

Alaska Fiscal Policy:

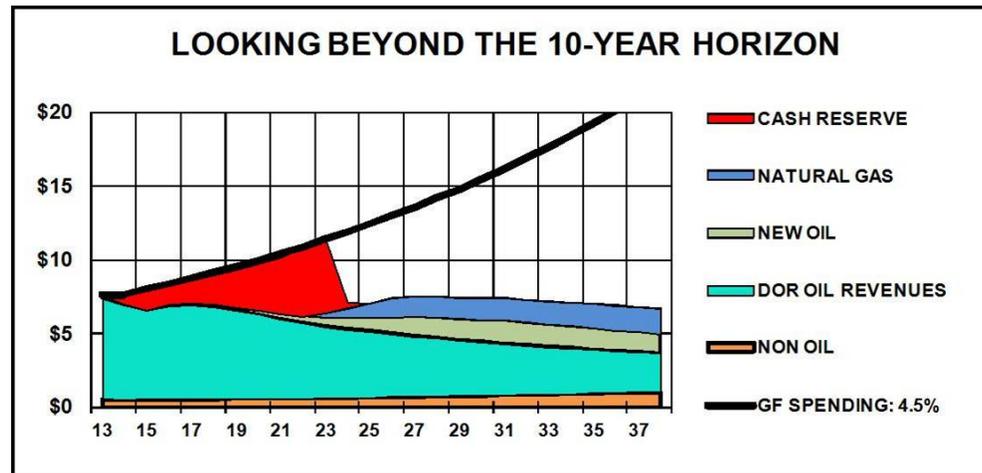
*A Crisis in the Making
... and the solution*

Brad Keithley

President, Keithley Consulting, LLC

XXXX, 2013

Where we are ...



“Reasonable assumptions about potential new revenue sources suggest we do not have enough cash in reserves to avoid a severe fiscal crunch soon after 2023, and with that fiscal crisis will come an economic crash.”

ISER, *Maximum Sustainable Yield, FY2014 Update* (January 2013)

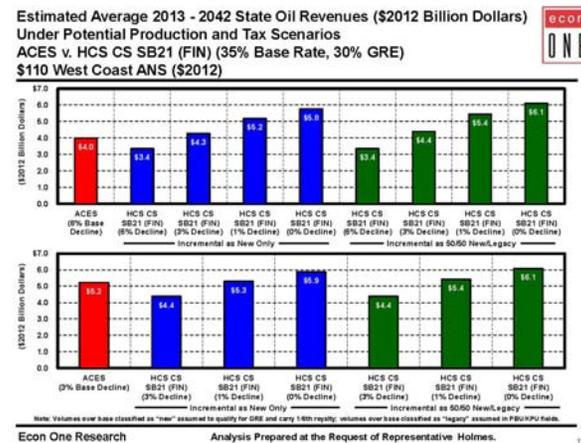
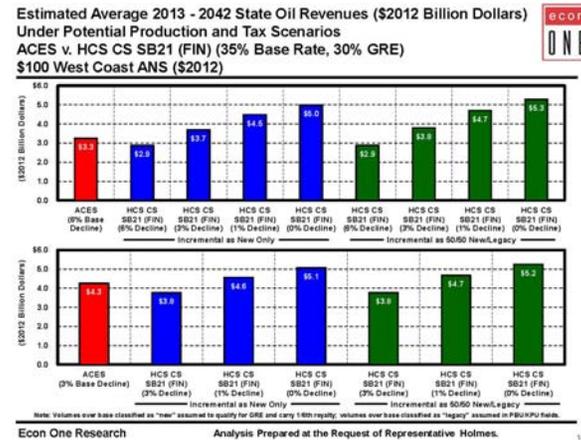
While it softens the outcome, SB 21 does not change it ...



Q. ... I spoke with your budget director Karen Rehfeld last week and the idea basically is to cap the general fund spending at \$6.8 billion for the next five years. Is that still what you all are considering?

A. It's actually to ratchet it back a little bit from \$6.8 billion by about \$25 million increments. I don't have that in front of me here, but effectively it would keep it in that \$6.7 to \$6.8 billion range. ...

