

# It's More than OK....

## To Use the Permanent Fund Earnings Reserve

By

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*In fact, it's necessary...*

Greetings (Governor and Legislators),

I recently had the pleasure to participate as a panelist in a forum to discuss the state's General Fund budget. It was a stimulating exercise and I was reminded once again there is always much to learn. I had two take-aways: 1) the state of Alaska has the real potential of financial calamity and 2) while we are hoping for the best, we are not using all of our financial assets to prepare for the worst.

I strongly encourage you to use all the tools you have in your toolbox to manage our fiscal storm. Today that toolbox does not include using the *Earnings Reserve* of our Permanent Fund; but it must. So my message is: *"It's OK to use the Earnings Reserve to balance the budget - in fact, it's more than OK."*

The centerpiece of my *"Everyone Helps a Little"* fiscal plan is to use, in equal proportion, the Constitutional Budget Reserve (CBR) and the Permanent Fund Earnings account (ERA). It's not a silver bullet but it limits the pain on the working families' checkbook and buys us time for a more positive worldwide commodity pricing environment, continued development of Alaska's natural resources, and responsible downward pressure on General Fund government spending.

I respectfully ask you take a look at the four attached charts. I believe they are self-explanatory. However I will highlight one - chart 3. It shows that to raise \$1 billion for the General Fund, the governor and the legislature can:

- 1) ask middle class working Alaskans to pay \$1,700 a year in an income tax, or
- 2) ask all Alaskans and visitors pay a sales tax costing \$1,990/year, or
- 3) the Legislature can draw \$1 billion from the ERA at a cost to every Alaskan of less than a \$1.00 the first year and a total cost, over five years, of \$172.00 That's the Power of Earnings from a \$73,000+ investment account held by every Alaskan in Alaska's Permanent Fund.

I readily admit you can't withdraw billions of dollars from the ERA forever, but the data shows you can do so for a number of years. And those years not only inject brand new dollars into a potentially flagging Alaskan economy, but also keep money where it's needed the most - in the Alaskan family's checkbooks.

I'm available to discuss this request at your convenience. I'm ready to explain and defend the notion that Earnings Reserve is available to help in the current fiscal crisis. The Earnings Reserve can no longer be the "Third Rail of Alaskan Politics". I hope you agree.

Thank you for your service to Alaska.

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# EVERYONE HELPS A LITTLE

## Fiscal Plan

By G. Wilken on September 19, 2015

The *Everyone Helps a Little* fiscal plan fills a budget deficit equally from the Constitutional Budget Reserve (CBR) and the Permanent Fund Earnings Reserve Account (ERA). What is the impact on the Permanent Fund Dividend check?

### Impact to My PFD Under Different Draws

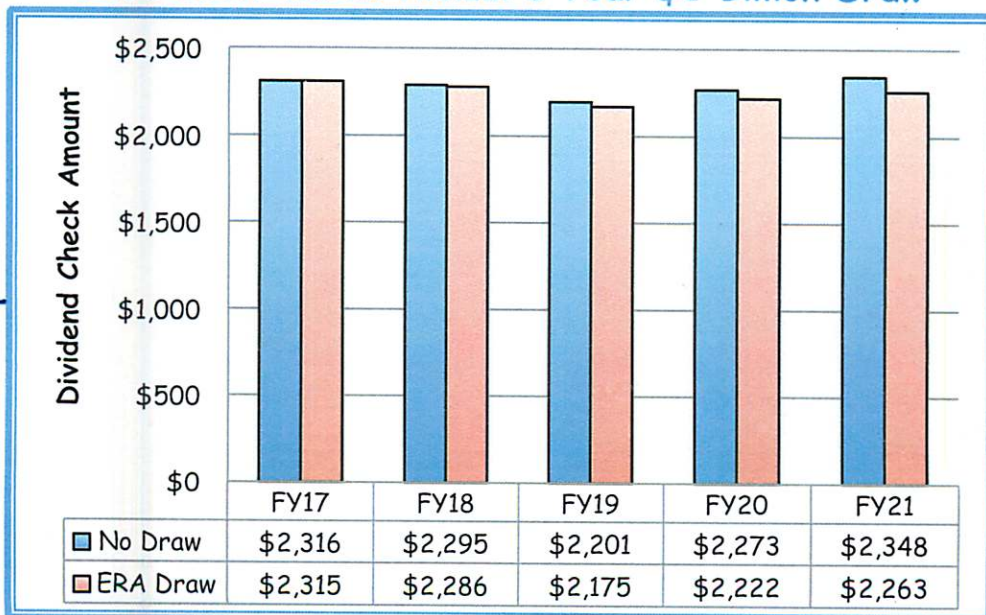
Fiscal Gap	ERA Draw	Fiscal Years Ahead					Cumulative 5 Year Reduction
		FY17	FY18	FY19	FY20	FY21	
\$1 Billion	\$500 Million	\$ 1	\$ 5	\$ 12	\$ 26	\$ 42	\$ 86
\$2 Billion	\$1.0 Billion	\$ 1	\$ 9	\$ 26	\$ 51	\$ 85	\$ 172
\$3 Billion	\$1.5 Billion	\$ 1	\$ 14	\$ 37	\$ 76	\$ 127	\$ 255
\$4 Billion	\$2.0 Billion	\$ 1	\$ 17	\$ 51	\$ 102	\$ 171	\$ 342
\$5 Billion	\$2.5 Billion	\$ 1	\$ 21	\$ 62	\$ 127	\$ 204	\$ 415
\$6 Billion	\$3.0 Billion	\$ 1	\$ 25	\$ 76	\$ 147	\$ 231	\$ 480
Sales Tax	\$418 Million	\$ 1	\$ 3	\$ 10	\$ 23	\$ 35	\$ 72
Income Tax	\$655 Million	\$ 1	\$ 6	\$ 16	\$ 34	\$ 57	\$ 114

Data Source: Impact - Permanent Fund Dividend Corporation

Sales and Income Tax amounts were provide by ISER / Common Ground

To look at the impact on our dividend another way, let's compare the difference between the dividend when there is no draw made from the ERA to the dividend when \$1 billion is withdrawn annually for five years for the purpose of filling the budget deficit. Total five-year dividend amount is \$11,433 without a draw; with the annual draw it is \$11,261; a difference of \$172. This is the *Power of Earnings*.

