

# **OFFICE OF GOVERNOR MIKE DUNLEAVY**

## **FY2021 Budget Overview and 10-Year Plan**

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**Office of Management and Budget**

**December 11, 2019**

## **Statutory Requirement**

AS 37.07.020(b) requires that the Governor submit a 10-year fiscal plan that must balance sources and uses of funds while providing for essential state services and protecting the economic stability of the state.

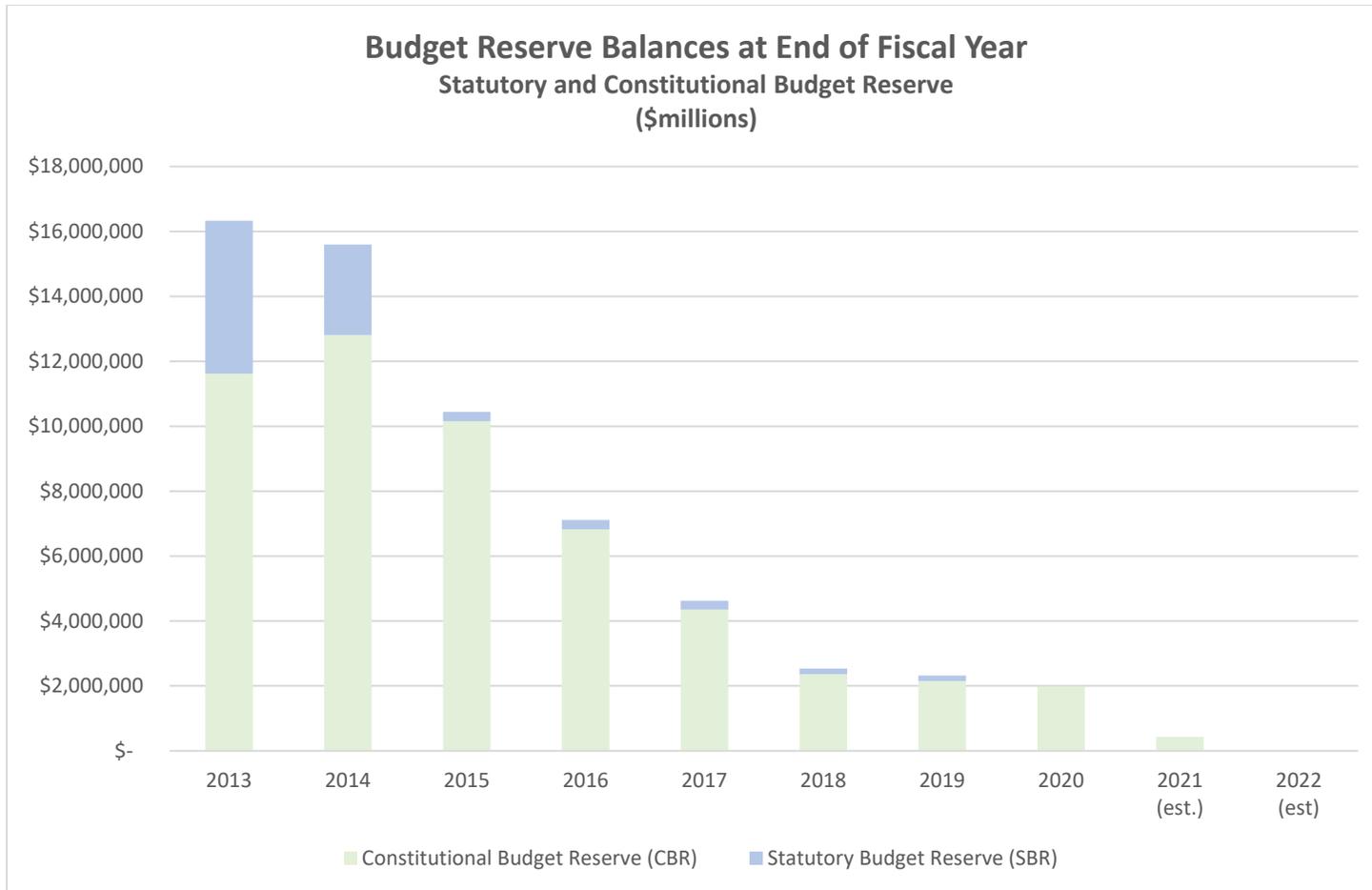
## **Alaska's Fiscal Challenge**

As a natural-resource state, Alaska has always been susceptible to the boom-and-bust economic cycles associated with commodities prices. Historically, major price downturns in the commodity value of oil have been followed by eventual recoveries in the price, and by proxy, state revenue.

To weather these inevitable revenue downturns and to allow government to continue to operate until price recovered, the Statutory Budget Reserve (SBR) and the Constitutional Budget Reserve (CBR) were established in 1986 and 1990, respectively. The SBR and CBR have acted as “rainy day” funds. In the past when oil prices declined, the state spent from these accounts until price recovered. In times when available revenue was sufficient to cover annual operating expenditures, surplus revenue was deposited into the SBR and the CBR. Over three decades, the SBR and CBR have bridged the gap between available revenue and government expenditures. They have served as an important buffer against commodity price volatility.

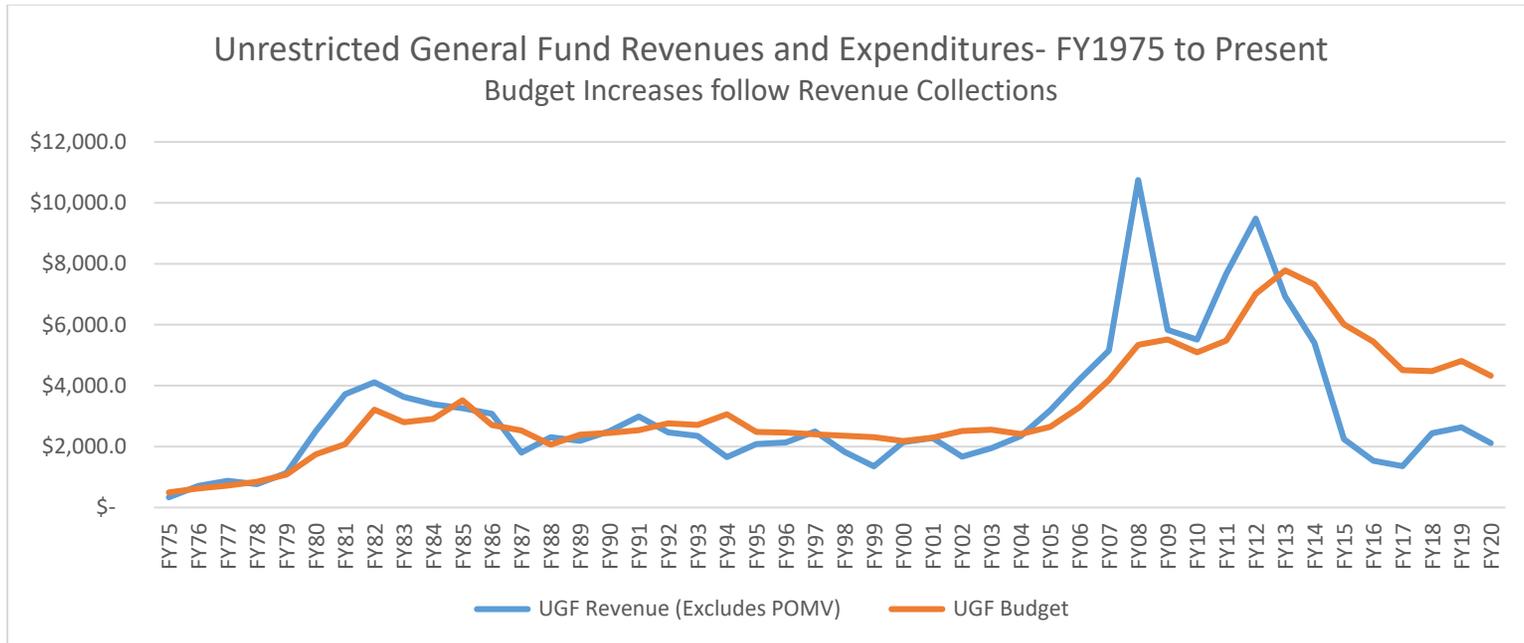
The oil price decline in FY 2014, however, was different. Many Alaskans and even industry experts were predicting a one to two-year price downturn followed by another rapid recovery. In the six years since the price of Alaska North Slope (ANS) crude oil dropped from \$110 per barrel, to an average of \$30 per barrel, the price of ANS has struggled to surpass \$60-\$65 per barrel for any meaningful period of time. Meanwhile, the State and the Legislature have been unable to close the gap between available revenue and expenditures and relied heavily on reserves available in the SBR and the CBR to provide government services.

As the table below illustrates, the state has just over one year of deficit spending left until the CBR is exhausted. The time for pushing the hard decisions into the future is over.



It is projected that by the end of the coming fiscal year (FY 2021), the State of Alaska will have drained \$16.0 billion in savings. While some budget reductions have occurred since the FY 2014 oil price decline, including nearly \$500.0 million in net unrestricted general fund reductions in the first year of the Dunleavy Administration, these reductions have not been enough to close the multi-billion dollar deficits the state was and is still facing. In fact, reductions over the past 6 years only came after a 9-year period (2004-2012) of unprecedented budget growth averaging over 14.6% per year. In the decades following the discovery of oil in Prudhoe Bay, the state budget has closely tracked with state revenue collections. As revenues increased, so did the state budget; however, it is much easier to create new programs in times of high revenue than it is to sunset them when those revenues dry up. In the years since the FY 2014 price decline, the state has been utilizing a combination of spending from SBR and

CBR savings, and beginning in FY 2019, earnings from the Permanent Fund, calculated under SB 26, to cover the difference between revenue and expenditures.



