

ALASKA STATE LEGISLATURE

HOUSE FINANCE COMMITTEE

Representative Paul Seaton
Co-Chair
(907) 465-2689

Rep.Paul.Seaton@akleg.gov

Alaska State Capitol - Rm 505



Representative Neal Foster
Co-Chair
(907) 465-3789

Rep.Neal.Foster@akleg.gov

Alaska State Capitol - Rm 410

Sponsor Statement CS 115 State Revenue Restructuring Act

Alaska has a \$2.7 billion budget deficit. This deficit is caused by the precipitous drop in the price of oil and requires consideration by both state budget reductions and additional revenues. The price per barrel breakeven point for a balanced budget is still over \$103 per barrel, despite nearly \$3 billion in cuts over the last several years. Before we continue to cut the budget and reduce state services we must ask ourselves, *what kind of Alaska do we want to live in?* The State Revenue Restructuring Act addresses three pillars of a larger plan to solve the broken structure of Alaska's current reliance on only one source of revenue by diversifying revenue and sustaining our quality of life.

The State Revenue Restructuring Act combines revenues from the earnings of the Permanent Fund and a progressive income tax and creates a fair balance for all Alaskan families. This legislation will create a draw for FY18 and FY19 from the Permanent Fund Earnings Reserve (ERA) of 5.25% of the market value of the entire fund, known as a POMV draw. The draw will drop to 5% for FY20 and onward. One third of this draw will go *directly* to the dividend fund to pay our PFDs, equal to \$860 million. The remaining two thirds or \$1.7 billion will go to the state's general fund to support state operations. The 2018 and 2019 dividends will be no less than \$1250 and are expected to rise steadily thereafter. Dividends will still be paid from the earnings of the Permanent Fund, but using a POMV calculation in place of the current method means a more stable dividend amount over time. This POMV draw will also mean a more stable revenue source for the state budget so that it is no longer susceptible to the wild fluctuations of oil prices. This POMV draw will generate approximately \$1.7 to \$2 billion annually for our general fund and state services over the next decade.

The earnings of the Permanent Fund are now the single biggest income for the state. Their use is a necessary part of any complete fiscal plan. However the earnings alone cannot support the entire state if we want to maintain the value of this asset for future Alaskans; a sustainable budget requires new revenue. Alaskans have the lowest tax burden in the country and the state lacks a sales, income, or property tax. A progressive income tax is a fair and balanced way for all working Alaskans and nonresidents working in our state to contribute to the state services we benefit from every day. Through a broad-based tax, Alaskans will now have a direct stake in the state government spending responsibly.

Through this legislation, a resident and nonresident individual income tax based on adjusted gross income is created. Exemptions include the PFD and a \$4000 personal deduction. Residents can choose to apply some or all of their PFD to taxes due, receiving any overpayment as a refund. The income tax would raise an estimated \$663 million annually once fully implemented. HB 115 provides a fiscal solution that diversifies revenue sources to maintain the constitutionally required health, public safety, and educational core services that preserve our quality of life.