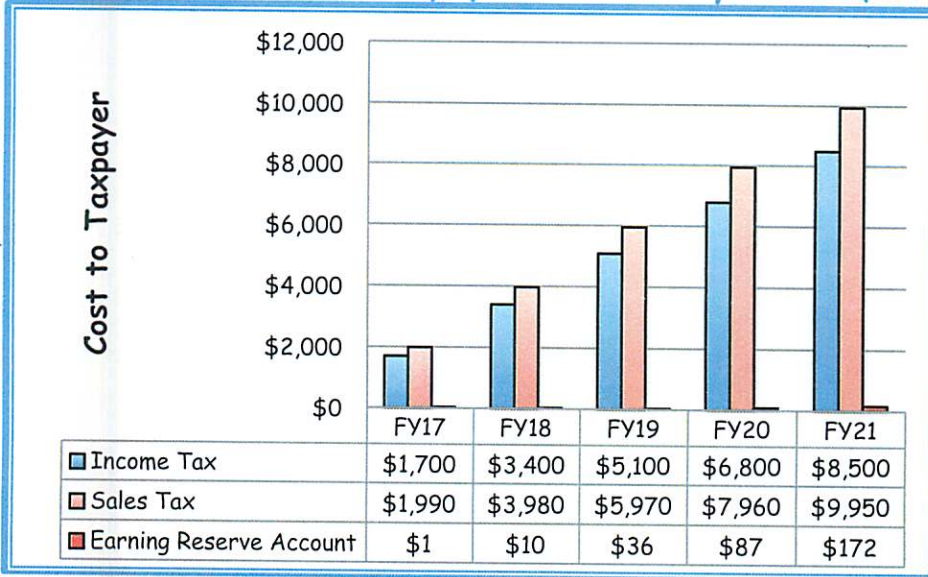
### Zero Draw vs. an Annual 5 Year \$1 Billion Draw



Data Source: Permanent Fund Dividend Corporation

A statewide income tax or sales tax could also raise \$1 billion. Let's look what is the cumulative cost to an Alaskan if \$1 billion is raised each year for five years through an income tax, a sales tax, or an Earning Reserve Account withdrawal.

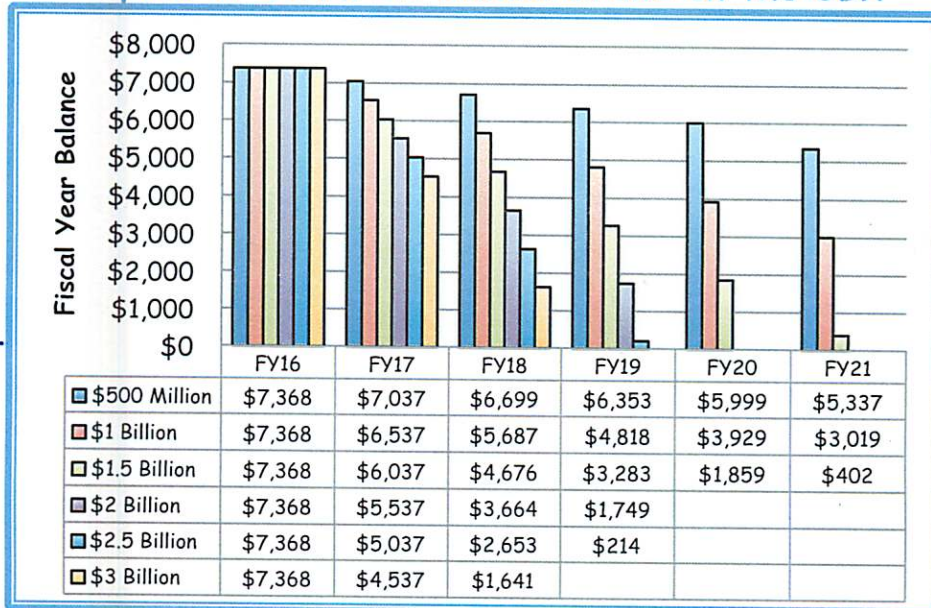
### Cumulative Cost to Taxpayer to Annually Raise \$1B



- 1) Income Tax on \$50,000 Adjusted Gross Income, Department of Revenue (2/6/15)
- 2) Sales Tax computed by dividing \$1B by Alaskans over 20 Years Old, Dept. of Labor, estimated to be an 8.6% sales tax, Department of Revenue (2/6/15)
- 3) Earning Reserve Account, Alaska Permanent Fund Corporation

The current year's budget deficit (~ \$3.0B) will be filled completely from the CBR, leaving an estimated \$7.4 billion at the end of FY16. Let's look at the impact of different annual withdrawals from the Constitutional Budget Reserve.

### Impact of Different Annual Draws on the CBR



Data Source: Alaska Division of Legislative Finance, assumes a rate of return of 2.3%.