CITY AND BOROUGH OF SITKA

2015 Economic Overview

IN THE ARENA

It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood... who at best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat. ***Theodore Roosevelt, "Citizenship in a Republic"***

THE TASK AHEAD

CITIZENS' TASK FORCE

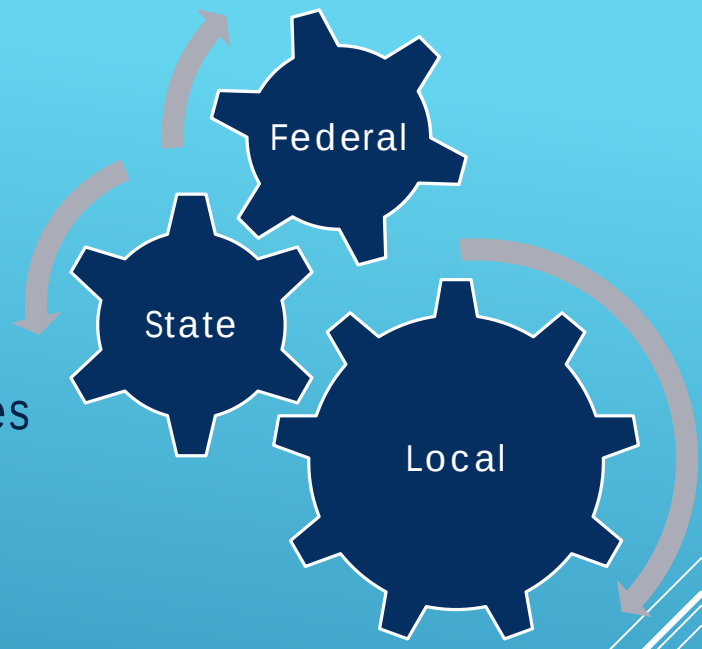
Address economic and fiscal challenges facing the City & Borough of Sitka in order to make vetted and informed recommendations on a fiscal policy that will help to maintain stability during the uncertain fiscal challenges to come.

Economics is the social science that seeks to describe the factors which determine the production, distribution and consumption of goods and services

Fiscal Policy is the way a governing entity attempts to manage the economy through taxation, spending and borrowing

THE TASK AHEAD

ECONOMICS, WHY SHOULD WE CARE WHAT HAPPENS AT THE STATE & FEDERAL LEVELS?



- Economics is the driving mechanism that facilitates the revenues that flow from federal and state levels, to our local economy
- Economics focuses on the behavior associated with the interactions of economic agents and how economies work
- Confidence and stability are key elements to a thriving economy
- Although the "gears" are still turning, we have already seen some threats to funds that directly affect Sitka

"Confidence matters to an economy, and having big, looming economic issues that aren't being addressed can do a lot of damage," ***Dan Robinson, Research & Analysis Chief, Alaska Dept. of Labor and Workforce Development***

CITIZENS' TASK FORCE

IT'S NOT JUST A MATTER OF RAISING TAXES AND CUTTING EXPENSES

- Solutions to fiscal policy don't necessarily mean we have to take the proverbial fork in the road
- Fiscal policy analysis doesn't diverge onto the most appealing path
- Fiscal policy analysis incorporates the restructuring of both revenues and expenditures in a way that diversifies and strengthens the policy
- We will look at both

THE TASK AHEAD

GOALS

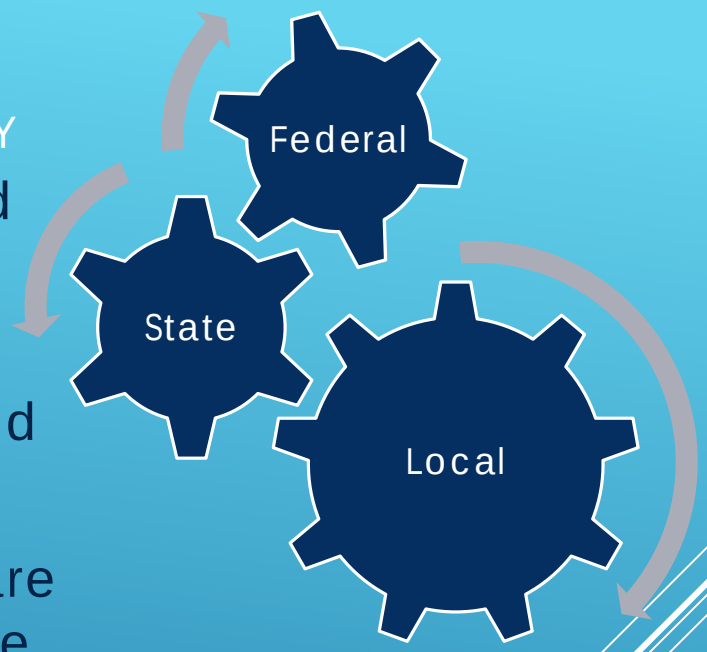
- Provide technical and professional assistance in order for you to complete your goals
- Welcome questions
- Conduct all-inclusive community discussions
- Capitalize on our varied strengths

CIVIL DISCOURSE: ENGAGEMENT IN DISCOURSE (CONVERSATION) INTENDED TO ENHANCE UNDERSTANDING

WHY IS THIS TASK SO IMPORTANT?

