



ALASKA'S FISCAL STATUS

MARK HICKEY, AEB LOBBYIST

DECEMBER 13, 2017

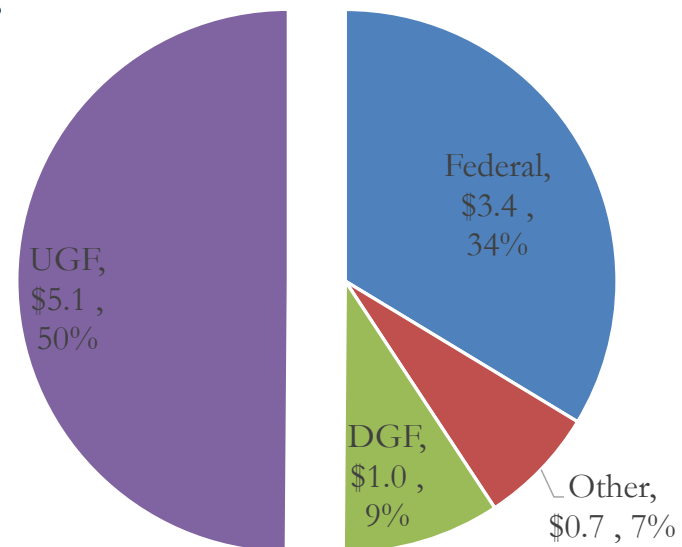
Spending: State Budget Overview

The total state budget is \$10.2 billion, and comprises:

- Federally funded programs
- Service generated revenue
- State funded programs and services

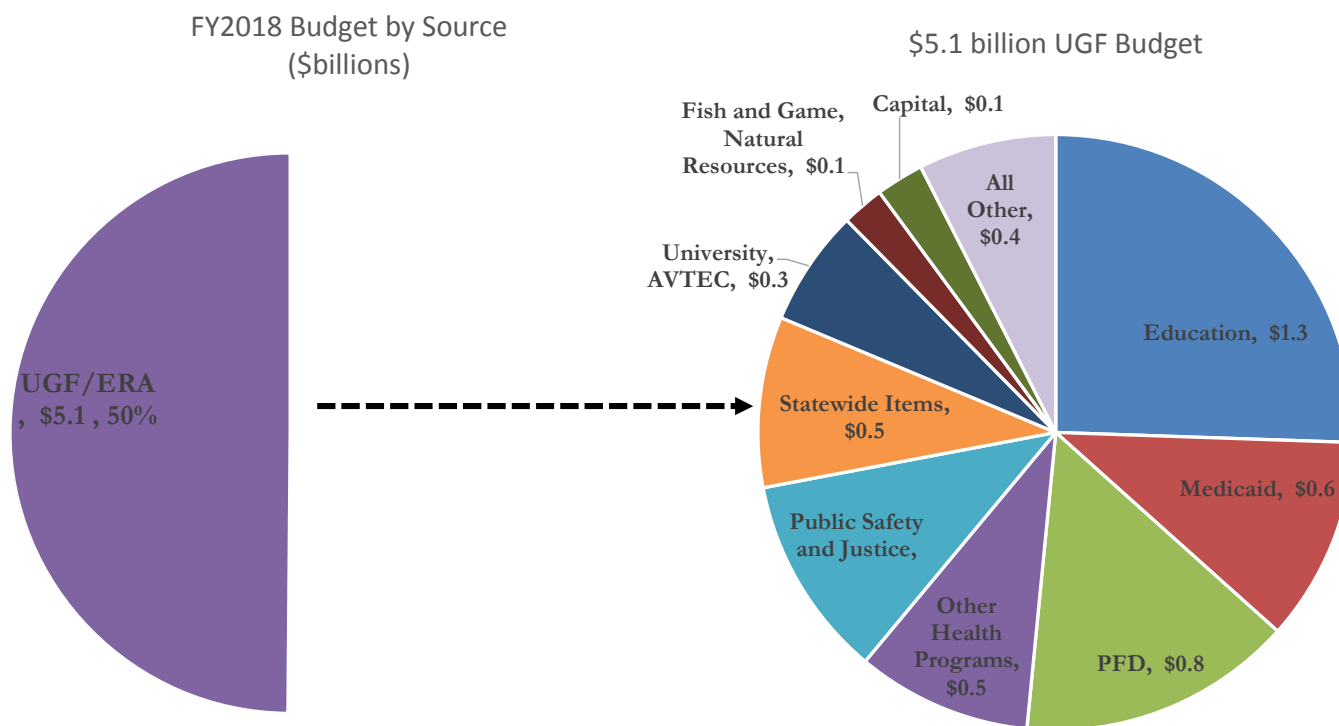
Only 50% of the budget impacts the deficit, the unrestricted general fund (UGF) portion.

