



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

ALASKA

The State's Fiscal Reality

**A bright future
...but still work to do?**

**Pat Pitney, Director
Office of Management and Budget
State of Alaska**



We have made progress

Legislature passed SB 26 Alaska Permanent Fund Protection Act

SB 26 reduces this year's deficit from \$2.4 billion to \$700 million

S&P upgraded Alaska's debt outlook from Negative to Stable on June 13

S&P stated that the upgrade reflects recent fiscal reforms utilizing the Permanent Fund Earnings Reserve

Oil price average is \$73/bbl year to date in FY19 up from the Spring forecast of \$63/bbl – at the current average the budget will balance



State Finances in Household Terms

The scenario:

- Income has dropped **70%** from \$80,000 to \$23,600
- Spending has been reduced **41%** from \$80,000 to \$47,300

You stopped building your cabin, you'll keep your old car, and push your Hawaiian vacation off another year.

You have moved to a smaller apartment and you stopped eating out.

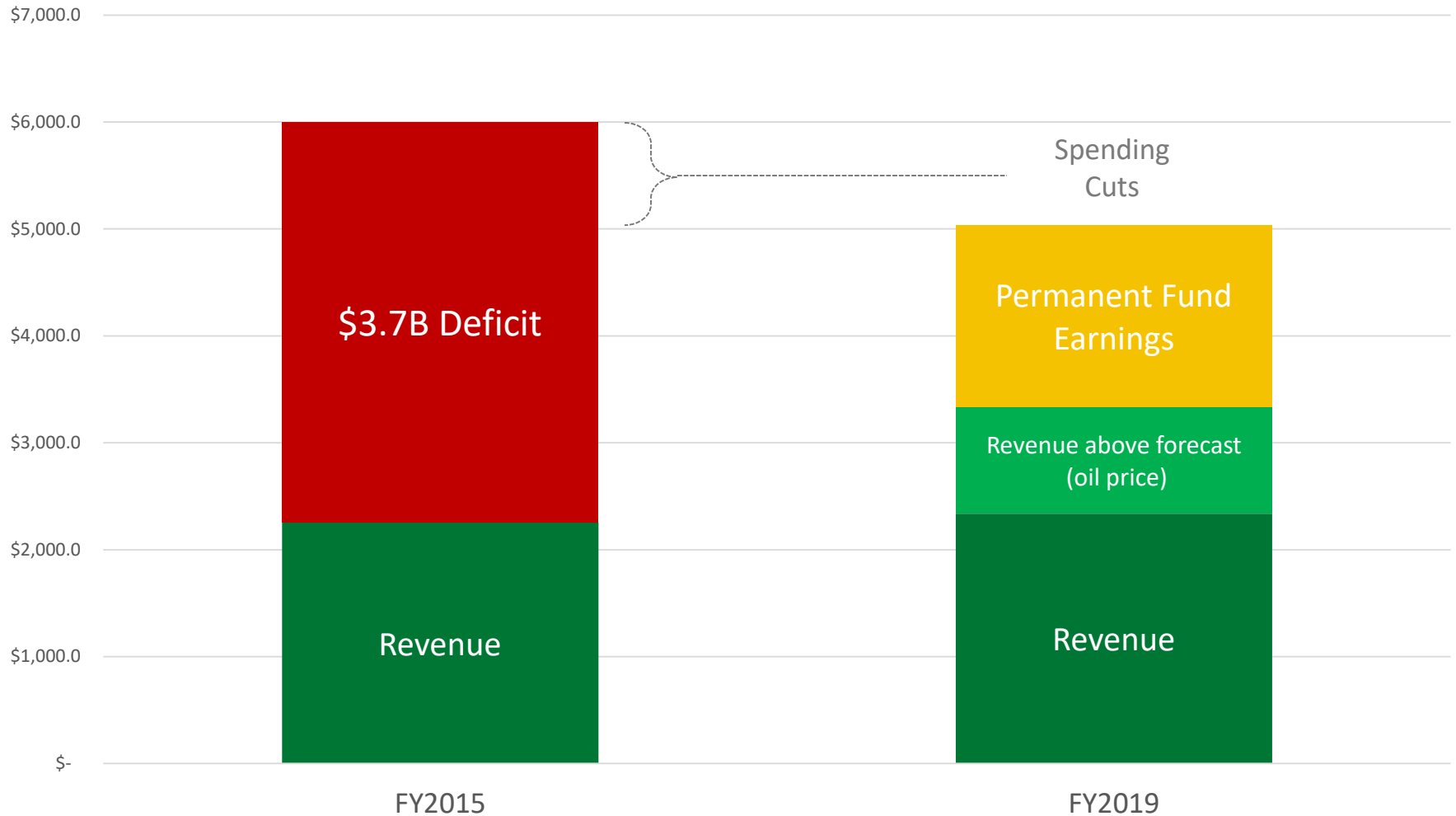
- The **\$190,000** in the bank is now **\$27,200**.

Fortunately:

- Your retirement accounts have increased **39%** over this time, and you have \$720,000 in an IRA.
- Will you withdraw at a sustainable rate (as SB26 sets) or will you overdraw for extra money today and leave trouble for tomorrow?

