



# **Securing Alaska's Future: *Immediate Action Needed***

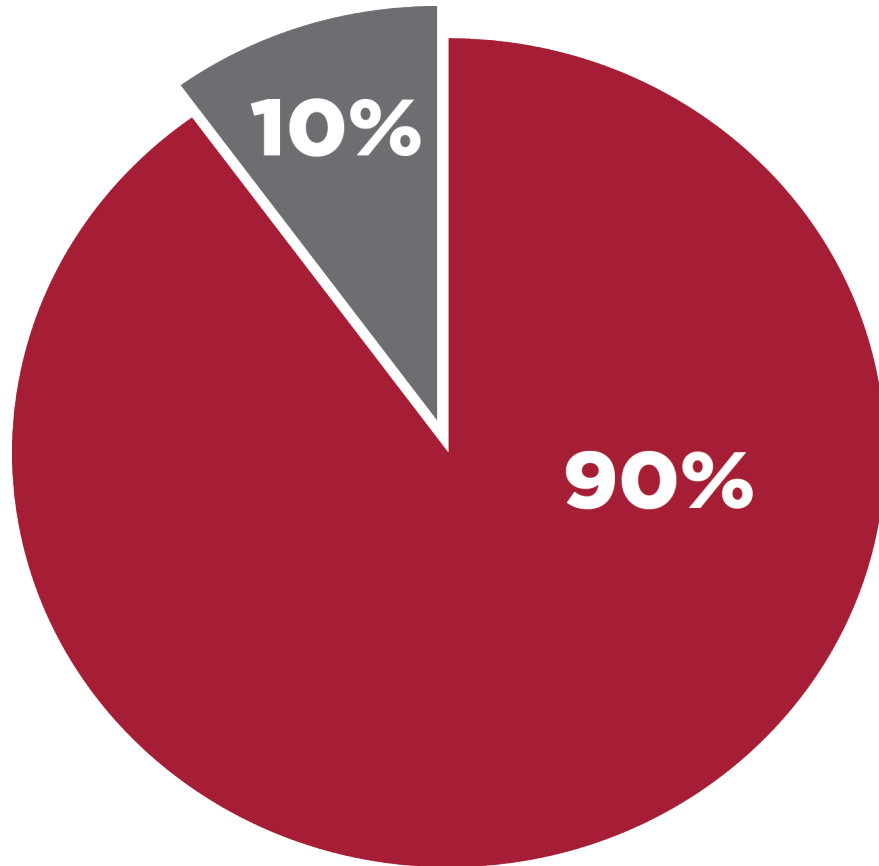
*Association of Alaska School Boards  
December 12, 2015*

***What am I doing here?***

***GCI is Alaska's largest non oil private investor.***

- Invested more than \$3 billion in Alaska over our history
- This year's capital budget is larger than the State's
- GCI planned capital budget for 2016 exceeds \$200 million
- Statewide footprint, with massive investment in rural Alaska
- 2500 Employees – 90% in Alaska

***Without a stable economic outlook, we can't continue to invest.***



■ Oil revenues ■ Other revenues

## *Dependence = Vulnerability*

- State of Alaska spends more per capita than other states.
- Spending meets key public needs and contributes to overall Alaska economy.
- From 2005 to 2014, oil revenues averaged 90% of General Fund revenues.
- Until last year, higher oil prices had offset decline in TAPS throughput.
- Drop from \$100-plus/barrel to less than \$50/barrel has exposed a major structural weakness in state government financing.

## *At \$50/Barrel*

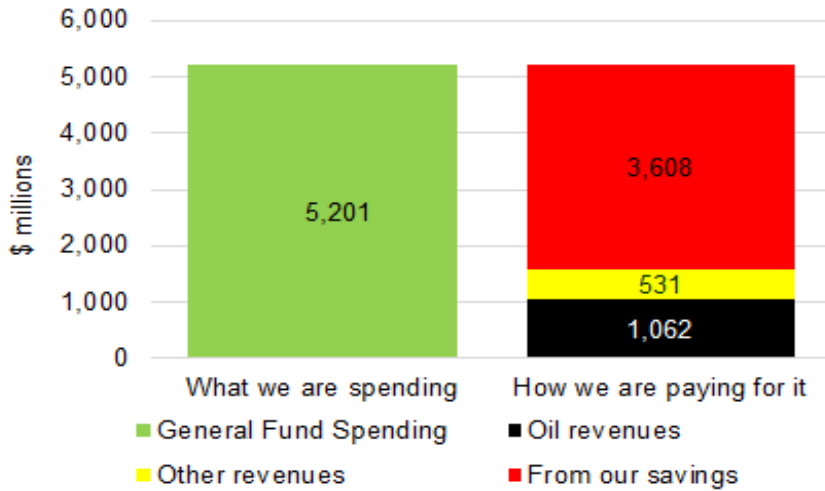
- Constitutional Budget Reserve runs out by the end of 2018.
- Will then have to use the Permanent Fund Earnings Reserve and sometime soon thereafter, ***the Permanent Fund Dividend will cease.***
- Alaskans will then have to choose between ***invading the principal of the Permanent Fund or going bankrupt.*** The money will be gone!
- Even before we run out of savings, the state economy will be hit by lower state credit rating, reduced business investment, job losses, reduced lending, and a depressed housing market.

## ***Waiting for Oil Prices to Rise Not a Strategy but a Bet-the-Future Gamble***

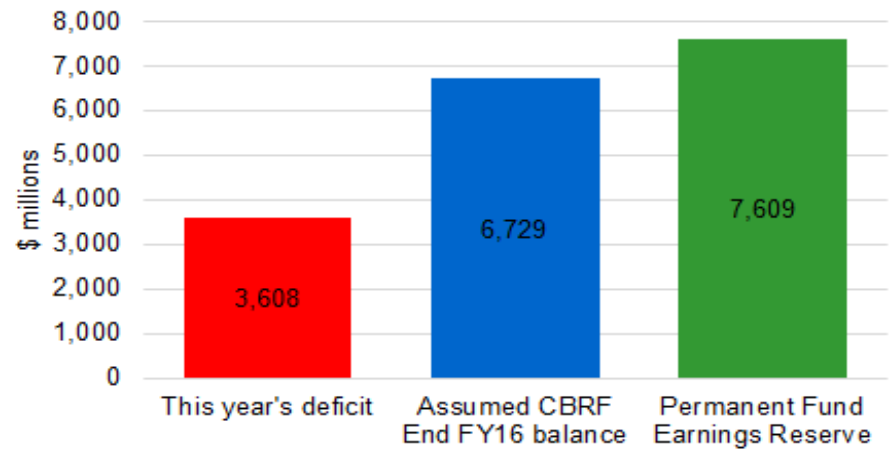
- Price would have to rise to ***\$109/barrel*** for Alaska ***to break even.***
- No one expects that kind of recovery over the next few years.