GEARS OF GOVERNMENT CONTINUE TO TURN BUT WITH SOME DIFFICULTY

- For many it's difficult to accept that hard times are ahead when the past has been so rosy
- Undercurrents of economic uncertainty are occurring resulting in major shifts in fiscal policies at federal, state and local levels
- In Alaska municipalities & tribal governments as a whole are relatively dependent on some form of federal and/or state assistance
- We have already experienced uncertainty about future funding levels within this past year's budgeting process
- We will need to educate ourselves, discuss difficult topics and craft a recommendation for a new fiscal policy for stability during this shift



FISCAL POLICY: THE WAY A GOVERNING ENTITY ATTEMPTS TO MANAGE THE ECONOMY THROUGH TAXATION, SPENDING AND BORROWING

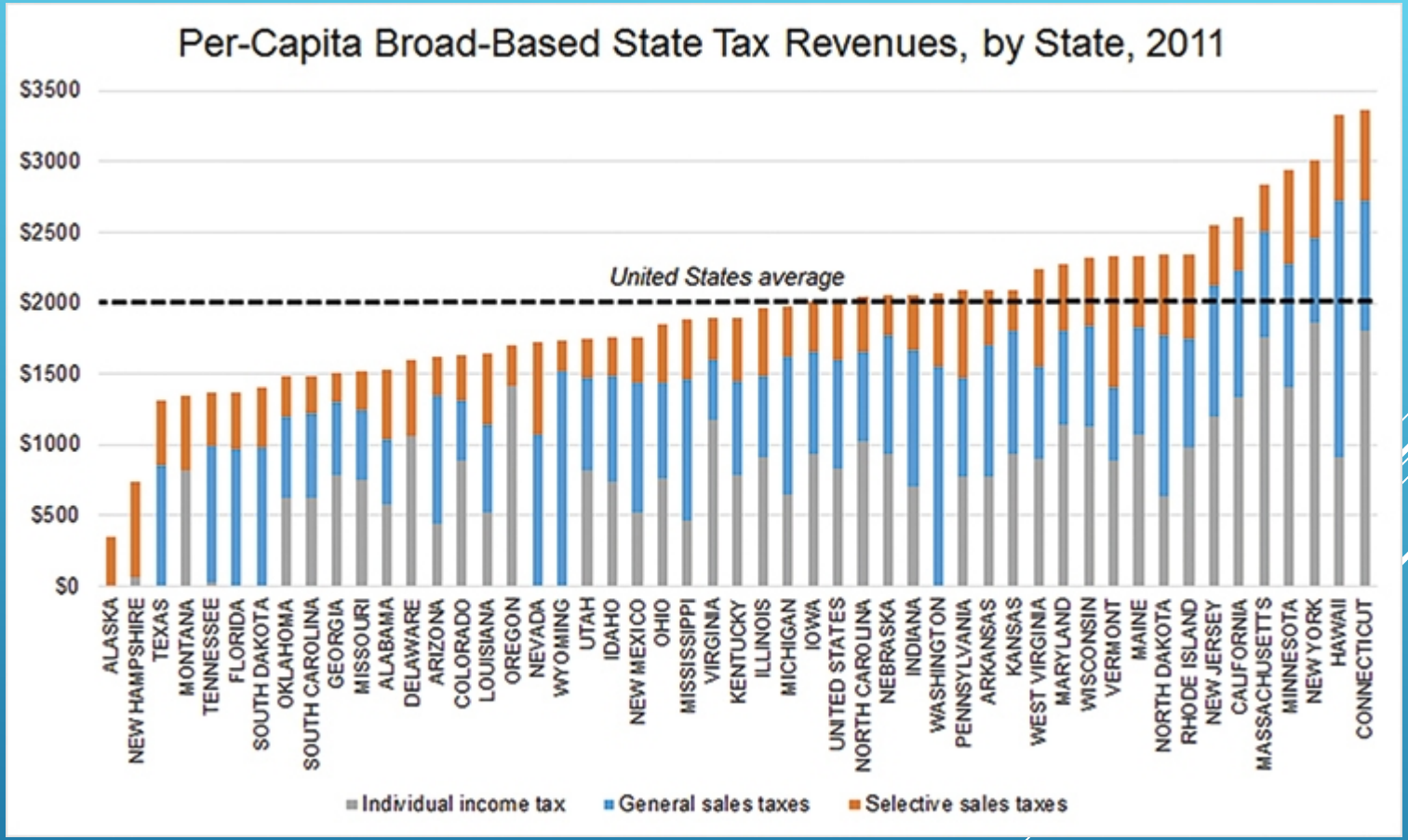
WHY IS THIS TASK SO IMPORTANT? THE PAST

In the last decade,

- **Alaska General Fund spending grew from $2.1B to $4.4B (FY04-FY14), a 109% increase**
- **To put this in perspective,**
  - **inflation increased by 30%**
  - **Population increased by 11% during this same time period**