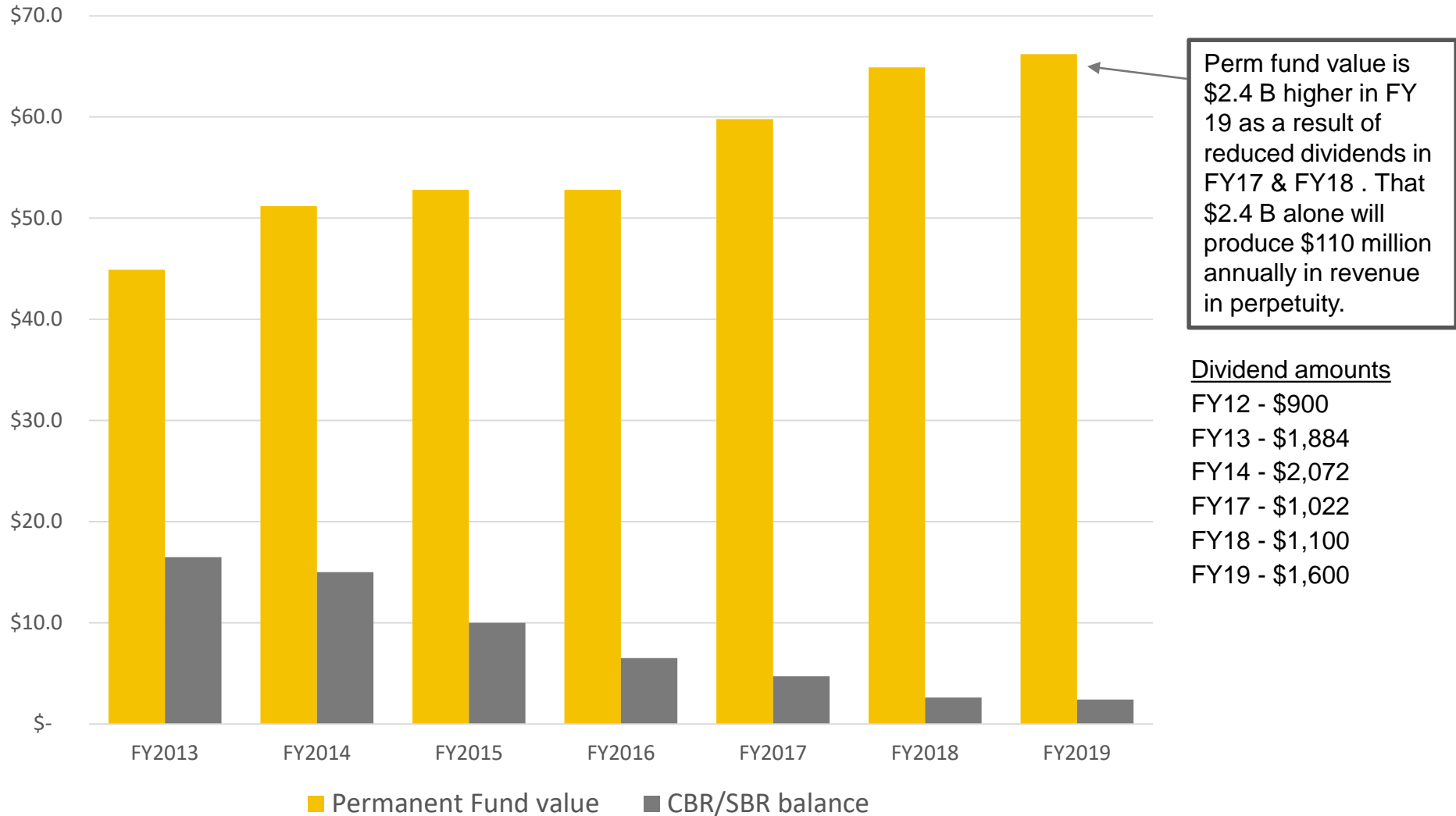


We have made progress



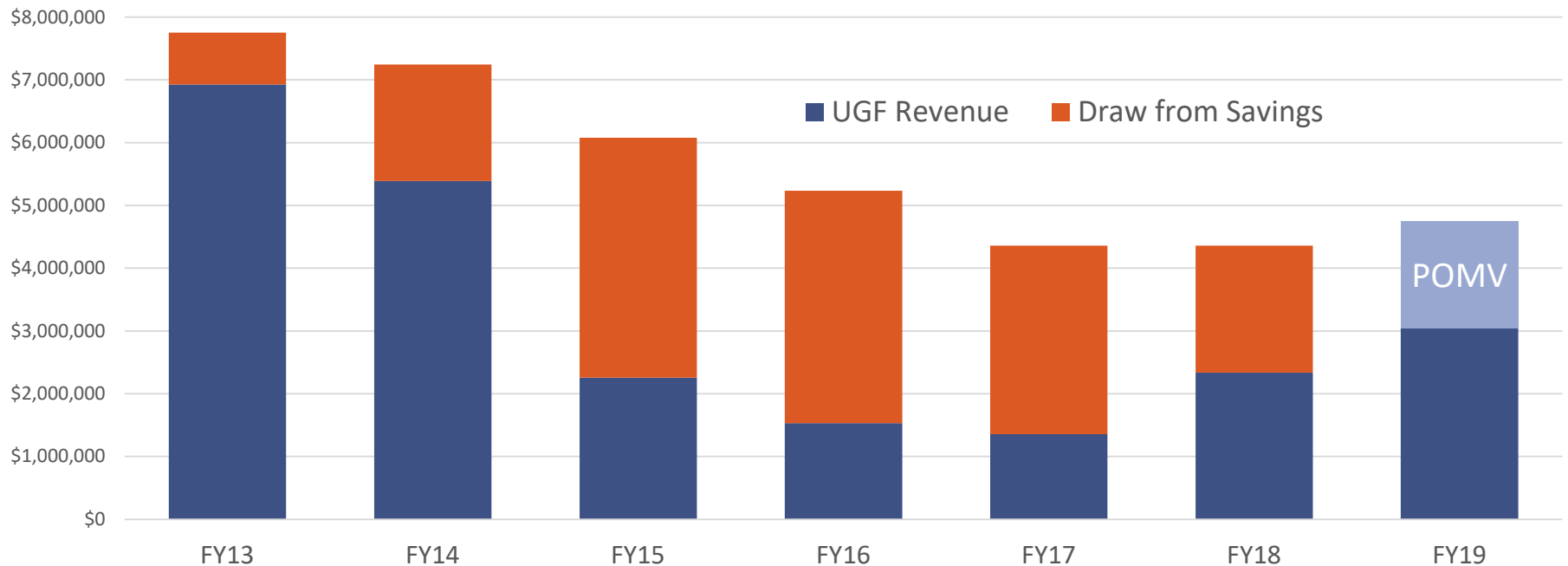


Permanent Fund growth during fiscal crisis compared to savings drawdown.





