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Rollout of the Underpinnings of Governor Walker’s Proposed Fiscal Plan

[Link to Report from Attorney General Richards on a Sovereign Wealth Fund for Alaska](#)

Early Wednesday morning Attorney General Craig Richards held a briefing on the underpinnings of a fiscal plan that the administration will soon propose. Later in the day the information was publicly released during a luncheon presentation to legislators.

Attorney General Richards and Grace Jang, Governor Walker’s communications director, both stressed during the briefing that the information released at the briefing, and later during the luncheon, was not a final plan, but the underpinning of a plan. A formal plan will be proposed by the release of the FY17 budget.

Attorney General Richards said the administration set up a working group at the beginning of the summer to examine how state assets might be managed to help plug the state’s fiscal gap. They began by focusing on what pots of money were available, and since that’s a legal question, Attorney General Richards led the working group.

The working group determined that the State of Alaska has about \$100 billion total in different funds. Of that \$100 billion, a little over \$60 billion is unencumbered. The different funds that contain that \$60 billion are the:

- Permanent Fund
- Permanent Fund Earnings Reserve
- Constitutional Budget Reserve

- Power Cost Equalization Fund
- [The Illinois Creek Mine Reclamation Fund](#)
- Higher Education Fund

The goals of the working group were to:

- Optimize the use of sovereign wealth assets to stabilize the budget and to maintain an equitable distribution across generations
- Identify opportunities to better manage sovereign wealth assets for enhanced long-term investment returns

Attorney General Richards said Alaska needs a price of oil at \$109 a barrel in order to not have a deficit, and cannot cover the current budget deficit just through cuts and taxes. The state has some control over oil production, but no control over the price of oil. It's a budgeting challenge and terrible for the economy.

Attorney General Richards said the watershed moment of the group was finding a Harvard study on how Saudi Arabia could solve the same revenue volatility problem that Alaska has through managing its sovereign wealth [[link to Harvard University's Belfer Center papers on managing sovereign wealth](#)].

Elements of an ideal sovereign wealth fund model are:

- Inflation proofing
- Real growth that accounts for oil production declines
- A formulaic draw that meets growth goals
- De-link the current budget from oil price volatility
- Manage investments to maximize long-term returns
- Provide for Permanent Fund dividends
- Sustainably close the budget gap.

The attorney general said it's important to use the funding from a sovereign wealth fund formulaically, otherwise it's susceptible to annual budget negotiations and puts funds at risk. Historically, the Permanent Fund has been formulaically funded, other than during the early years when large deposits were made.

There are three ways to set up an endowment model for a sovereign wealth fund:

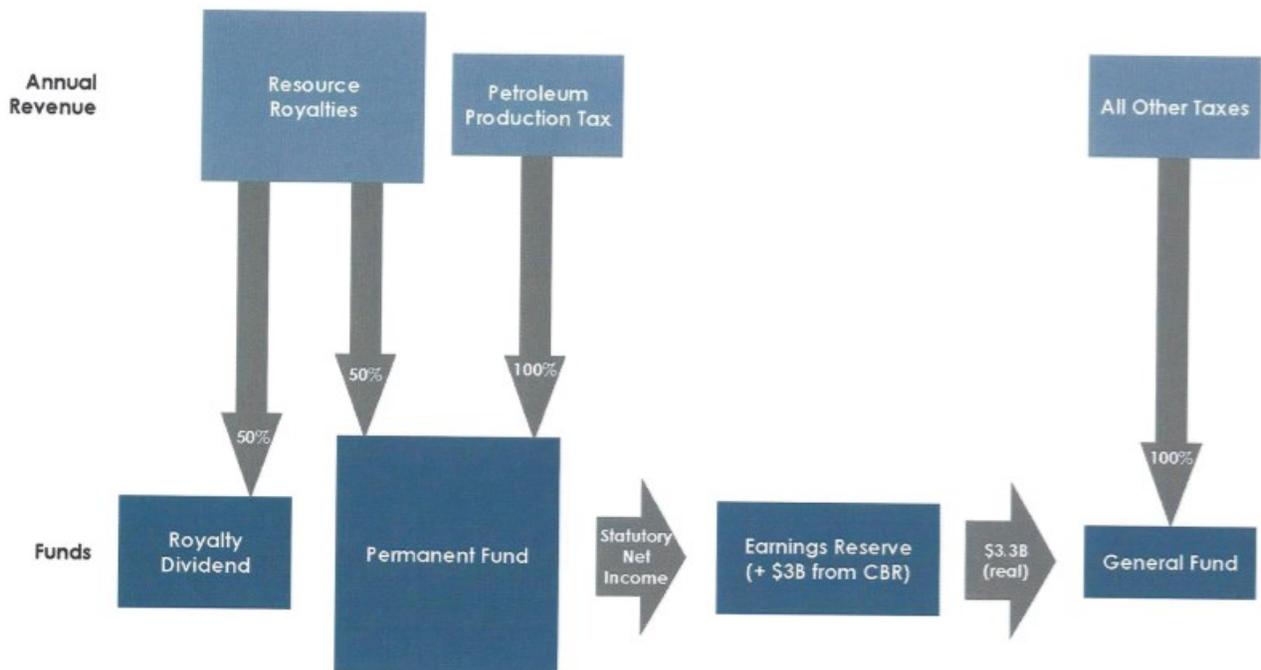
1. A percent of market value (POMV), which would require a constitutional amendment
2. A statutory POMV, which would require passage of legislation
3. A fixed draw

Attorney General Richards said the administration will be proposing using a statutory POMV. Under the current system and projections, they anticipate being able to take about \$2.4 billion annually from a sovereign wealth fund, adjusted for inflation.

Below are two charts, one a flow chart showing how the plan would work, and the other showing how it would help meet Alaska's budget shortfall.

SOVEREIGN WEALTH MODEL

Element Four – delink budget from oil price volatility



THE ALASKA PLAN

Element Seven – sustainably close the budget gap

2017 Revenues (\$billions)

Sovereign Wealth Fund Income	\$3.300
Non-petroleum Revenue	\$0.550
Other Petroleum Revenue	\$0.275
<u>SUBTOTAL</u>	<u>\$4.125</u>
Earnings from Other Assets	\$?
Pension Obligation Bonds	\$?
Capital Budget Bonds	\$?
Operating Cuts	\$?
Tax and Credit Reforms	\$?
<u>Other New Revenue</u>	<u>\$?</u>
<u>FY2016 Enacted Budget</u>	<u>\$5.180</u>

For more details on the administration's proposal to establish a sovereign wealth fund, follow the link at the beginning of this report.