The Impact of Permanent Fund Dividends (PFDs) on Deficits—Takeaway Points

1. Dividends are government expenditures, and money for dividends competes with money for education, Medicaid and other government services.
    a. AS 37.13.140 limits the payout from the Permanent Fund Earnings Reserve Account to 5.25% of the market value of the Permanent Fund. The portion of the payout not used for dividends goes to the general fund.
    b. Therefore, every dollar appropriated for dividends is a dollar diverted from the general fund, which is used to pay for government services.
2. If we don't cut other spending or increase revenue, bigger dividends translate directly to bigger deficits.
3. Bigger deficits require larger draws from savings (the constitutional budget reserve fund—CBR).
4. Larger draws from the CBR reduce the CBR balance.
5. When savings are exhausted, the budget must be balanced—that is, we cannot spend more in a year than the revenue we receive in that year.
6. Balancing the budget will require less spending or more revenue—deficits can no longer be filled by taking money from savings.
7. Spending less on dividends versus spending less on government services makes no difference mathematically—both have exactly the same impact on deficits. A $900 million reduction in government services translates to a 20% reduction.
8. How long savings will last is determined by the deficit and the draw—
    a. savings will last about three years (through FY22) if the year-end FY19 CBR balance is $1.9 billion and the deficit is $700 million (as with a $1,600 PFD);
    b. a $3,000 PFD would have reduced the year-end FY19 CBR balance to $1 billion, which would be insufficient to fill a FY20 deficit of $1.5 billion (as with $3,000 PFDs).