# Alaska's Fiscal Situation In Four Graphs

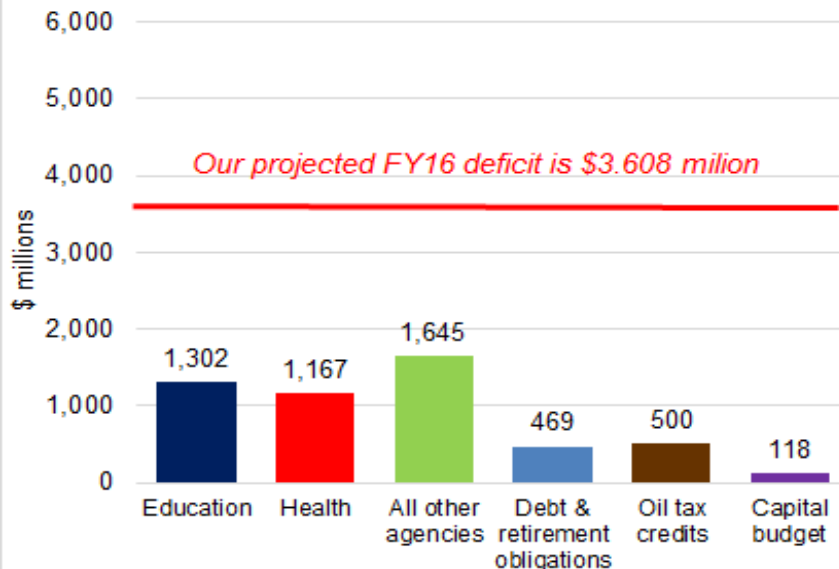
## Our Fiscal Situation This Year (FY16)



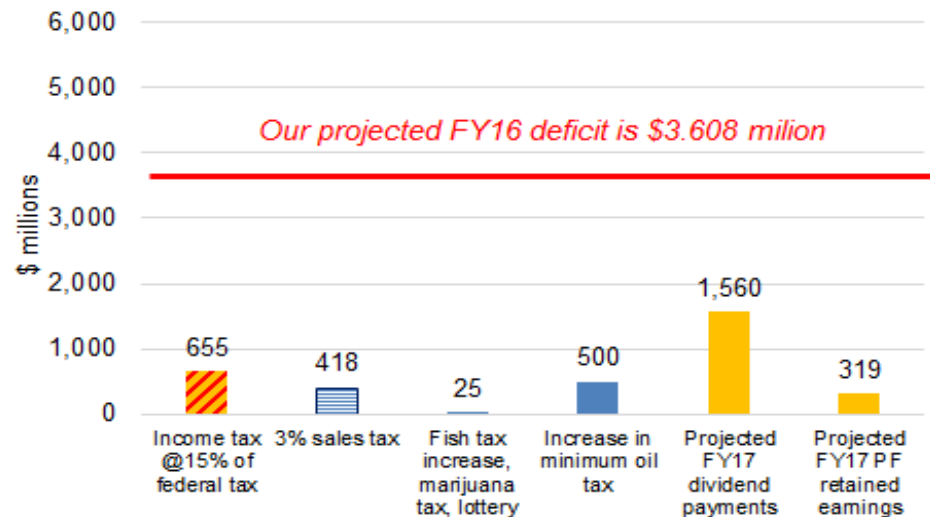
## This Year's Deficit Compared to our Savings