Since the pipeline,

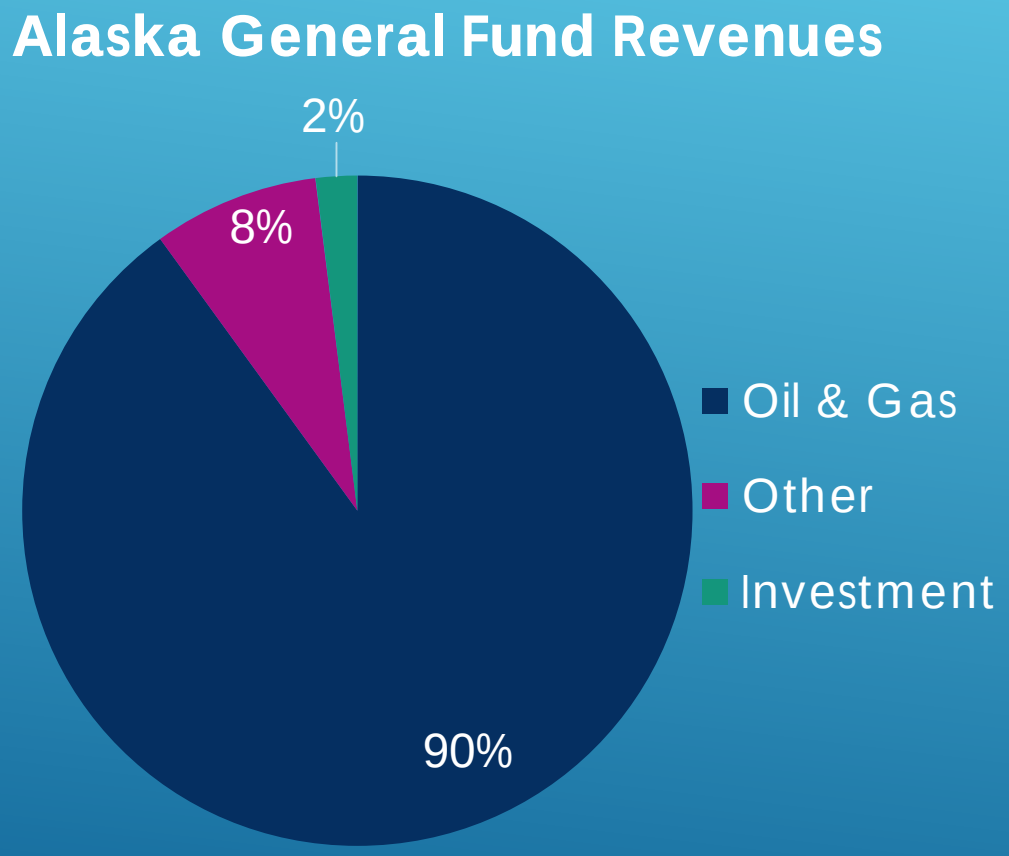
- **Alaska has been investing in infrastructure and capital projects across the state because the money was flowing**
- **Alaska residents have enjoyed one of the lowest per-capita state broad-based tax burdens when compared to the rest of the country**
- **State government tax policy was designed at its outset for smaller individual tax burdens at the state level, and larger individual tax burdens at the local level (per-capita tax burdens) in order to draw upon each municipality's strengths**
- **This was a great policy in times of great natural resource riches, but the economics have changed**
  - **Decreased production (oil)**
  - **Increased global supply (oil and gas)**
  - **Decreased global demand (oil and gas)**
- **State is not capturing the revenue that it needs to sustain the infrastructure that's been built over this time period**



Source: Natasha Von Imhof, Alaska's Budget Crisis: Myth or Reality?

WHAT DOES THE FUTURE HOLD?

WHY DO THESE ECONOMIC CHANGES AFFECT US SO SEVERELY?



- We have no control over global economic factors
- Alaska has no real broad-based taxation policy currently in place, such as a statewide sales tax, income tax, or property tax (except for the 20mil tax on oil & gas properties)
- Oil & Gas includes production taxes, petroleum property taxes, corporate income taxes, and royalties generated from the huge oil fields on state-owned land in and around Prudhoe Bay
- Other includes non-petroleum royalties and tax (e.g. fishing & mining), licensing and permits (e.g. vehicle registration & business licenses), fees for services, corporate taxes, etc

GLOBAL ECONOMICS & ALASKA'S GENERAL FUND REVENUE STRUCTURE

WHY IS THIS TASK SO IMPORTANT?

THE FUTURE

Economic factors have caused Alaska's days of easy $$$$$ to virtually dry up

Structural fiscal problems that need to be addressed

Alaska has many strengths, mainly its natural resource wealth which hasn't changed

Alaska has many options and all are on the table

Let's look at some of the state revenue alternatives that are being discussed

For Many It's Difficult to accept that fiscal challenges are ahead when the past has been so rosy

Broad-Based Taxes (Statewide)
Sales Taxes
Income Tax
Property Tax
Head Tax (Payroll Tax)

Repurposing of Financial Assets
Community Revenue Sharing
PF Earnings
PF Corpus
Constitutional Budget Reserve
Power Cost Equalization Fund
AHFC Reserves

Refine Current Taxes
O&G Tax Credits
Alcohol & Cigarette Taxes
Fisheries Taxes
Mining Taxes
Corporate Income Taxes
Motor Fuel Taxes
Business License Fees

New Taxes
Health Care Provider Tax
Marijuana Taxes
Lottery/Games of Chance

ALASKA'S STRENGTHS

Alaska has significant economic assets,

Oil & Gas Reserves

Mineral Wealth, developed & undeveloped

Fisheries, abundant, are of great quality and therefore lucrative

Strategic & International Presence, militarily, international trade & transportation

Thriving Tourism Industry

Relatively Strong Service Sector

For Many It's Difficult to accept that fiscal challenges are ahead when the past has been so rosy

WHAT IS THE PROBLEM, WHY SHOULD WE CARE?

Let's Look at Fiscal Policy in General

Theory

WHAT IS THE PROBLEM, WHY SHOULD WE CARE?

In Reality We've Experienced Deficit Spending at the Federal and State Levels, and There's More Expected to Come!

