

“State of the State”

Mark Hickey, AEB Lobbyist

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Where Do We Stand & What To Expect Going Forward

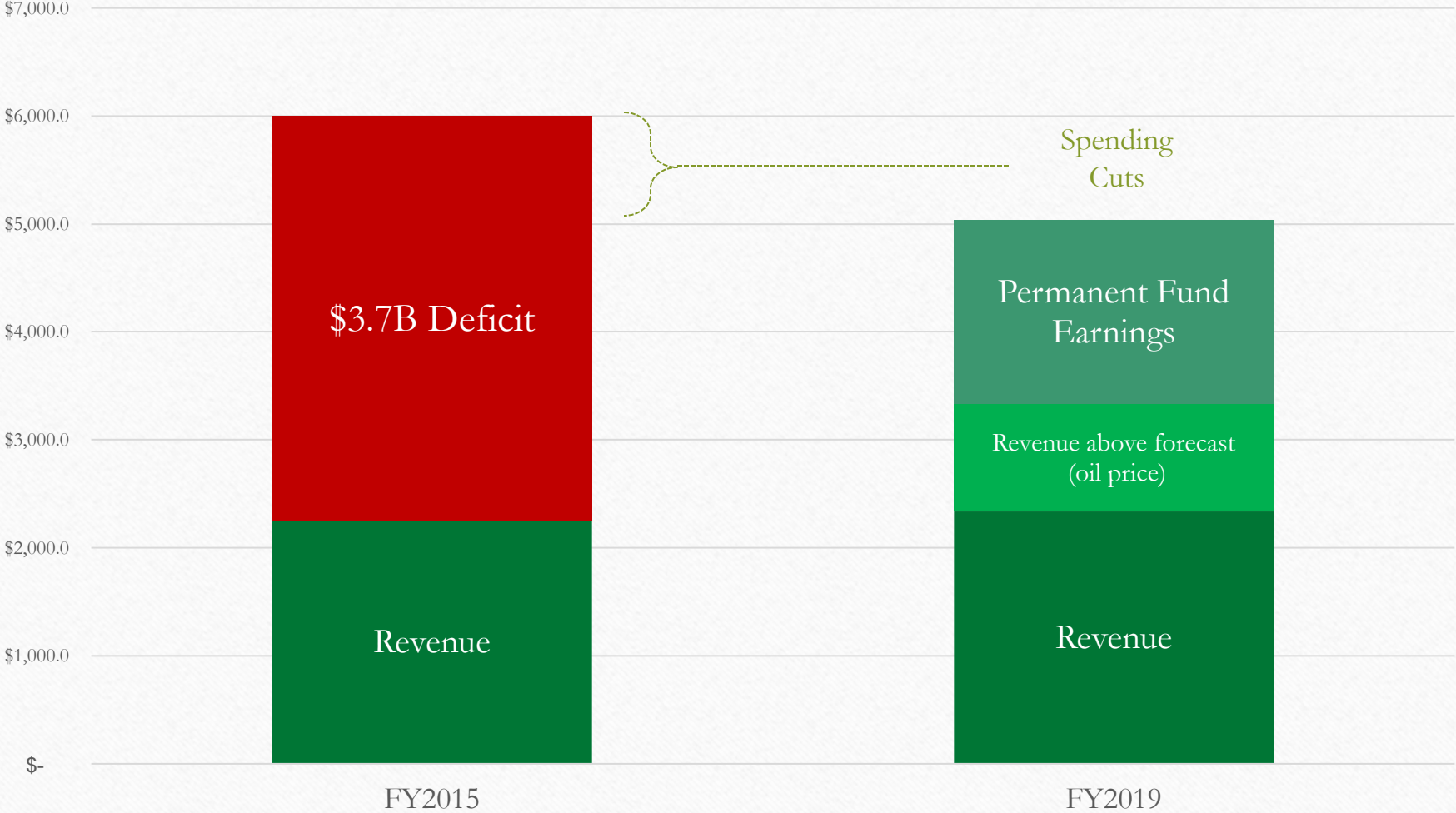
- Status of State of Alaska's current fiscal environment
- Likely upcoming challenges in 2019 at state level



