



STATE OF THE STATE

OR "IT'S DÉJÀ VU ALL OVER AGAIN!"

YOGI BERRA

Mark Hickey, AEB Lobbyist

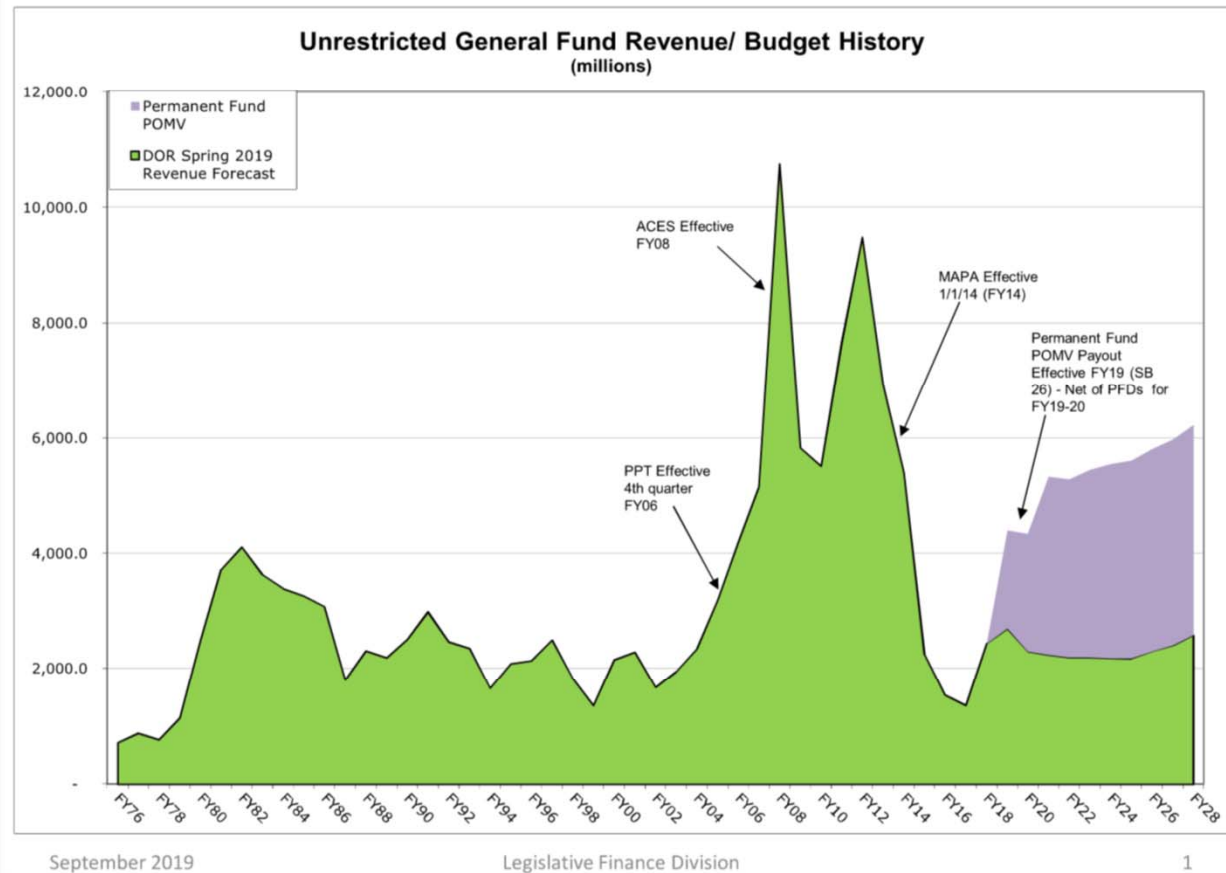
December 10, 2019

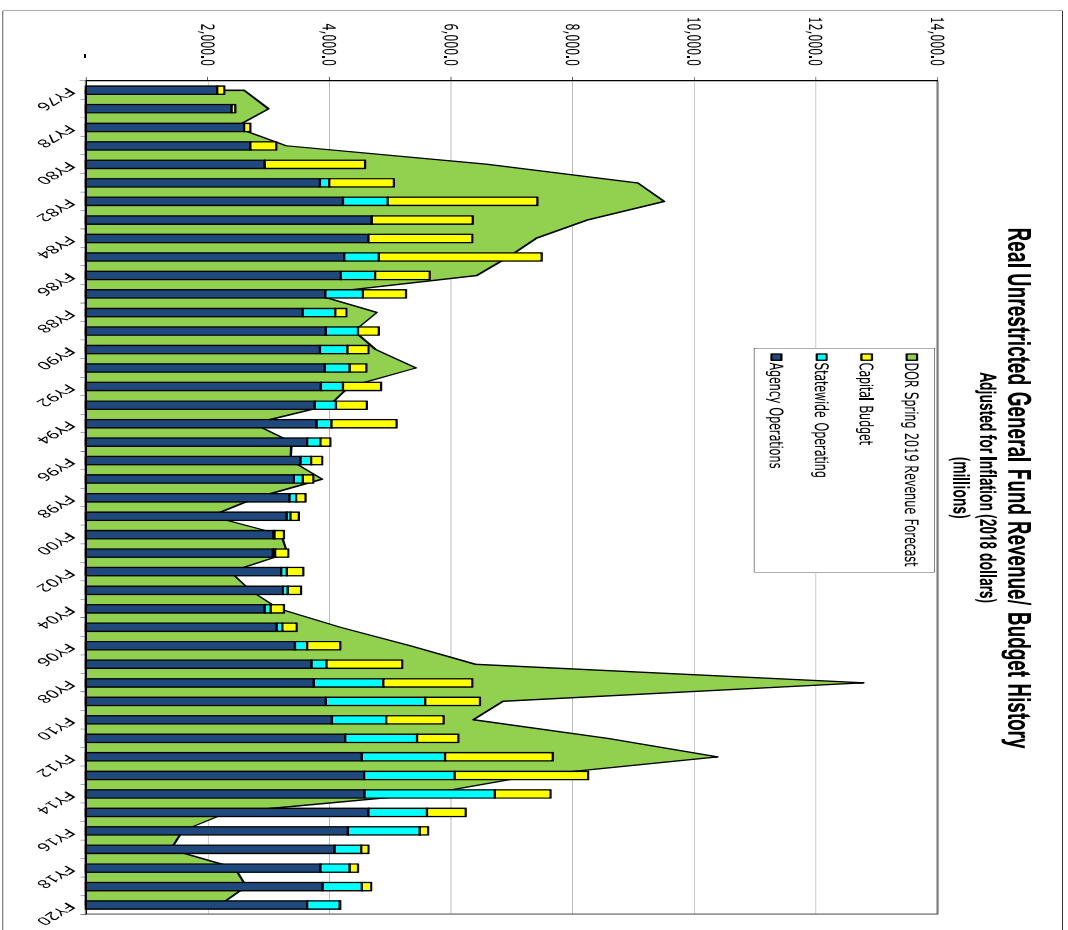
A polar bear is sitting on a piece of ice in the water, looking towards the camera. Water is dripping from its fur. The background shows more ice and water. A green and yellow curved graphic element is at the top of the slide.