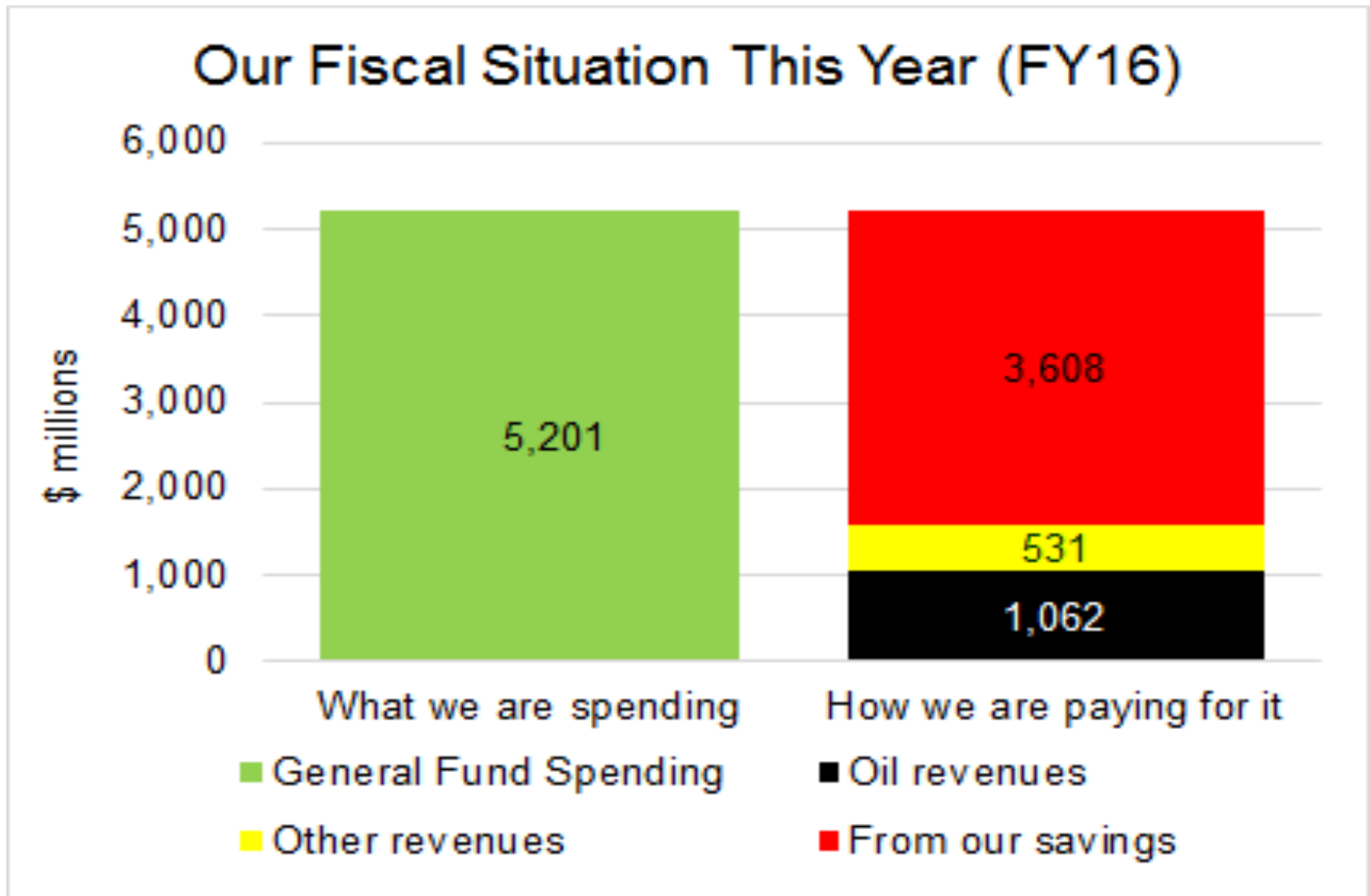
## How We are Spending \$5,201 million



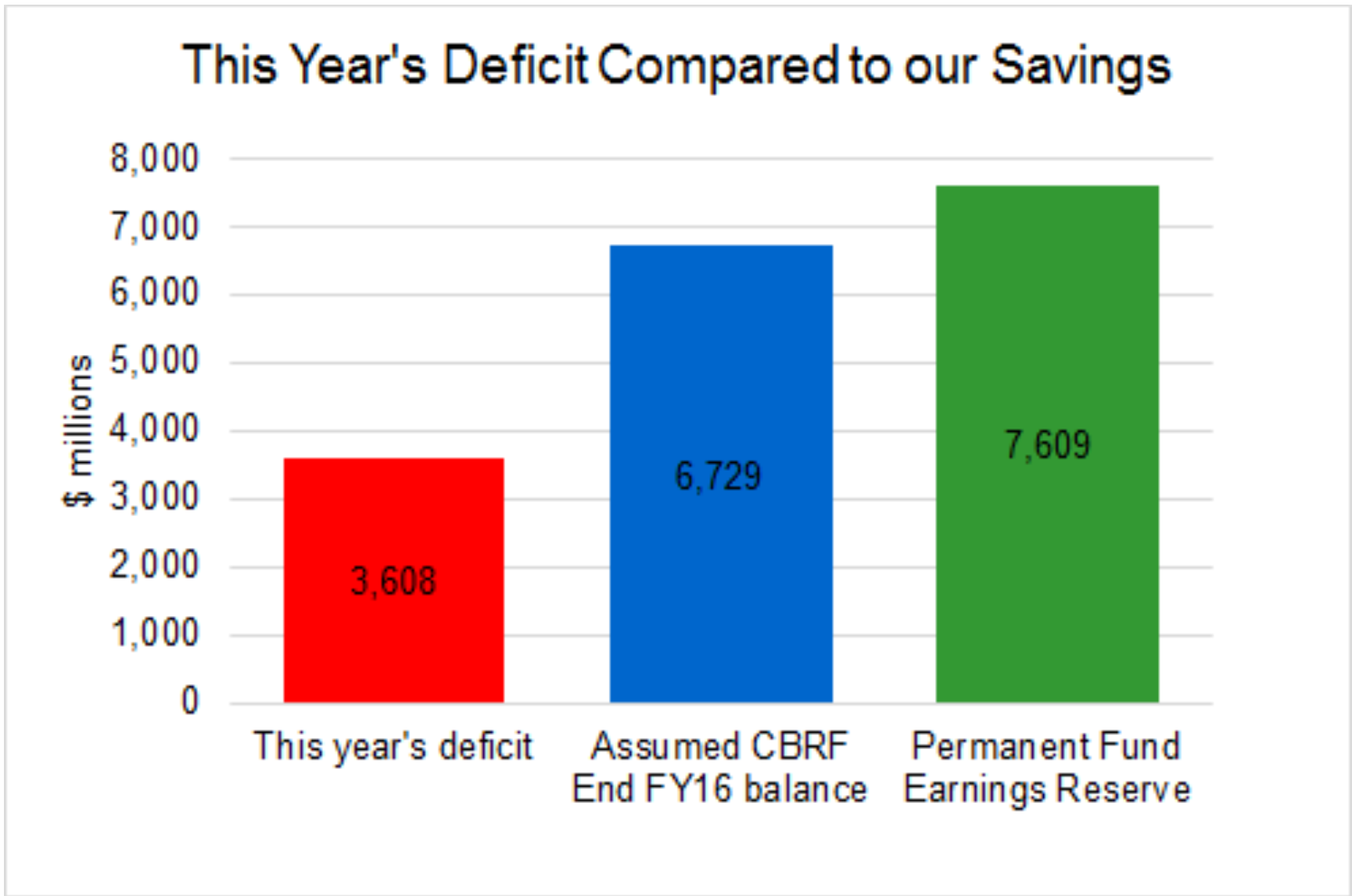
## Some Potential Ways of Paying for our Spending