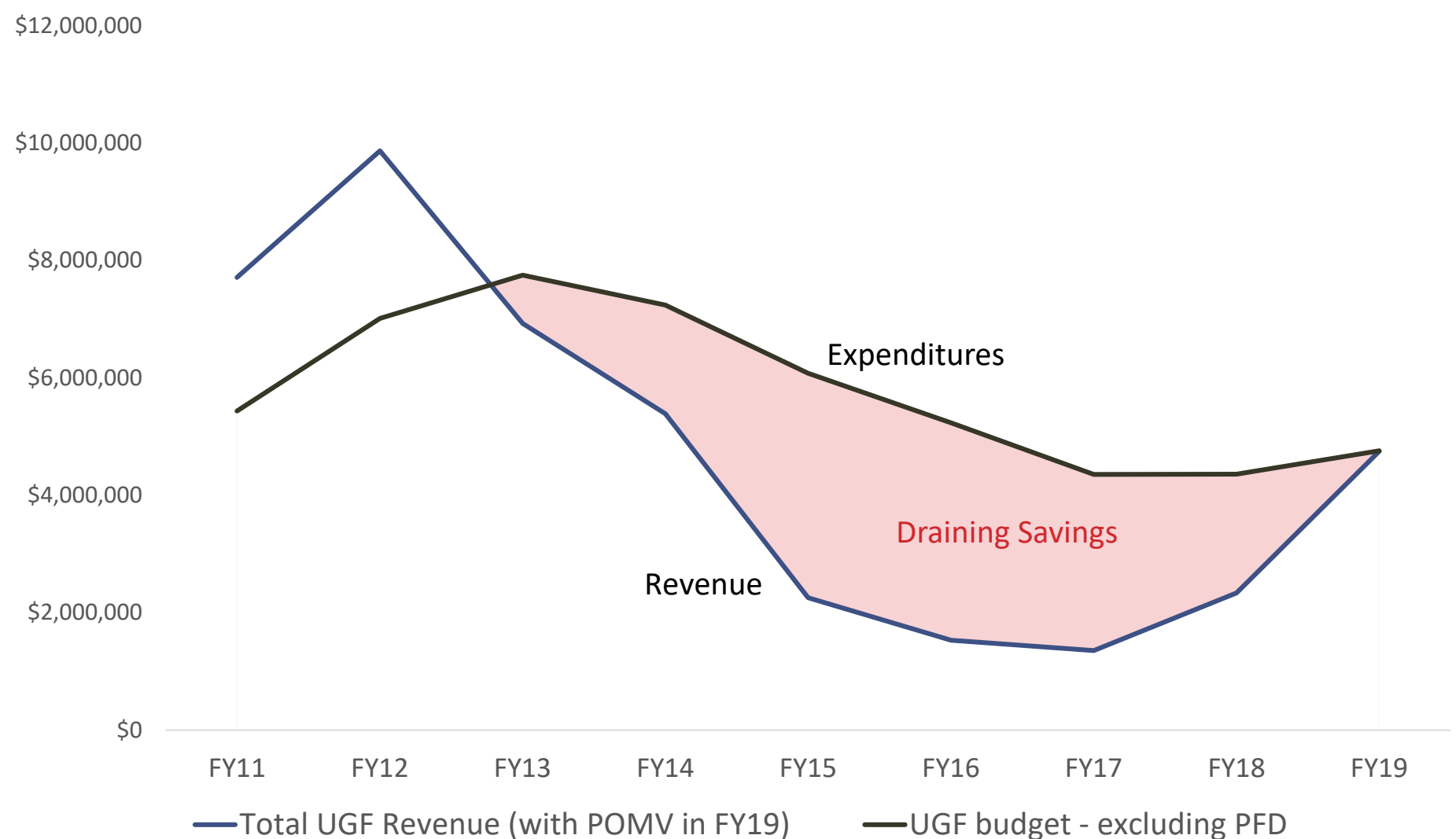
Savings: State Budget Overview



- 6 Consecutive years of deficits.
- The gap between revenue and spending has been funded primarily from the Constitutional Budget Reserve (CBR) -- Alaska's rainy day fund.
- By the end of FY2018, we used over \$14.0 billion from savings.
- The constitution requires that any borrowing from the CBR fund be repaid.



Savings: State Budget Overview





Competing Choices

1. Level of state services/spending
2. Amount of Permanent Fund earnings draw
 - Permanent Fund Protection Act
3. Amount of dividend
4. How much to tax and what/who/when to tax
 - Motor Fuels Tax
 - Corporate/Income/Oil & Gas Credits/Tax
5. How much of remaining savings can be used



What can our earnings buy us?

Money withheld from dividends in 2016, 2017 remained in the permanent fund increasing the it value by \$2.4 billion, and those investments are now earning an average **of \$100 million dollars a year every year – Forever.**

That could pay for:

- 500 Alaska State Troopers; or
- 64 of the 72 projects on the school major maintenance list; or
- Cover our state match for federal transportation projects.



Permanent Fund Protection Act

The POMV rules established in SB26 assure the Permanent Fund assets (in total) are as valuable in real buying power for our children, grand children, and great grand children as they are today.