The FY 2021 budget proposes to utilize savings and earnings of the Permanent Fund and proposes funding the Permanent Fund Dividend (PFD) utilizing the current statutory calculation. The FY 2021 budget will clearly show Alaskans that difficult decisions will need to be made. The Governor plans to lead a robust discussion with lawmakers and Alaskans on how best to close the budget gap through further reductions of state services and programs, use of savings, use of the earnings of the Permanent Fund, and potentially other revenue mechanisms.

**Revenue Outlook**

For FY 2021 and the next ten fiscal years, the Department of Revenue utilized a new method of forecasting oil revenues that replaces the consensus forecast with an oil price futures curve to provide a proxy for price. The new forecast methodology resulted in an oil price of \$59 per barrel for FY 2021 and is expected to produce \$2.0 billion in unrestricted state revenue. This price may seem low compared to current market

values of \$66 per barrel but it is prudent to be conservative when setting revenue expectations, especially considering that to date<sup>1</sup>, the FY 2020 estimates are 3.4% below the 2019 Spring forecast for price and 11.7% below the production forecast.

State Unrestricted General Fund (UGF) revenue (before Permanent Fund transfers) varies between \$2.0 and \$2.3 billion per year over the 10-year forecast, of which petroleum revenue constitutes just over 70%. Additionally, the Percent of Market Value (POMV) draw from the Permanent Fund, established in 2018 with the enactment of Senate Bill 26 (SB 26), results in \$3.1 to \$3.9 billion per year over the 10-year forecast. With a status-quo budget of \$4.6 billion, a systemic deficit of \$1.5 billion persists. If budget reductions had not occurred between FY 2015 – FY 2020, including the nearly \$500 million in net UGF reductions championed by Governor Dunleavy during FY 2020, the budget deficit today would have been nearly \$3.1 billion.

FY2021-FY2030 Projected Unrestricted General Fund Revenue (Source: Revenue Sources Book)										
Revenue Source	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Projected Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,396.2)	\$ (2,495.5)	\$ (2,560.7)	\$ (2,627.2)	\$ (2,695.4)	\$ (2,766.0)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,063.8	\$ 1,049.5	\$ 1,071.3	\$ 1,093.8	\$ 1,115.6	\$ 1,138.0
<b>Total Unrestricted General Fund</b>	<b>\$ 5,059.0</b>	<b>\$ 5,071.4</b>	<b>\$ 5,206.9</b>	<b>\$ 5,335.5</b>	<b>\$ 5,481.0</b>	<b>\$ 5,588.0</b>	<b>\$ 5,749.0</b>	<b>\$ 5,893.4</b>	<b>\$ 6,071.7</b>	<b>\$ 6,170.3</b>
<b>Total Unrestricted General Fund Statutorily Available for Government Use</b>	<b>\$ 3,053.9</b>	<b>\$ 2,823.7</b>	<b>\$ 2,810.7</b>	<b>\$ 3,104.2</b>	<b>\$ 3,084.8</b>	<b>\$ 3,092.5</b>	<b>\$ 3,188.3</b>	<b>\$ 3,266.2</b>	<b>\$ 3,376.3</b>	<b>\$ 3,404.3</b>

## The Budget

As a starting point for FY 2021, the Governor is putting forward an operating budget with strategic reductions in state agency operations and limited growth in statutory formula programs. It is a budget that focuses on the key priorities of the Dunleavy administration – public safety, education, assisting Alaskans in need, and promoting economic development opportunities.

This budget provides for a statutory PFD and preserving core government services at approximately their current level.

The Governor’s suite of Constitutional Amendments will ensure that future spending growth is kept in check and ensuring that the people have a role in determining the future of the PFD and broad-based taxes. While past budget levels have followed the State’s highly volatile revenue collections, future budgets can be much more stable and predictable through an effective spending limit and executive-level policies designed to put downward pressure on excessive budget growth.

<sup>1</sup> 07/01/2019 through 12/8/2019

**Policy Initiatives:**

Closing the budget gap is a top priority and doing so will allow the state to shift its focus to important policy initiatives such as K-12 support and outcomes, public safety initiatives, economic development, and other issues that are important to Alaskans.

Public Safety

A key campaign promise for Governor Dunleavy was to address crime and public safety. In 2019, the Governor was successful in achieving the passage of HB 49. This landmark legislation rolls back the ineffective provisions of SB 91 to ensure Alaska is no longer a safe-haven for criminals. Additional resources for law enforcement officers, prosecutors, and correctional facilities was secured in the FY 2020 budget and the FY 2021 budget proposal builds on the Governor’s commitment to the safety of our communities and justice for victims in Alaska.

The FY 2021 budget makes key investments in the Department of Public Safety for additional Alaska State Trooper positions, including dedicated rural Trooper positions. The budget provides the Department of Corrections with resources to support our correctional officers, ensuring that our institutions are staffed to manage our inmate population in a safe and effective manner. Further, resources are provided for a cross-agency focus on re-entry, housing, job placement, and rehabilitative services for individuals who are eligible to re-enter our communities and provide them with tools to succeed.

	<b>\$ Thousands</b>	
<b>Public Safety Investments</b>	<b>General Fund</b>	<b>Federal Funds</b>
Replace Power Cost Equalization Funds with General Funds for HB49 Public Safety Initiatives	\$ 32,143.4	\$ -
<b>Judiciary</b>		
Additional Funding and Resources to the Court System Budget	\$ 1,959.6	\$ -
<b>Public Safety</b>		
Funding to Fill Current Trooper Positions (AST and AWT)	\$ 2,733.9	\$ -
Increase Number of Trooper Positions	\$ 7,599.1	\$ -
Dispatch in Anchorage	\$ 872.8	\$ -
Increase Staffing for State Crime Lab	\$ 744.2	\$ -
CDVSA - Add Federal for Victims of Crimes Act Grant	\$ -	\$ 1,000.0
Building Plan Review Turnaround Time Reduction	\$ 219.0	\$ -
NOAA Grant for Fisheries Enforcement	\$ -	\$ 1,100.0

Wildlife Troopers Equipment Repair and Replacement	\$	1,000.0	\$	-
Crime Laboratory Equipment Replacement	\$	290.0	\$	-
<b>Corrections</b>				
Drug Dog	\$	253.2	\$	-
Re-Entry Staffing	\$	746.1	\$	-
Expanded Correctional Officer Recruitment	\$	136.8	\$	-
Inmate Mail Copying	\$	415.7	\$	-
ACOMs Database/Crime Stopper Software	\$	450.0	\$	-
Cost of Correctional System/Growth in Inmate Counts	\$	24,710.6	\$	-
Body Scanning Equipment	\$	1,310.0	\$	-
<b>Administration</b>				
Public Advocacy/Public Defender Travel	\$	155.0	\$	-
Public Guardian Salary Support	\$	250.0	\$	-
Bar Dues for Attorney Positions	\$	116.0	\$	-
<b>Military and Veterans</b>				
SATS/ALMR Upgrades and Maintenance	\$	7,661.3	\$	-
Mass Notification System - JBER	\$	800.0	\$	800.0
<b>Total</b>	<b>\$</b>	<b>84,566.7</b>	<b>\$</b>	<b>2,900.0</b>

### Economic Development

The budget includes an appropriation for the new Alaska Development Team (ADT). The economic development initiatives of the past failed to produce the desired results, largely, because they placed the focus on government dependence rather than collaboration and partnership with the private sector. Instead of subsidizing desirable but unprofitable activities, the ADT is directed to work with Alaska businesses, State and Federal agencies and departments, economic development organizations, industry organizations, and chambers of commerce (collectively "Alaska's Stakeholders") to identify and facilitate the removal of barriers to doing business in Alaska, to help retain and grow existing industries, to attract

new opportunities to Alaska, and to deliver the message to investors and industry participants the benefits of doing business in Alaska. The goals of the ADT are to facilitate investment in Alaska, retain and grow jobs, develop key industrial infrastructure, support entrepreneurship and innovation, and otherwise enable Alaska's economy to diversify and grow. Projects will attract funding based on their own merit with the ADT acting as a conduit: connecting outside funding to promising commercial and industrial projects and businesses in Alaska.

By the end of the three-year pilot, the ADT will be reviewed based on its engagement with Alaska's Stakeholders, its performance in developing investment, and its progress towards public private partnership.

### Education

The Governor is presenting a budget with a fully-funded K-12 formula. The K-12 formula is the single largest budget item coming in at almost \$1.3 billion in unrestricted general funds. As a result of the growth in the number of higher need students as well as falling revenue from Federal Impact Aid, the cost to fully fund the K-12 formula will increase by \$10.7 million. The Dunleavy administration has also committed to fund underfunded formula payments of \$0.9 million to residential schools as a means of honoring the formulas in statute. Nationally, on average, 51% of non-federal education funding comes from the state while 49% comes from localities (funded through local sales/property/employment taxes)<sup>2</sup>. In Alaska, the state has historically provided nearly 75% of the non-federal K-12 funding, either directly through the formula or indirectly through retirement and debt assistance – a clear outlier. It is anticipated that this statutory formula will continue to drive increased costs in the Budget for the foreseeable future but even so, student outcomes are still lagging other states.