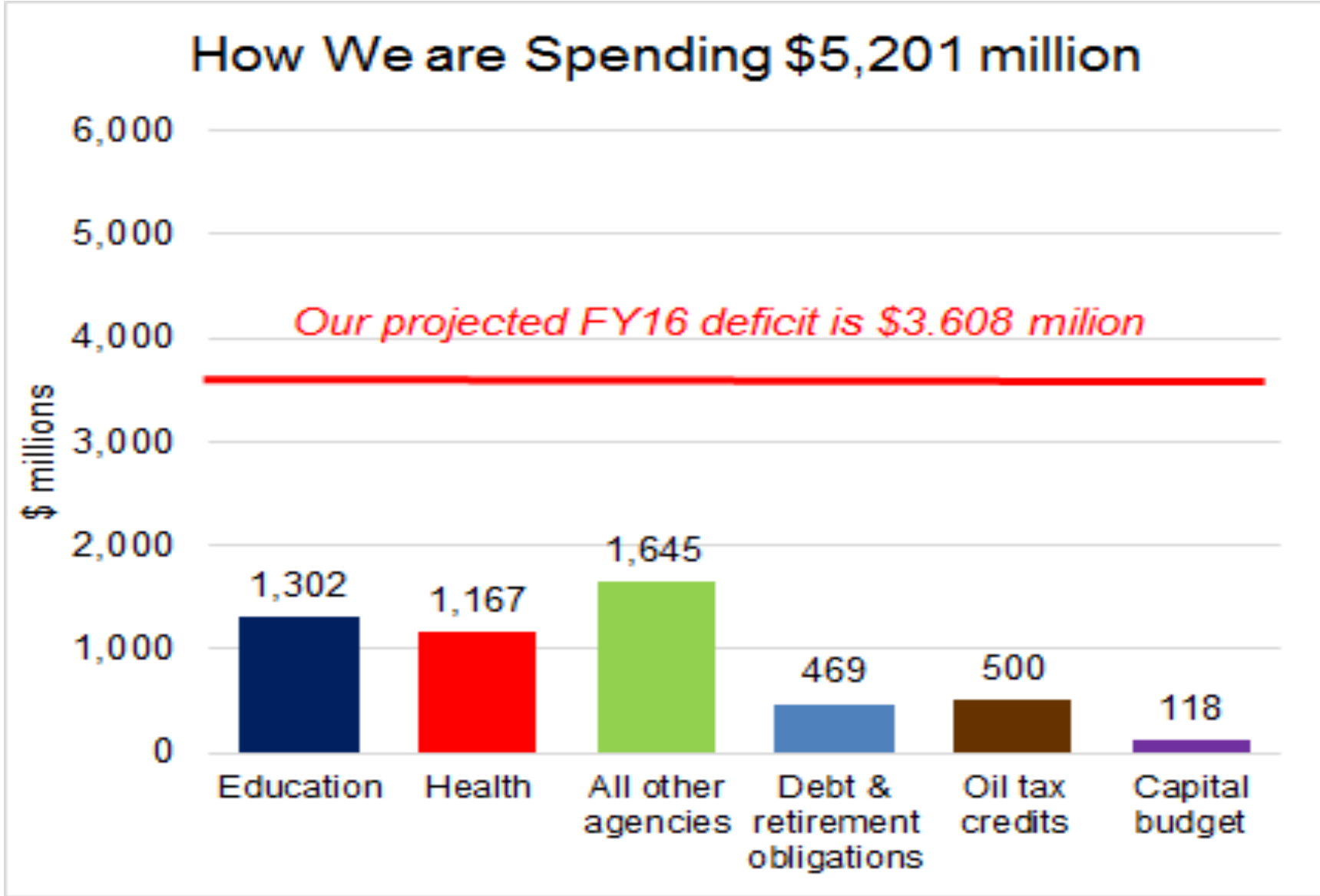
# Spending Vastly Exceeds Revenues



# Deficits Will Quickly Consume Savings



# Deficit Exceeds Two Largest State Expenditures

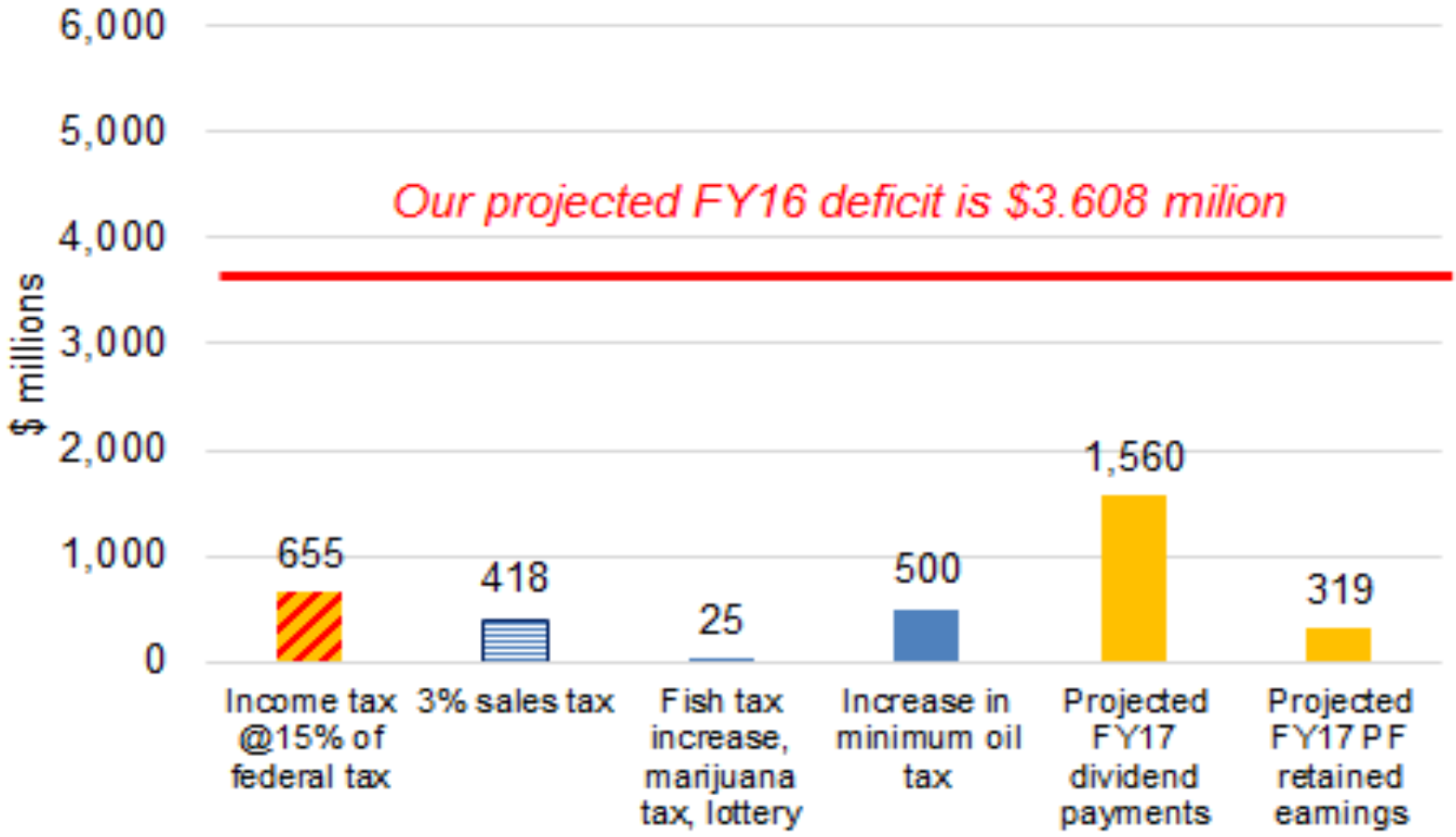




# New Revenues Are Hard to Come By

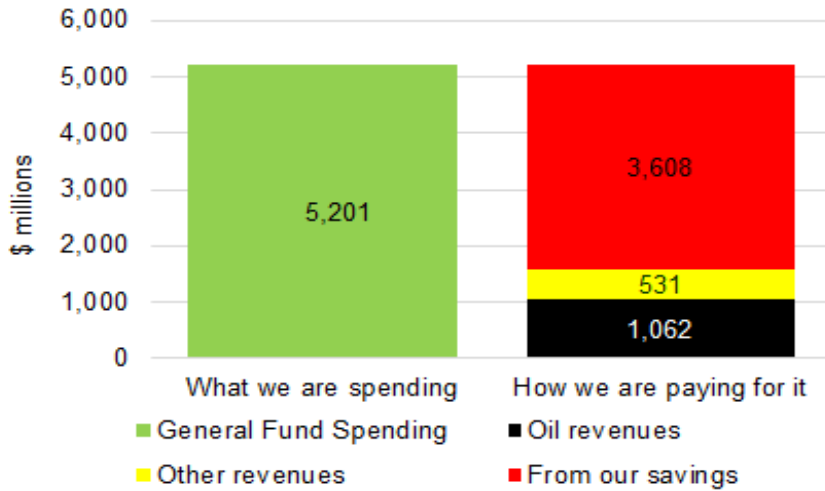


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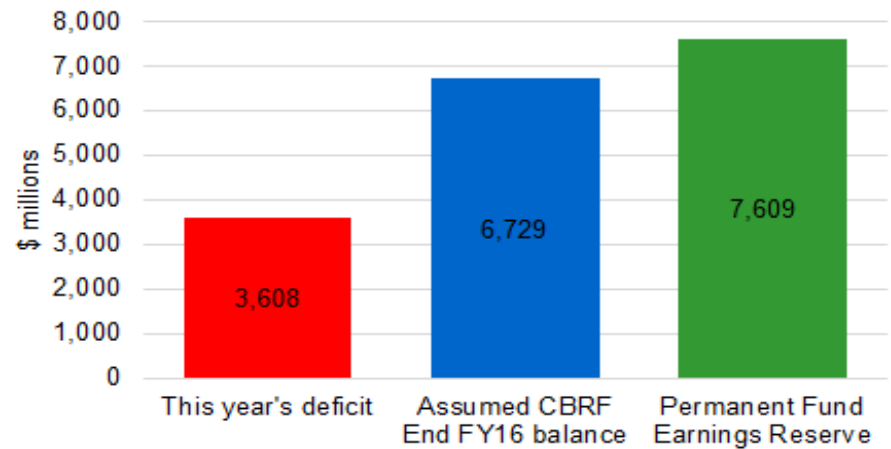


