/TRS Contributions	307.9	423.1	409.1	410.9	414.4	419.0	424.5	430.4	439.1	447.1
Capital Expenditures	331.0	338.4	346.1	353.8	361.8	370.0	378.3	386.8	395.5	404.4
Total General Fund Appropriations	**5,817.0**	**6,135.7**	**6,353.5**	**6,599.4**	**6,792.2**	**7,001.2**	**7,197.7**	**7,406.5**	**7,553.1**	**7,770.5**
Appropriation Limit	**10,565.4**	**10,911.1**	**11,268.2**	**11,637.0**	**12,017.8**	**12,411.1**	**12,817.2**	**13,236.7**	**13,669.8**	**14,117.2**
Total Dividend Funds ($ millions)	**1,944.3**	**2,063.7**	**2,267.2**	**2,374.2**	**2,164.2**	**2,221.2**	**2,269.8**	**2,318.7**	**2,367.5**	**2,417.3**
Per Person Dividend	**$ 2,998**	**$ 3,154**	**$ 3,434**	**$ 3,562**	**$ 3,212**	**$ 3,264**	**$ 3,304**	**$ 3,342**	**$ 3,380**	**$ 3,418**
Per Person Dividend Repayment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Per Person Taxes	**$2,411**	**$2,921**	**$3,577**	**$3,800**	**$3,565**	**$3,797**	**$3,798**	**$3,859**	**$3,710**	**$3,738**

FY2020-FY2029 Projected Savings Account Balances ($ millions, end of year)										
	2020	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*
Permanent Fund Principal Account (non-spendable)	48,529.5	49,949.3	51,393.4	52,872.6	54,388.0	55,954.0	57,587.6	59,288.1	61,061.2	62,900.5
Permanent Fund Earnings Reserve Account	19,190.8	19,291.7	19,453.3	19,507.2	19,505.2	19,483.1	19,442.9	19,386.8	19,315.7	19,231.6
Permanent Fund Total	**67,720.3**	**69,241.0**	**70,846.7**	**72,379.8**	**73,893.2**	**75,437.1**	**77,030.5**	**78,674.9**	**80,377.0**	**82,132.0**
Constitutional Budget Reserve Fund	**2,506.5**	**2,756.8**	**2,994.7**	**3,219.4**	**3,430.4**	**3,651.9**	**3,884.5**	**4,128.7**	**4,385.2**	**4,654.4**

Scenario 4 maintains spending, pays a full statutory dividend every year, protects current assets, and makes up the difference between revenue and spending through a broad-based tax on Alaskans. In this scenario, State agency spending is held at FY19 levels, increasing with inflation and population growth.

A broad-based tax is enacted to generate an additional $1.6 - $2.6 billion per year, to bring revenue up to the level needed to match expenditures. The tax burden would average $8,700[7] for a family of four in FY20, rising to over $14,500 by FY29. However, the burden would be different for each family, depending on how the tax is structured[8].

In this scenario, a full PFD is paid every year, resulting in a per-person dividend of $3,000 in FY20, rising to $3,400 per person by FY29. However, a vast majority of PFD distributions would flow back to the government to offset new tax burdens.

After the full statutory dividend is paid out each year, the remaining portion of the POMV draw is available for General Fund spending. The difference between the budget needs, and the available funds, is raised by taxes. To protect current assets, no payback of prior-year dividends is made in this scenario.

Scenario 4 maintains robust savings balances, although these come at the expense of high taxes on everyday Alaskans. By FY29, the Permanent Fund balance rises to over $82 billion, of which $19.2 billion remains in the Earnings Reserve. Meanwhile, the CBRF grows to $4.7 billion in this scenario.

Understanding the Economic Impact of Taxes

Taxes would reduce the disposable income of most Alaskans. That would result in less household consumption, and lower profitability of doing business in Alaska. As a result, the economy would contract in the near-term and would experience slower growth moving forward.

Since Governor Dunleavy took office, the State has been working with the Buckeye Institute's Economic Research Center on understanding the implications of imposing new taxes. They were gracious enough to allow the State of Alaska to run some previous legislative proposals through their dynamic model, as the State does not have one of its own. For that, Governor Dunleavy would like to express his appreciation to the Buckeye Institute. Their work is not yet finalized but is scheduled for release during the 2019 legislative session.

The Buckeye Institute's work (yet to be published) reinforces what several other academic institutions have previously found. The impacts of taxation on the economy would be much worse than it first appears and more detrimental than spending reductions. The dynamic model indicates that once considering the behavioral responses of the participants in the economy, a larger tax would be needed than a static estimate would suggest. This results in even greater reduced investment and even slower economic growth.

Governor Dunleavy does not want to stifle the economy with broad-based taxes, which are not considered a viable option to solving the current fiscal issues.

[7] Note that this average is lower than the estimated $10,000 per family by using PFD cuts. This occurs because only about 630,000 out of over 735,000 Alaskan residents receive the PFD. So, the PFD takes over $10,000 from eligible Alaskan families and $0 from non-recipients.

[8] Tax systems can be designed to fall heavier on different groups, depending on the structure of the tax. Some tax types impact lower income families more. Other taxes fall heavier on wealthy people. These distributional effects, and the behavioral responses to them, are important to consider when contemplating a tax.

Comparison of Scenarios

Alaska faces critical decisions about the role of government and what the State can afford. The past several years of excessive spending has depleted the CBRF, and “kicked the can down the road” while praying for higher oil prices. Now, the CBRF balance is at what many consider to be the minimum level needed for cash management and emergencies, and it appears unlikely that high oil prices are going to save the day.

The State cannot spend money that it does not have. Unlike the federal government, Alaska cannot simply print money to balance the budget. We can either reduce the size and scope of government, or we must find more money - either through confiscating the people’s PFDs, making unsustainable draws on the Permanent Fund, or imposing a massive tax burden on the people or businesses. These four options form the basis for the four scenarios presented in this 10-year plan.

From the perspective of long-term household income and economic growth, reducing government expenditures is the best option. While there would be some short-term negative impacts on individuals, the economy would adjust. And, by resolving tax uncertainty, while avoiding new taxes, this plan would provide the best opportunity for new investment and a prosperous future.

Governor Dunleavy understands that while none of the options are ideal, reducing government spending achieves a balanced budget with the least amount of negative impact on everyday Alaskans. He looks forward to the ongoing conversation with Alaskans as we finally deal with the problems facing our great State.

For academic literature that supports the assertions made in the paper, see:

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