Total Value: \$64 billion

Corpus: \$48 billion

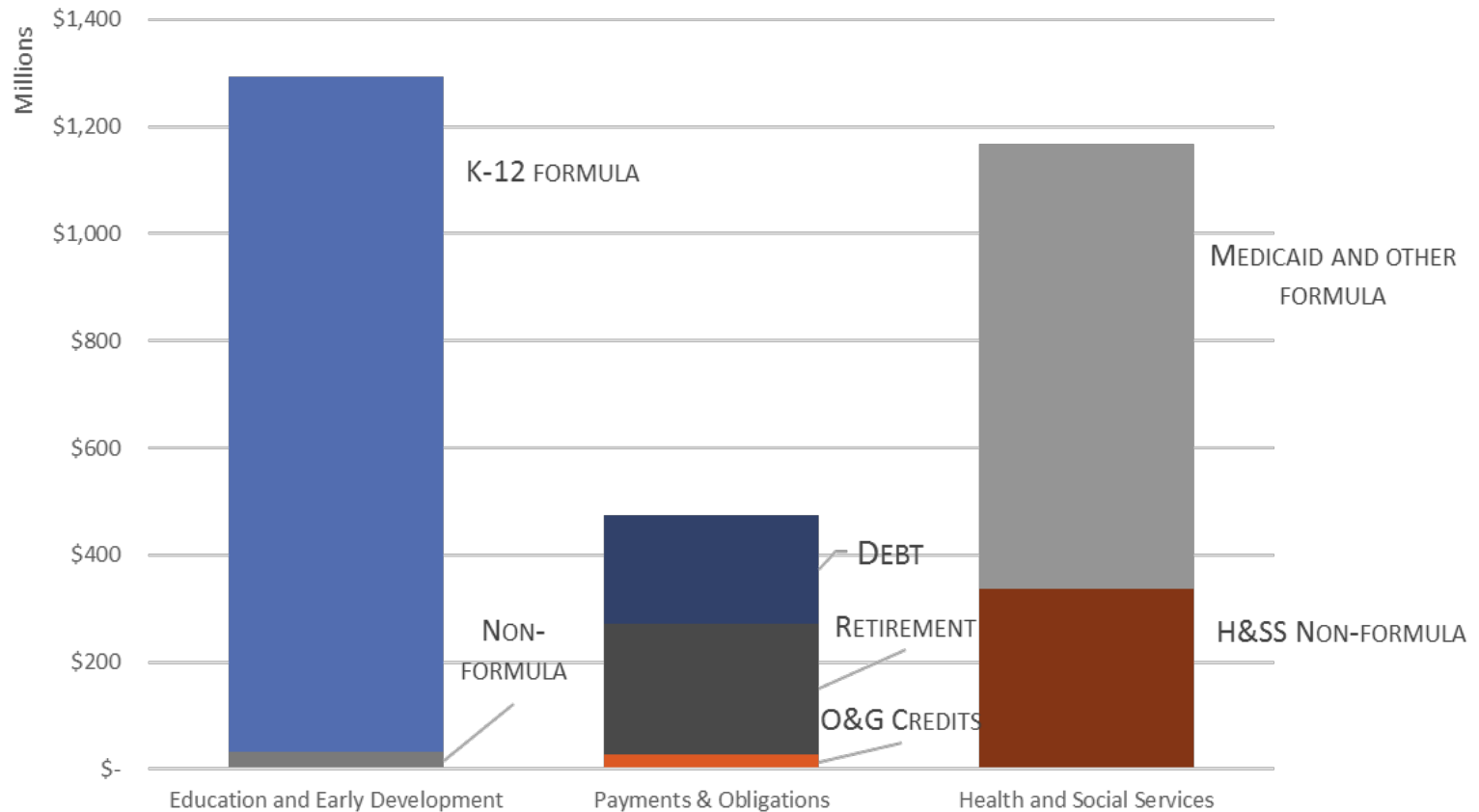
Earning Reserves: \$16 billion

Draws above the POMV level = taxes in the future



State Funding and impacts on services

Top Three Unrestricted General Fund Spending Categories
(FY19 Proposed)
Total \$2.9 billion





Misconceptions

We don't need a fiscal plan because....

“The status quo is okay, oil and gas will save us”

“Cutting government will save us”

Let's review these statements



**Can't we just wait on oil and gas
development?**

or

Oil price increases?



Good news in oil and gas

Modest increases in production

North Slope oil production forecast in 2018 at 533,000 barrels/day — up for the third year in a row



NPR-A beating expectations

Conoco beat its flow projections at CD5 within NPR-A



New prospects on the horizon

Conoco's Greater Mooses Tooth start-up late 2018.
ConocoPhillips at Willow, Caelus Energy at Smith Bay,
Armstrong, Repsol, Oil Search at Pikka & Nanushu





Maybe even better than good

ANWR Potential

First ANWR lease sale could occur by 2021-2022



North Slope future looks bright

With more leasing in NPR-A, plus ANWR, plus new discoveries west of Prudhoe Bay, the North Slope has decades of production potential



