

Alaska's Fiscal Situation

Where We've Been, Where We're Headed

Presentation to Kenai Peninsula Borough Assembly

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Alaskans for Sustainable Budgets

February 4, 2020

Scope

- Where we've been
- Where we're headed
- What are the options
- What is the impact of the various options on the Alaska economy & families
- A balanced approach

Where We've Been

FY2013 - 20 Add'l Sources

FY2013: SBR

FY2015: CBR

FY2017: PFD diversion

Total Add'l Sources

\$12.0 B CBR

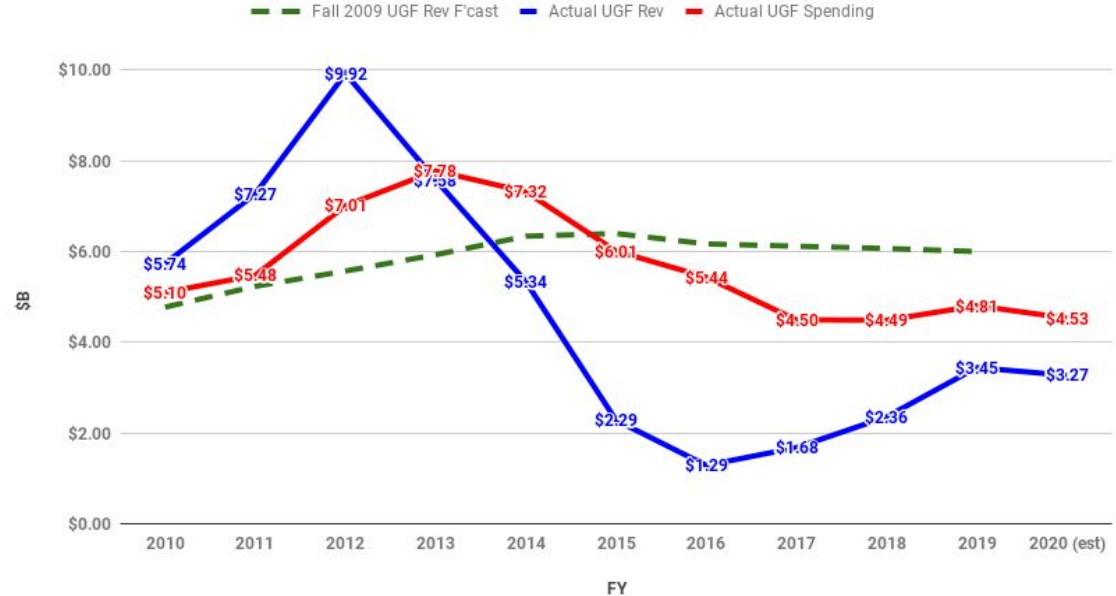
\$ 5.4 B SBR

\$ 3.2 B PFD diversion

\$20.6 B Total

It Was the Best of Times, It Was the Worst of Times: A Comparison of the 2010-19 F'cast v. Actuals

(After Statutory PFD)



Where We're Headed (Current Law)

FY2021 - 30
(Capped at inflation
Average/year)

