Alaska’s Fiscal Situation

Alaska House Majority Coalition
FY17 UGF Budget Drivers
2015 to 2017 Agency Cuts
State Budget Reductions 2013-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Reductions (In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$7.9</td>
</tr>
<tr>
<td>2014</td>
<td>$7.4</td>
</tr>
<tr>
<td>2015</td>
<td>$6.0</td>
</tr>
<tr>
<td>2016</td>
<td>$5.3</td>
</tr>
<tr>
<td>2017</td>
<td>$4.2</td>
</tr>
</tbody>
</table>
Window for Action

• Legislative Year 2017 (FY 2018)
  • Income tax passed this year first fully implemented in FY2020

• Legislative Year 2018 (FY 2019)
  • Election year, action unlikely

• Legislative Year 2019 (FY 2020)
  • Income tax passed in 2019 fully implemented in FY 2022

• We have less than 4 billion in CBR + SBR for FY18 forward
  • Drawing $800 million from CBR as Senate proposes this year uses 20-25% of remaining savings.
CBR End of Year Balance - SB26* Only

FY17: $4.43
FY18: $3.75
FY19: $3.39
FY20: $2.99
FY21: $2.31
FY22: $1.62
FY23: $0.87
FY24: $0.08

*Figures based on SB26 as it was transmitted to the House

Department of Revenue SB 26 Model, 3/28/17
Comparing Plans

In millions

UGF Budget

- Alaska Court System
- Retirement
- Public Safety
- Debt Service
- Transportation
- Corrections
- University
- Health and Social Services
- Education

Senate Plan

- Permanent Fund Earnings
- Motor Fuel Tax
- Existing Non-Petroleum
- Existing Petroleum

House Plan

- Permanent Fund Earnings
- Education Tax
- Motor Fuel Tax
- Existing Non-Petroleum
- Existing Petroleum

^Transportation includes motor fuel tax funds, consistent with passage of Governor's motor fuels tax

*Income Tax would take a year to implement, FY20 projection used

**Senate Operating Budget uses $141 million more from PF than House via steeper PFD reductions
Balanced Budget by 2020

2020 Budget: $4.58

Revenue:
- Permanent Fund Draw: $1.85
- School Tax: $0.69
- Existing Revenue: $1.95
- Motor Fuels Tax: $0.07
- Oil Tax Reform: $0.09

Total Revenue: $4.58
Percent of Income Impact - 2019

Income Percentile

0-20% 20-40% 40-60% 60-80% 80-95% 95-99% 99-100%

Percent Annual Income

<table>
<thead>
<tr>
<th>Percent</th>
<th>Senate</th>
<th>House</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20%</td>
<td>10.7</td>
<td>8.6</td>
</tr>
<tr>
<td>20-40%</td>
<td>4.3</td>
<td>4.1</td>
</tr>
<tr>
<td>40-60%</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>60-80%</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>80-95%</td>
<td>1.3</td>
<td>2.9</td>
</tr>
<tr>
<td>95-99%</td>
<td>0.6</td>
<td>2.9</td>
</tr>
<tr>
<td>99-100%</td>
<td>0.2</td>
<td>2.9</td>
</tr>
</tbody>
</table>
Percent of Income Impact - 2023

<table>
<thead>
<tr>
<th>Income Percentile</th>
<th>Senate</th>
<th>House</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-20%</td>
<td>6.1</td>
<td>2.8</td>
</tr>
<tr>
<td>20-40%</td>
<td>2.6</td>
<td>1.8</td>
</tr>
<tr>
<td>40-60%</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>60-80%</td>
<td>1.2</td>
<td>2.1</td>
</tr>
<tr>
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<td>0.7</td>
<td>2.2</td>
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<td>0.1</td>
<td>2.8</td>
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</tbody>
</table>
Job Losses per $100 Million of Deficit Reduction

<table>
<thead>
<tr>
<th>Option</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Spending Cuts</td>
<td>504</td>
<td>754</td>
<td>1258</td>
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<tr>
<td>Dividend Reduction</td>
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<td>892</td>
<td>892</td>
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<tr>
<td>Income Tax</td>
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<td>786</td>
<td>786</td>
</tr>
<tr>
<td>Spend Savings</td>
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<td></td>
<td>0</td>
</tr>
</tbody>
</table>

2016 ISER Report
Growing Alaska

• SB 26 leaves more than $800 million deficit this year
• Legislative Finance projects about a half billion dollar budget gap remaining indefinitely
• We are deferring maintenance and basic upkeep that will cost us more to fix later. If you never change the oil in your car, you may save a nickel in the short term, but you cost yourself a dollar later
• Capital budget brings in federal match and spurs economic development and growth
• Investments in Education and the University attract and retain the best and brightest, and spur innovation and economic development
Historic Budget and Revenue

*Budget and revenue adjusted for inflation*
Real Per Capita (RPC) Budget and Revenue
Capital Budget

In millions*

Inflation adjusted
Since peaking in March 1988, Alaska North Slope crude oil production has declined at an annualized rate of 5.4% per year.

Source: EIA, NGI's Daily Gas Price Index calculations