LNG Project

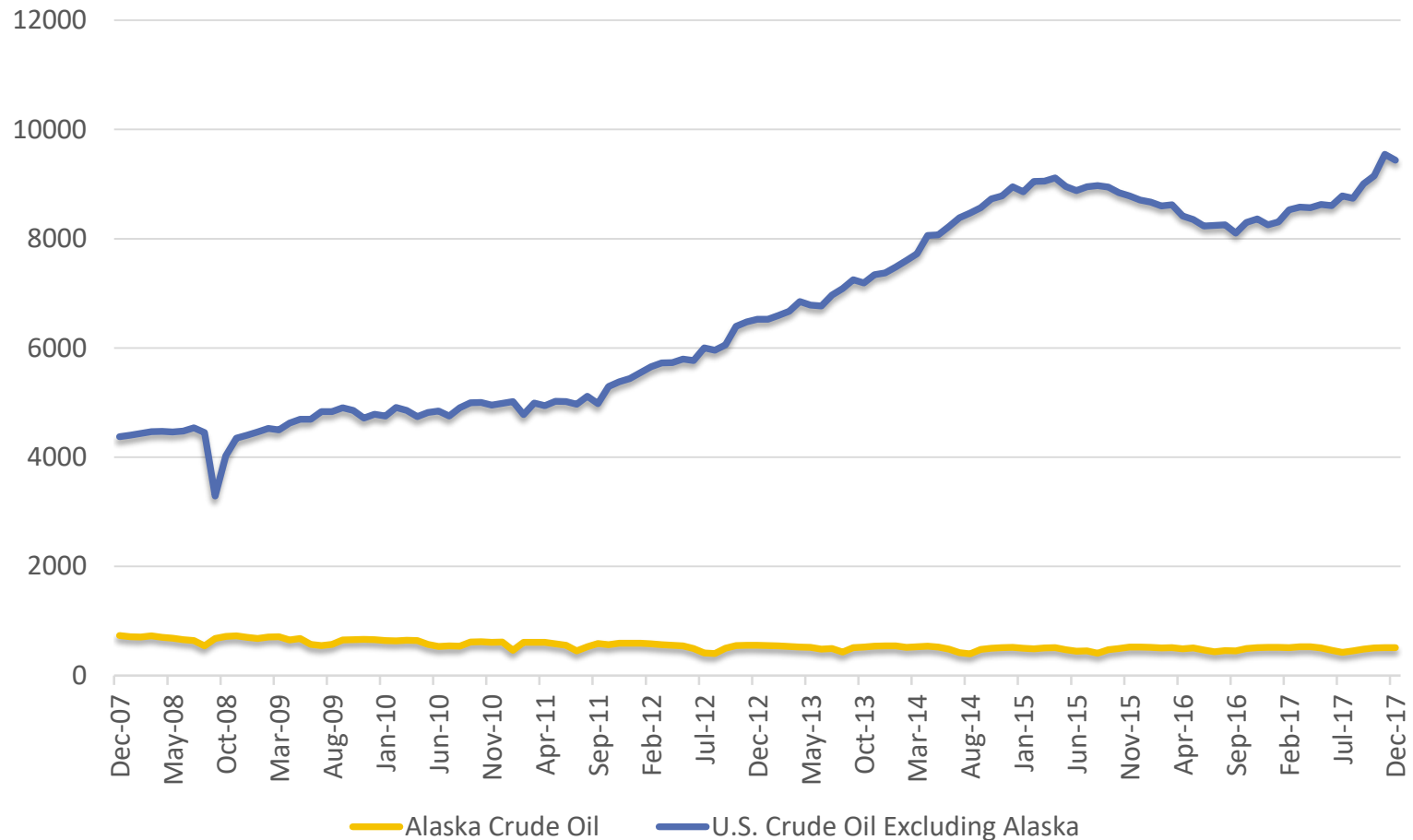
The long-awaited North Slope gas line project could add to Alaska's success stories in the 2020s





Alaska's Competition

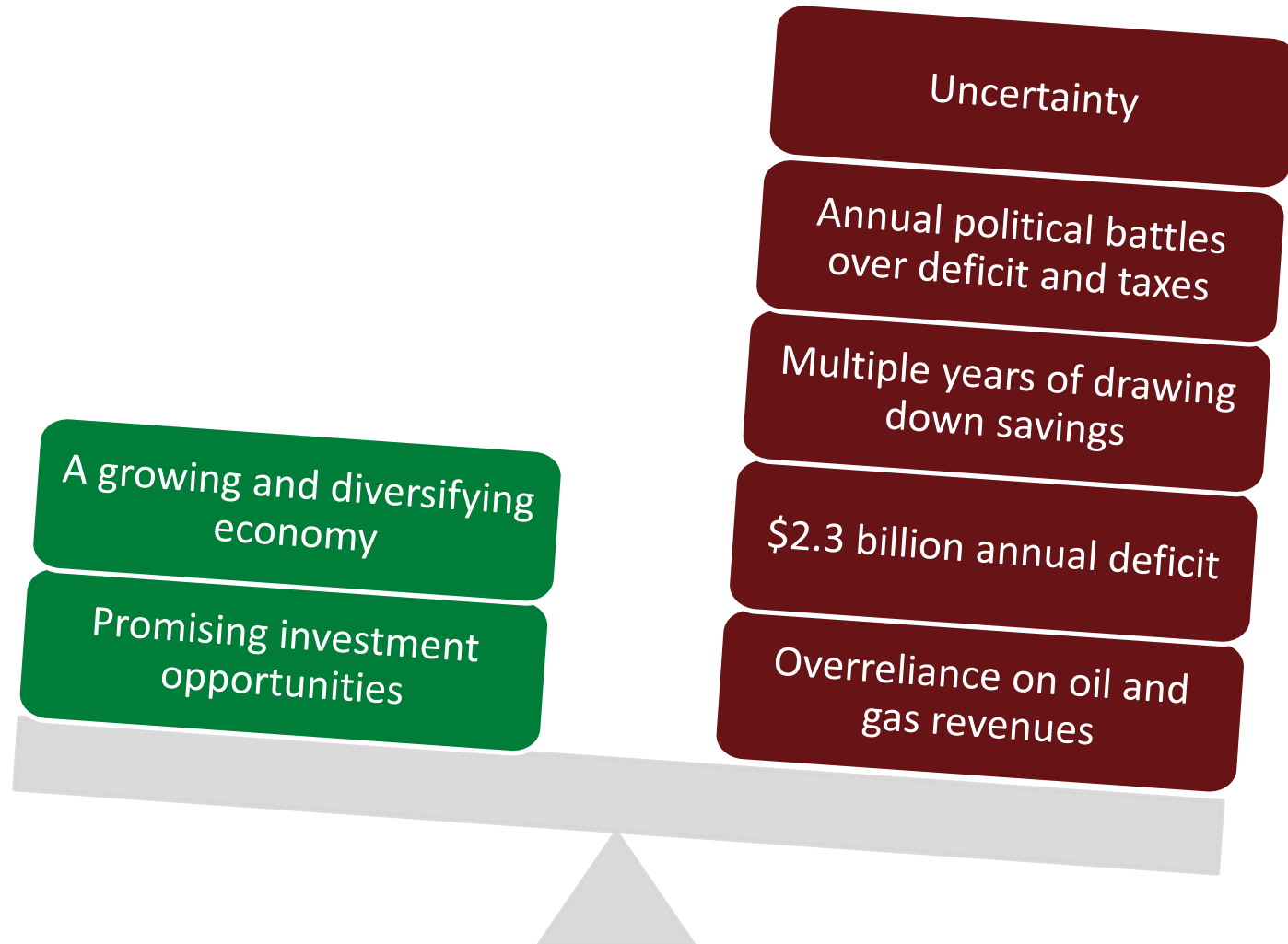
U.S. Crude Oil Production Thousand barrels of oil per day, 2007-2017





How does Alaska stack up?