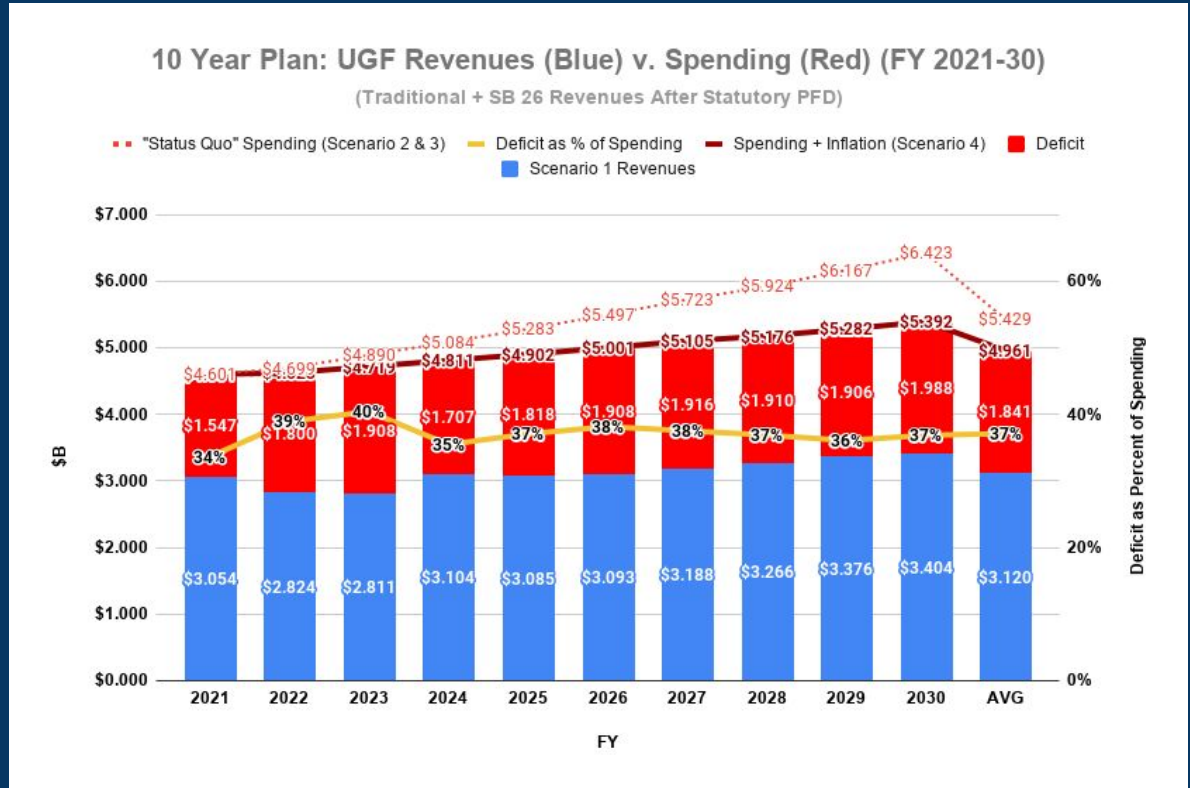
Spending: \$4.96 B

Revenues: \$3.12 B

Deficit: \$1.84 B (37%)

Total Projected Deficit

\$18.4 B



What Are The Options

FY2021 - 30
10-Year Plan

- Scenario 1 (Spending Cuts)
- Scenario 2 (Taxes)
- Scenario 3 (PFD Cuts)
- Scenario 4 (Drain Savings ...
 - 4A (... then taxes)
 - 4B (... then ERA draws)
- Scenario 5 (Balanced)

OFFICE OF GOVERNOR MIKE DUNLEAVY

FY2021 Budget Overview and 10-Year Plan

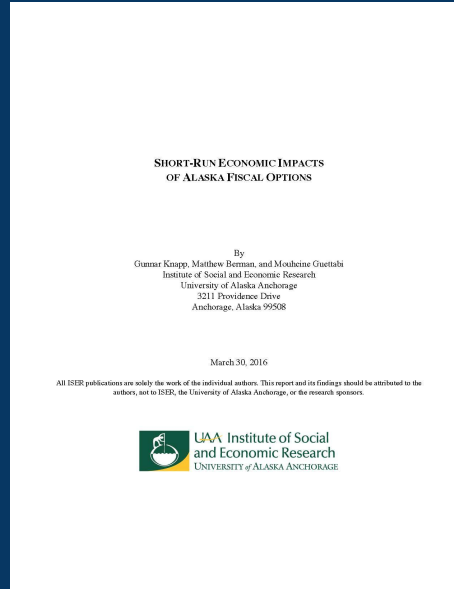
Office of Management and Budget

December 11, 2019

The Options Aren't All the Same: What Is the Impact of Each on the Alaska Economy & Families

ISER: Assesses income & jobs effects of revenue generating measures (i.e., “taxes”)

ITEP: Assesses distributional effects of the same



What Is the Impact on Alaska economy & families

ISER (2016)

