

## Join the discussion

### The time to act is now

The economic choices facing Alaskans are tough. But Alaska is fortunate to have the resources to stabilize our economy if we act now. Any significant delay will only make the choices harder and the sacrifices more burdensome.

One choice is whether or not to change Alaska's financial "plumbing" to use some of the Permanent Fund's earnings to help pay for state government, while continuing to pay a smaller but sustainable Permanent Fund Dividend.

None of the options are easy. No one wants fewer government services, higher taxes, or smaller dividends. But a balanced combination of all three options may be easier than relying on fewer options.

It may seem easiest to hope that our oil revenues come back and keep running huge deficits. But that's neither realistic nor responsible—and could rapidly deplete all our reserves.

Our choices will affect all Alaskans and Alaska's future.

Make a positive impact on Alaska's future. Together we can make wise choices and take action to fix Alaska's finances and ensure Alaska's economy remains stable and sustains our high quality of living for many years to come.



### Add your voice

Insist your elected officials take action to stabilize Alaska's economy.

[openstates.org/find\\_your\\_legislator/](http://openstates.org/find_your_legislator/)

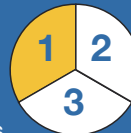
Search **#letsfixitak** to see what others are saying about solutions for Alaska's future.

 Like "Alaska's Economy"

**Future generations  
will depend on  
what we do now!**



This is part one of a three-part educational series focused on Alaska's economy and its current fiscal situation. Gunnar Knapp, director and professor of economics at University of Alaska Anchorage's Institute of Social and Economic Research, provided the analysis. First National Bank Alaska brought you this message and paid for the production and printing on the brochure.



Part two of this series will examine using budget cuts alone to solve the deficit problem.

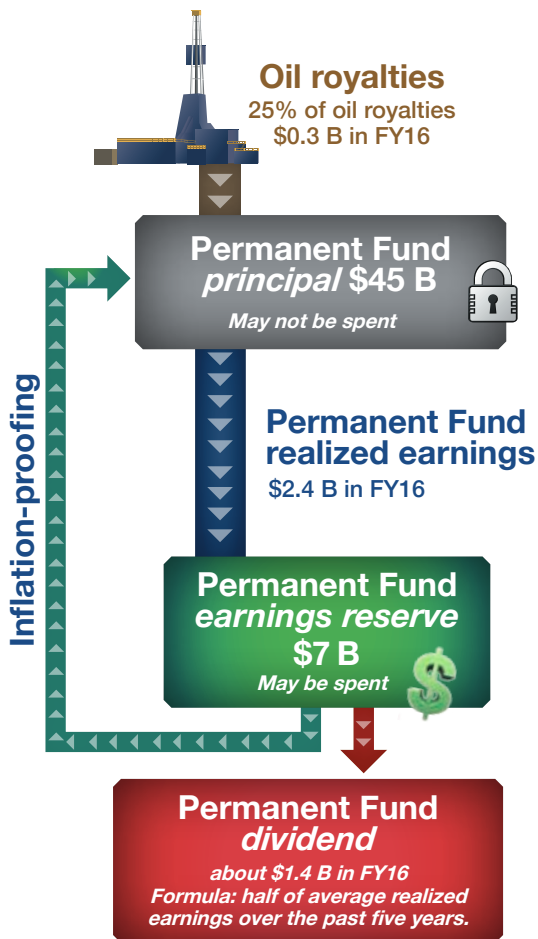
## Fixing Alaska's Finances:

# Alaska Permanent Fund



## First in a three-part series

“What is not sustainable is to continue running very large deficits. If we use up our savings reserves, we would have to pay for deficits from the Permanent Fund earnings reserve. And if we use up the earnings reserve, we wouldn't be able to pay dividends in years when earnings are low.”



## Alaska's Permanent Fund

Most Alaskans agree we need to do something now to fix our state's finances. Permanent Fund earnings could be one part of a balanced and sustainable solution.

Alaska's Permanent Fund, built up by saving part of our oil revenues ever since oil started flowing through the pipeline, is worth more than \$50 billion. It usually earns \$2-3.5 billion each year from investments—much more than we are earning from oil.

## How the Permanent Fund works

Most of the Permanent Fund's value is in the principal, which cannot be spent. The earnings, which can be spent, are held in the earnings reserve.

We have been distributing about half of the annual earnings to Alaskans as Permanent Fund Dividends (PFDs), and saving the rest, putting some in the principal as "inflation-proofing" and leaving some in the earnings reserve.

## Our budget options

Our only options for closing the budget deficit are to cut spending, raise taxes on Alaska residents and businesses, or use some of the Permanent Fund earnings to help pay for government.

If we don't use any of the earnings, the deficit is so large that it would require both very big spending cuts and very big tax increases to close the deficit. If we use some Permanent Fund earnings, we won't have to cut spending and raise taxes as much.

Several plans have been proposed for changing Alaska's financial "plumbing" so that some of the Fund's earnings would flow to help pay for state government, while the rest would continue to pay for a smaller but sustainable Permanent Fund Dividend.

What is not sustainable is to continue running very large deficits. If we use up our savings reserves, we would have to pay for deficits from the Permanent Fund earnings reserve. And if we use up the earnings reserve, we wouldn't be able to pay dividends in years when earnings are low.

## Alaska's budget challenge

For most of the past decade, Alaska earned between \$5-10 billion annually in oil revenues. Because oil prices have fallen drastically, this year we will earn less than \$1 billion from oil. Despite big cuts over the past three years, state spending (\$5.1 billion) is still far higher than our total revenues (\$1.5 billion), leaving us with a more than \$3.6 billion deficit.

We're paying for the deficit from savings reserves. Continued large deficits could use up those reserves within two years.