APRN, Interview: Gov. Parnell Explains Fiscal Plan (Apr. 5, 2013)



Policy Option 1: *Business as Usual*

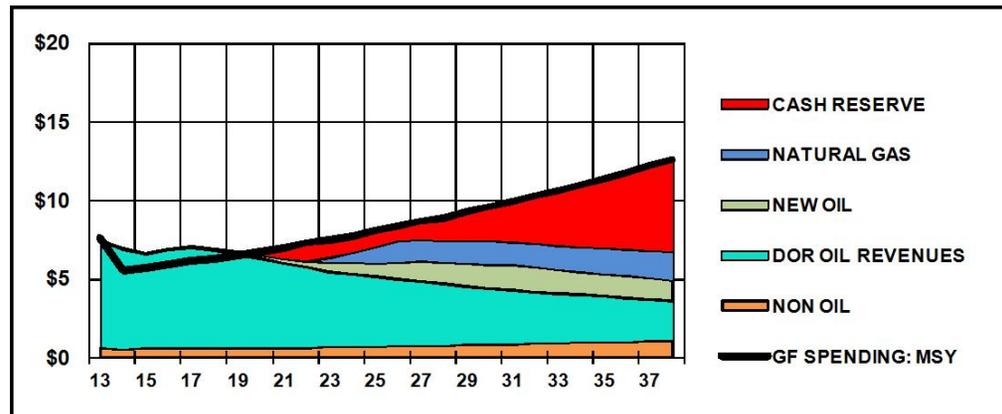
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“The state does not currently have either a general sales tax or a personal income tax. However, the non-OCS projection of future state population and public sector demands compared to revenues suggests that a number of adjustments to the state’s fiscal structure will be necessary in future years to maintain adequate public services.

*Two options available to the state, in addition to reducing expenditures, are institution of a broad-based tax, and use of a portion of the earnings of the Permanent Fund. ... It is anticipated that **both options will be required** in the non-OCS case. The value shown above assumes a personal income tax, similar to the tax that was eliminated in 1980, will be phased in between 2022 and 2026.”*

Northern Economics and ISER, *Potential National-Level Benefits of Alaska OCS Development* (Feb. 2011)

Policy Option 2: *Sustainable Budget*



*“What can the state do to avoid a major fiscal and economic crisis? **The answer is to save more and restrict the rate of spending growth. All revenues above the sustainable spending level of \$5.5 billion ... would be channeled into savings.**”*

ISER, *Maximum Sustainable Yield, FY2014 Update* (January 2013)

Delay (or “Transition”) is not fair to future generations ...



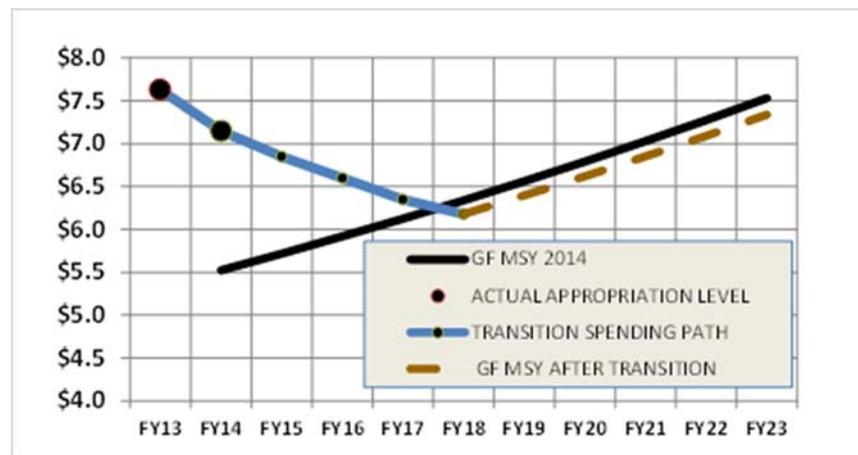
As with fish, future generations will suffer from delays in shifting to a “sustainable model”

Even with a “transition,” future Alaskans will suffer a lower level of state support than the current generation

FISCAL BURDEN AND NEST EGG DEFICIT AT DIFFERENT GF SPENDING LEVELS

FY2014 GF Spending (Billion)	\$6	\$6.5	\$7.0	\$7.5	\$8.0
Fiscal Burden (Billion)	\$0.5	\$1.0	\$1.5	\$2.0	\$2.5
Nest Egg Deficit (Billion)	\$12.5	\$25	\$37.5	\$50	\$62.5

Fiscal Burden and Nest Egg Deficit assume future budget growth constrained to be the combined rate of inflation and population increase.



Stopping short ...



Two simple steps:

- Cap annual spending* at the annually calculated “sustainable” level
- Commit all other annual revenues, as well as financial reserves (SBR and CBR), to a long term, growth oriented investment pool (“Permanent Fund II”)

*In this context, spending and revenues both refer to Unrestricted General Fund (UGF) moneys.

For more information, contact ...

**Keithley|
Consulting, LLC**

Bradford G. Keithley

President & Principal, Keithley Consulting, LLC

Publisher, Thoughts on Alaska Oil & Gas

keithleyconsulting.com

email: bgkeithley@keithleyconsulting.com