The Most Important Things to Understand about Alaska's Fiscal Situation

Summary of a "Lunch and Learn" Presentation for Alaska Legislators and Staff

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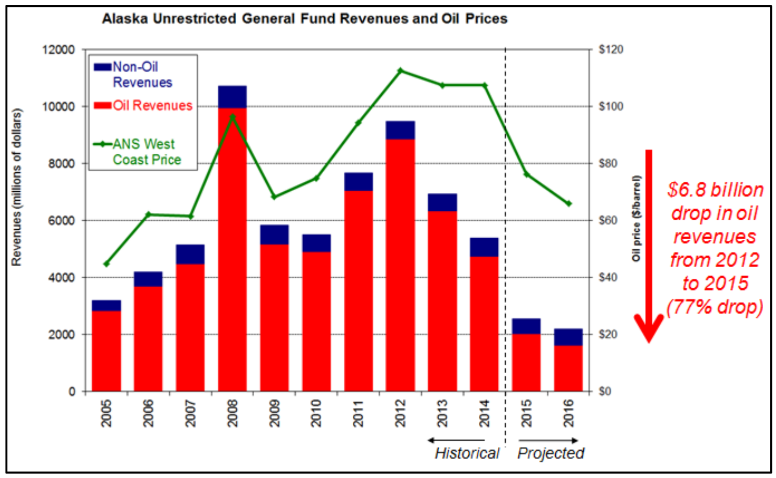
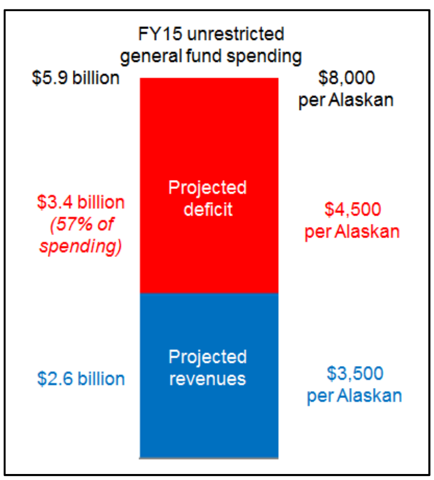
1. Alaska is extremely dependent on oil revenues to fund state government. From 2005 to 2014, oil revenues averaged 90% of Alaska's unrestricted general fund revenues.

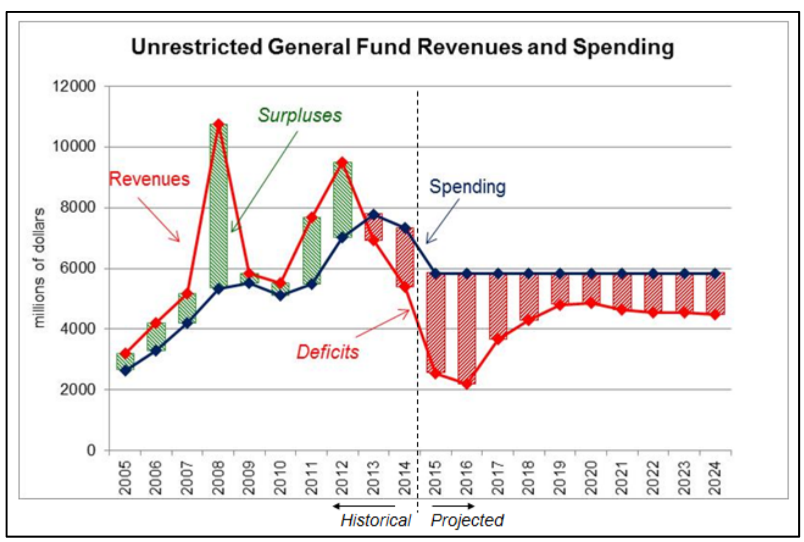
2. After rising dramatically for many years, over the past three years oil prices and oil revenues have fallen drastically.



3. Spending has also fallen since 2013—but not as fast as revenues. We have gone from large surpluses to large deficits. This year's projected deficit is huge.

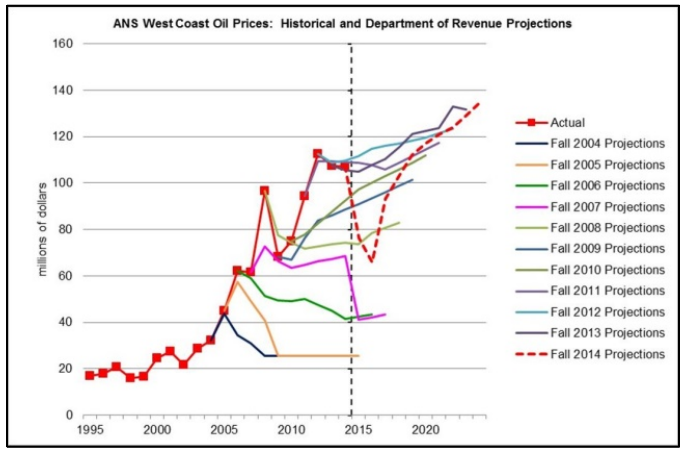


4. At current spending and projected revenues, we would continue to run large deficits.



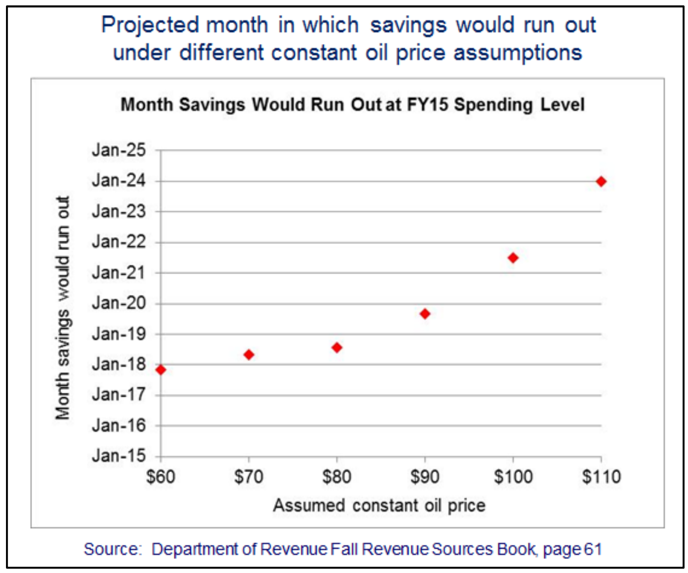
5. When we were running surpluses we built up big savings which are now paying for deficits. At current spending and projected revenues, projected deficits would drain the available $12 billion in our savings reserves in about seven years.

6. Future oil prices are highly uncertain. They might be significantly lower than the Department of Revenue assumed for their revenue projections.



7. How long our savings might last depends critically on oil prices. If oil prices are lower than projected, we could drain our savings much sooner.

8. We can't run deficits without savings to pay for them. Unless oil prices rise dramatically, within a few years we will have to make big changes to our spending or revenues.



9. Unless oil prices rise dramatically, we face two big choices:

- <u>How to adjust?</u>
  Spend less? Find new revenues? Both?
- <u>When to adjust?</u>
  Now? Gradually? When our savings run out?

10. It is not obvious how to cut spending enough to make up for the deficits we face.

11. Many Alaskans think the Permanent Fund should be "off the table" in how we respond to our fiscal situation. But the Permanent Fund accounts for a growing share of state savings and revenues, and Permanent Fund dividends account for a growing share of state spending.