From an investors perspective





“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real and significant disincentive to investment, both within the oil and gas industry and across Alaska as a whole.



Oil Price in perspective

FY2019 Budget Outlook by Oil Price (\$millions)				
		Pre-SB26	SB26 - \$1,600 PFD	
Oil Price		(Deficit)/Surplus		(Deficit)/Surplus
\$40.00/bbl	\$	(3,098)	\$	(1,399)
\$45.00/bbl	\$	(2,950)	\$	(1,251)
\$50.00/bbl	\$	(2,802)	\$	(1,103)
\$55.00/bbl	\$	(2,654)	\$	(955)
\$60.00/bbl	\$	(2,505)	\$	(806)
\$65.00/bbl	\$	(2,228)	\$	(529)
\$70.00/bbl	\$	(1,828)	\$	(129)
\$75.00/bbl	\$	(1,445)	\$	254
\$80.00/bbl	\$	(1,053)	\$	646
\$85.00/bbl	\$	(657)	\$	1,042
\$90.00/bbl	\$	(117)	\$	1,582
\$95.00/bbl	\$	274	\$	1,973



“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

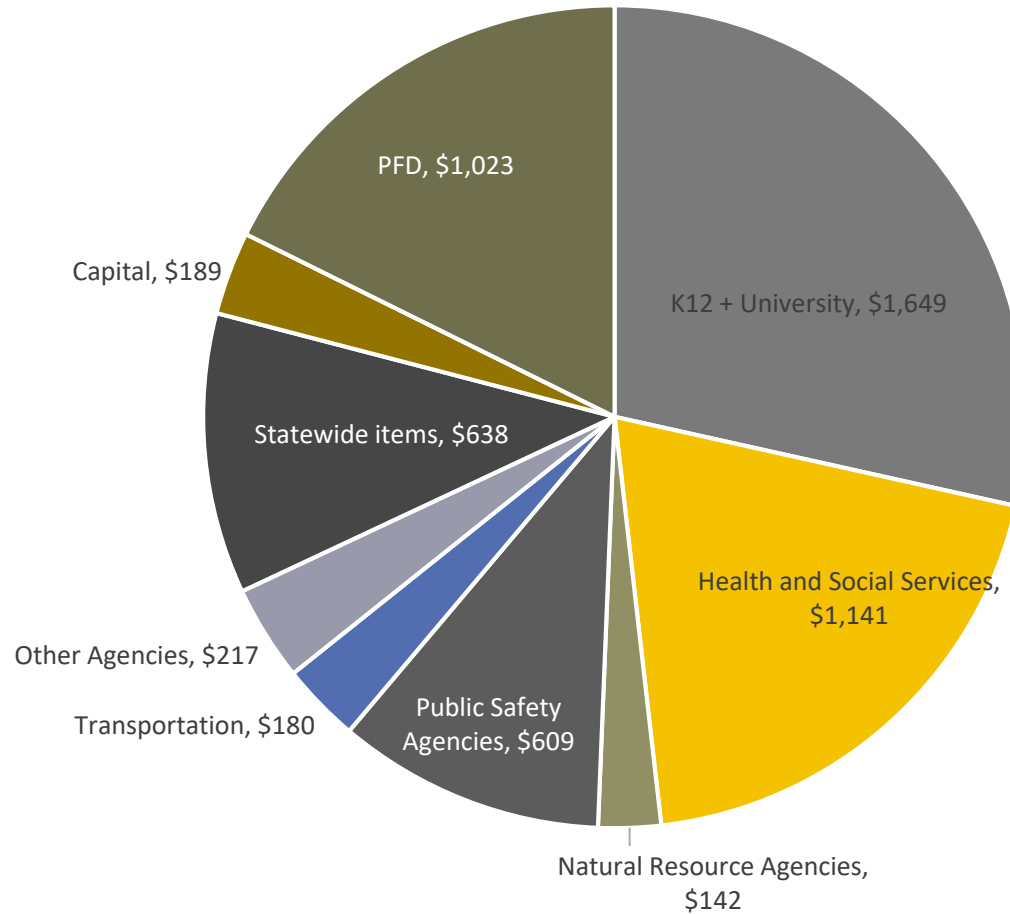
We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real and significant disincentive to investment, both within the oil and gas industry and across Alaska as a whole.

2. “Cutting government will save us”



