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Sponsor Statement HB 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 of 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*? A fiscal solution that provides diversification of revenue sources is required to maintain the constitutionally required health, public safety and educational core services that preserve 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 Alaskans families. This legislation will create an annual draw from the Permanent Fund Earnings Reserve (ERA) of 4.75% of the market value of the entire fund, known as a POMV draw. One third of this draw will go *directly* to the dividend fund to pay our PFDs, equal to $765 million. The remaining two thirds or $1.52 billion will go to the state's general fund to support state operations. The 2018 dividends are expected to start around $1100 and grow sustainably over time. 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 so susceptible to the wild fluctuations of oil prices. This POMV draw will generate approximately $1.5 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 source for the state, higher even than expected oil revenues. The use of this asset 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 also requires other new revenue.

Alaska is the only state without a state sales, income, or property tax and Alaskans have the lowest tax burden in the country. A progressive income tax is a fair and balanced way for all 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, income for both residents and nonresidents will be taxed at 15% of federal income tax due or $25, whichever is greater. In comparison, Alaska's income tax in the 1980s was 16% of federal income tax due. Additionally, capital gains will be taxed at 10% to rectify the disparity between the federal tax rates on capital gains and other income sources. Residents can choose to apply some or all of their PFD to their taxes due, receiving any overpayment as a refund. The income tax would raise an estimated $655 million annually once fully implemented in 2019.

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. Diversifying our revenue gives stability to a government and an economy that sustains the kind of state Alaskans tell us they want to live and thrive in.