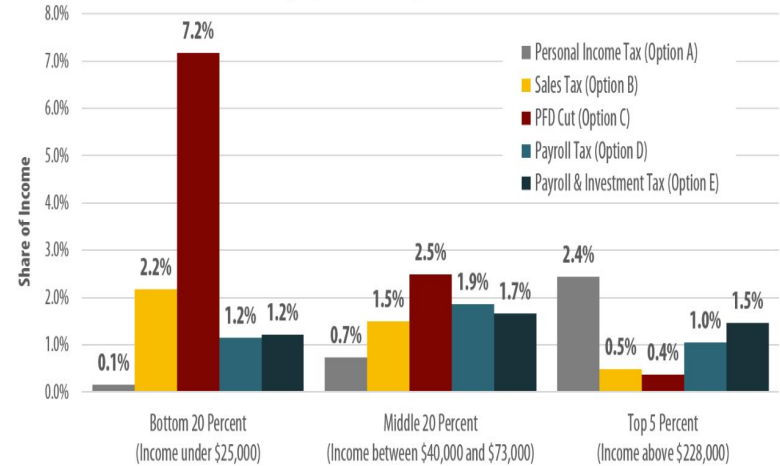
Table III-6

Estimated Total Short-Run Economic Impacts of Selected Options for Reducing the Deficit by \$100 Million:
Low and High Scenarios

Option	Income Impacts (millions of \$ of income)		Employment Impacts (FTE jobs in Alaska)	
	Low scenario	High scenario	Low scenario	High scenario
Spending cut: workers	122	138	1414	1677
Spending cut: broad-based	98	115	980	1260
Spending cut: capital	56	64	775	931
Spending cut: pay	127	143	459	727
Income tax: progressive	124	138	544	786
Income tax: flat rate	122	138	517	798
Sales tax: more exclusions	116	133	477	775
Sales tax: fewer exclusions	117	134	482	788
Property tax	114	132	463	773
Dividend cut	130	149	558	892
Saving less	0	0	0	0

ITEP (2017)

Figure 1: Impact on Alaska Residents at Various Income Levels
of Five Policy Options Raising \$500 Million Per Year



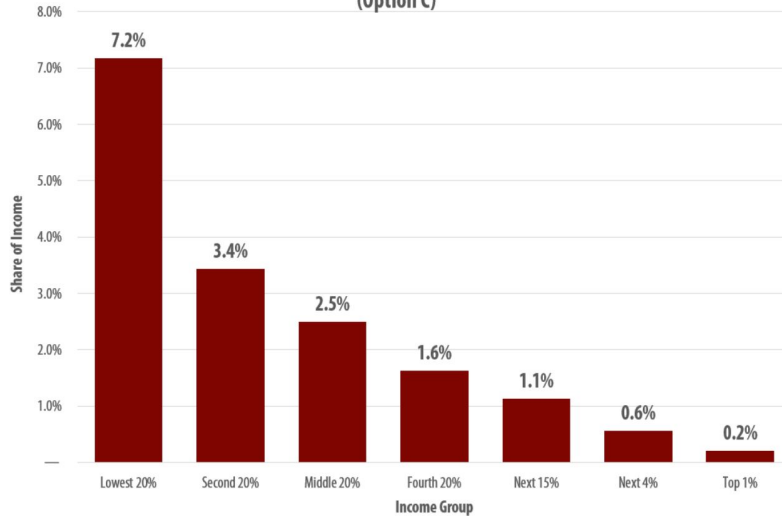
Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person.

Using PFD cuts as an example ...

Comparing the Distributional Impact of Revenue Options in Alaska

Institute of Taxation and Economic Policy
April, 2017

Figure 5: Reduce Permanent Fund dividend by \$784 per person
(Option C)



Source: Institute on Taxation and Economic Policy, April 2017. Modeled in a Tax Year 2016 economy, modified to assume a baseline Permanent Fund Dividend payout of \$2,200 per person. In this scenario, the PFD is reduced to \$1,416 per person.

“Reductions in the PFD are steeply regressive, having a far larger impact on families with lower incomes. Figure 5 demonstrates that while a \$784 cut to the PFD payout could free up approximately \$500 million for Alaska’s budget, that gain would come at a high cost for Alaska’s most vulnerable residents. Low-income families could expect to see their incomes cut by 7.2 percent under this change while the impact on middle-income families would amount to 2.5 percent and high-income Alaskans would see impacts well below 1 percent of their incomes.