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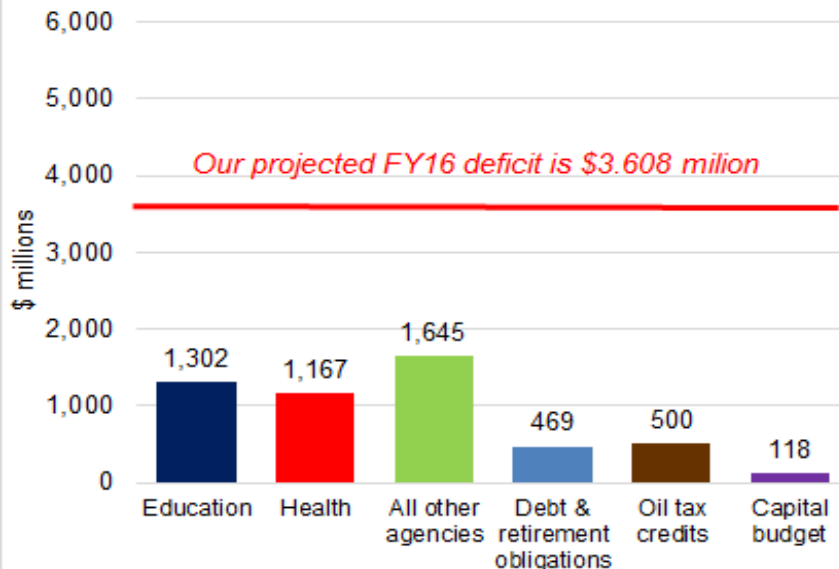
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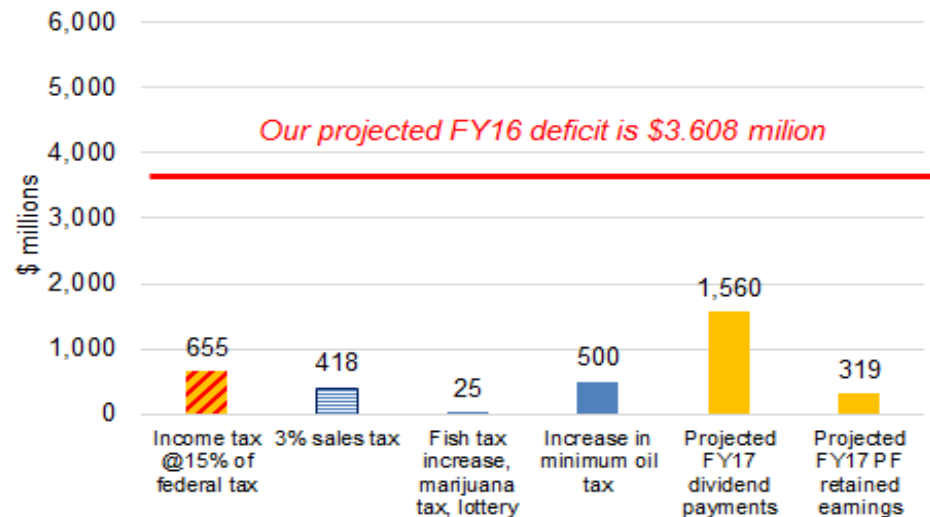
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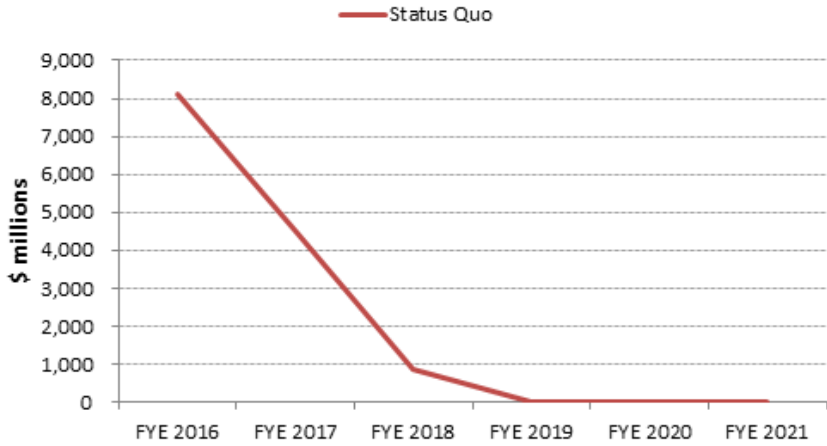
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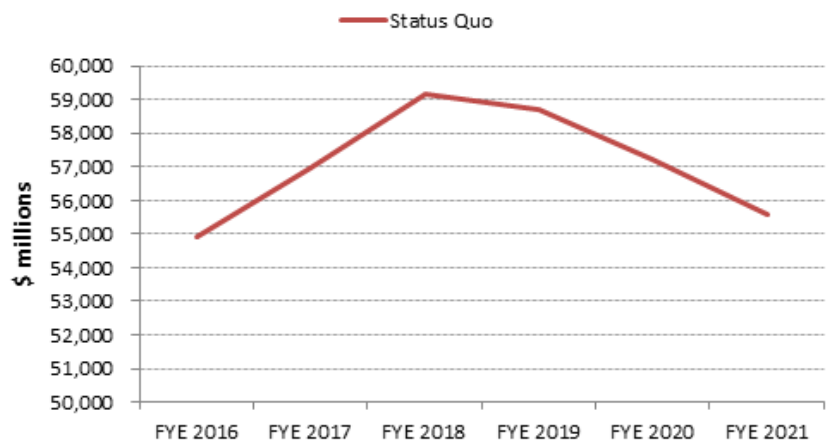
# CBR - \$8 Billion to Zero in Under 3 Years



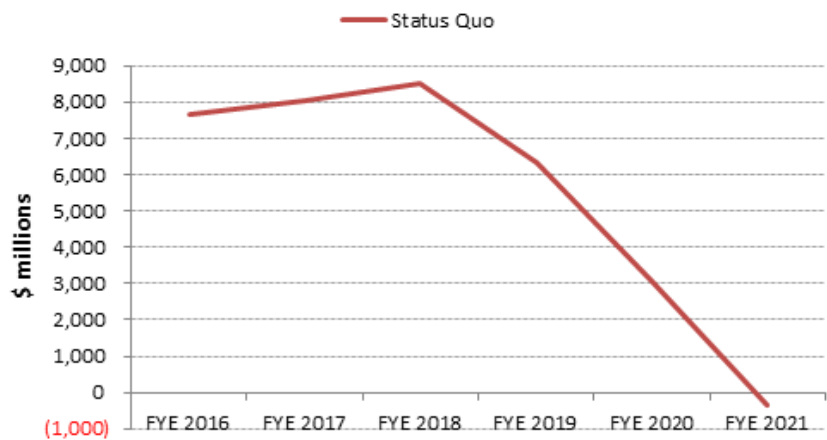
### Constitutional Budget Reserve + Misc Funds



