IMPLEMENTING A STATE FISCAL PLAN:
Step 1.
Tracking Maximum Sustainable Yield

Alaska State Legislature
House Finance Committee
Juneau, Alaska
April 5, 2013

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The Problem: Unsustainable Spending Growth

Looking beyond the 10-year horizon

- Cash Reserve
- Natural Gas
- New Oil
- DOR Oil Revenues
- Non Oil
- GF Spending: 4.5%
The Solution:

RECOGNIZE AND MANAGE OUR PETROLEUM WEALTH LIKE A DEPLETABLE ASSET

1. How much is it worth?
2. How much of it can we spend without depleting it?
3. How can we invest it for maximum return?
Petroleum Wealth of the “Owner State”

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>$149 Billion</td>
</tr>
<tr>
<td>In the Bank</td>
<td>$60 Billion</td>
</tr>
<tr>
<td>In the Ground*</td>
<td>$89 Billion</td>
</tr>
<tr>
<td>Known Conventional Oil</td>
<td>$67 Billion</td>
</tr>
<tr>
<td>Other Oil and Gas</td>
<td>$22 Billion</td>
</tr>
</tbody>
</table>

* Estimated Net Present Value of Future Petroleum Revenues
## How Much Can We Spend Today: GF Maximum Sustainable Yield

<table>
<thead>
<tr>
<th>NEST EGG</th>
<th>$149 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiply: MSY Draw Rate</td>
<td>4% (5%-1%)</td>
</tr>
<tr>
<td><strong>Equals: MSY Draw</strong></td>
<td>$6 Billion</td>
</tr>
<tr>
<td>Minus: PF Dividend</td>
<td>$1 Billion</td>
</tr>
<tr>
<td>Plus: Non-Petroleum GF Revenues</td>
<td>$0.5 Billion</td>
</tr>
</tbody>
</table>

**General Fund Maximum Sustainable Yield (FY2014)**

=($6 - $1 + $0.5)

= $5.5 Billion
Maximum Sustainable Yield: Nest Egg Growth
Maximum Sustainable Yield: General Fund Growth

-looking beyond the 10-year horizon

CASH RESERVE
NATURAL GAS
NEW OIL
DOR OIL REVENUES
NON OIL
GF SPENDING: 4.5%
Maximum Sustainable Yield: Implementation

• Manage financial assets for maximum long term return

• Proactively participate in management of petroleum in the ground for maximum return

• Establish monitoring system to track Nest Egg value, set MSY target, and track progress towards sustainability

• Gradually transition to GF Maximum Sustainable Yield level
Track Nest Egg and GF MSY

Permanent Fund Balance
+ CBR Balance
+ SBR Balance
= Financial Assets
+ Value of Petroleum in Ground
= NEST EGG
Multiply by 4%
= MSY
- Permanent Fund Dividend
+ Non-Petroleum GF Revenues
= GENERAL FUND MAXIMUM SUSTAINABLE YIELD
If Oil Revenues $5 Billion Lower, How Much Can We Spend Today: GF Maximum Sustainable Yield

<table>
<thead>
<tr>
<th>NEST EGG</th>
<th>$143 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiply: MSY Draw Rate</td>
<td>4% (5%-1%)</td>
</tr>
<tr>
<td><strong>Equals: MSY Draw</strong></td>
<td>$5.8 Billion</td>
</tr>
<tr>
<td></td>
<td>=($143*4%)</td>
</tr>
<tr>
<td>Minus: PF Dividend</td>
<td>$1 Billion</td>
</tr>
<tr>
<td>Plus: Non-Petroleum GF Revenues</td>
<td>$ .5 Billion</td>
</tr>
<tr>
<td><strong>General Fund Maximum Sustainable Yield (FY2014)</strong></td>
<td>$5.3 Billion</td>
</tr>
<tr>
<td></td>
<td>=($6 -$1+$ .5)</td>
</tr>
</tbody>
</table>
Maximum Sustainable Yield: Mechanics

NEST EGG

Oil & Gas Revenue: $7.3

Financial Earnings: $4.5

Nest Egg Cash Flow: $6

4% Draw: $6

Saving & Reinvestment: $5.8

$6 Total Maximum Sustainable Yield
Maximum Sustainable Yield: Disposition

Total Maximum Sustainable Yield $6

$1
Permanent Fund Dividend

$5
General Fund

$5

$0.5
GF Non Petroleum Revenues

$5.5
GENERAL FUND
MAXIMUM SUSTAINABLE YIELD