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.
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.
Status Quo Is Not Sustainable

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)

- What we are spending: $5,201 million
- How we are paying for it:
  - General Fund Spending: $5,201 million
  - Oil revenues: $3,608 million
  - Other revenues: $531 million
  - From our savings: $1,062 million

This Year’s Deficit Compared to our Savings

- This year’s deficit: $3,608 million
- Assumed CBRF End FY16 balance: $6,729 million
- Permanent Fund Earnings Reserve: $7,609 million

How We are Spending $5,201 million

- Education: $1,302 million
- Health: $1,167 million
- All other agencies: $1,645 million
- Debt & retirement obligations: $469 million
- Oil tax credits: $500 million
- Capital budget: $118 million

Our projected FY16 deficit is $3,608 million

Some Potential Ways of Paying for our Spending

- Income tax @15% of federal tax: $655 million
- 3% sales tax: $418 million
- Fish tax increase, marijuana tax, lottery: $25 million
- Increase in minimum oil tax: $500 million
- Projected FY17 dividend payments: $1,560 million
- Projected FY17 PF retained earnings: $319 million

Our projected FY16 deficit is $3,608 million

Spending Vastly Exceeds Revenues

Our Fiscal Situation This Year (FY16)

- What we are spending: 5,201 millions
- How we are paying for it:
  - General Fund Spending: 5,201 millions
  - Oil revenues: 531 millions
  - From our savings: 1,062 millions
  - Other revenues: 3,608 millions
Deficits Will Quickly Consume Savings

This Year's Deficit Compared to our Savings

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<thead>
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<th>$ millions</th>
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<tbody>
<tr>
<td>This year's deficit</td>
<td>3,608</td>
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<tr>
<td>Assumed CBRF End FY16 balance</td>
<td>6,729</td>
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<tr>
<td>Permanent Fund Earnings Reserve</td>
<td>7,609</td>
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Deficit Exceeds Two Largest State Expenditures

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New Revenues Are Hard to Come By

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*Our projected FY16 deficit is $3,608 million*
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

- Status Quo
- With Cuts

$ millions

FYE 2016  FYE 2017  FYE 2018  FYE 2019  FYE 2020  FYE 2021
Cuts and Revenues of $500M each in 2016 . . . don’t do much.
Earnings from the Permanent Fund... make a difference.

**Constitutional Budget Reserve + Misc Funds**

- **With SB 114**
- **Status Quo**

**Total Permanent Fund**

- **With SB 114**
- **Status Quo**

**Permanent Fund Earnings Reserve**

- **With SB 114**
- **Status Quo**

**Dividend Check Forecast**

- **With SB 114**
- **Status Quo**

Average Dividend Check for the last five years (2011-2015) was $1,382.
Earnings Plus Cuts and Revenues of $500M ... Go a Long Way.

**Constitutional Budget Reserve + Misc Funds**
- With SB 114, Cuts, Revenues
- Just Cuts & Revenues
- Status Quo

**Total Permanent Fund**
- With SB 114, Cuts, Revenues
- Status Quo

**Permanent Fund Earnings Reserve**
- With SB 114, Cuts, Revenues
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**Dividend Check Forecast**
- With SB 114, Cuts, Revenues
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Average Dividend Check for the last five years (2011 - 2015) was **$1,382**.
Governor’s Plan Closes the Gap

**Constitutional Budget Reserve + Misc Funds**
- With PF Protection
- Status Quo

**Total Permanent Fund**
- With PF Protection
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**Dividend Check Forecast**
- With PF Protection
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Governor’s New Sustainable Alaska Plan

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).
Where Do We Go Now?

*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