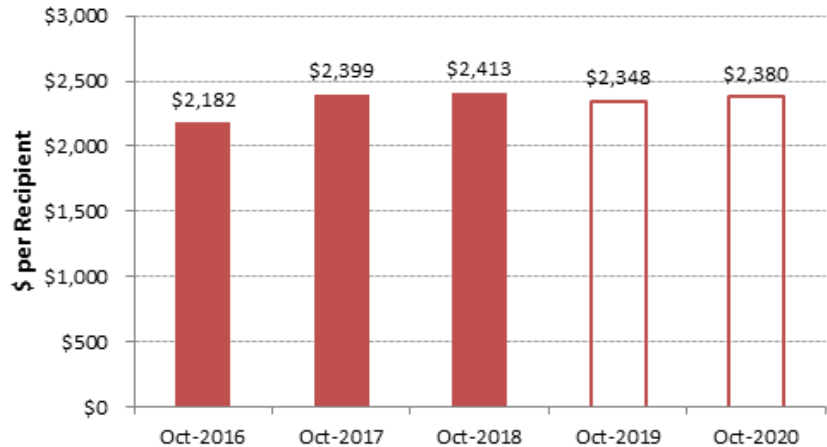
### Total Permanent Fund



### Permanent Fund Earnings Reserve



### Dividend Check Forecast



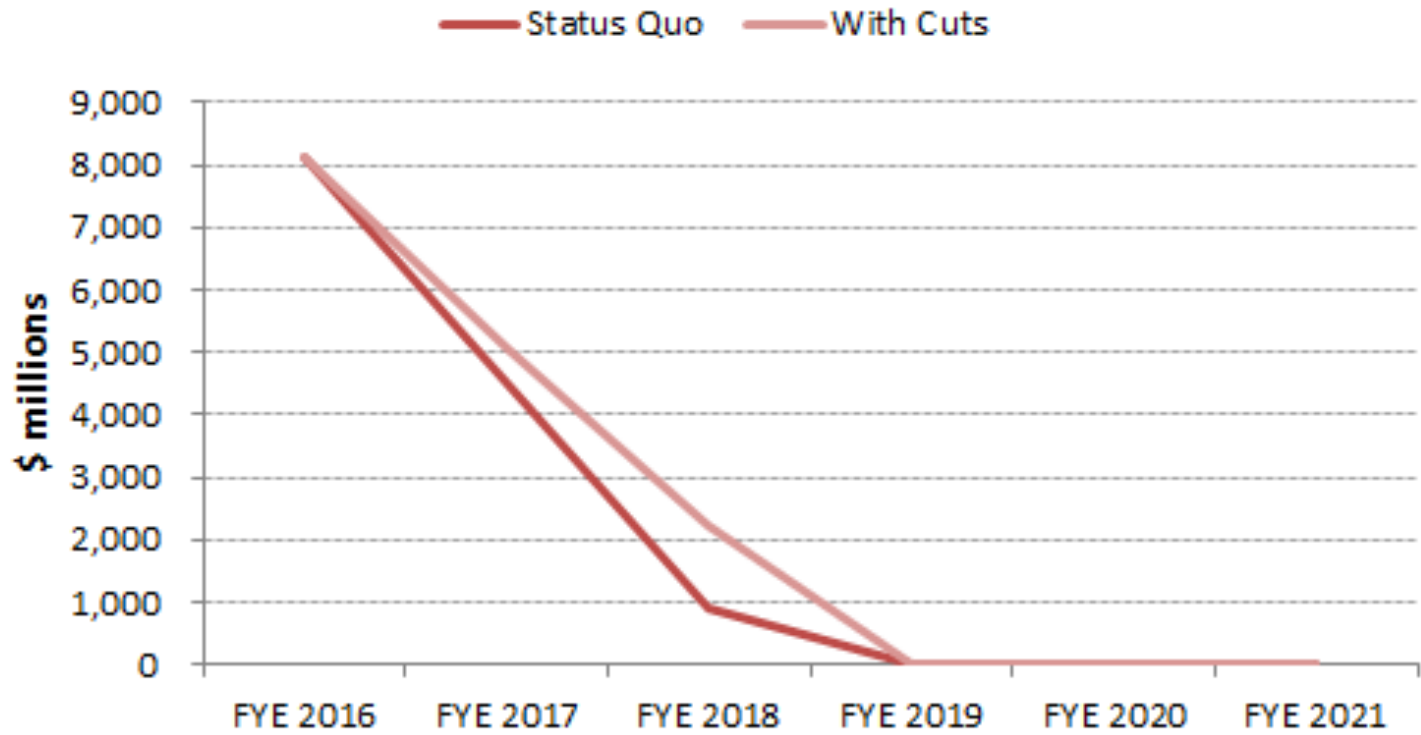
Average Dividend Check for the last five years (2011 - 2015) was **\$1,382.**

# Budget Cuts Alone Don't Move the Needle



**Budget Cuts: 10% Year One, then 5% per year totalling more than \$1.4 Billion**

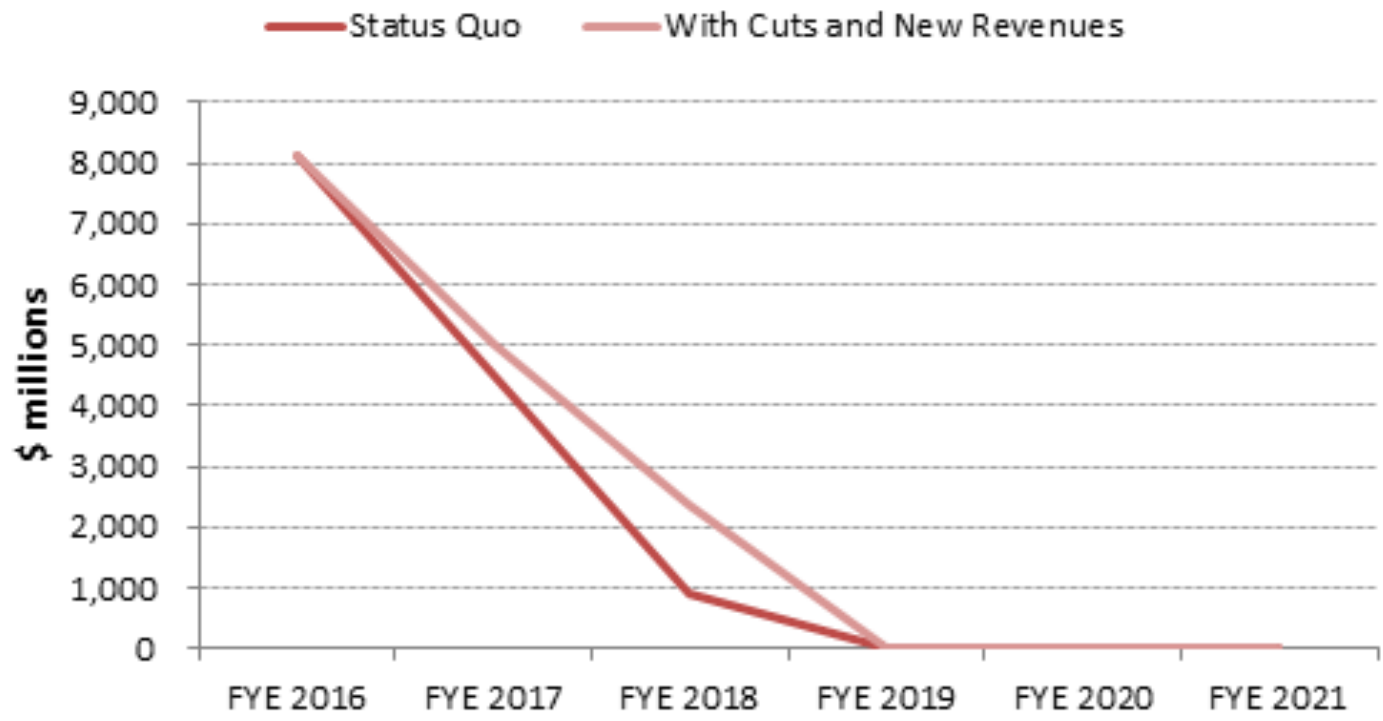
## Constitutional Budget Reserve + Misc Funds



# Cuts and Revenues of \$500M each in 2016 . . . *don't do much.*

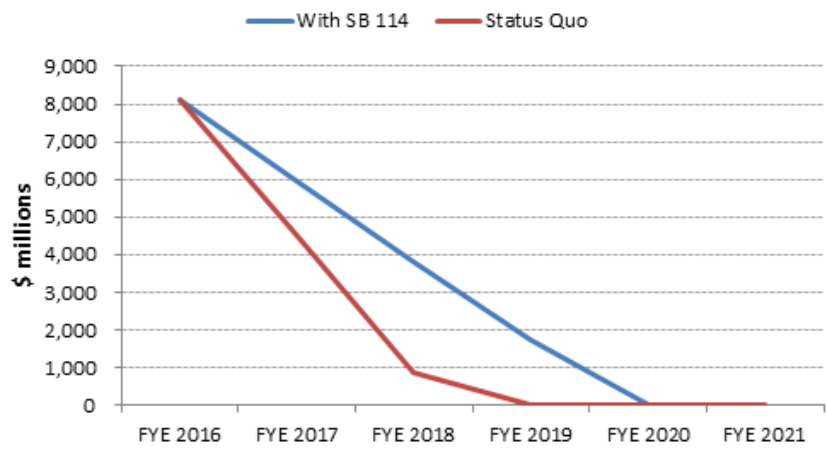
**\$500 million each in Cuts and New Revenues adopted in 2016 Session**