Educating the children of Alaska is of paramount importance. Providing education in a sparsely populated and geographically large state is uniquely challenging. It is the intent of the Governor to begin a discussion of how we can better deploy the current financial resources being spent on K-12 education. Legislation will be forthcoming that makes common-sense reforms to achieve better outcomes for K-12.

### Alaska Administrative Productivity and Excellence Project (AAPEX)

State departments are engaged in several key strategic integration and consolidation efforts aimed at efficiency and promoting better, smarter government business functions. These include the Office of Information Technology (OIT), Shared Services Divisions, and facilities maintenance, human resources, and procurement.

Previous attempts at “Lift and Shift” failed to realize savings among state agencies and functions due largely to position and funding movements without process standardization and improvement standards. The AAPEX project aims to foster a culture of efficiency involving constant analysis and improvement of existing business processes to achieve a greater quantity and quality of work at a lower cost.

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<sup>2</sup> <http://www.cbpp.org/research/state-budget-and-tax/most-states-have-cut-school-funding-and-some-continue-cutting>  
<http://www.legfin.state.ak.us/InformationalPapers/19-2CitizensGuideToK12.pdf>

The private sector realized long ago that consolidation of common back-office functions such as information systems and low-level accounting functions is smart business and saves money. The State has brought on world-class experts and is well poised for a successful transition that will provide cost-savings results and better business processes.

### Oversight and Review Unit

The new Oversight and Review (O&R) Unit has been created under the Division of Risk Management in the Department of Administration. The O&R Unit was established to provide a central point for coordination and responsibility for activities that promote accountability, integrity, and efficiency in government. In Alaska, lack of financial or human resources in oversight functions has caused a lack of accountability throughout state departments and agencies. The new unit will continuously conduct investigations of fraud, waste, and abuse.

Mismanagement and fraud, on a large or small scale, should be a concern for any large organization. There has been a lack of dedicated resources to the identification and elimination of such problems. Providing greater oversight will assure Alaskan taxpayers that resources are not being wasted and that departments are carrying out their missions effectively and appropriately.

### Personnel Costs

Most of the compensation increases for state employees come from Cost of Living Adjustments (COLA) and Merit Increases. COLA is approved by the Legislature each contract year and for the vast majority of unions it has kept pace with or exceeded the actual inflation rate<sup>3</sup>. Merit Increases are additive to the COLA. State employees receive automatic 3.25% annual pay increments which taper down to biannual after a specified amount of time. Over time, these two compensation measures together mean that employee wages grow well in excess of inflation. A Mid-Career General Government Employee who has been with the state for 15-years will see wages grow a staggering 54.4% in excess of inflation. Alaska is unique in not capping state employee pay but any changes to the State's system of employee compensation would require statutory action to reign in these costs.

The Governor's budget honors the collective bargaining agreements negotiated between public employee unions and the administration by fully funding salary and benefit increases for the state workforce. These increases total \$9.7 million in unrestricted general funds and \$18.8 million when considering all fund sources. Considering that personnel costs comprise almost 22% of the operating budget, it is anticipated that labor costs will be a heavy user of the state's limited general fund resources on an ongoing basis.

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<sup>3</sup> [http://www.akleg.gov/basis/get\\_documents.asp?session=31&docid=188](http://www.akleg.gov/basis/get_documents.asp?session=31&docid=188) Slide 6

FY2021 Salary and Benefit Adjustments					
Department	UGF	DGF	Other	Federal	Total
Administration	\$ 207.2	\$ 124.7	\$ 431.4	\$ 5.2	\$ 768.5
Commerce	\$ 43.6	\$ 240.8	\$ 25.5	\$ 14.6	\$ 324.5
Corrections	\$ 4,305.9	\$ 63.0	\$ 188.4	\$ 190.0	\$ 4,747.3
Educ & Early Devel	\$ 65.2	\$ 8.0	\$ 103.7	\$ 39.7	\$ 216.6
Environ Conservation	\$ 73.8	\$ 149.7	\$ 86.5	\$ 113.2	\$ 423.2
Fish and Game	\$ 146.4	\$ 21.6	\$ 161.3	\$ 182.4	\$ 511.7
Health & Social Svcs	\$ 1,964.8	\$ 406.9	\$ 802.9	\$ 1,114.8	\$ 4,289.4
Labor & Workforce	\$ 57.8	\$ 80.1	\$ 74.7	\$ 372.1	\$ 584.7
Law	\$ 126.7	\$ 8.1	\$ 48.9	\$ 7.5	\$ 191.2
Military & Veterans Affairs	\$ 64.6	\$ -	\$ 38.6	\$ 129.8	\$ 233.0
Natural Resources	\$ 159.0	\$ 141.5	\$ 75.8	\$ 39.6	\$ 415.9
Public Safety	\$ 348.5	\$ 20.1	\$ 20.8	\$ 11.7	\$ 401.1
Revenue	\$ 73.4	\$ 4.3	\$ 38.1	\$ 55.1	\$ 170.9
Transportation	\$ 1,202.5	\$ 399.6	\$ 3,074.5	\$ 6.2	\$ 4,682.8
Judiciary	\$ 590.7	\$ -	\$ -	\$ -	\$ 590.7
Legislature	\$ 231.4	\$ -	\$ -	\$ -	\$ 231.4
<b>Total</b>	<b>\$ 9,661.5</b>	<b>\$ 1,668.4</b>	<b>\$ 5,171.1</b>	<b>\$ 2,281.9</b>	<b>\$ 18,782.9</b>

### Public Employee and Teacher Retirement

In the past 5 years alone, retirement payments have ballooned from \$262.5 million in FY 2016 to \$345.6 million for FY 2021. Many of the assumptions made by actuaries about the investment earnings of the system, healthcare needs of the retirees, and lifespan after retirement are proving inaccurate. What's more, the excess wage growth mentioned above drives increased costs in the state employee retirement system as well. Even after making a significant contribution of over \$3.0 billion in FY 2015, costs continue to grow. This year's contribution will be a staggering \$37.6 million above the previous fiscal year.

The PERS/TRS retirement systems are shared with school districts and municipalities. Statutes cap the contribution for those non-state employers at 22% and 12.56% of payroll for the PERS and TRS systems respectively. The bottom line is that law currently mandates the State assume the entire down-side financial risk of the system and make payments on behalf of these other entities – an amount totaling \$217 million – or 64% of

the budgeted retirement cost. This requirement is in state law, notwithstanding the fact that the state has no control over what these other entities agree to in their own collective bargaining negotiations in terms of salary levels.

### Truth in Budgeting

The Dunleavy administration is committed to providing the public with the most transparent and accurate view of state government spending. In past budget cycles, designated funds have been used outside of their statutory purpose as a strategy to artificially reduce unrestricted general fund spending on a one-time basis. In fact, during the FY 2020 budget cycle, over \$30.0 million in public safety investments were funded through use of the Power Cost Equalization fund, an endowment used to keep utilities costs low throughout rural Alaska. This usage is not only inappropriate, it breaks the trust of those communities who rely on the earnings of the fund to keep their power costs affordable.

Through the coming months, the Office of Management and Budget will be conducting a thorough review to identify any other usage of funds outside of their designation and making recommendations for correcting these breaches in public trust.

### Medicaid

By almost any metric, Alaska's Medicaid program is the most robust and generous in the nation. The income-based definition of poverty for eligibility purposes for Alaska is set at 25% above that of the Lower 48 by federal administrative procedure carried forward from the 1960s. This causes 35% of Alaskans, almost 2 out of every 5 Alaskans, to qualify for Medicaid – more than any other state. Reimbursement rates to providers are also quite generous. In fact, on average Alaska's Medicaid program costs 26% above Medicare, 75% above the national average, and 15.5% above the next highest spending state<sup>4</sup>.

Attempts to curb program growth and right size rates were met with costly lawsuits which delayed the process. As such, \$120.0 million in additional general funds is required to fund these payments to providers and ongoing increases are anticipated for the foreseeable future. Cost overruns are not uncommon, however, the previous administration requested \$93.0 million in unrestricted general funds in FY 2015 and \$100.0 million in FY 2018 as a result of not meeting their own savings targets from the last attempt at Medicaid reform. Absent statutory relief, these costs will continue to grow in FY 2021 and into the future.

There are numerous other formula programs in the department such as foster care/subsidized adoption payments, public assistance programs, and other benefits to low-income Alaskans that also drive annual increases to the budget.

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<sup>4</sup> <https://www.kff.org/medicaid/state-indicator/medicaid-to-medicare-fee-index/>

## Capital Spending

The capital budgets of the past 5 years have been lean, to say the least, and our economy has suffered because of it. While the state is turning a corner under the Governor's leadership, and the unemployment rate is down to 6.2%, a historic low, investments need to be made to keep this momentum intact. The Governor is putting forward a responsible capital budget to ensure that Alaska can secure important federal match for highway safety programs, aviation programs, programs that support marine transportation, and makes an important investment in deferred maintenance of state facilities.

The recession has hit our state hard. The days of \$2.0 billion capital stimulus budgets are gone, but it is still important to strike a balance between budget savings and economic growth. The Governor's proposed capital budget strikes that balance and makes important investments in our collective assets that will benefit Alaska's construction industry.

## **Giving the People a Voice**

Alaska has the tools to address the budget deficit and provide for a more balanced and predictable fiscal picture for decades to come. Rather than unilaterally taking actions that affect the state's constituents, the Governor wants to hear from the people, first. He has proposed an FY 2021 budget that clearly shows the decision points that Alaskans and policy makers must consider as we decide the fiscal future of our state together.