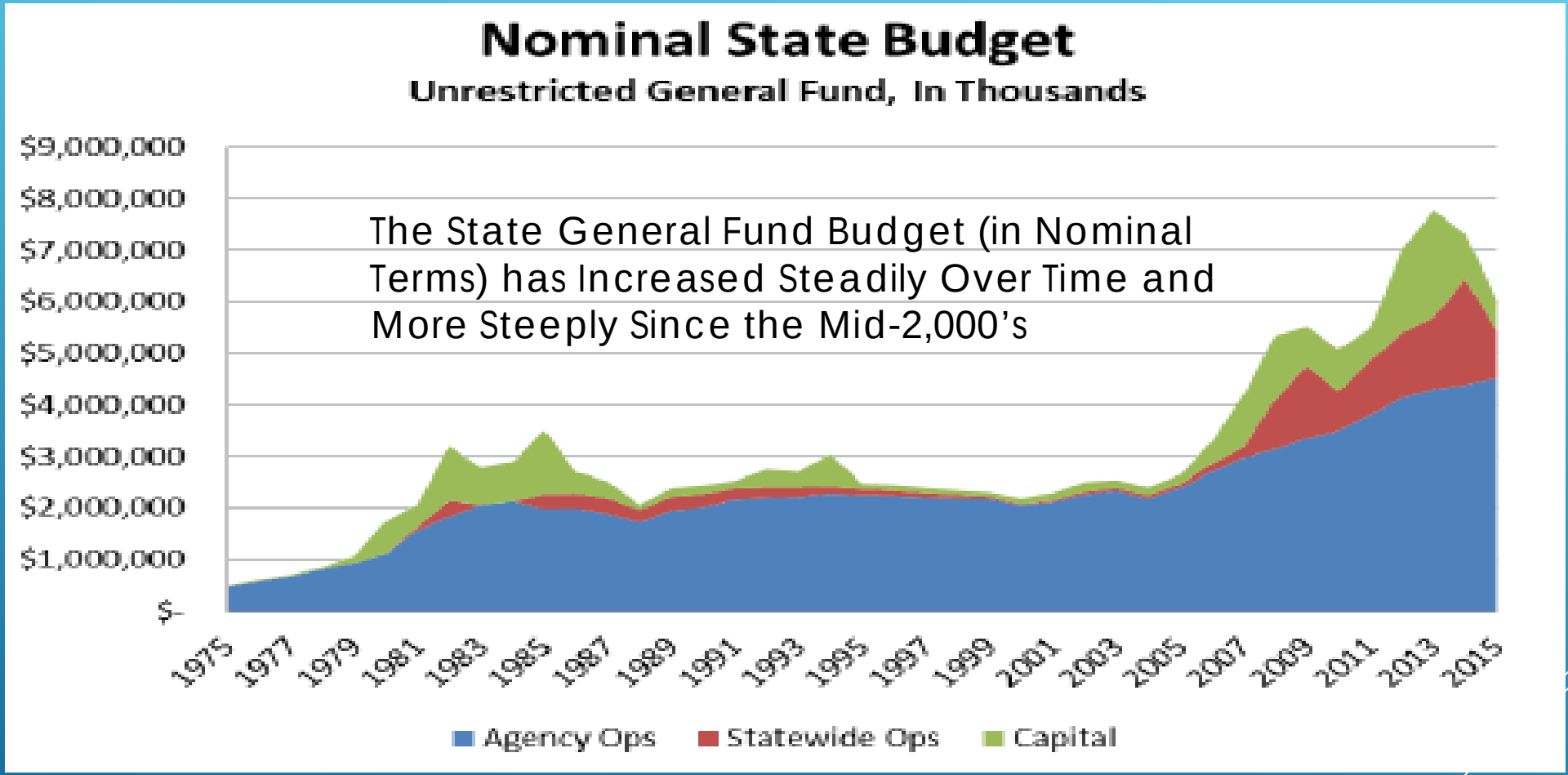
Reality

WHAT IS THE PROBLEM, WHY SHOULD WE CARE?

Can this be Easily Fixed? Let's Look at Some Typical Myths

Myth#1 Reality

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??