## Constitutional Budget Reserve + Misc Funds

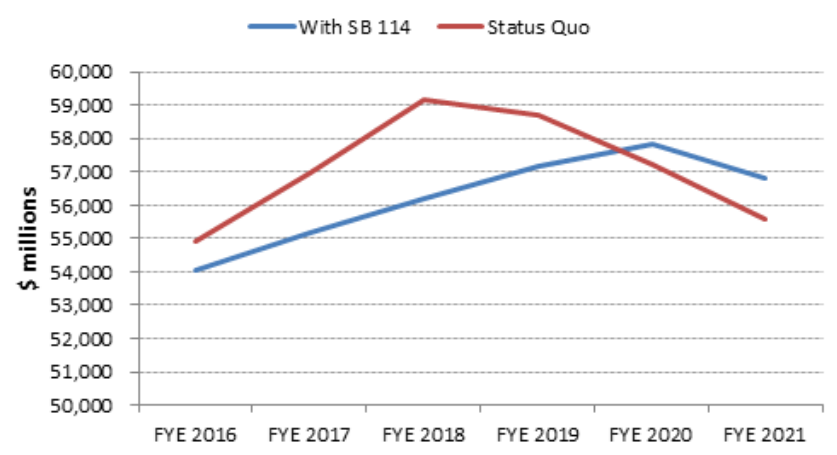


# Earnings from the Permanent Fund . . . *make a difference.*

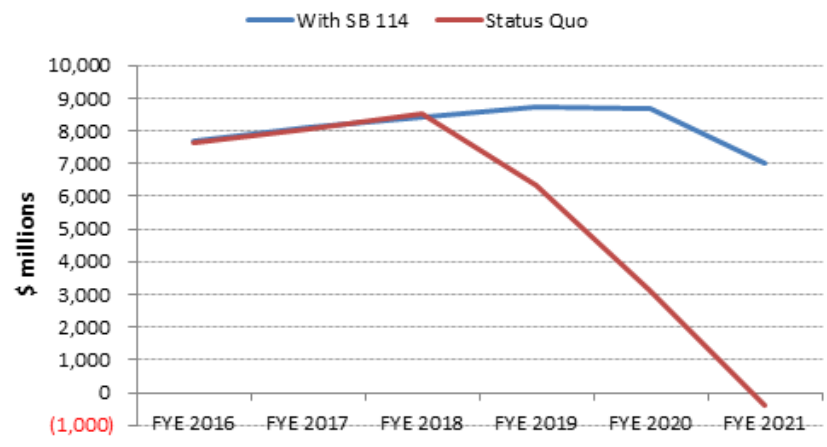
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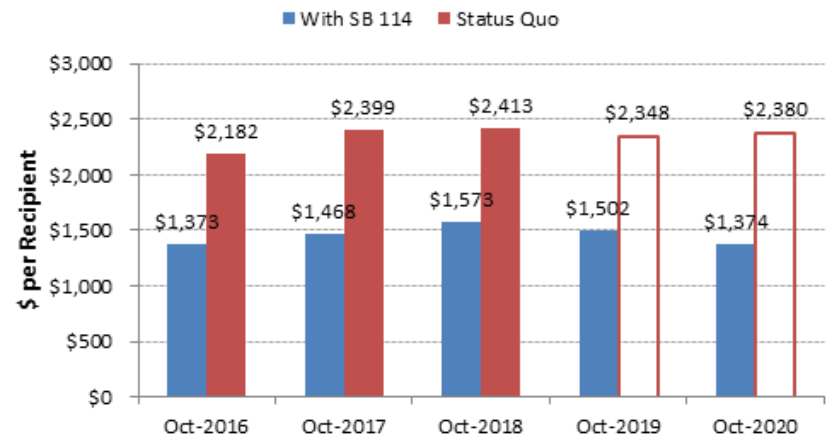
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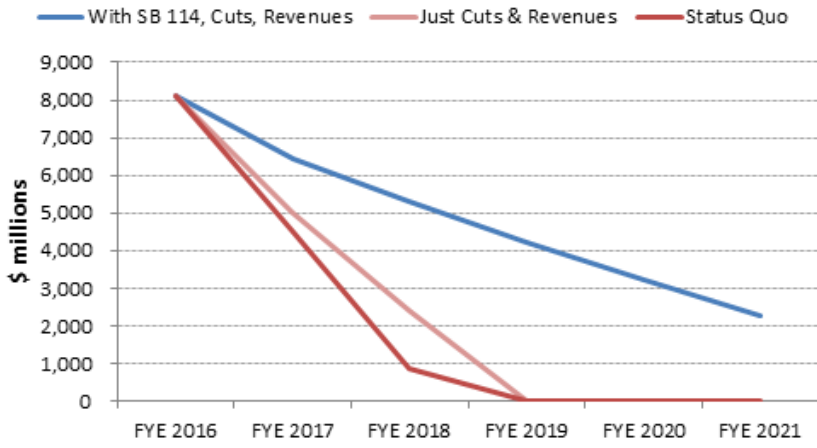
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# Earnings Plus Cuts and Revenues of \$500M ...

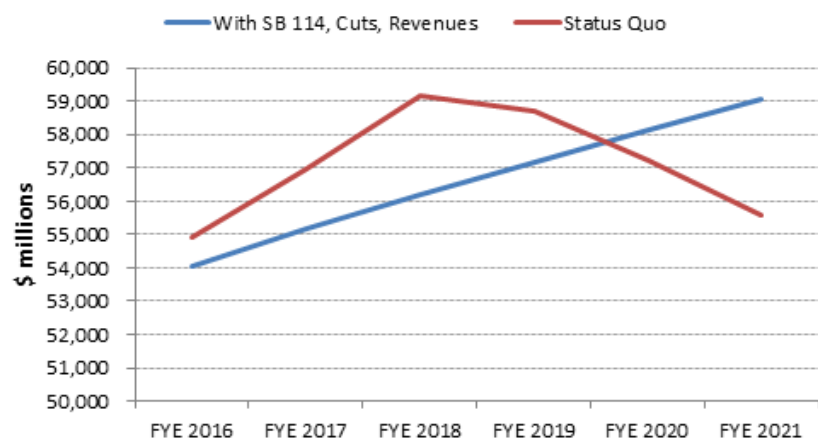


## Go a Long Way.

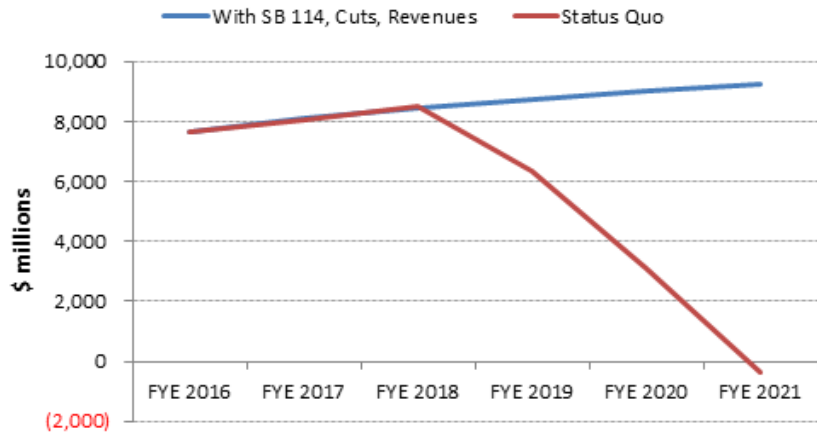
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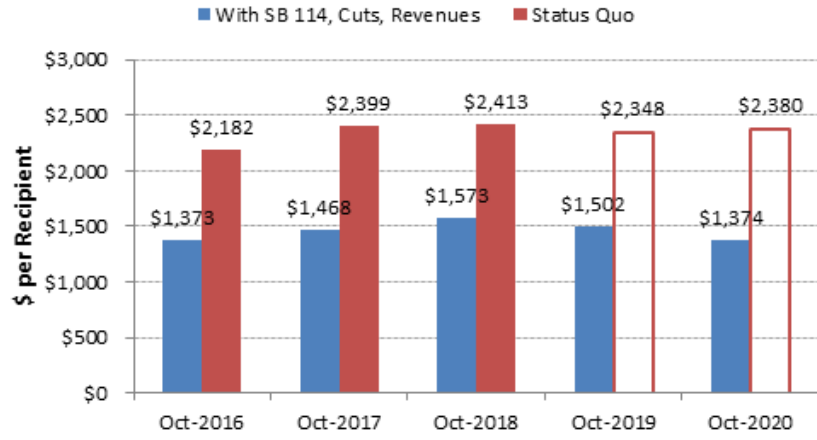
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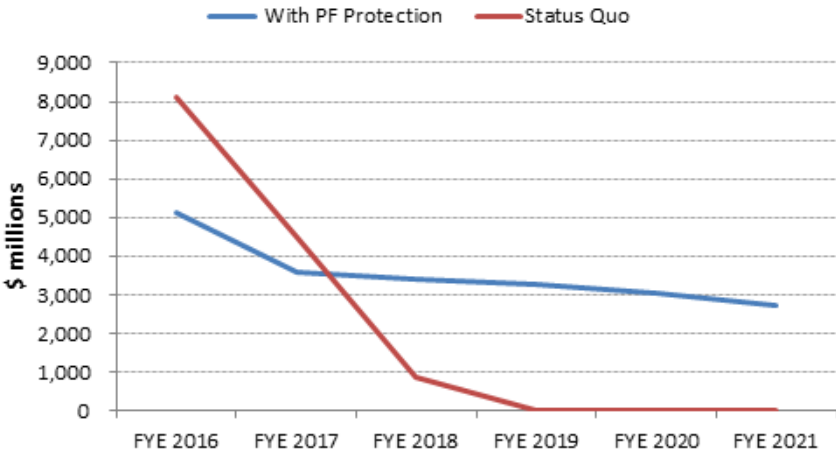