FY2018 Budget by Source
(\$billions)



Spending: State Budget Overview

State funding is spent on....



Spending: State Budget Overview

More than 50% of the state-funded share of the budget is sent as direct payments to communities, providers, oil companies, and individuals.

Payments are for items such as:

- Medicaid payments to providers (on behalf of enrollees)
- 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

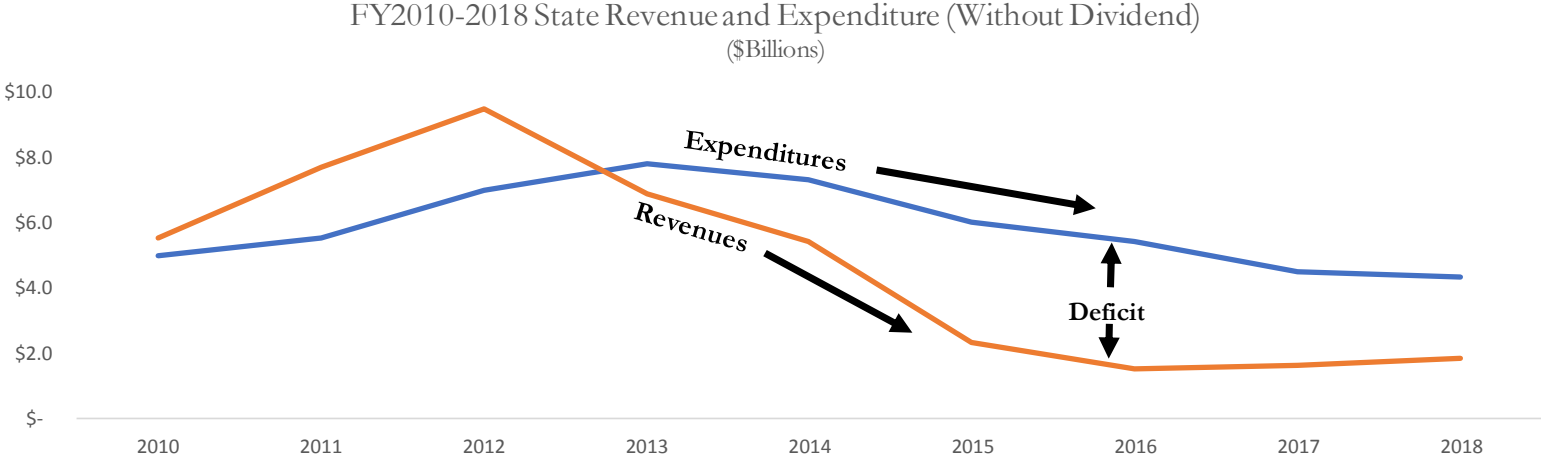
Less than 50% of state funded budget is spent on government services like troopers, road maintenance, ferries, airports, prisons, the legislature, Pioneer Homes, the courts, the governor's office, fish and game, etc.