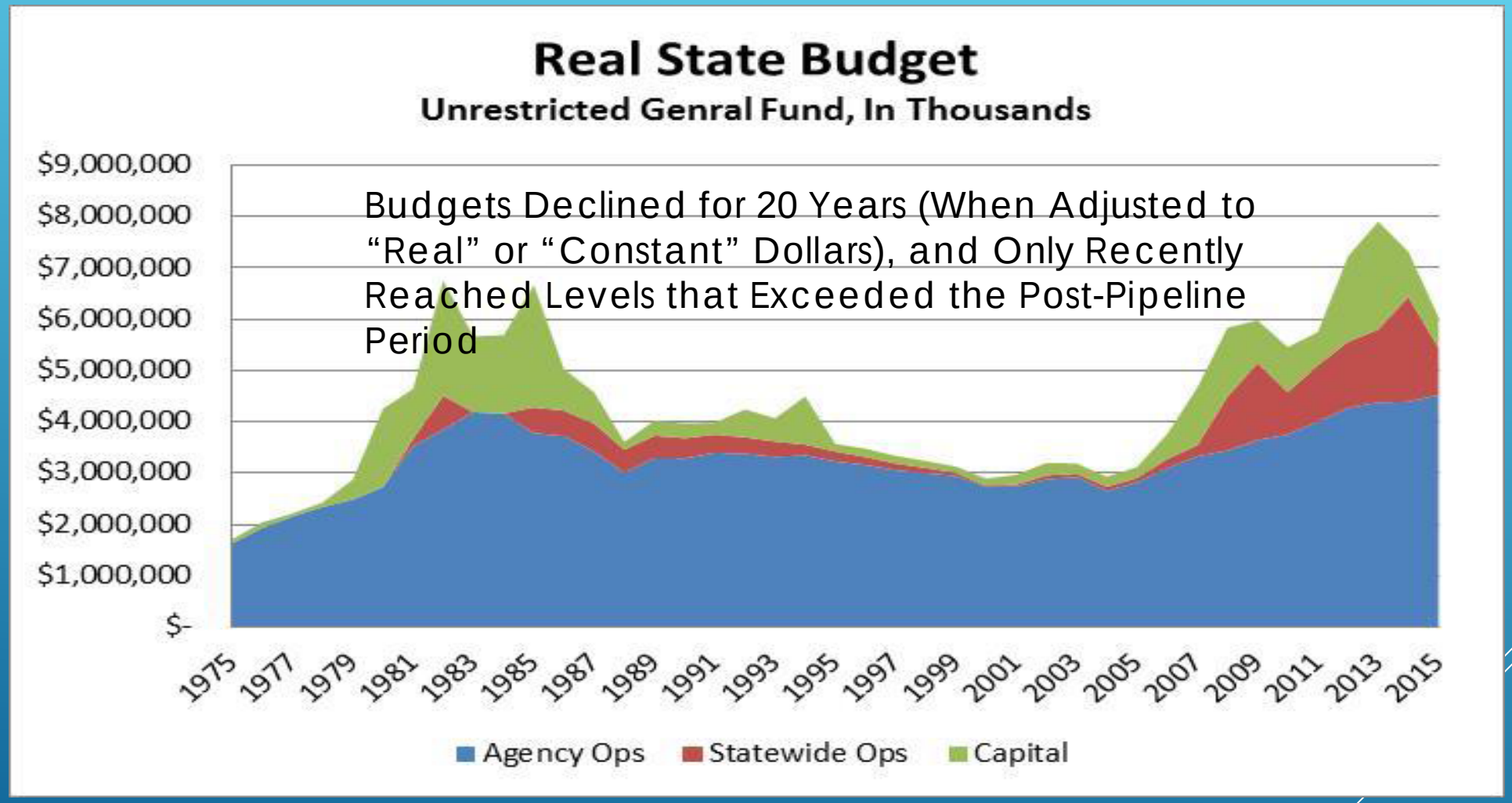


The State General Fund Budget (in Nominal Terms) has Increased Steadily Over Time and More Steeply Since the Mid-2,000's

THE STATE BUDGET HAS BEEN GROWIN IN NOMINAL TERMS

Source: Randy Hoffbeck, Fiscal and Revenue Options

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??

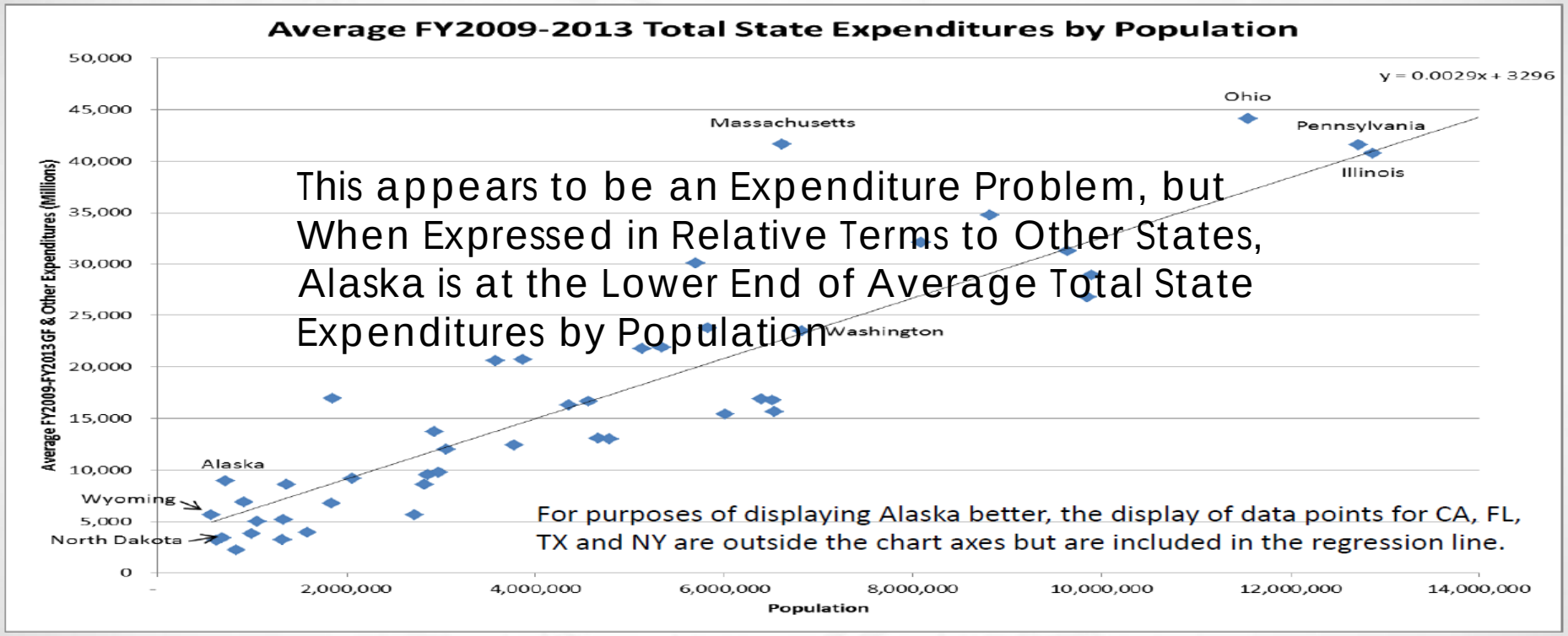


THE STATE BUDGET HAS ONLY RECENTLY EXCEEDED THE POST-PIPELINE PERIOD

Source: Randy Hoffbeck, Fiscal and Revenue Options

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??