WHERE DO WE STAND & WHAT TO EXPECT GOING FORWARD?

- State of Alaska's current fiscal environment
- Challenges during 2020 legislative session

State Revenue History





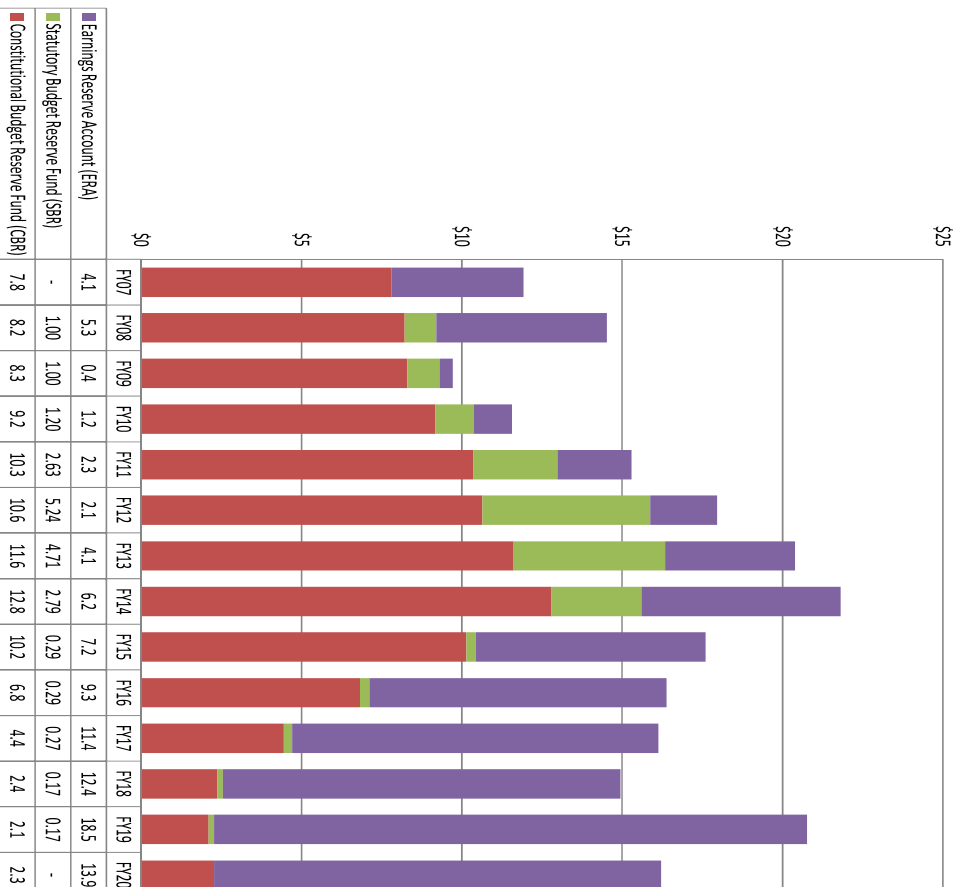
September 2019

Legislative Finance Division

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State Spending vs Revenues By Year

