Rasmuson Foundation calls on elected officials to adopt a long-term state fiscal plan

While the collapse in global oil prices is today’s headline-grabber for multibillion-dollar state revenue deficits, the real problem going forward is not the up-and-down of oil markets but rather the State’s near-total dependence on oil dollars to pay for public services. **We are three years away from a financial cliff that will threaten our standard of living if we don’t act now. Even if oil prices move back toward $100 a barrel, which many experts think is very optimistic, by the end of 2019 we may not have enough money to operate our state. Nothing will be left in any “rainy day account” to bail us out. This is not Chicken Little saying “the sky is falling.” This is reality according to the Department of Revenue’s own estimates.**

Why the immediacy? Because between fiscal years 2013 and 2016, we will have relied on reserve accounts for more than $13 billion to cover our annual public spending needs. That source is nearing depletion and new deposits to refill the reserve fund are no longer available.

We expect that the Statutory Budget Reserve Fund will be gone by June 30, 2015; the Constitutional Budget Reserve Fund will be reduced to $5.6 billion by June 30, 2016.

If we do nothing, here are the reserves we will have available to balance our budget in 2017, 2018, 2019 and 2020. All that would be left after that is the Permanent Fund earnings reserve ($7 billion as of April 30, 2015).

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<tr>
<td>Statutory Budget Reserve</td>
<td>$8.8 billion</td>
<td>$6.6 billion</td>
<td>$3.5 billion</td>
<td>$3.38 billion</td>
<td>$3.57 billion</td>
<td>$0</td>
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<tr>
<td>Constitutional Budget Reserve</td>
<td>$7.5 billion</td>
<td>$7.5 billion</td>
<td>$7.97 billion</td>
<td>$8.53 billion</td>
<td>$9.26 billion</td>
<td>$10.04 billion</td>
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<tr>
<td>Permanent Fund Earnings Reserve</td>
<td>$7 billion</td>
<td>$7.5 billion</td>
<td>$7.97 billion</td>
<td>$8.53 billion</td>
<td>$9.26 billion</td>
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* All numbers are rounded off to tens of millions. Balances through FY14 are historical; balances in later years are projections. Source for historical data and FY15 projections is Legislative Finance Division. Source for realized and unrealized Permanent Fund Earnings Reserve projections is Alaska Permanent Fund Corporation. The estimated reserve fund balances use Alaska Department of Revenue projections that show North Slope oil prices returning to near $109 a barrel by Fiscal 2020.

Doing nothing to fix this situation is irresponsible. After almost 40 years of prosperity from North Slope oil, it’s time for Alaska to realistically plan for the next 40 years.

Rasmuson Foundation Chairman Ed Rasmuson recently convened a small group of respected individuals from the private sector, the Native community, the University, municipal, legislative and executive branches of government, Republicans, Democrats and Independents. The group
reviewed options for addressing Alaska’s fiscal deficit. The group agreed unanimously that all these options need to be considered:

- Further cuts to the general operating budget. While further reductions are needed, two-thirds of the state operating budget is for education (K-12 and University of Alaska) and health/human services, totaling $3 billion out of the $5 billion-plus annual expenditure of state general funds. It is impossible to fix the fiscal gap with spending cuts alone without closing numerous schools, university campuses, and eliminating life and safety services.

- A broad tax on all Alaska residents, workers and/or visitors. This means either a modest income tax, a modest sales tax, or a combination of the two. Alaskans have benefited from the lowest taxation in the nation, by far, due to availability of oil revenues to cover all state services. That situation is about to end.

- Use of excess Permanent Fund earnings. There is currently $5.8 billion in realized gains in the Permanent Fund earnings reserve. Even after dividends and inflation proofing are covered, several billion dollars remain available. Capping the dividend is an option that needs to be considered, along with using some of the earnings to pay for public services. In the past 10 years the dividend has ranged from $845 (2005) to $2,069 (2008). Are we willing, as Alaskans, to settle on a flat dividend rate ($1,310 is the average over the past 10 years) to ensure our kids and grandkids get dividends in the future?

- Re-think our current oil production tax credit programs so that state funding targets the best prospects, not every prospect.
The components above could produce significantly more than $2 billion a year in savings and new deposits to the state general fund. With decent oil prices, achievable success in new exploration and development of our state’s abundant oil and gas resources, a more diversified economy and a cushion in our savings accounts, we would be well within striking distance of a real, long-term balanced budget.

Just as important as the components listed above, however, is the need to maintain a strong Constitutional Budget Reserve Fund. No matter how much Alaska plans ahead, no matter how strong of a fiscal plan we adopt, Alaska will always have to be ready to deal with periods of low oil prices. The Constitutional Budget Reserve has been that shock absorber for almost a quarter-century and Alaska will need it again in the future — no doubt about it.

_Criticize our plan, pick it apart, suggest other options. We don’t like these any more than you do and we’d be grateful if you can come up with options we haven’t thought of._

Rasmuson Foundation is prepared to launch a statewide campaign at its own expense to talk with Alaskans, to share facts and options and to explain the urgency, with the goal of presenting to the Governor and legislators a reasonable, detailed long-term fiscal plan for the state. We invite you to participate. Hopefully, this will inspire a mandate from the public for elected officials to make the tough choices that are required.

Meanwhile, Governor Bill Walker should call a special legislative session this fall to start work on a comprehensive, long-term fiscal package for consideration and a vote during the 2016 regular legislative session.

It will take time to craft a workable and acceptable, nonpartisan fiscal plan, with Alaskans agreeing that the hard choices ahead are preferable to the harder choices that will come if we do nothing.

Only through public debate can we achieve a stable fiscal future. All we ask is this: Keep it civil and keep it realistic. Pots of gold at the end of the rainbow are a nice storybook ending, but no one has ever found one. Alaska needs a plan, not prayers for higher oil prices and dreams of unknown oil wells.

"The Rasmuson family has been in Alaska for over 100 years, the Rasmuson Foundation for 60 years," Ed Rasmuson said. "We are here to stay in perpetuity, just as Alaska is here to stay and prosper. But for Alaska to maintain the quality of life we all desire, the State must adopt a rational, achievable fiscal plan. The Rasmuson Foundation is ready to help.

“To date, the Rasmuson Foundation has contributed over $250 million to communities throughout Alaska. We want to maintain the quality of life our founders worked so hard to ensure," Ed Rasmuson said.

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For questions please contact Rasmuson Foundation President Diane Kaplan or External Affairs Manager Jordan Marshall at 907-297-2708, dkaplan@rasmuson.org or jmarshall@rasmuson.org