Average Total State Expenditures



THE STATE of ALASKA
OFFICE OF MANAGEMENT & BUDGET
omb.alaska.gov

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STATE PER-CAPITA EXPENDITURES (BUDGET) ARE LOW IN COMPARISON

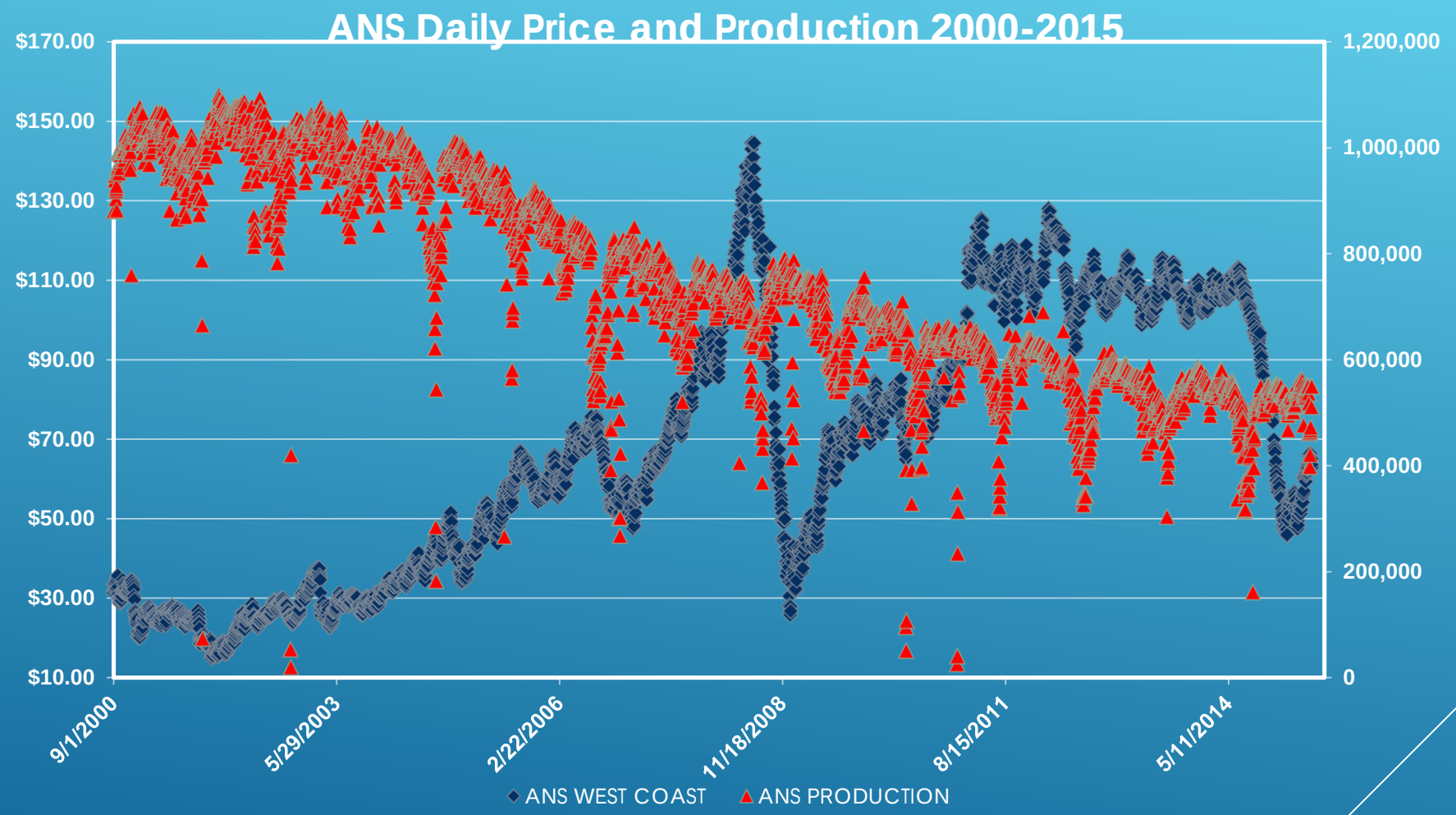
Source: Randy Hoffbeck, Fiscal and Revenue Options

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??

Let's Look at Yet Another Myth

Myth#2 Reality

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??



OIL PRICES AND PRODUCTION ARE NOT CURRENTLY WITHIN LEVELS WHICH WOULD EVEN COME CLOSE TO SUSTAINING THE BUDGET

WHAT IS THE PROBLEM, WHY SHOULD WE CARE??

FY16 General Fund Revenue ($billions)

Budget = $5.2 Billion

	Barrels Per Day			
Price of Oil	**500,000**	**600,000**	**700,000**	**800,000**
$40	$1.5	$1.7	$1.9	$2.1
$50	$1.8	$2.1	$2.3	$2.6
$60	$2.0	$2.3	$2.6	$2.9
$70	$2.3	$2.7	$3.0	$3.4
$80	$2.6	$3.0	$3.4	$3.9
$90	$3.4	$4.0	$4.6	$5.1
$100	$4.3	$5.1	$5.8	$6.6
$110	$5.2	$6.1	$7.1	$8.0
$120	$6.0	$7.1	$8.2	$9.3

Source: Randy Hoffbeck, Fiscal and Revenue Options

Oil Prices Would Need to Remain in the $90-$110 Per Barrel to Balance the Budget
Production Would Have to Increase to Support Price Levels as Well

WHAT IS THE PROBLEM, WHY SHOULD WE CARE?

The Biggest Myth!

It's SIMPLE, Just Cut Expenses and Raise Revenues!