End-of-Year Reserves Balances w/ ERA (\$billions)



September 2019

Legislative Finance Division

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State Reserves Balances By Year

Alaska Permanent Fund Status as of 10/31/19

TOTAL FUND VALUE

AS OF OCTOBER 31, 2019

\$64,812,600,000

Principal \$48.2 Billion | ERA \$16.6 Billion

[FINANCIAL STATEMENTS](#)

PRINCIPAL

\$48.2 B

Contributions: \$41.6 B | Unrealized Gains: \$6.6 B

EARNINGS RESERVE ACCOUNT

\$16.6 B

Realized Earnings \$6.6 B | Unrealized Gains \$2.3 B
Realized Committed \$7.7 B (FY21 POMV \$3.1B, FY20
Inflation Proofing FYTD 0.6B, and FY20 Special Appropriation
to Principal \$4.0B)

VALUE ADDED

AS OF JUNE 30, 2019

\$6.2 B

VS PASSIVE BENCHMARK OVER 5 YEARS

[DAILY FUND MARKET VALUE](#)

RATE OF RETURN

FYTD AS OF JUNE 30, 2019

6.32%

7.13% OVER 5 YEARS

[PERFORMANCE REPORTS](#)

ALASKA'S CURRENT FISCAL STATUS

- Total spending reduction in FY 2020 budget is nearly \$500 million (or about 10%). New fall revenue forecast predicts an additional deficit of nearly \$200 million in current fiscal year.
- Governor Dunleavy discussed pursuing another \$600 million in cuts for FY 2021, but appears to be tempering his views recently. His proposed FY 2021 budget is required by December 15.
- Oil price average since June 2019 is down to \$63/bbl compared to \$73/bbl one year ago.
- Average daily production in FY 2020 is running slightly less than 500,000 bbl per day compared to the Spring 2019 Revenue Forecast of 529,000 bbl per day.
- The Percent of Market Value (POMV) Permanent Fund draw for FY 2021 is projected to be \$3.1 billion, up from FY 2020 but offset by projected decrease in state general fund revenue.
- Payment of full PFD would create an additional FY 2020 deficit of \$900 million. State cash reserves no longer sufficient to offset revenue shortfall.



CHALLENGES DURING 2020 LEGISLATIVE SESSION

House Debating Budget

BIG PICTURE SUMMARY

- The discussion going forward between the governor and legislature in 2020 remains for the most part unchanged from last session. The debate centers on the following pieces:
 - Payment of full PFD and debate to change statutory formula and whether to require a vote of the people to approve.
 - Further reductions in state spending.
 - Amendment of state oil tax statutes to reduce credits and increase state's take (up to \$1 billion or more). "Fair Share Act" initiative might play a role.
 - Whether to enact new or increased state taxes including a state income or sales tax.

LAST YEAR'S LIST OF UPCOMING 2019 CHALLENGES

- Expect attempts to make major operating budget cuts. Particular concerns include K-12 education, community assistance, AMHS and Fish & Game budgets. **YES**
- Eliminate forward funding for K-12 education. **NO (IN FY20); YES IN FY21**
- Attempt to reduce/modify Power Cost Equalization (PCE) Endowment Fund. **FAILED**
- Efforts to reduce state funding of PERS/TRS unfunded liability burden. **NO ATTEMPT**
- Attempt to transfer more responsibilities to local municipalities. **YES**
- Continued lack of discretionary capital spending. **YES**
- Possibility of GO bond bill is unlikely. May see attempt to restart school debt reimbursement program early. **NEITHER OCCURED**
- Possible pressure to reconsider M/V Tustumena replacement project. Need to monitor AMHS reform project and possible governance changes. **YES**

CHALLENGES DURING 2020 LEGISLATIVE SESSION

- Expect major activity relating to public education including K-12 funding reductions, Read-By-Nine program & tribal compacting. The governor has proclaimed next year as the “Education Session”.
- No idea what to expect on school & harbor debt reimbursement but suspect it will be a problem again. May stay away from attack on state shared fisheries taxes.
- Other budget concerns include the usual suspects – community assistance, PCE payments, Medicaid funding, University, VPSO program and F&G operating budget.
- Uncertainty continues for AMHS. Expect two Chain runs at beginning of season, but FY 2021 plan is unknown. “Reshaping Study” scheduled for release in early 2020.
- M/V Tustumena Replacement project is on hold. If it happens may try to redesign it as a “dayboat” serving Kodiak – Homer only. Condition of “Tusty” could cause additional challenges in Southwest.
- Work continues to get limited entry permit mentoring legislation introduced in January.

A photograph of a whale breaching the water near a ferry boat, with a forested mountain in the background. The whale's dark, curved back and tail are visible above the water's surface, creating a splash. To the right, a white ferry boat with a dark hull is moving across the water, leaving a white wake. The background features a large, dark, forested mountain under a cloudy sky. A decorative green and yellow curved banner is at the top of the image.

QUESTIONS?

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