Spending: State Budget Overview

Unrestricted General Fund Spending Trend

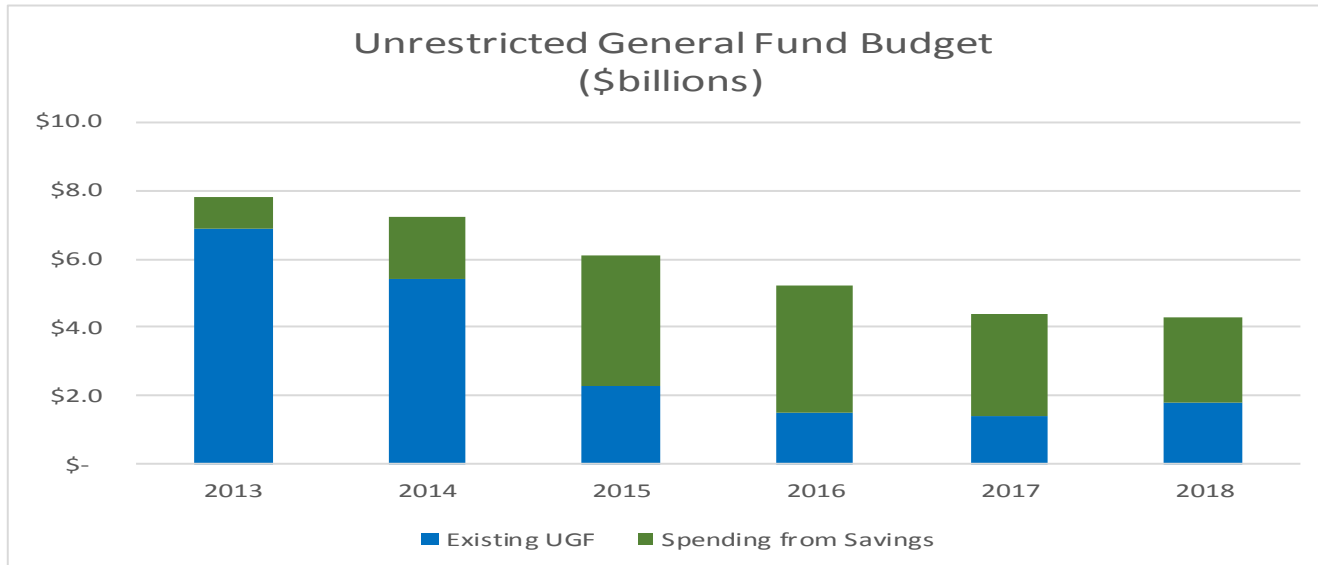
	FY2015	FY2018	FY2015-2018	
Education & University	\$ 1,722.1	\$ 1,584.6	\$ (137.5)	-8%
Health & Safety Departments	\$ 936.6	\$ 849.2	\$ (87.3)	-9%
Medicaid & Other Health Formula	\$ 865.4	\$ 699.8	\$ (165.6)	-19%
Other Executive Departments	\$ 786.7	\$ 446.4	\$ (340.4)	-43%
Debt, Retirement, Credits, etc.	\$ 982.7	\$ 471.6	\$ (511.1)	-52%
Legislature & Courts	\$ 189.5	\$ 168.4	\$ (21.1)	-11%
Total Operating Budget	\$ 5,482.9	\$ 4,220.1	\$ (1,262.8)	-23%
Capital	\$ 594.9	\$ 132.0	\$ (462.9)	-78%
Total Budget	\$ 6,077.8	\$ 4,352.1	\$ (1,725.7)	-28%