Cutting Expenses and Raising Revenues will not be enough, we need to restructure both

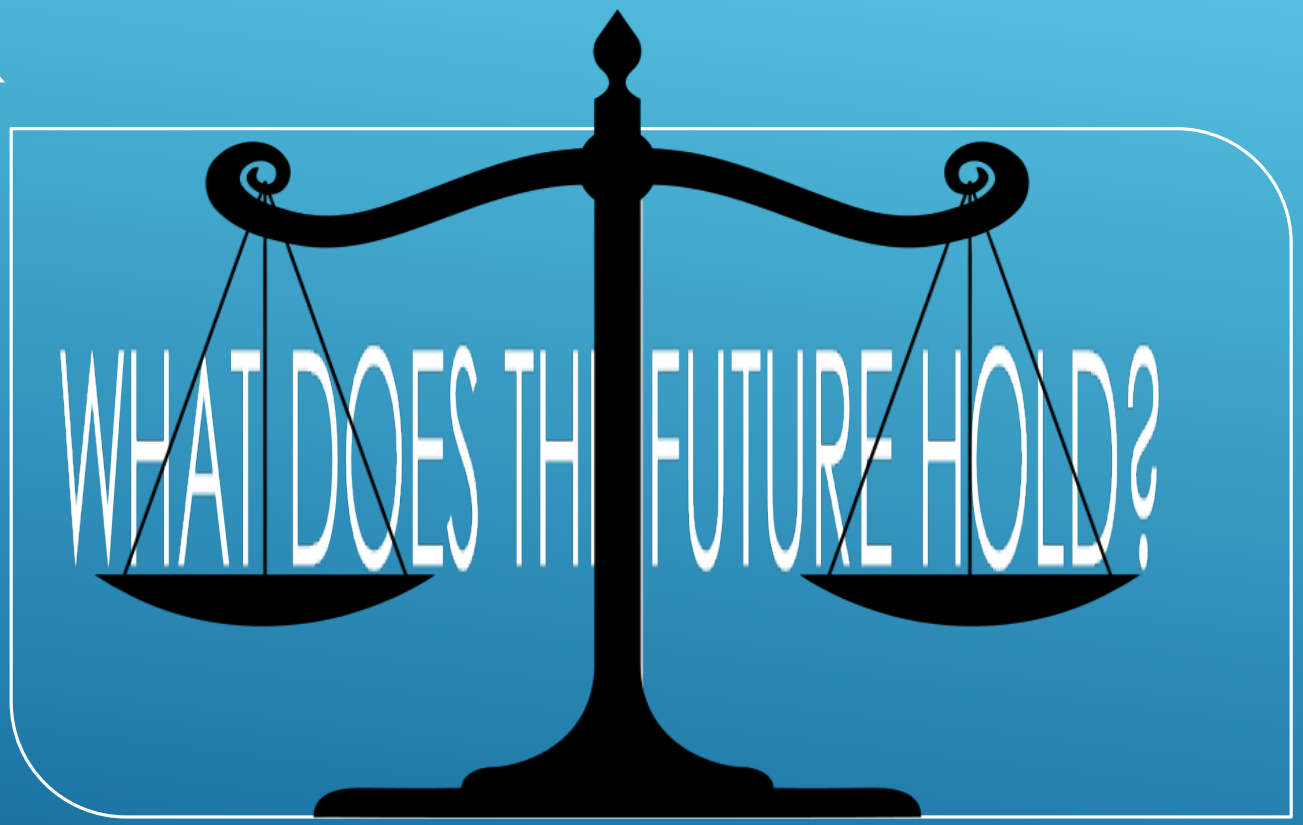
Myth#3

Reality

RESTRUCTURING IS NEEDED AT ALL LEVELS

Cant "just cut expenditures,"
Government and infrastructure have grown to meet communities needs and desires
Restructure after outlining needs versus desires