Over the past six years of fiscal volatility, legislative and executive action have resulted in budget reductions, closing facilities, decreasing services, impacting public safety, increasing taxes and fees, and most impactful of all, discretionarily reducing the PFD in order to direct more funding to state services. Through this whole process, buy-in from everyday Alaskans was a missing critical piece.

The Governor is not endorsing any of these visions for Alaska; rather, he will be spending the coming months engaging with Alaskans to gain a better understanding of the will of the people. As such, presented in this 10-year plan are several scenarios for the future of Alaska. Each scenario will close the budget gap, either in the near or long-term, but they also present different visions of different futures for Alaska. By informing Alaskans of the pros and cons of each alternative, this will ensure that the people of our great state have the information that is necessary to engage with policy makers and leaders in a discussion on the future of our state.

## **Budget Baseline**

The Governor's budget relies on a draw from the CBR to balance the budget. Using the CBR as a budget balancing tool is only a viable option for one more year. At the current rate of spend, the CBR will be exhausted in the early days of FY 2022. Legislative action will be required to close the remaining \$1.4 billion deficit that is projected by FY 2022. Outreach and engagement with Alaskans will be key because there are multiple ways to address the situation: revenues, reductions to state services or PFDs, and statutory changes to reduce formula programs. All of these tools are available to state policymakers, but the relative success will be dependent on the level of engagement with Alaskans.

The coming years will be challenging but ultimately, through thorough engagement with the people, we will reach a sustainable solution to the budget crisis.

FY2021-FY2030 Budget Baseline										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,396.2)	\$ (2,495.5)	\$ (2,560.7)	\$ (2,627.2)	\$ (2,695.4)	\$ (2,766.0)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,063.8	\$ 1,049.5	\$ 1,071.3	\$ 1,093.8	\$ 1,115.6	\$ 1,138.0
CBR Transfers	\$ 1,547.5	\$ 542.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Remaining Deficit	\$ -	\$ 1,169.5	\$ 1,730.6	\$ 1,438.1	\$ 1,454.9	\$ 1,449.7	\$ 1,359.6	\$ 1,253.3	\$ 1,146.1	\$ 1,124.0
<b>Total Available General Funds</b>	<b>\$ 4,601.3</b>	<b>\$ 4,535.7</b>	<b>\$ 4,541.3</b>	<b>\$ 4,542.3</b>	<b>\$ 4,539.7</b>	<b>\$ 4,542.2</b>	<b>\$ 4,547.9</b>	<b>\$ 4,519.4</b>	<b>\$ 4,522.4</b>	<b>\$ 4,528.3</b>

Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5	\$ 3,897.5
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0
<b>Total General Fund Appropriations</b>	<b>\$ 4,601.3</b>	<b>\$ 4,535.7</b>	<b>\$ 4,541.3</b>	<b>\$ 4,542.3</b>	<b>\$ 4,539.7</b>	<b>\$ 4,542.2</b>	<b>\$ 4,547.9</b>	<b>\$ 4,519.4</b>	<b>\$ 4,522.4</b>	<b>\$ 4,528.3</b>

**Scenario Summary:**

<b>Scenario</b>	<b>Action Taken in Scenario</b>	<b>Budget Growth</b>	<b>Use of Savings</b>	<b>PFD Assumption</b>	<b>Unstructured Draws (Beyond POMV)</b>
Scenario 1: Balancing the Budget Through Reductions	Reductions are taken in order to avoid draining savings	Inflation only at 2.25% calculated after reductions take place. Increases above this level must be funded through further reductions	Use CBR as a glide-path to reduce \$1.4 billion over 2 years	The statutory PFD is fully funded	None
Scenario 2: Big Taxes, Big Government	Implement taxes to avoid draining savings	Historic growth rate of 4.4% for agencies and capital. Statewide items such as Debt hold steady as known projections	None	The statutory PFD is fully funded	None
Scenario 3: The “Excess” PFD, Taxes After Savings Run Dry	Reduce PFDs to avoid draining savings; implement taxes after PFD drops to zero	Historic growth rate of 4.4% for agencies and capital. Statewide items such as Debt hold steady as known projections	None	PFD is paid with available revenue after Government is fully funded	None
Scenario 4a: Continue to Balance the Budget Through Use of Savings, Then Taxes	Draw from savings (CBR, SBR, other smaller accounts), implement taxes after savings are depleted	Inflation only at 2.25%	Fully Depleted Savings	The statutory PFD is fully funded	None
Scenario 4b: Continue to Balance the Budget Through Use of Savings, Then Ad-hoc Draws	Draw from savings (CBR, SBR, other smaller accounts), make unstructured Permanent Fund draws when savings are depleted	Inflation only at 2.25%	Fully Depleted Savings	The statutory PFD is fully funded	Yes - After Savings are depleted, results in a \$18 billion loss in value of the fund over 10 years

Scenario 5: Balanced Approach	New PFD formula (50/50 POMV), modest taxes, and modest reductions	Reductions in year one and two then Inflation only at 2.25%	Partial Draw on Savings to allow time for budget to come into balance	New PFD formula, over longer periods of time PFD is approximately the same	None
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## Scenario 1: Balancing the Budget Through Reductions

On a per person basis, Alaska's budget is significantly larger than any other state at \$14,775 - over double the US Average of \$6,986.07 even after 6 years of legislative attempts to reduce the budget.

The conventional explanation of this disparity is multifaceted. Some believe that the PFD throws the calculation off, although even with a \$3,000.00+ statutory PFD, Alaska still has the largest per capita budget by a significant margin. Others point to Alaska's higher cost of living compared to other states, however, according to the Bureau of Economic Analysis<sup>5</sup>, the regional price parity for Alaska is, on average, only 4.4% (with certain urban hubs reaching as high as 7.9%) so this conjecture does not fully explain the disparity either. Others have also noted that Alaska is more adept than other states at capturing federal funds, that the State compensates employees more generously than other state governments, or how the State performs many functions that are traditionally county responsibilities in the lower 48. Still, all of these factors taken together do not explain why Alaska's per capita budget is over 2.25 times the national average and 37% above the next highest spending state.

To proponents of this plan, the reductions that followed 2004 through 2012, a period of unprecedented budget expansion that averaged 14.6% per year<sup>6</sup>, (a tripling of the state budget) were simply not enough to bring spending to a reasonable level.

This scenario attempts to balance the budget through reductions alone, using a 2-year glide-path and relying upon savings while policymakers reduce the budget to meet available revenues. Of course, this approach means that there may be some level cost-shifts to communities depending on what budget items are reduced. It necessitates the review of various expenditure items and benchmarks spending to other states. For instance:

- State employee pay is not capped and a mid-career, 15-year state employee would have increased his salary by a staggering 54% inflation
- Nationally, on average 51% of non-federal education funding comes from the state while 49% comes from localities (funded through local sales/property/employment taxes)<sup>7</sup>. In Alaska, the state provides 75% of the non-federal K-12 funding.
- County level functions may be devolved to communities, where possible, to maximize local control and local choice: local jails, grocery scale and gas pump measurement enforcement, local road maintenance, management of 239 airports, local courts, juvenile justice, and public safety will all be assessed for transfer to communities

Proponents of this strategy draw their support from the State Constitution. A review of the minutes of the Constitutional Convention will show that the framer's intention was clear: that control should be placed on the lowest governmental level possible and that communities should be ultimately responsible for determining what level of government services they deem necessary.

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<sup>5</sup> <https://www.bea.gov/system/files/2019-05/rpp0519.pdf>

<sup>6</sup> Total Operating and Capital budget, Excludes PFD

<sup>7</sup> <http://www.cbpp.org/research/state-budget-and-tax/most-states-have-cut-school-funding-and-some-continue-cutting>

This vision paints a picture of an Alaska where the Alaska State government is smaller and acts largely as a passthrough entity, collecting revenues and distributing them accordingly rather than focusing on providing direct service. It puts the ultimate control of services in the communities' hands for Alaskans to determine the level of government services that they want and how they wish to pay for it.