“... the impact on the bottom 20 percent of earners (at 7.2 percent of income) is nearly ten times as large as the impact faced by the top 20 percent (at 0.8 percent of income).”

ISER conclusions ...

SHORT-RUN ECONOMIC IMPACTS
OF ALASKA FISCAL OPTIONS

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“ The impact of the PFD cut falls almost exclusively on residents, and it is highly regressive, so it has the largest adverse impact on the economy per dollar of revenues raised.” -- Short-Run Economic Impact of Alaska Fiscal Options (May 2016)

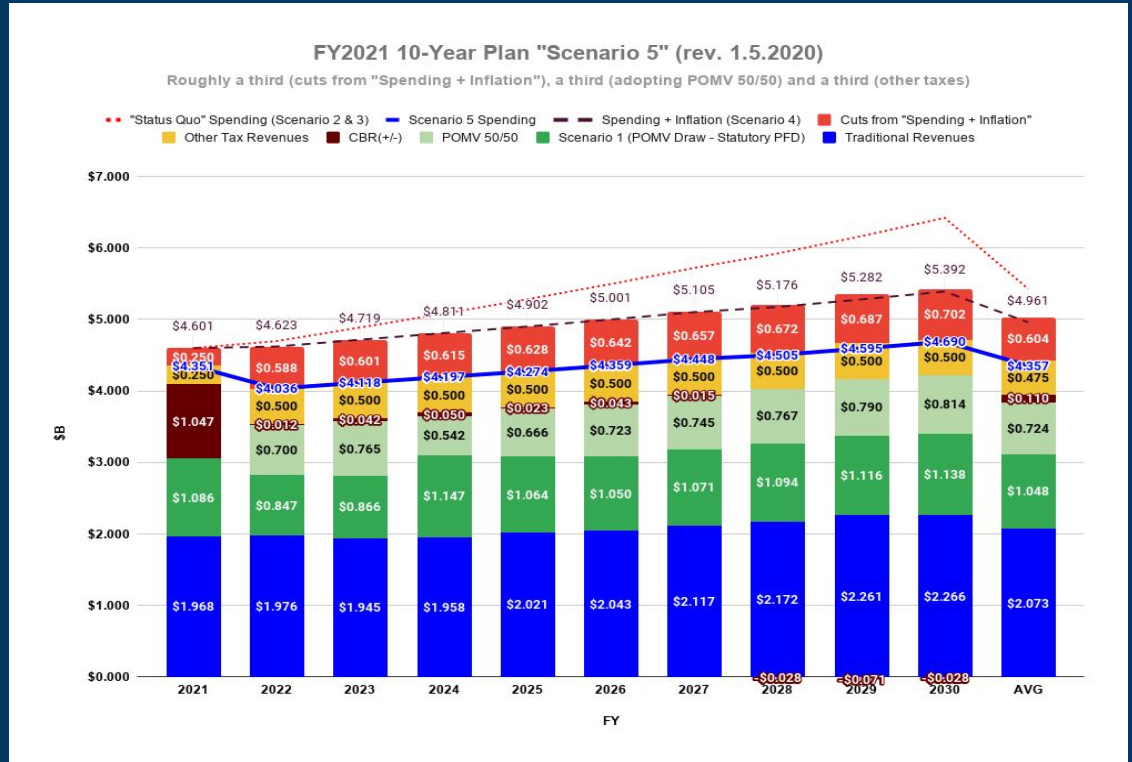
“ A cut in PFDs would be by far the costliest measure for Alaska families.” -- How Much Might Closing the State Budget Gap Cost Alaska Families? (Feb 2017)

OMB Scenario 5: Balanced Approach

FY2021 - 30
(Capped at inflation)

POMV 50/50: \$0.7B
 Spending Reductions
 (below inflation): \$0.6B
 New Tax: \$0.5B
 Per year \$1.8B

Deficit: \$0
But doesn't pay back CBR





Similar to the efforts of the Committee for a Responsible Federal Budget, Concord Coalition and Peter G. Peterson Foundation at the federal level, **Alaskans for Sustainable Budgets** is a project focused at the state level on increasing awareness about the nature and urgency of key fiscal challenges facing Alaskans, and developing and advocating for reasoned approaches in response.

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