***1 July 2015 DRAFT***

**“Alaska’s Fiscal and Economic Future:   Values, Options, and Politics”**

**Cliff Groh**

1. **Alaska’s Fiscal and Economic Problems**
2. **At anything like the current levels of oil prices and Alaska oil production, the State of Alaska is in a deep fiscal hole**
3. **The budget in the fiscal year just past (which ended June 30, 2015) was built to balance at an oil price of $117 per barrel, and oil prices averaged less than $73 per barrel during that fiscal year**
4. **The State of Alaska’s fiscal hole is likely to be $3 billion for FY 2016 (the fiscal year starting July 1, 2015) and similar amounts per year going forward. The State of Alaska’s readily accessible reserves will not last long at the burn rate implied by no change of current levels of revenues and spending. Balances projected for June 30, 2016 by Alaska Legislative Finance Division, June of 2015: $9.2 billion in reserves outside the Permanent Fund principal and Permanent Fund Earnings Reserve; $7.5 billion in Permanent Fund Earnings Reserve.**
5. **The cutbacks implied in state government spending and in the oilpatch by levels of oil prices and Alaska oil production anything like those of today seem likely to produce a smaller population and economy in Alaska in the future (as well as lower real estate values). These outcomes appear particularly likely when combined with downward pressures on military and federal civilian employment in Alaska as well as the Alaska seafood industry. An analysis by ISER projects that a $1 billion cut in the Alaska budget produces total job losses in the Alaska economy of 9,000; this analysis would imply that the budget cuts enacted in legislative session in 2015 for FY16, for example, would cause more than 5,000 jobs to be lost in Alaska economy through layoffs plus the multiplier effect.**
6. **Questions about Values and Identity**
7. **How much government do Alaskans want to have as we start paying for it?**
8. **What kind of government do Alaskans want to have as we start paying for it?**
9. **Who should help pay for the government Alaskans want to have and pay for?**
10. **What is the Permanent Fund for?**
11. **How long do you intend to live in Alaska?**
12. **For any potential option for addressing the fiscal challenge, what do you think the alternatives are?**
13. **How do our options change over time?**
14. **What matters more: what you love and want, or what you hate and fear?**
15. **If pain is coming, who should bear the pain? By what principles should the pain be allocated?**
16. **Is the political clock synchronized with the revenues/reserves clock?**
17. **Explanation of Alaska’s System—Display of the Groh Flow (Graphic Showing Sources and Relationships of General Fund, Permanent Fund, Permanent Fund Dividend, and Constitutional Budget Reserve)**

1. **Options**
2. **Uncertain and/or smaller options additional oil discoveries, lottery, marijuana tax, and school head tax**
3. **AKLNG (project to commercialize and export from Alaska natural gas on the North Slope with a gas treatment plant, natural gas pipeline, and a liquefied natural gas pipeline)**
4. **Cost is $45-65 billion and earliest completion date is 2025 (according to Alaska Gasline Development Corporation), and absent a natural gas reserves tax, that is when under current law significant revenues would come to the State of Alaska**
5. **The revenues coming to the State of Alaska from AKLNG project would be less than that from oil development (“Alaskans should not expect oil wealth from LNG”—Federal Coordinator for Alaska Gas Line Projects)**
6. **Additional oil discoveries**
7. **Lottery—Alaska Department of Revenue estimates revenue gain of $15 million annually**
8. **Marijuana tax—Marijuana Policy Project estimates less than $25 million in 2020**
9. **Head tax (payroll tax similar to Alaska’s previous school tax)—Alaska Department of Revenue estimates that a payroll tax of $100 to $500 per worker scaled to the worker’s income and taken from the worker’s first two paychecks would raise about $100 million per year**
10. **Larger and more available options**
11. **Make more cuts to the State budget**
12. **Total Unrestricted General Fund budget has gone from $6 billion in FY2015 (ends June 30, 2015) to $5.4 billion in FY2016 (starts July 1, 2016); most of those cuts have come from capital budget**
13. **Alaska has budget above the national average on a per capita basis and is also dropping to the point that is now close to levels of the late 1970s when adjusted for inflation and population, according to the Office of Management and Budget**
14. **Big items in budget: K-12 education; Medicaid; oil and gas production tax credits**
15. **Levy income tax on individuals**
16. **State of Alaska had a progressive individual tax from 1949 until 1980**
17. **State of Alaska has some taxes on individuals (tobacco, alcohol, motor fuels), but the State of Alaska has the lowest state taxes on individuals in the U.S., particularly on higher-income people**
18. **An individual income tax of 15 percent of federal income tax liability would raise about $575 million per year, according to the Alaska Department of Revenue**
19. **Levy general statewide sales tax**
20. **Alaska has never had a general statewide sales tax, although more than 100 local governments in Alaska have a general sales tax**
21. **A sales tax in Alaska would raise about $140 million for each percentage point (3 percent sales tax brings in $418 million; that figure drops if tax exemptions are included)—Alaska Department of Revenue**
22. **Increase oil tax rates and/or change oil tax credits to increase revenues**
23. **Taxes and royalties on oil development have until recently provided more than 85 percent of what is traditionally thought of the Alaska state budget (Unrestricted General Fund)—for FY2015 and 2016, that figure is dropping to about 75 percent**
24. **Research is needed on whether/how much oil tax changes could raise revenues without excessively reducing oil production**
25. **Implement endowment/Percent of Market Value (POMV) approach to Permanent Fund income so as to direct some portion of Permanent Fund income to the General Fund**
26. **Alaska is the only state in the U.S.—and the only place in the world—with a Permanent Fund Dividend**
27. **Research is needed on the effects of different allocations of Permanent Fund income on the Permanent Fund’s principal and on Permanent Fund Dividends**
28. **Put up some portion of the State’s savings (such as the Permanent Fund) as collateral for a loan the State could use to engage in arbitrage (also known as collateralization)**
29. **Research is needed on the risks and rewards of this approach**
30. **Politics of Filling the Gap**
31. **Groh Triangle: What do you hate or fear the most?**

**More budget cuts**

**Permanent Fund Dividend cuts Individual taxes**

1. **Short explanation of “Why don’t legislators do more?”**
2. **Inertia**
3. **Incumbent fear**
4. **Incentives**
5. **More expansive explanation**
6. **Roles of personality focus, leadership, and dealmakers/statesmen**
7. **Rise in national ideology and politics**
8. **No surplus dollars for lubrication of legislative process**

***MORE INFORMATION AVAILABLE:***

***Forum on Alaska’s Fiscal and Economic Future***

***Saturday, September 19, 2015***

***Wendy Williamson Auditorium***

***University of Alaska Anchorage***

***9 a.m.-4 p.m.***

**Free and Open to the Public**

**Cliff Groh is a lifelong Alaskan and a lawyer and a writer. He is also Chair of Alaska Common Ground, a public policy organization that is sponsoring an all-day forum on Alaska’s fiscal and economic future Saturday, September 19, at the Wendy Williamson Auditorium at the University of Alaska Anchorage.**

**Cliff worked on oil tax legislation while serving as Special Assistant to the Alaska Commissioner of Revenue in 1987-1990 and on the legislation creating the Permanent Fund Dividend as a legislative aide in 1982. He was an invited participant to the Walker-Mallott administration’s forum on Alaska’s future in June of 2015 at the University of Alaska Fairbanks and a delegate to the Conference of Alaskans in 2004. Cliff has authored or co-authored four chapters in academic books about Alaska fiscal policy and has made dozens of speeches and broadcast appearances on that topic over the past two decades.**