## Scenario 1: Balancing the Budget Through Reductions

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,396.2)	\$ (2,495.5)	\$ (2,560.7)	\$ (2,627.2)	\$ (2,695.4)	\$ (2,766.0)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,063.8	\$ 1,049.5	\$ 1,071.3	\$ 1,093.8	\$ 1,115.6	\$ 1,138.0
CBR Transfers	\$ 822.5	\$ 262.4	\$ 281.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Available General Funds</b>	<b>\$ 3,876.3</b>	<b>\$ 3,086.1</b>	<b>\$ 3,092.2</b>	<b>\$ 3,104.2</b>	<b>\$ 3,084.8</b>	<b>\$ 3,092.5</b>	<b>\$ 3,188.3</b>	<b>\$ 3,266.2</b>	<b>\$ 3,376.3</b>	<b>\$ 3,404.3</b>
Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations (post-reduction inflation - 2.25%)	\$ 3,897.5	\$ 3,897.9	\$ 3,953.0	\$ 4,008.1	\$ 4,063.4	\$ 4,118.4	\$ 4,173.4	\$ 4,230.5	\$ 4,290.0	\$ 4,351.9
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0
Cumulative Reductions required to balance	\$ (725.0)	\$ (1,450.0)	\$ (1,504.6)	\$ (1,548.6)	\$ (1,620.8)	\$ (1,670.6)	\$ (1,635.5)	\$ (1,586.3)	\$ (1,538.6)	\$ (1,578.4)
<b>Total General Fund Appropriations</b>	<b>\$ 3,876.3</b>	<b>\$ 3,086.1</b>	<b>\$ 3,092.2</b>	<b>\$ 3,104.3</b>	<b>\$ 3,084.8</b>	<b>\$ 3,092.5</b>	<b>\$ 3,188.3</b>	<b>\$ 3,266.2</b>	<b>\$ 3,376.3</b>	<b>\$ 3,404.3</b>
PFD Payments (\$millions)	\$ 2,005.1	\$ 2,247.7	\$ 2,396.2	\$ 2,231.3	\$ 2,396.2	\$ 2,495.5	\$ 2,560.7	\$ 2,627.2	\$ 2,695.4	\$ 2,766.0
PFD Payments (Per Alaskan)	\$ 3,074.06	\$ 3,346.55	\$ 3,532.76	\$ 3,241.70	\$ 3,466.35	\$ 3,573.13	\$ 3,630.63	\$ 3,690.13	\$ 3,750.32	\$ 3,812.50
FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 1,267.3	\$ 1,086.6	\$ 880.8	\$ 958.7	\$ 1,038.9	\$ 1,121.6	\$ 1,206.8	\$ 1,294.5	\$ 1,384.8	\$ 1,477.8
Other Available Balances	\$ 1,382.7	\$ 1,383.4	\$ 1,384.1	\$ 1,384.8	\$ 1,385.6	\$ 1,386.5	\$ 1,387.4	\$ 1,388.4	\$ 1,389.4	\$ 1,390.5
<b>Accessible Reserves</b>	<b>\$ 2,650.1</b>	<b>\$ 2,470.0</b>	<b>\$ 2,264.8</b>	<b>\$ 2,343.5</b>	<b>\$ 2,424.6</b>	<b>\$ 2,508.1</b>	<b>\$ 2,594.1</b>	<b>\$ 2,682.8</b>	<b>\$ 2,774.2</b>	<b>\$ 2,868.3</b>
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.4	\$ 18,484.0	\$ 19,982.1	\$ 21,522.3	\$ 23,106.0	\$ 24,736.7	\$ 25,146.0	\$ 25,571.5	\$ 26,014.1
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,268.9	\$ 55,657.9	\$ 56,078.8	\$ 56,545.1	\$ 58,325.2	\$ 60,187.6	\$ 62,093.3
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.1</b>	<b>\$ 73,388.9</b>	<b>\$ 75,251.0</b>	<b>\$ 77,180.2</b>	<b>\$ 79,184.8</b>	<b>\$ 81,281.8</b>	<b>\$ 83,471.2</b>	<b>\$ 85,759.1</b>	<b>\$ 88,107.5</b>

## Scenario 2: Big Taxes, Big Government

In the second scenario, taxes are used to balance the budget and assumes that the operating agency and capital budgets continue to grow at 4.4% - the average growth rate over the past 20 years. This scenario allows for healthy growth in the size and scope of state government services. Proponents of this plan point to the general fund reductions that have occurred over the past 6 years<sup>8</sup> They argue that with the size of these reductions, Alaska is no longer able to perform basic government functions at the level of service that has been experienced. More recently, legislators, communities and Alaska's construction industry have raised concerns regarding the lack of capital and infrastructure spending that boosts the state and local economies and provides needed investment in infrastructure and state assets. The December 11 status-quo capital budget includes only \$135.0 million of general fund spending, just above the amount necessary to capture available federal funds. This is a far cry from the FY 2013 capital budget of nearly \$2.0 billion (a 90% reduction). In those years, distributions were made to numerous non-profit organizations to contend with homelessness, substance abuse and mental health issues, hunger, unemployment, school maintenance, and other social problems.

This scenario proposes a sizable increase to operating safety-net programs as well as capital expenditures to bolster available jobs in the state. Under this scenario, low income Alaskans will receive a full PFD **and** robust social/safety net services but pay little-to-no tax, while middle-income Alaskans will receive a PFD that is higher than their tax liability. Upper middle income and wealthy individuals are likely to pay significantly more in taxes than the amount of their PFD. For the state's 620 taxpayers earning in excess of \$1.0 million annually, there is likely to be a robust discussion of whether Alaska's comparatively small high-income earners would shoulder the increase or seek to shelter their earnings in another state.

This vision does come at a cost. With a \$1.5 billion deficit projected for FY 2021, the taxes required to balance the budget will be substantial. Included below is a list of various potential revenue measures that *could* be used to close this gap:

- 5% statewide sales tax, including online sales: \$900.0 million
- Statewide lottery - \$5.0 to \$15.0 million
- An income tax equivalent to 18% of federal tax liability: \$600.0 million
- Tripling of motor fuel tax: \$80.0 million
- Mining tax increase from 7% to 9%: \$6.7 million
- Fisheries tax rate increase by 1%: \$18.7 million
- Tobacco tax 80% increase: \$29.0 million
- Doubling of the state alcohol excise tax: \$40.0 million

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<sup>8</sup> Since FY 2015: \$1.5 billion, \$0.7 billion of this is attributable to oil credits and the capital budget \$0.5 billion attributable to the capital budget

This scenario envisions no change to the current statutory PFD and proposes increased spending in areas such as public safety, safety net programs, education, and a robust capital budget. The result of this scenario is larger government spending at a higher cost to individual working Alaskans.

## Scenario 2: Big Taxes, Big Government

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,396.2)	\$ (2,495.5)	\$ (2,560.7)	\$ (2,627.2)	\$ (2,695.4)	\$ (2,766.0)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,063.8	\$ 1,049.5	\$ 1,071.3	\$ 1,093.8	\$ 1,115.6	\$ 1,138.0
CBR Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>New Taxes</b>	<b>\$ 1,547.5</b>	<b>\$ 1,875.1</b>	<b>\$ 2,078.9</b>	<b>\$ 1,979.8</b>	<b>\$ 2,198.5</b>	<b>\$ 2,404.2</b>	<b>\$ 2,534.2</b>	<b>\$ 2,657.6</b>	<b>\$ 2,790.3</b>	<b>\$ 3,018.6</b>
<b>Total Available General Funds</b>	<b>\$ 4,601.3</b>	<b>\$ 4,698.8</b>	<b>\$ 4,889.6</b>	<b>\$ 5,084.1</b>	<b>\$ 5,283.3</b>	<b>\$ 5,496.7</b>	<b>\$ 5,722.5</b>	<b>\$ 5,923.8</b>	<b>\$ 6,166.6</b>	<b>\$ 6,422.9</b>
Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,897.5	\$ 4,069.0	\$ 4,248.0	\$ 4,434.9	\$ 4,630.1	\$ 4,833.8	\$ 5,046.5	\$ 5,268.5	\$ 5,500.3	\$ 5,742.4
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 141.6	\$ 147.8	\$ 154.3	\$ 161.1	\$ 168.2	\$ 175.6	\$ 183.3	\$ 191.4	\$ 199.8
<b>Total General Fund Appropriations</b>	<b>\$ 4,601.3</b>	<b>\$ 4,698.8</b>	<b>\$ 4,889.6</b>	<b>\$ 5,084.1</b>	<b>\$ 5,283.3</b>	<b>\$ 5,496.7</b>	<b>\$ 5,722.5</b>	<b>\$ 5,923.8</b>	<b>\$ 6,166.6</b>	<b>\$ 6,422.9</b>
PFD Payments (\$millions)	\$ 2,005.1	\$ 2,247.7	\$ 2,396.2	\$ 2,231.3	\$ 2,396.2	\$ 2,495.5	\$ 2,560.7	\$ 2,627.2	\$ 2,695.4	\$ 2,766.0
PFD Payments (Per Alaskan)	\$ 3,074.06	\$ 3,346.55	\$ 3,532.76	\$ 3,241.70	\$ 3,466.35	\$ 3,573.13	\$ 3,630.63	\$ 3,690.13	\$ 3,750.32	\$ 3,812.50
<b>Average Per Capita Tax Burden</b>	<b>\$ 2,058.77</b>	<b>\$ 2,478.44</b>	<b>\$ 2,730.74</b>	<b>\$ 2,584.86</b>	<b>\$ 2,853.79</b>	<b>\$ 3,103.37</b>	<b>\$ 3,253.46</b>	<b>\$ 3,394.20</b>	<b>\$ 3,545.76</b>	<b>\$ 3,817.30</b>
FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 2,089.8	\$ 2,204.0	\$ 2,321.6	\$ 2,442.8	\$ 2,567.5	\$ 2,696.1	\$ 2,828.5	\$ 2,964.8	\$ 3,105.3	\$ 3,249.9
Other Available Balances	\$ 1,382.7	\$ 1,383.4	\$ 1,384.1	\$ 1,384.8	\$ 1,385.6	\$ 1,386.5	\$ 1,387.4	\$ 1,388.4	\$ 1,389.4	\$ 1,390.5
<b>Accessible Reserves</b>	<b>\$ 3,472.5</b>	<b>\$ 3,587.4</b>	<b>\$ 3,705.7</b>	<b>\$ 3,827.6</b>	<b>\$ 3,953.2</b>	<b>\$ 4,082.5</b>	<b>\$ 4,215.8</b>	<b>\$ 4,353.2</b>	<b>\$ 4,494.6</b>	<b>\$ 4,640.4</b>
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.4	\$ 18,484.0	\$ 19,982.1	\$ 21,522.3	\$ 23,106.0	\$ 24,736.7	\$ 25,146.0	\$ 25,571.5	\$ 26,014.1
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,268.9	\$ 55,657.9	\$ 56,078.8	\$ 56,545.1	\$ 58,325.2	\$ 60,187.6	\$ 62,093.3
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.1</b>	<b>\$ 73,388.9</b>	<b>\$ 75,251.0</b>	<b>\$ 77,180.2</b>	<b>\$ 79,184.8</b>	<b>\$ 81,281.8</b>	<b>\$ 83,471.2</b>	<b>\$ 85,759.1</b>	<b>\$ 88,107.5</b>

### Scenario 3: The “Excess” PFD, Then Taxes

Scenario 3 provides for basic government services to continue at approximately the same level as they exist today and closes the budget gap through reduction of the PFD. It requires strong fiscal restraint and is best accompanied by a Constitutional Amendment that effectively limits spending. This scenario proposes few budget reductions and requires any increases to the budget to be funded through reductions elsewhere. After six years of varying levels of budget reductions, the low hanging fruit is gone. Without cost-shifts to communities, sunsetting programs, or statutory changes to formulary programs, further large reductions are likely not feasible.

