“State of the State”

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December 11, 2018
Where Do We Stand & What To Expect Going Forward

• Status of State of Alaska’s current fiscal environment
• Likely upcoming challenges in 2019 at state level
Alaska’s current fiscal status

- Legislature passed SB 26 Alaska Permanent Fund Protection Act in 2018. Implementation of SB 26 reduces this year’s deficit (FY 19) from $2.4 billion to $700 million (or less).

- 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 until early November in FY 19 up from the Spring forecast of $63/bbl. At the current average, the budget would balance though prices are moving down in recent weeks.
State Budget Comparison

- **Revenue above forecast (oil price)**
- **Permanent Fund Earnings**
- **$3.7B Deficit**

FY2015

FY2019
Perm fund value is $2.4B higher in FY 19 as a result of reduced dividends in FY17 & FY18. That $2.4B alone will produce $110 million annually in revenue in perpetuity.

Dividend amounts
FY12 - $900
FY13 - $1,884
FY14 - $2,072
FY17 - $1,022
FY18 - $1,100
FY19 - $1,600
• 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.
FY 19 Unrestricted General Fund Spending

Unrestricted General Fund Spending: $5.8 billion in FY2019

- K12 + University, $1,649
- Health and Social Services, $1,141
- Natural Resource Agencies, $142
- Public Safety Agencies, $609
- Transportation, $180
- Statewide items, $638
- Other Agencies, $217
- Capital, $189
- PFD, $1,023
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Top Three Unrestricted General Fund Spending Categories
(FY19 Proposed)
Total $2.9 billion
Upcoming 2019 Challenges

- Expect attempts to make major operating budget cuts. Particular concerns include K-12 education, community assistance, AMHS and Fish & Game budgets.
- Eliminate forward funding for K-12 education.
- Efforts to reduce state funding of PERS/TRS unfunded liability burden.
- Attempt to transfer more responsibilities to local municipalities.
- Continued lack of discretionary capital spending. Possibility of GO bond bill is unlikely - though recent earthquake might open the door. May see attempt to restart school debt reimbursement program early.
- Possible pressure to reconsider M/V Tustumena replacement project. Need to monitor AMHS reform project and possible governance changes.
Final Thoughts

• The state’s primary savings account, the Constitutional Budget Reserve is $1.7 billion as of 10/31/18. Balance may be down to $1 billion starting in FY 20.

• Permanent Fund value as of 9/30/18 is $63.9 billion, up $2.4 billion since 9/30/17. The Earnings Reserve Account (ERA) is at $17.0 billion. Serves as last source of revenues.

• While oil prices have exceeded the FY 19 forecasted price of $63 per barrel, oil production is lagging behind the forecast during the same period.

• Effect of paying large retroactive PF dividend will put more pressure on limited state savings and reduce amount of funding for future budgets and PF dividends.