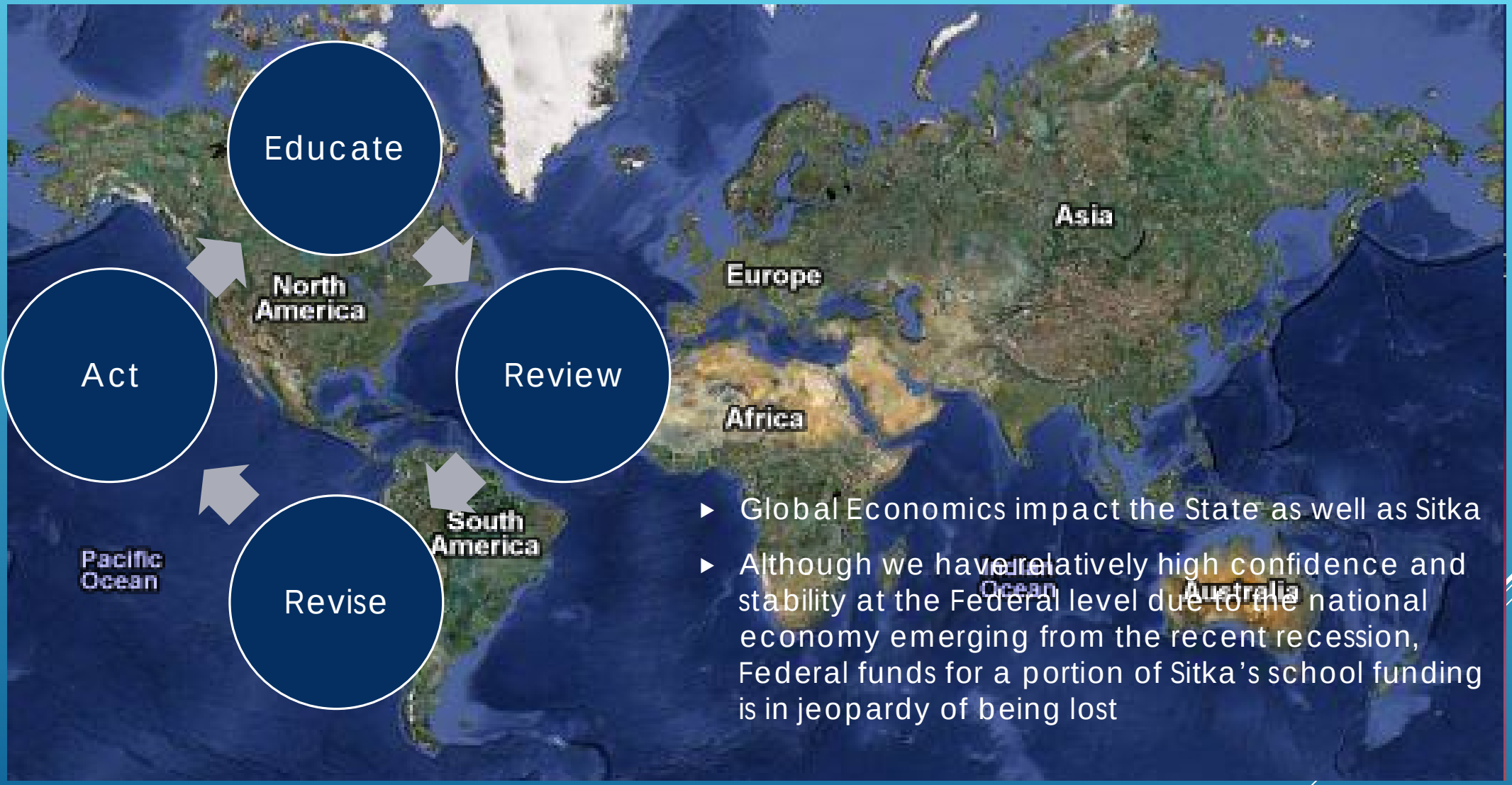
Restructure REVENUES



Restructure EXPENSES

Cant "just raise revenues," already at the maximum of what we can afford
Restructure with a focus on the policy as a whole
Craft a taxation policy that relies on our strongest segments, while protecting those most vulnerable

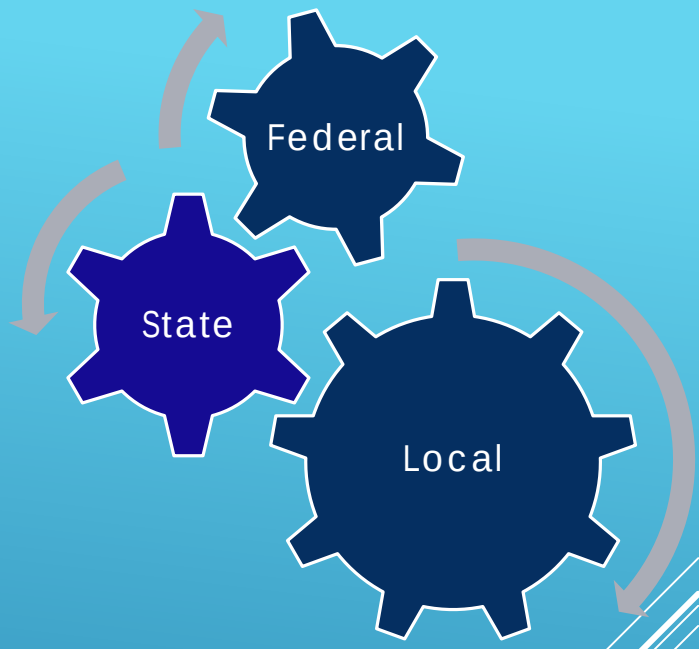
HOW DO WE ACCOMPLISH THIS?



- Global Economics impact the State as well as Sitka
- Although we have relatively high confidence and stability at the Federal level due to the national economy emerging from the recent recession, Federal funds for a portion of Sitka's school funding is in jeopardy of being lost

GLOBAL, NATIONAL, STATE AND LOCAL MATTERS

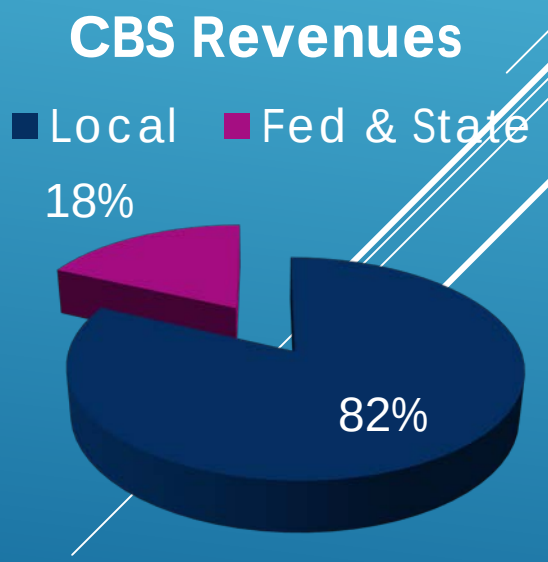
SOLUTIONS?



We MUST be proactive in our actions

Sitka Revenues consist of both state and federal funding at a level of about 18% this fiscal year

We must pay close attention to state initiatives revenue and expense restructuring as these will have ripple a



PLAN OF ACTION

WHAT'S NEXT?

- Alaska's Budget Crisis: Myth or Reality? Alaska Business Magazine
- Southeast by the Numbers – Rain Coast Data
- Next session we will go over regional and local economics with an emphasis on how global economics impact us
- Begin identifying Sitka's strengths, weaknesses, opportunities and threats

SUGGESTED READINGS & PREPARATION FOR NEXT SESSION