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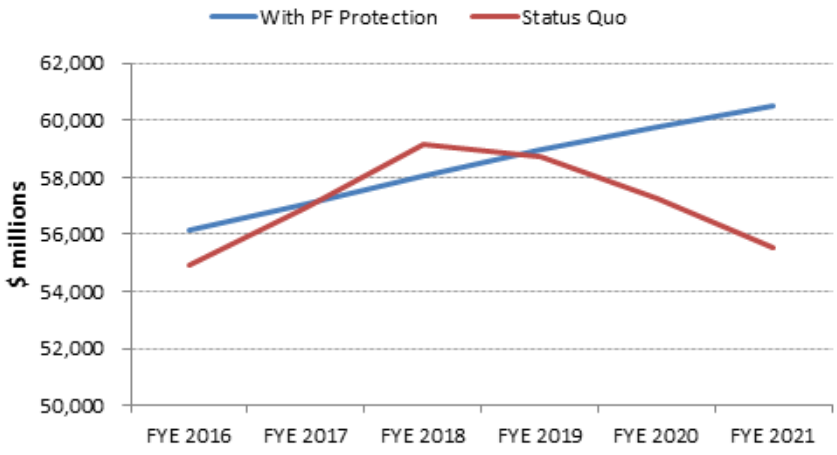
# Governor's Plan Closes the Gap



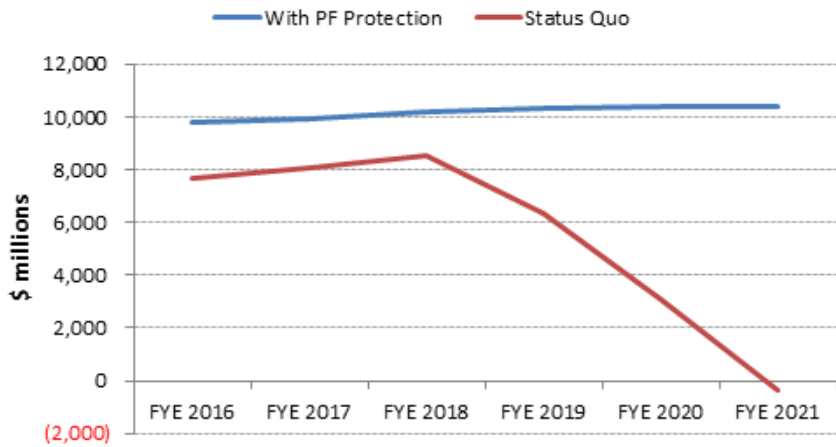
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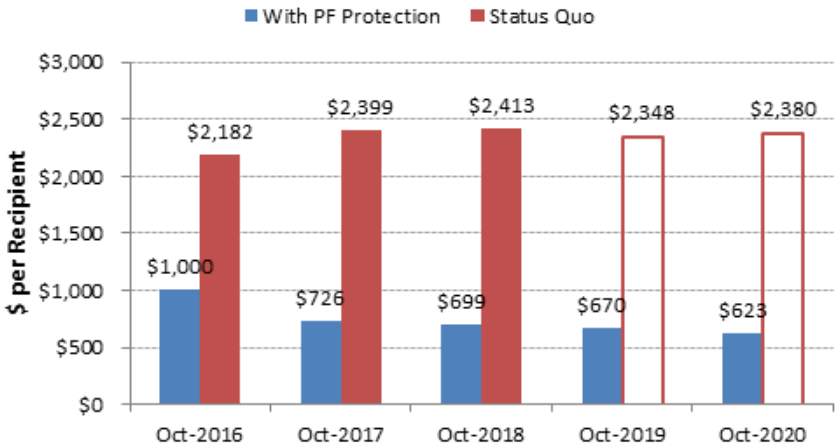
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### Dividend Check Forecast



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## *First Comprehensive Plan Offered to Address State Fiscal Crisis*

### *Key Elements*

- **Alaska Permanent Fund Protection Act.**
  1. Distribute 50 percent of resource royalty revenues to Alaskans as an annual dividend.
  2. Deposit balance of royalty revenues and other resource revenues into the Permanent Fund annually.
  3. Draw a fixed amount annually from the Permanent Fund Earnings Reserve to help fund state government.
- **Spending Cuts.** Additional \$100 million in operating savings. Phase-out of oil exploration tax credit program.
- **Revenue Increases.** New state income tax (\$200 million). Increased minimum oil tax (\$100 million). Other taxes (\$160 million).

## *Easy to Criticize Individual Plan Elements but the Price of Inaction Is Huge*

- Burning another \$3-4 billion of savings will jeopardize overall effort to preserve the Permanent Fund/dividend and fund essential state services.
- No combination of cuts/taxes alone will fill the budget hole. We are outspending revenues by \$250 million each month.
- Waiting to act squanders our best opportunity to ensure Alaska's future and protect Alaska jobs.

## *GCI Believes Action Is Essential in 2016 Legislative Session*

- If the choice were the Alaska Plan as is or no action at all, we'd choose the Plan.
- The Governor, however, hasn't drawn a line in the sand, and there will be negotiations on the final package.
- If negotiations on spending cuts and taxes drag on, **we will urge the Governor and Legislature to enact the Permanent Fund/dividend changes at a minimum.**
- By themselves, those changes will buy Alaska precious time to deal with the rest of the crisis.

## ***Today, Alaska needs all of its residents to pull together to save our economy.***

- If we don't fill at least half of the deficit in the 2016 Legislative session it will be too late.
- GCI is working with like-minded Alaskans and organizations – other businesses, labor unions, local governments, etc. – to build support across the state for immediate, dramatic legislative action.
- Together, we can help ensure a sound future for all Alaskans.

## ***Think you have what it takes to help solve Alaska's budget deficit?***

- Visit the link to access a fiscal modeling tool: <http://www.gci.com/about/budgetmodel>
- Input your spending and revenue priorities and see how your choices impact the budget gap.
- The blue numbers can be changed; the black numbers represent fixed state budget numbers.

# Big Bang Animation