Savings: State Budget Overview



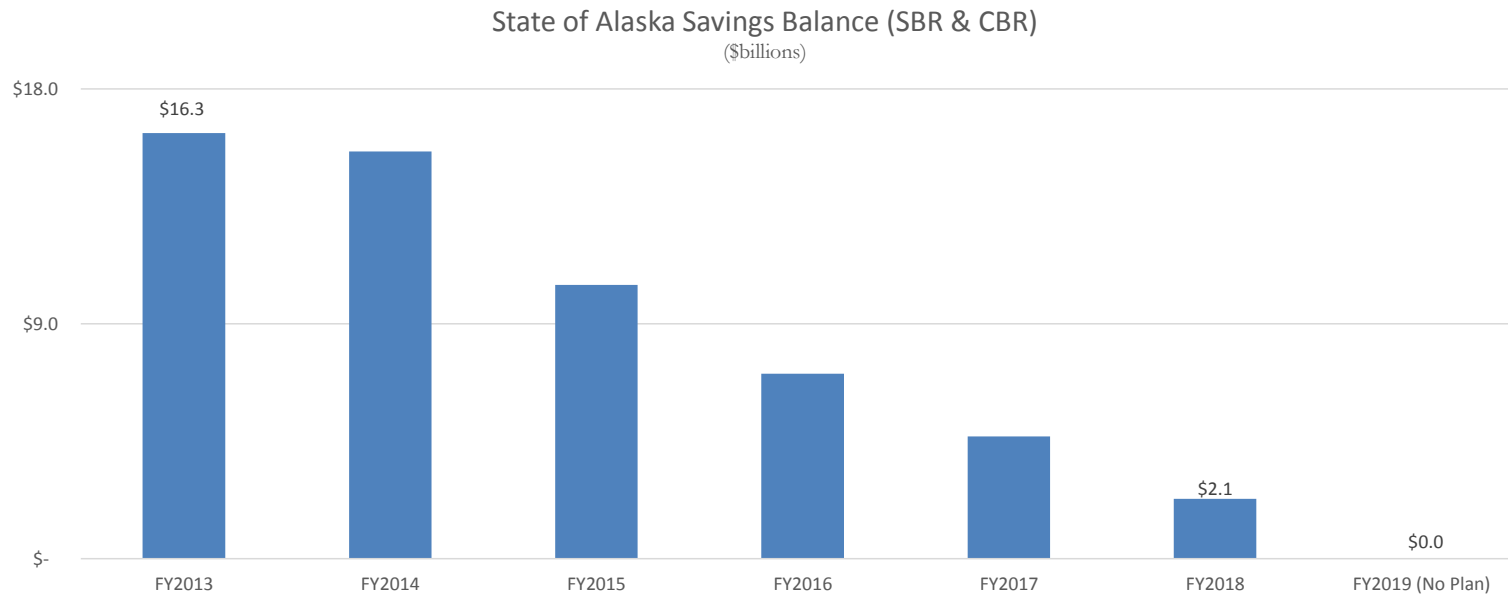
Substantial budget reductions have been made (44 percent since FY2013), but revenues have declined by almost 80 percent during that time.

Savings: State Budget Overview



- 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 will have drawn over \$14.0 billion from savings
- The constitution requires that any borrowing from the CBR fund be repaid
- CBR spend and non-repayment provisions require a three-quarter vote

Savings: State Budget Overview



- Alaska has the most volatile revenue of any state
- Any plan that leaves a fiscal gap depletes the state's reserves
- Maintaining sufficient savings is prudent to hedge against low oil prices, stock market volatility or other unforeseen events

Budget Gap: State Budget Overview

Base Scenario Calculation (\$millions)			
Fiscal Year	2019	2020	2021
Budget maintaining flat service levels	\$ 4,749.5	\$ 4,900.1	\$ 4,980.3
Revenue	\$ 2,019.0	\$ 2,070.0	\$ 2,165.0
Deficit	\$ (2,730.5)	\$ (2,830.1)	\$ (2,815.3)
Senate Permanent Fund plan	\$ 2,092.1	\$ 2,250.5	\$ 2,257.5
Gap	\$ (638.3)	\$ (579.6)	\$ (557.9)
House Permanent Fund plan	\$ 1,866.9	\$ 2,009.3	\$ 2,016.4
Gap	\$ (863.5)	\$ (820.8)	\$ (798.9)

Known issues: Base scenario ~\$600-800 million/year

Assumptions:

- **Department of Revenue oil price and production forecast: Fall 2017**
- **Agency cost increases are maintained at or below inflation**
- **No federal cost shifts**
- **K-12 school increases maintained at inflation only – no student growth**

Ten Year Budget Forecast Relative to Preliminary Fall 2017 Revenue Projections

Status Quo Service Level - Unrestricted General Fund Budget Forecast										
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Agency Operations (Non-Formula)	\$ 1,615.0	\$ 1,631.6	\$ 1,668.3	\$ 1,705.8	\$ 1,744.2	\$ 1,783.5	\$ 1,823.6	\$ 1,864.6	\$ 1,906.6	\$ 1,949.5
Agency Operations (Formula)	\$ 1,967.4	\$ 2,029.7	\$ 2,075.3	\$ 2,122.0	\$ 2,169.8	\$ 2,218.6	\$ 2,268.5	\$ 2,319.6	\$ 2,371.8	\$ 2,425.1
Legislature & Courts	\$ 168.4	\$ 168.7	\$ 172.5	\$ 176.4	\$ 180.4	\$ 184.4	\$ 188.6	\$ 192.8	\$ 197.2	\$ 201.6
Total Agency	\$ 3,750.8	\$ 3,830.0	\$ 3,916.2	\$ 4,004.3	\$ 4,094.4	\$ 4,186.5	\$ 4,280.7	\$ 4,377.0	\$ 4,475.5	\$ 4,576.2
Debt	\$ 209.4	\$ 205.4	\$ 191.6	\$ 188.9	\$ 170.4	\$ 177.5	\$ 168.3	\$ 159.5	\$ 153.7	\$ 155.7
Retirement	\$ 163.5	\$ 271.4	\$ 353.7	\$ 391.3	\$ 400.4	\$ 410.3	\$ 421.7	\$ 434.0	\$ 447.9	\$ 465.2
Fund Capitalizations	\$ 34.8	\$ 42.6	\$ 45.6	\$ 45.6	\$ 45.6	\$ 45.6	\$ 45.6	\$ 45.6	\$ 45.6	\$ 45.6
Community Assistance	\$ 8.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oil and Gas Credits	\$ 57.0	\$ 175.0	\$ 163.0	\$ 115.0	\$ 129.0	\$ 132.0	\$ 135.0	\$ 155.0	\$ -	\$ -
Other	\$ 5.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Statewide Items	\$ 478.4	\$ 694.5	\$ 753.9	\$ 740.8	\$ 745.5	\$ 765.5	\$ 770.7	\$ 794.2	\$ 647.2	\$ 666.6
Capital	\$ 132.0	\$ 225.0	\$ 230.1	\$ 235.2	\$ 240.5	\$ 245.9	\$ 251.5	\$ 257.1	\$ 262.9	\$ 268.8
Total Budget	\$ 4,361.2	\$ 4,749.5	\$ 4,900.1	\$ 4,980.3	\$ 5,080.4	\$ 5,197.9	\$ 5,302.9	\$ 5,428.3	\$ 5,385.6	\$ 5,511.6
Current Revenue	\$ 1,834.0	\$ 2,019.0	\$ 2,070.0	\$ 2,165.0	\$ 2,215.0	\$ 2,231.0	\$ 2,252.0	\$ 2,400.0	\$ 2,631.0	\$ 2,806.0
Deficit	\$ (2,527.2)	\$ (2,730.5)	\$ (2,830.1)	\$ (2,815.3)	\$ (2,865.4)	\$ (2,966.9)	\$ (3,050.9)	\$ (3,028.3)	\$ (2,754.6)	\$ (2,705.6)
CBR/SBR balance above \$2 billion	\$ 2,789.8	\$ 262.6	\$ 150.9	\$ 145.0	\$ 145.0	\$ 145.0	\$ 145.0	\$ 145.0	\$ 145.0	\$ 145.0
Permanent Fund Revenue (Senate SB26)	\$ -	\$ 2,092.1	\$ 2,250.5	\$ 2,257.5	\$ 2,363.1	\$ 2,477.2	\$ 2,563.1	\$ 2,642.9	\$ 2,721.6	\$ 2,816.7
Deficit (Senate SB26)	\$ (2,527.2)	\$ (638.3)	\$ (579.6)	\$ (557.9)	\$ (502.2)	\$ (489.7)	\$ (487.7)	\$ (385.5)	\$ (33.0)	\$ 111.1
Deficit after available CBR (Senate SB26)	\$ -	\$ (375.7)	\$ (428.7)	\$ (412.9)	\$ (357.2)	\$ (344.7)	\$ (342.7)	\$ (240.5)	\$ -	\$ -
Permanent Fund Revenue (House SB26)	\$ -	\$ 1,866.9	\$ 2,009.3	\$ 2,016.4	\$ 2,110.5	\$ 2,211.9	\$ 2,288.8	\$ 2,360.7	\$ 2,431.6	\$ 2,516.5
Deficit (House SB26)	\$ (2,527.2)	\$ (863.5)	\$ (820.8)	\$ (798.9)	\$ (754.9)	\$ (755.1)	\$ (762.1)	\$ (667.6)	\$ (323.0)	\$ (189.1)
Deficit after available CBR (House SB26)	\$ -	\$ (600.9)	\$ (669.9)	\$ (653.9)	\$ (609.9)	\$ (610.1)	\$ (617.1)	\$ (522.6)	\$ (178.0)	\$ (44.1)