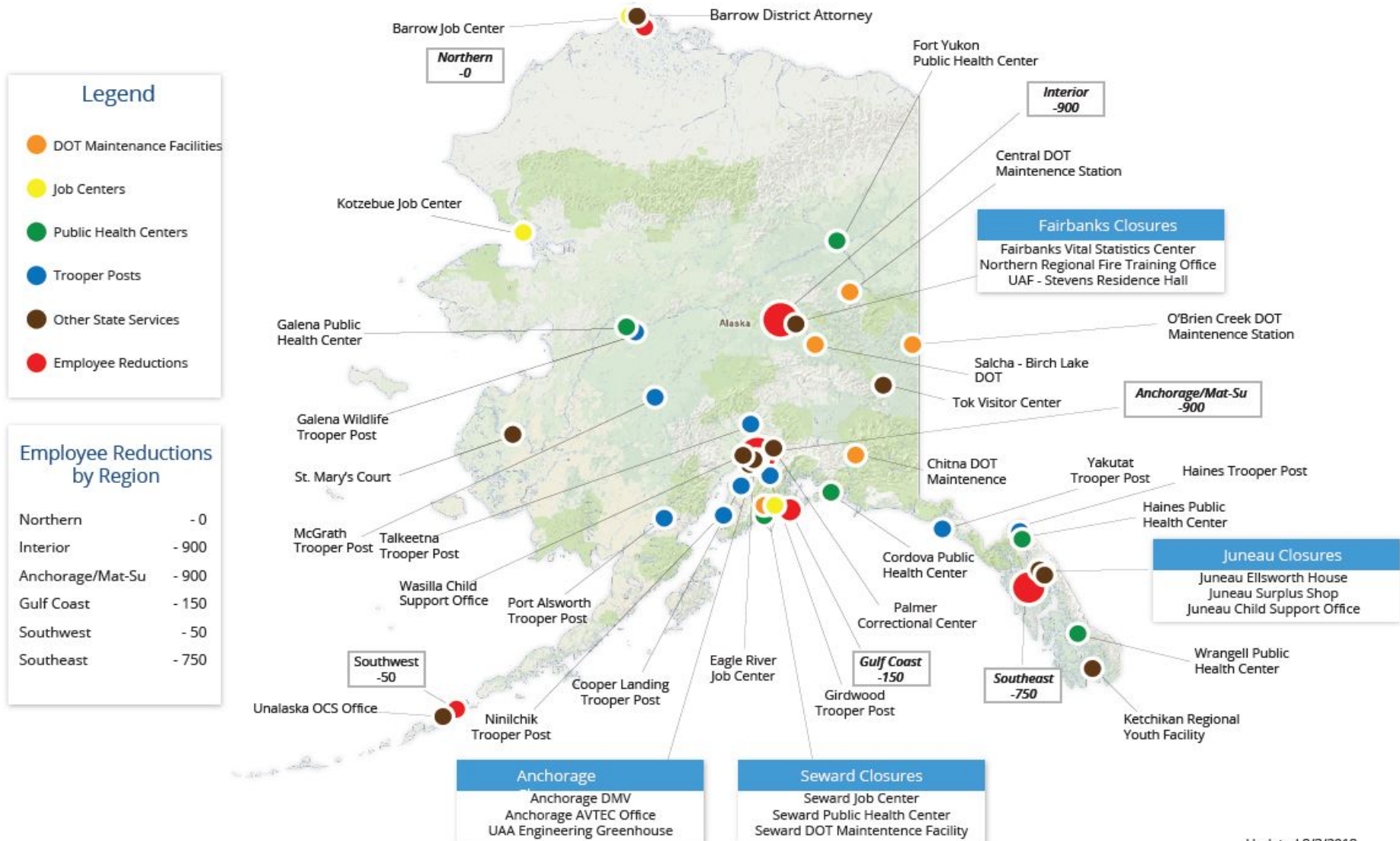
FY 19 UGF Spending

Unrestricted General Fund Spending: \$5.8billion in FY2019



Closed State Facilities

State of Alaska closures and reductions from 2015 to 2018

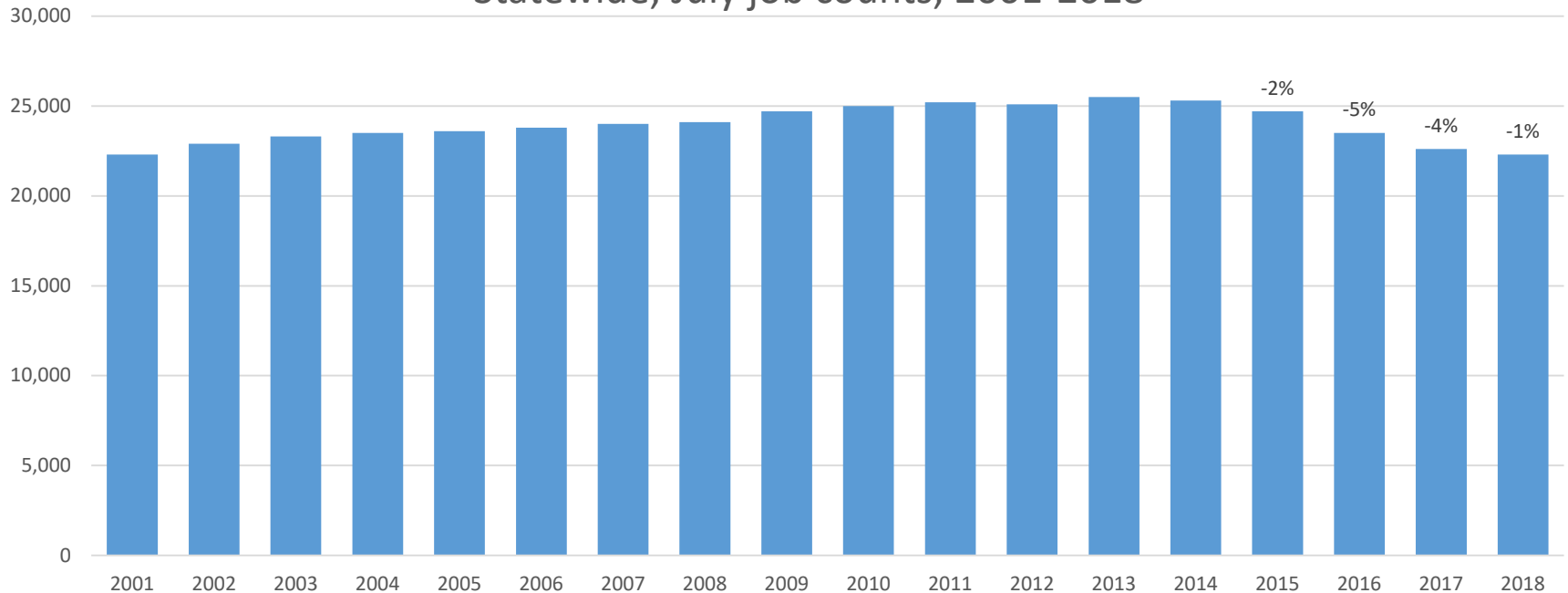


Updated 8/3/2018



State spending – job cuts

State government employment
Statewide, July job counts, 2001-2018



- There are 3,000 fewer state jobs (including University) in July of 2018 compared to July of 2014
- State government employment has been reduced to 2001 levels
- Total state employee wage and salary earnings fell by \$25 million from 2014 to 2016

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section 8/21/18



Budget cost drivers: health care

- The state spends \$1.5 billion UGF on health care, including Medicaid, state employees, retirees, inmates, school district and local government employees and subsidies for the individual market.
- Health cost inflation in the state budget has been kept at 5 percent (compared to 6-7 percent for Alaska as a whole), however, sustainable budget projections limit health cost growth to 2.25 percent. To achieve this level of spending, the state will need to identify \$40m in savings in FY20 and \$90m in FY21.
- The state is actively engaging stakeholders to implement Medicaid reforms, employee plan design changes, and aligning public spending to create a more sustainable health care market for Alaskans.