Government services will exist at, approximately, the current level with little flexibility to commit additional resources to public safety, education, programs that protect vulnerable Alaskans, or to take care of aging state infrastructure and transportation needs. In Scenario 3, the PFD is calculated after all available revenue (Unrestricted General Fund and Gross POMV Draw) is applied to the proposed budget. Some policy makers have named this approach the “excess PFD” or the “net dividend.” Assuming the Governor’s proposed FY 21 budget, in the first year, this “excess” PFD, or revenue that is available after funding government that may be used for a PFD, will be around \$457.7 million, or \$653 per Alaskan. From here there are two possible outcomes, either the budget growth is limited to inflation (2.25%) and PFD will, in real terms, be approximately equal to this amount or budget growth continues at its historic trend and the size of the PFD will erode over time as spending on government begins to crowd-out the amount of available revenue for PFDs. In other words, this strategy does come with an element of risk. The average year-over-year growth in the size of government over the past 20 years averaged 4.4% annually. There have been years of reductions as well as years of growth that average out to this figure. Should the growth in government exceed inflation as it has historically, the PFD will become smaller until all available revenue is necessary to fund the budget. For demonstration purposes, the table on the next page assumes a 4.4% annual growth factor is applied to both the operating and capital budget and illustrates this PFD “crowd-out” effect. Any increase in discretionary spending (capital or operating) will exacerbate this PFD reduction and bring us to using the entire SB 26 draw.

By FY 2027, PFDs drop to zero and some combination of savings draws, new or enhanced taxes, or ad hoc draw from the ERA will be necessary to balance the budget. The PFD will be subject to political discretion, based on availability of revenues after balancing a growing budget with new revenues.

A scenario, such as Scenario 3, staves off new taxes for a number of years, but without continued budget discipline and additional reductions, Alaskans could forego a PFD and even begin paying taxes.

### Scenario 3: The “Excess” PFD, Then Taxes<sup>9</sup>

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (457.7)	\$ (372.6)	\$ (317.3)	\$ (251.4)	\$ (197.7)	\$ (91.3)	\$ (26.5)	\$ -	\$ -	\$ -
Net POMV Transfer	\$ 2,633.8	\$ 2,722.4	\$ 2,944.7	\$ 3,126.6	\$ 3,262.3	\$ 3,453.7	\$ 3,605.5	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
CBR Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30.4	\$ 94.9	\$ 252.6
<b>Total Available General Funds</b>	<b>\$ 4,601.3</b>	<b>\$ 4,698.8</b>	<b>\$ 4,889.6</b>	<b>\$ 5,084.1</b>	<b>\$ 5,283.3</b>	<b>\$ 5,496.7</b>	<b>\$ 5,722.5</b>	<b>\$ 5,923.8</b>	<b>\$ 6,166.6</b>	<b>\$ 6,422.9</b>

Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,897.5	\$ 4,069.0	\$ 4,248.0	\$ 4,434.9	\$ 4,630.1	\$ 4,833.8	\$ 5,046.5	\$ 5,268.5	\$ 5,500.3	\$ 5,742.4
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 141.6	\$ 147.8	\$ 154.3	\$ 161.1	\$ 168.2	\$ 175.6	\$ 183.3	\$ 191.4	\$ 199.8
<b>Total General Fund Appropriations</b>	<b>\$ 4,601.3</b>	<b>\$ 4,698.8</b>	<b>\$ 4,889.6</b>	<b>\$ 5,084.1</b>	<b>\$ 5,283.3</b>	<b>\$ 5,496.7</b>	<b>\$ 5,722.5</b>	<b>\$ 5,923.8</b>	<b>\$ 6,166.6</b>	<b>\$ 6,422.9</b>
PFD Payments (\$millions)	\$ 457.7	\$ 372.6	\$ 317.3	\$ 251.4	\$ 197.7	\$ 91.3	\$ 26.5	\$ -	\$ -	\$ -
PFD Payments (Per Alaskan)	\$ 653.31	\$ 517.34	\$ 431.46	\$ 329.88	\$ 248.84	\$ 90.45	\$ 0.10	\$ -	\$ -	\$ -
Average Per Capita Tax Burden	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38.79	\$ 120.64	\$ 319.45

FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 2,089.8	\$ 2,204.0	\$ 2,321.6	\$ 2,442.8	\$ 2,567.5	\$ 2,696.1	\$ 2,828.5	\$ 2,964.8	\$ 3,105.3	\$ 3,249.9
Other Available Balances	\$ 1,382.7	\$ 1,383.4	\$ 1,384.1	\$ 1,384.8	\$ 1,385.6	\$ 1,386.5	\$ 1,387.4	\$ 1,388.4	\$ 1,389.4	\$ 1,390.5
<b>Accessible Reserves</b>	<b>\$ 3,472.5</b>	<b>\$ 3,587.4</b>	<b>\$ 3,705.7</b>	<b>\$ 3,827.6</b>	<b>\$ 3,953.2</b>	<b>\$ 4,082.5</b>	<b>\$ 4,215.8</b>	<b>\$ 4,353.2</b>	<b>\$ 4,494.6</b>	<b>\$ 4,640.4</b>
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.4	\$ 18,484.0	\$ 19,982.1	\$ 21,522.3	\$ 23,106.0	\$ 24,736.7	\$ 25,146.0	\$ 25,571.5	\$ 26,014.1
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,268.9	\$ 55,657.9	\$ 56,078.8	\$ 56,545.1	\$ 58,325.2	\$ 60,187.6	\$ 62,093.3
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.1</b>	<b>\$ 73,388.9</b>	<b>\$ 75,251.0</b>	<b>\$ 77,180.2</b>	<b>\$ 79,184.8</b>	<b>\$ 81,281.8</b>	<b>\$ 83,471.2</b>	<b>\$ 85,759.1</b>	<b>\$ 88,107.5</b>

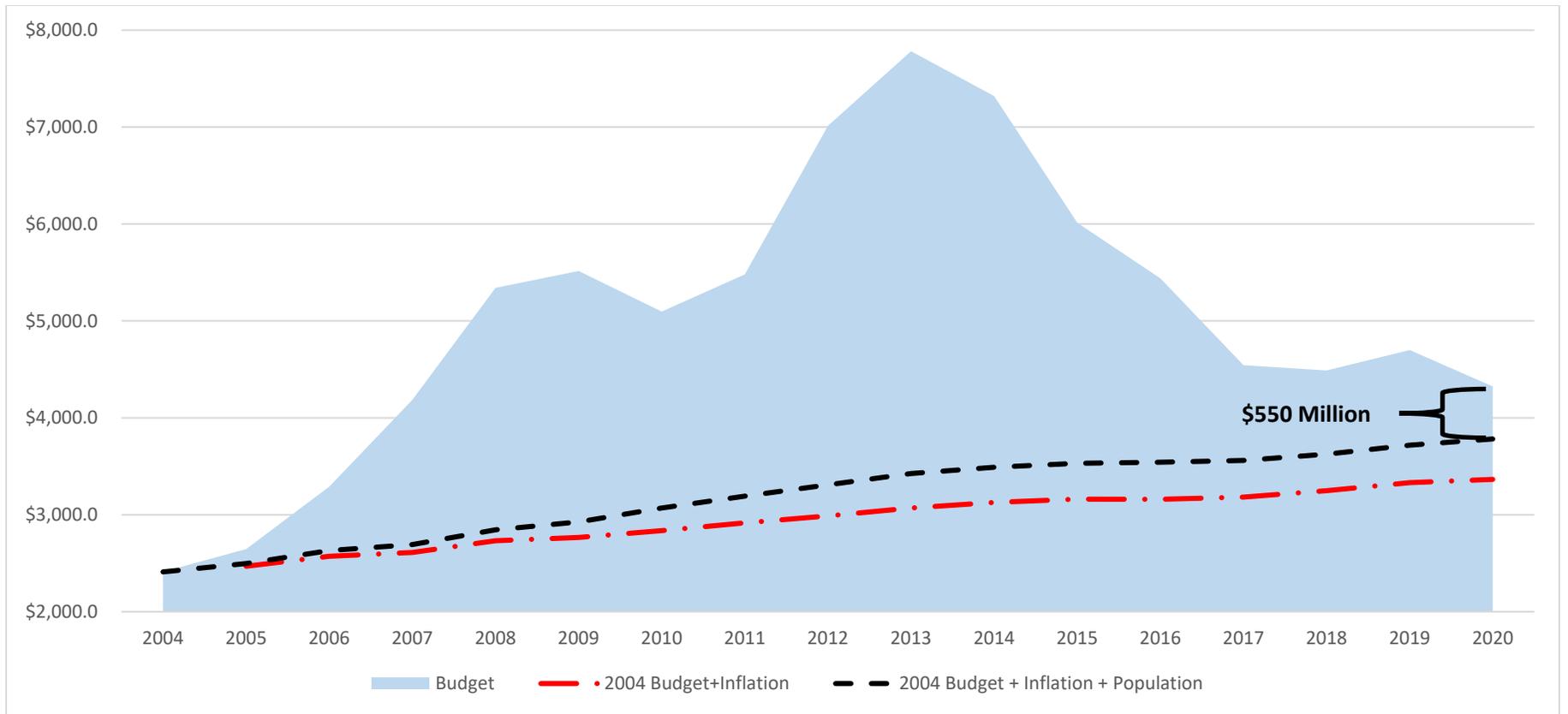
<sup>9</sup> While the FY2027 budget would include PFD funding of \$26.5 million, the majority of those funds would be used to administer the program, leaving little available for PFDs

#### **Scenario 4a: Continue to Balance the Budget Through Use of Savings, Then Taxes**

We present two scenarios for Scenario 4. The first scenario, Scenario 4a presents a budget adjusted for inflation and use of other accounts and endowments. These accounts, however, support programs that are important to Alaskans and may defund those services if used. Once savings accounts are exhausted, taxes are implemented to balance the budget. Scenario 4b, also presents a budget adjusted for inflation and use of an ad hoc draw on the Earnings Reserve Account of the Permanent Fund to balance the budget, versus implementing taxes to balance the budget.