Dollars in Millions

Possible Cost Increases

Medicaid Grows at Historic Rates (5.7%)		\$ 22.1	\$ 45.0	\$ 68.7	\$ 93.3	\$ 118.6	\$ 144.9	\$ 172.0	\$ 200.1
K-12 Grows at Historic Rates (4.6%)		\$ 29.6	\$ 60.0	\$ 91.0	\$ 122.8	\$ 155.3	\$ 188.6	\$ 222.7	\$ 257.6
Price lower than expected (P60 vs. P 50; \$5.70/bbl ave miss)	\$ 92.0	\$ 118.0	\$ 130.0	\$ 178.0	\$ 164.0	\$ 185.0	\$ 261.0	\$ 428.0	\$ 525.0
Deferred Maintenance/Infrastructure Investment	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0
Retirement Experience Analysis		\$ 25.0	\$ 50.0	\$ 75.0	\$ 75.0	\$ 75.0	\$ 75.0	\$ 75.0	\$ 75.0

Assumptions Used

Agencies will grow at a 2.25% inflation rate. Increases in areas that have historically grown in excess of inflation, such as healthcare, are not accommodated by this scenario

No new debt is issued - payments fall as outstanding obligations are paid off. Assumes debt management projection of interest payments.

Capital budget at FY2018 level without reappropriations growing with inflation. Future reappropriations are limited.

Retirement payments represent actuarially determined rates. If a the retirement system misses earnings targets or has other negative experiences, this figure may increase.

This scenario does not accommodate any supplemental items which typically amount to \$50 to \$100 million annually.

**Source: Office of Management and Budget, 10.25.2017*

FINAL THOUGHTS

- ❑ Permanent Fund value as of 9/30/17 is \$61.5 billion, with the Earnings Reserve Account (ERA) at \$13.4 billion.
- ❑ Oil prices in fiscal year 2018 range from \$47 per barrel to \$65 per barrel.
- ❑ CBR and SBR will be exhausted by early part of fiscal year 2019 at current rate. ERA draws will then need to cover \$2.5 billion to \$2.8 billion deficit on annual basis.
- ❑ Unlikely to see added K-12 or community assistance, or any growth in capital budget. Permanent Fund dividends will remain flat.
- ❑ Most observers are pessimistic about action during 2018 on either a Permanent Fund restructuring bill or broad-based tax. Keeps us living with continued uncertainty about state's fiscal status.
- ❑ Some chance of GO bond bill in 2018.
- ❑ ERA draws can carry the load for a few years, but we lose options to structure a sustainable solution rapidly.