State funds matter locally

More than 50% of the state budget is Local

Payments directly to communities, providers, oil companies, and citizens.

Payments are for items such as:

- Medicaid Payments to Providers (on behalf of citizens)
- K-12 Schools
- Retirement Payments (on behalf of communities and schools)
- School Debt Reimbursement
- Senior Benefits
- Public Assistance
- Foster Care
- Oil and Gas Tax Credits
- Permanent Fund Dividends

Less than 50% of state funded budget is spent on government services like troopers, road maintenance, ferries, airports, prisons, the Legislature, Pioneer Homes, the Courts, the Governor's Office, Fish and Game, etc.



State funds matter locally

Municipalities and schools depend on state help

<u>Kenai Peninsula Borough and School District</u>	<u>Fiscal Year 2017</u>
Municipal community assistance	\$1.9 million
State reimbursement of school bond debt	\$2.3 million
State assistance for retirement liability	\$9.1 million
Foundation formula funding K-12 schools	\$81.6 million
Pupil transportation reimbursement	\$8.1 million

\$103 million state funds for Kenai Peninsula Borough



“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

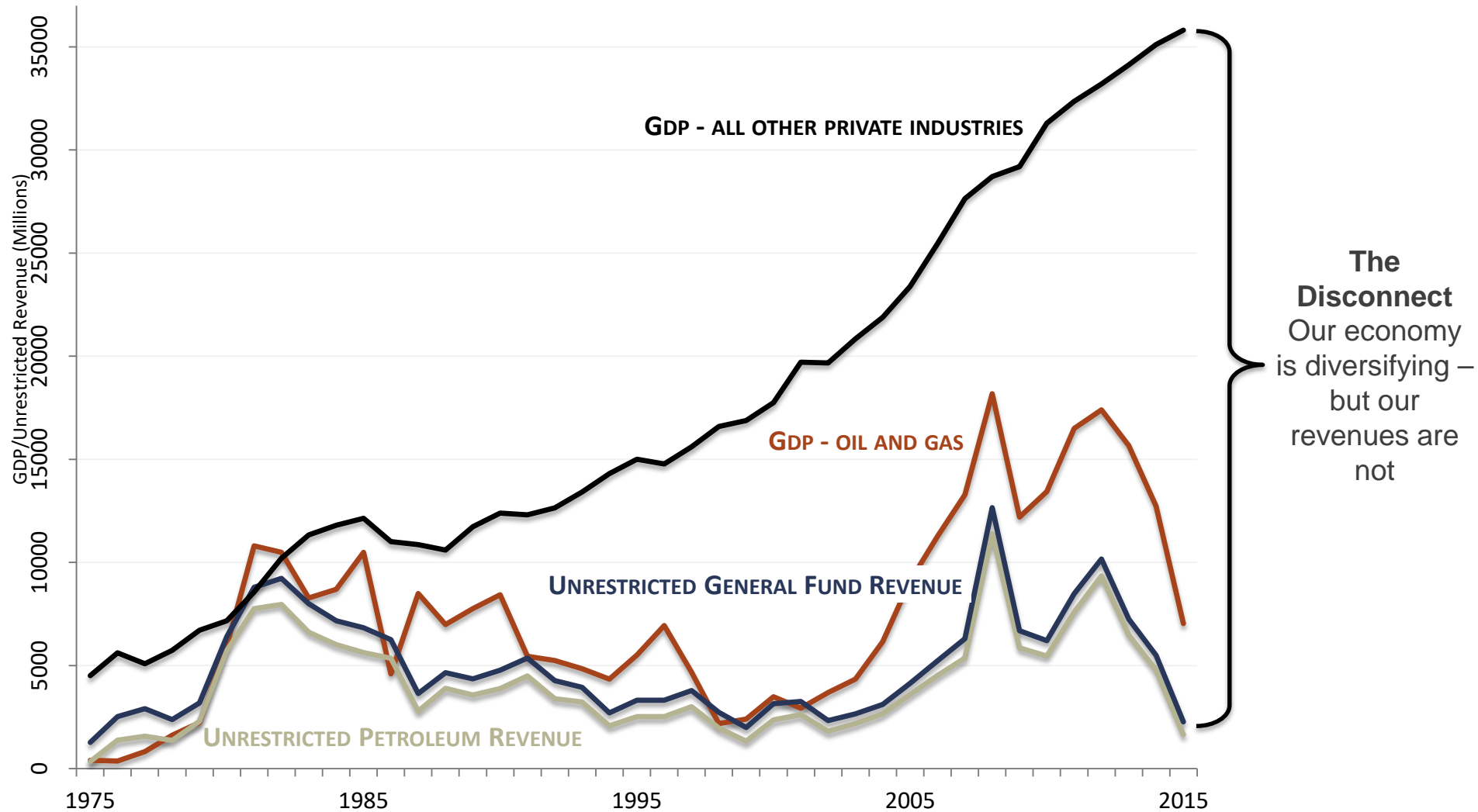
We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real disincentive to investment.

2. “Cutting government will save us”

Cuts have real impacts that must be weighed. Cutting government means cutting services, cutting local funding, and real economic impacts.



The Disconnect





But the disconnect still exists

“

While the state has reformed its finances, we recognize the uniqueness of the state's revenue profile that makes it subject to economic volatility more than its peers, either from the price of oil or investment returns of its Permanent Fund. . . .

. . . The **reliance on such economically sensitive revenue** will likely make it more prone to future fiscal pressure.

”

– S&P Release 18-077 Global Alaska Credit Outlook



What does it all mean?

We have made progress ☒

Consumer confidence is up ☒

There is still a gap remaining... ☐

We need to start investing in Alaska... ☐

☐ Communities

☐ Schools

☐ Transportation

☐ Public Safety



Our future is bright...



...if we fix our flawed economic foundation.





For more information ...

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