Alaska’s Fiscal Challenge
and critical questions it raises for
the Permanent Fund

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Prepared for
Institute of the North
Future of the Alaska Permanent Fund Webinar

November 9, 2020
How Alaska’s finances have changed since:

- North Slope oil production began in 1978
- the Permanent Fund Dividend Program began in 1982
Alaska’s population grew by 74% since 1980

The value of a dollar has fallen by 64% since 1980

All data in the next set of historical graphs are converted to inflation-adjusted dollars per Alaskan
Two key drivers of changes in Alaska oil value and revenues:

Oil production grew rapidly after 1978 but has fallen by 75% since 1988.

Oil prices have fluctuated dramatically.
$108,000 per Alaskan in FY81

$9000 per Alaskan in FY21
$19,000 per Alaskan in FY82

$985 per Alaskan in FY21
Total Revenues per Alaskan . . .

$21,000 per Alaskan in FY82

$1600 per Alaskan in FY21
Surpluses and deficits . . .

Total Revenues and Spending per Alaskan
(adjusted for inflation to 2020 dollars)

2020 dollars per capita

Surpluses

Deficits

Oil revenues
Non-oil revenues
Total spending

FY78 FY80 FY82 FY84 FY86 FY88 FY90 FY92 FY94 FY96 FY98 FY00 FY02 FY04 FY06 FY08 FY10 FY12 FY14 FY16 FY18 FY20
End-of-Year Value of Savings Funds per Alaskan

- $24,500 per Alaskan in FY13
- $800 per Alaskan in FY21

(adjusted for inflation to 2020 dollars)
Total $66 billion

Earnings Reserve $13 billion (may be spent)

Principal = $53 billion (may not be spent)

Earnings Reserve

Permanent Fund Value

Year-End Value of the Permanent Fund

millions of dollars

Permanent Fund earnings have grown as the fund has grown.

The earnings go into an “Earnings Reserve” which may be spent.
Alaska finances before FY19:

Oil and non-oil revenues paid for government
PF earnings paid for dividends

<table>
<thead>
<tr>
<th>Revenue source</th>
<th>Uses before FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil revenues</td>
<td>Government</td>
</tr>
<tr>
<td>Non-oil revenues</td>
<td></td>
</tr>
<tr>
<td>PF earnings</td>
<td>Dividends</td>
</tr>
</tbody>
</table>

Dividend formula:
\[ \text{Dividends} = \frac{1}{2} \text{of average earnings} \]
Over past 5 years
In 2018 the legislature passed a bill (SB26) which significantly changed how PF earnings are used.

Under SB26, there is an annual “Percent of Market Value” (POMV) distribution from PF earnings which the legislature may spend for government or dividends.

<table>
<thead>
<tr>
<th>Revenue source</th>
<th>Uses before FY19</th>
<th>Uses beginning FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil revenues</td>
<td></td>
<td>Government</td>
</tr>
<tr>
<td>Other traditional revenues</td>
<td></td>
<td>Government &amp; Dividends</td>
</tr>
<tr>
<td>PF earnings</td>
<td>Dividends</td>
<td>Total PF POMV draw = About 5% of average value over the past 5 years</td>
</tr>
</tbody>
</table>
Until FY17:
About half the earnings were paid as dividends and the rest were saved

Beginning FY19:
Most of the earnings were used for the POMV Draw
The POMV distribution from PF earnings greatly expanded funds available to pay for government spending!
But the POMV distribution from PF earnings also has to pay for dividends.
We still have a deficit of $1250 per Alaskan in FY21.
We have a deficit of $915 million in FY21.
This year we will fully deplete our cash savings.

Balance needed for cash flow purposes
Alaska’s FY21 budget
(millions of $)

### Projected Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>717</td>
</tr>
<tr>
<td>Other traditional</td>
<td>436</td>
</tr>
<tr>
<td>Permanent Fund POMV</td>
<td>3,092</td>
</tr>
</tbody>
</table>

### Spending

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>680</td>
</tr>
<tr>
<td>Government</td>
<td>4,480</td>
</tr>
</tbody>
</table>

### Deficit

-915

### End-of-Year

- **CBR Balance**: 587
  - Needed for cash flow: 500
  - Available for future draws: 87

We are spending $900 million more than our revenues.

We are draining the last of our savings.
With no more savings, we can no longer run deficits.

Beginning next year, we will have to eliminate this year’s $900 million deficit through some combination of three difficult options:

• Government spending cuts

• Dividend cuts

• New revenues
  – Taxing industries
  – Taxing Alaskans

... unless we draw an unsustainable amount from the Permanent Fund.
Large government spending cuts will be very difficult.

• The easy cuts have already been made

• Some kinds of spending can’t be cut

• We will need or want to increase some kinds of spending

• There is strong public resistance to further cuts
Large dividend cuts will be very difficult.

Many Alaskans believe that:

• Dividends are the people’s money—not a gift from government

• Cutting dividends to pay for government spending is not an option
How we are spending $5.2 billion in FY21

State agencies

Permanent Fund Dividends 680
Capital budget 120
Oil tax credits 30
Debt service 101
State assistance to retirement 346

Commerce, Community & Econ Dev 8
Environmental Conservation 15
Labor & Workforce Dev 19
Military & Veterans' Affairs 23
Governor 24
Revenue 28
Fish and Game 51
Law 52
Natural Resources 66
Administration 67
Legislature 67
Judiciary 111
Transportation 150
Public Safety 180
University of Alaska 277
Corrections 339

Health & Social Services 1,116
Education & Early Dev 1,320
Increasing revenues will be difficult.

• Taxing industries
  – Industries argue
    • they already pay too much
    • increasing taxes will harm development

• Taxing Alaskans
  – Many Alaskans don’t want to pay taxes
    • when they think spending should be cut
    • when they think taxes would pay for dividends
  – To fill this year’s deficit of $915 million, we would have to pay taxes averaging $1,250 per person.

We can hope that oil revenues will rise and save us—but they probably won’t.
Even though we’ve drained our cash savings, We haven’t run out of money which the legislature could spend. We could draw more than a sustainable 5% from the PF earnings reserve . . .

Next year’s 5.5% PF draw will be about $3.1 billion.

The Permanent Fund Earnings Reserve will have about $13 billion.
Drawing more than the sustainable 5% from the PF earnings reserve would:

- Reduce the PF value and future earnings
- Risk depleting the earnings reserve so that funds wouldn’t be available even for a 5% draw
- Only put off the hard choices a few more years

**BUT**

But our historic inability to spend within our means suggests that we might do it anyway.
Alaska’s fiscal challenge confronts us with big choices about the future of the Permanent Fund.

- How much will we draw from the fund’s earnings?
- What is the future of Permanent Fund dividends?