Under Scenario 4a, there is no flexibility to increase funding to priority or new initiatives. Alaska has drawn approximately \$16 billion from its savings accounts, primarily the CBR and the SBR, continuously since FY 2013 (9 years). The CBR and the SBR are now nearly empty. Based on projections of available revenue and budget growth, the CBR will likely be exhausted by FY 2022. There are smaller funds and endowments that could be used, such as the Power Cost Equalization and Higher Education Endowments, but even those balances will only buy the state one or two more years until taxes are required to balance the nearly \$1.5 billion deficit. Additionally, the earnings of each of these endowments has a designated purpose, established by statute. It may be very difficult to change state law or redirect these funds from the current programs that they support.

Historically, Alaska has struggled to keep budget growth at or below inflation. The chart below illustrates the size of the state budget over the past fifteen years. Even after years of reductions, the budget is \$550.0 million above the 2004 budget levels when adjusted for inflation and population growth.



Scenario 4a: Continue to Balance the Budget Through Use of Savings, Then Taxes

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,396.2)	\$ (2,495.5)	\$ (2,560.7)	\$ (2,627.2)	\$ (2,695.4)	\$ (2,766.0)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,063.8	\$ 1,049.5	\$ 1,071.3	\$ 1,093.8	\$ 1,115.6	\$ 1,138.0
CBR Transfers	\$ 1,547.5	\$ 542.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers from Other Funds	\$ -	\$ 1,257.3	\$ 125.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Taxes	\$ -	\$ -	\$ 1,782.6	\$ 1,707.1	\$ 1,817.7	\$ 1,908.4	\$ 1,916.3	\$ 1,910.2	\$ 1,905.5	\$ 1,988.1
<b>Total Available General Funds</b>	<b>\$ 4,601.3</b>	<b>\$ 4,623.4</b>	<b>\$ 4,718.7</b>	<b>\$ 4,811.4</b>	<b>\$ 4,902.4</b>	<b>\$ 5,000.9</b>	<b>\$ 5,104.6</b>	<b>\$ 5,176.3</b>	<b>\$ 5,281.8</b>	<b>\$ 5,392.4</b>
Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,897.5	\$ 3,985.2	\$ 4,074.9	\$ 4,166.5	\$ 4,260.3	\$ 4,356.1	\$ 4,454.2	\$ 4,554.4	\$ 4,656.9	\$ 4,761.6
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0
<b>Total General Fund Appropriations</b>	<b>\$ 4,601.3</b>	<b>\$ 4,623.4</b>	<b>\$ 4,718.7</b>	<b>\$ 4,811.4</b>	<b>\$ 4,902.4</b>	<b>\$ 5,000.9</b>	<b>\$ 5,104.6</b>	<b>\$ 5,176.3</b>	<b>\$ 5,281.8</b>	<b>\$ 5,392.4</b>
PFD Payments (\$millions)	\$ 2,005.1	\$ 2,247.7	\$ 2,396.2	\$ 2,231.3	\$ 2,396.2	\$ 2,495.5	\$ 2,560.7	\$ 2,627.2	\$ 2,695.4	\$ 2,766.0
PFD Payments (Per Alaskan)	\$ 3,074.06	\$ 3,346.55	\$ 3,532.76	\$ 3,241.70	\$ 3,466.35	\$ 3,573.13	\$ 3,630.63	\$ 3,690.13	\$ 3,750.32	\$ 3,812.50
Average Per Capita Tax Burden	\$ -	\$ -	\$ 2,341.46	\$ 2,228.83	\$ 2,359.40	\$ 2,463.35	\$ 2,460.18	\$ 2,439.58	\$ 2,421.34	\$ 2,514.13
FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 542.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Available Balances	\$ 1,382.7	\$ 125.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Accessible Reserves</b>	<b>\$ 1,925.1</b>	<b>\$ 125.4</b>	<b>\$ -</b>							
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.4	\$ 18,484.0	\$ 19,982.1	\$ 21,522.3	\$ 23,106.0	\$ 24,736.7	\$ 25,146.0	\$ 25,571.5	\$ 26,014.1
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,268.9	\$ 55,657.9	\$ 56,078.8	\$ 56,545.1	\$ 58,325.2	\$ 60,187.6	\$ 62,093.3
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.1</b>	<b>\$ 73,388.9</b>	<b>\$ 75,251.0</b>	<b>\$ 77,180.2</b>	<b>\$ 79,184.8</b>	<b>\$ 81,281.8</b>	<b>\$ 83,471.2</b>	<b>\$ 85,759.1</b>	<b>\$ 88,107.5</b>

#### **Scenario 4b: Continue to Balance the Budget Through Use of Savings, Then Unstructured Draws**

Scenario 4b mirrors Scenario 4a, however, rather than implementing taxes when savings are depleted, it suggests ad-hoc draws from the Earnings Reserve Account (ERA) of the Permanent Fund. An ad hoc draw is a withdraw from the ERA that exceeds the statutory percent of market value (POMV) rate, established by SB 26. As a result, ad hoc draws will diminish the real value of the Permanent Fund. This strategy may go unnoticed for years as excess draws from the Alaska Permanent Fund ERA are taken above what is replenished through investment earnings, but, like a thief in the night, one day Alaskans will realize that the real value of the Permanent Fund has dwindled to a point where much larger taxes are necessary to balance the budget.

Only a portion of the Alaska Permanent Fund is accessible by legislators: The ERA. The ERA replenishes every year with realized earnings of the fund, but large unstructured draws would whittle away at that available balance and, in time, it is possible that there would be years where the ERA is not available for use and the POMV transfer cannot be made to support government.

Should this scenario become a reality, large taxes would be required to balance the budget, shocking the state's economy in the process. Without access to the POMV draw from the Permanent Fund, the state would require a sales tax of over 20% or an income tax equal to the amount that Alaskans already pay to the federal government – by far the largest in the nation. This scenario forces the inevitable, even if the decision is pushed forward into the future by a decade or more. What's more, PFDs will decline in perpetuity as the balance of the Permanent Fund is slowly worn away.

### Scenario 4b: Continue to Balance the Budget Through Use of Savings, Then Unstructured Draws

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,447.8	\$ 3,501.2	\$ 3,538.0	\$ 3,554.4	\$ 3,549.0	\$ 3,540.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (2,247.7)	\$ (2,396.2)	\$ (2,231.3)	\$ (2,383.6)	\$ (2,457.5)	\$ (2,482.8)	\$ (2,493.7)	\$ (2,489.6)	\$ (2,483.3)
Net POMV Transfer	\$ 1,086.4	\$ 847.3	\$ 865.8	\$ 1,146.7	\$ 1,064.2	\$ 1,043.7	\$ 1,055.3	\$ 1,060.7	\$ 1,059.4	\$ 1,056.7
CBR Transfers	\$ 1,547.5	\$ 542.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers from Other Funds	\$ -	\$ 1,257.3	\$ 125.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ 1,782.6	\$ 1,707.1	\$ 1,817.3	\$ 1,914.1	\$ 1,932.4	\$ 1,943.2	\$ 1,961.7	\$ 2,069.4
New Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Available General Funds</b>	<b>\$ 4,601.3</b>	<b>\$ 4,623.4</b>	<b>\$ 4,718.7</b>	<b>\$ 4,811.4</b>	<b>\$ 4,902.4</b>	<b>\$ 5,000.9</b>	<b>\$ 5,104.6</b>	<b>\$ 5,176.3</b>	<b>\$ 5,281.8</b>	<b>\$ 5,392.4</b>
Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,897.5	\$ 3,985.2	\$ 4,074.9	\$ 4,166.5	\$ 4,260.3	\$ 4,356.1	\$ 4,454.2	\$ 4,554.4	\$ 4,656.9	\$ 4,761.6
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0
<b>Total General Fund Appropriations</b>	<b>\$ 4,601.3</b>	<b>\$ 4,623.4</b>	<b>\$ 4,718.7</b>	<b>\$ 4,811.4</b>	<b>\$ 4,902.4</b>	<b>\$ 5,000.9</b>	<b>\$ 5,104.6</b>	<b>\$ 5,176.3</b>	<b>\$ 5,281.8</b>	<b>\$ 5,392.4</b>
PFD Payments (\$millions)	\$ 2,005.1	\$ 2,247.7	\$ 2,396.2	\$ 2,231.3	\$ 2,383.6	\$ 2,457.5	\$ 2,482.8	\$ 2,493.7	\$ 2,489.6	\$ 2,483.3
PFD Payments (Per Alaskan)	\$ 3,074.06	\$ 3,346.55	\$ 3,532.76	\$ 3,241.71	\$ 3,447.45	\$ 3,517.09	\$ 3,517.50	\$ 3,498.60	\$ 3,458.57	\$ 3,416.47
Average Per Capita Tax Burden	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 542.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Available Balances	\$ 1,382.7	\$ 125.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Accessible Reserves</b>	<b>\$ 1,925.1</b>	<b>\$ 125.4</b>	<b>\$ -</b>							
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.8	\$ 16,700.7	\$ 16,369.2	\$ 15,861.8	\$ 15,195.7	\$ 14,457.9	\$ 12,402.8	\$ 10,276.6	\$ 7,991.8
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,267.8	\$ 55,654.6	\$ 56,072.0	\$ 56,533.4	\$ 58,306.9	\$ 60,161.2	\$ 62,056.9
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.5</b>	<b>\$ 71,605.5</b>	<b>\$ 71,637.0</b>	<b>\$ 71,516.4</b>	<b>\$ 71,267.7</b>	<b>\$ 70,991.4</b>	<b>\$ 70,709.7</b>	<b>\$ 70,437.8</b>	<b>\$ 70,048.8</b>

## Scenario 5: Balanced Approach

Scenario 5 applies a balanced methodology to the budget that includes reductions, revenues, and a change in the calculation of the PFD. It proposes continued reductions in the \$300-\$500 million range. In FY 2021, the statutory PFD will be paid and the deficit will be covered by available funds in the CBR. Beginning in FY 2022, the draw from the ERA, will be divided equally between the PFD program and revenue available for government spending. This approach has been commonly referred to as the 50/50 POMV.

Proponents of this plan argue that the benefit of moving to a 50/50 POMV formula is that, in the long term, PFDs will be approximately the same amount, but in the short term, more revenue will be made available to fund government services. The current statutory formula for the PFD produces larger PFDs in bull markets, because the Alaska Permanent Fund Corporation (APFC) tends to realize returns at a higher rate in such markets. Conversely, in years following bear markets, the 50/50 POMV approach will produce larger PFDs, because the APFC's realization rates are lower. In general, the current statutory approach is more than twice as volatile as the 50/50 POMV approach. This is because the POMV approach is based on an average of market values, and the statutory approach is based on average of realizations—which are directly driven by investment decisions made by APFC managers.

Over long periods of time, the 50/50 POMV and the current statutory approach will produce similar results in aggregate, and should there be a major market correction, which many economists are now predicting, the PFD will be greater under a 50/50 POMV approach.

Even with these two actions, there will need to be an additional source of revenue to balance the budget, but the revenue measure required can be more modest than in the aforementioned tax-heavy scenarios.

The past several legislative sessions have illustrated that solutions need to be moderate to earn the people's approval. Previous proposals involving budget reductions, PFD decreases, and taxes faced skepticism when the Alaskan citizenry believed that they went too far. Proponents of a balanced approach suggest that everyone give a little so that no group of Alaskans faces undue harm.

## Scenario 5: Balanced Approach

FY2021-FY2030 Projected Sources and Uses of State General Funds										
Sources of Funding	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted General Fund Revenue per RSB	\$ 1,967.5	\$ 1,976.4	\$ 1,944.9	\$ 1,957.5	\$ 2,021.0	\$ 2,043.0	\$ 2,117.0	\$ 2,172.4	\$ 2,260.7	\$ 2,266.3
Gross POMV Transfer	\$ 3,091.5	\$ 3,095.0	\$ 3,262.0	\$ 3,378.0	\$ 3,460.0	\$ 3,545.0	\$ 3,632.0	\$ 3,721.0	\$ 3,811.0	\$ 3,904.0
Less Payments of Permanent Fund Dividends	\$ (2,005.1)	\$ (1,547.5)	\$ (1,631.0)	\$ (1,689.0)	\$ (1,730.0)	\$ (1,772.5)	\$ (1,816.0)	\$ (1,860.5)	\$ (1,905.5)	\$ (1,952.0)
Net POMV Transfer	\$ 1,086.4	\$ 1,547.5	\$ 1,631.0	\$ 1,689.0	\$ 1,730.0	\$ 1,772.5	\$ 1,816.0	\$ 1,860.5	\$ 1,905.5	\$ 1,952.0
CBR Transfers	\$ 1,047.5	\$ 11.8	\$ 41.9	\$ 50.4	\$ 23.2	\$ 43.0	\$ 14.7			\$ -
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unstructured PF Draw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Taxes	\$ 250.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 500.0
<b>Total Available General Funds</b>	<b>\$ 4,351.3</b>	<b>\$ 4,035.7</b>	<b>\$ 4,117.8</b>	<b>\$ 4,196.9</b>	<b>\$ 4,274.2</b>	<b>\$ 4,358.5</b>	<b>\$ 4,447.7</b>	<b>\$ 4,532.9</b>	<b>\$ 4,666.2</b>	<b>\$ 4,718.3</b>

Uses of Funds	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agency Operations	\$ 3,647.5	\$ 3,397.5	\$ 3,473.9	\$ 3,552.1	\$ 3,632.0	\$ 3,713.8	\$ 3,797.3	\$ 3,882.7	\$ 3,970.1	\$ 4,059.4
Debt Service Payments	\$ 135.0	\$ 132.2	\$ 136.3	\$ 133.5	\$ 126.9	\$ 124.1	\$ 124.4	\$ 88.3	\$ 83.6	\$ 80.9
PERS/TRS Contributions	\$ 345.6	\$ 324.0	\$ 325.6	\$ 329.3	\$ 333.2	\$ 338.6	\$ 344.1	\$ 351.7	\$ 359.3	\$ 367.9
Fund Capitalizations/Transfers	\$ 87.6	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0	\$ 32.0
Capital	\$ 135.6	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0	\$ 150.0
Cumulative Reductions	\$ (250.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)	\$ (500.0)
<b>Total General Fund Appropriations</b>	<b>\$ 4,351.3</b>	<b>\$ 4,035.7</b>	<b>\$ 4,117.8</b>	<b>\$ 4,196.9</b>	<b>\$ 4,274.2</b>	<b>\$ 4,358.5</b>	<b>\$ 4,447.7</b>	<b>\$ 4,504.7</b>	<b>\$ 4,595.0</b>	<b>\$ 4,690.2</b>
PFD Payments (\$millions)	\$ 2,005.1	\$ 1,547.5	\$ 1,631.0	\$ 1,689.0	\$ 1,730.0	\$ 1,772.5	\$ 1,816.0	\$ 1,860.5	\$ 1,905.5	\$ 1,952.0
PFD Payments (Per Alaskan)	\$ 3,074.06	\$ 2,262.04	\$ 2,392.60	\$ 2,453.01	\$ 2,488.54	\$ 2,526.10	\$ 2,564.09	\$ 2,602.52	\$ 2,640.65	\$ 2,679.93
Average Per Capita Tax Burden	\$ 391.1	\$ 774.4	\$ 766.8	\$ 759.2	\$ 751.7	\$ 744.2	\$ 736.8	\$ 729.5	\$ 722.3	\$ 715.2

FY2021-FY2030 Projected Major Savings Account Balances										
CBR Balance	\$ 1,042.4	\$ 1,116.6	\$ 1,162.4	\$ 1,200.9	\$ 1,268.9	\$ 1,318.8	\$ 1,399.7	\$ 1,527.9	\$ 1,705.0	\$ 1,843.8
Other Available Balances	\$ 1,382.7	\$ 1,383.4	\$ 1,384.1	\$ 1,384.8	\$ 1,385.6	\$ 1,386.5	\$ 1,387.4	\$ 1,388.4	\$ 1,389.4	\$ 1,390.5
<b>Accessible Reserves</b>	<b>\$ 2,425.1</b>	<b>\$ 2,500.0</b>	<b>\$ 2,546.4</b>	<b>\$ 2,585.7</b>	<b>\$ 2,654.5</b>	<b>\$ 2,705.3</b>	<b>\$ 2,787.1</b>	<b>\$ 2,916.3</b>	<b>\$ 3,094.4</b>	<b>\$ 3,234.3</b>
Permanent Fund Earnings Reserve	\$ 15,458.8	\$ 16,992.4	\$ 18,484.0	\$ 19,982.1	\$ 21,522.3	\$ 23,106.0	\$ 24,736.7	\$ 25,146.0	\$ 25,571.5	\$ 26,014.1
Permanent Fund Principal (Non-Spendable)	\$ 54,170.9	\$ 54,543.7	\$ 54,904.8	\$ 55,268.9	\$ 55,657.9	\$ 56,078.8	\$ 56,545.1	\$ 58,325.2	\$ 60,187.6	\$ 62,093.3
<b>Permanent Fund Total</b>	<b>\$ 69,629.7</b>	<b>\$ 71,536.1</b>	<b>\$ 73,388.9</b>	<b>\$ 75,251.0</b>	<b>\$ 77,180.2</b>	<b>\$ 79,184.8</b>	<b>\$ 81,281.8</b>	<b>\$ 83,471.2</b>	<b>\$ 85,759.1</b>	<b>\$ 88,107.5</b>