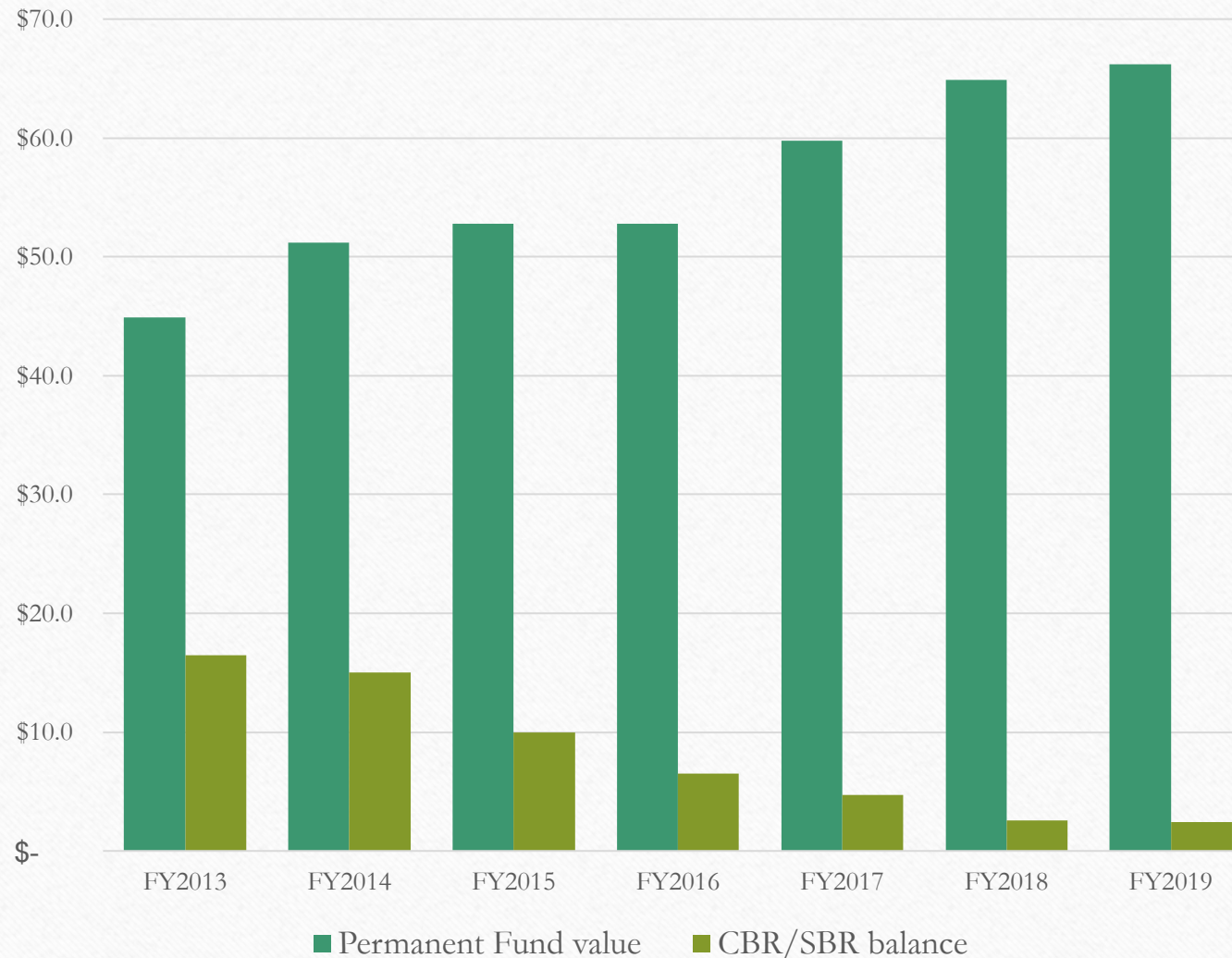
Alaska's current fiscal status

- 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



Permanent Fund Growth compared to Savings Drawdown



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

Dividend amounts

FY12 - \$900

FY13 - \$1,884

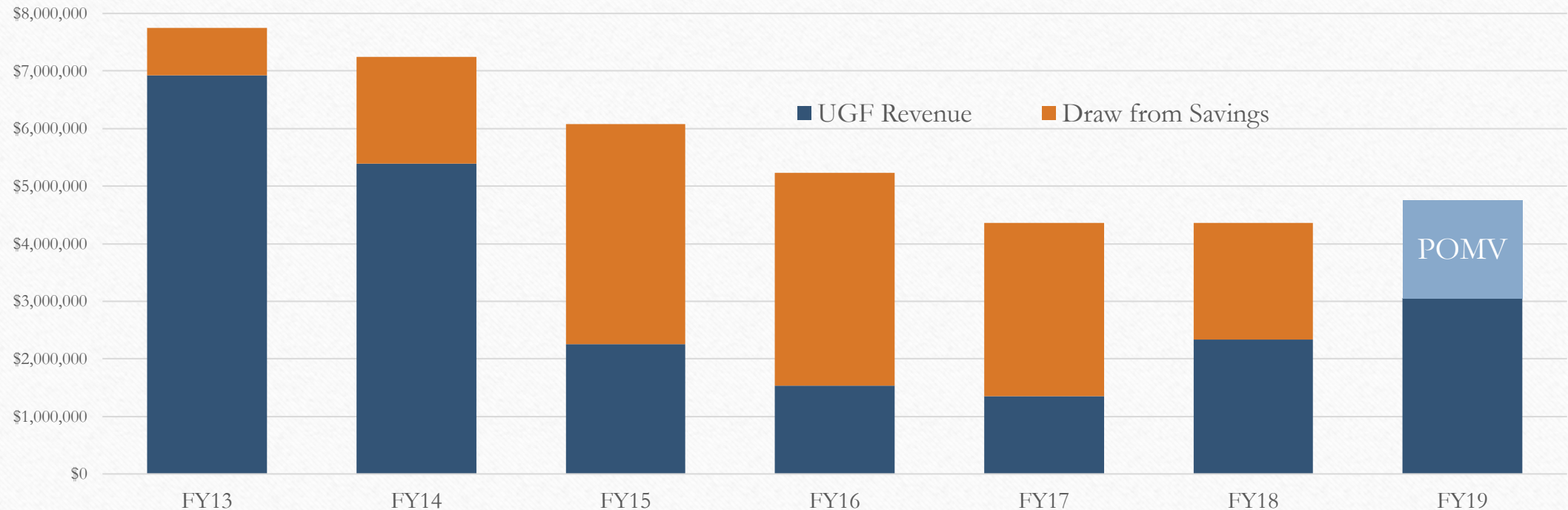
FY14 - \$2,072

FY17 - \$1,022

FY18 - \$1,100

FY19 - \$1,600

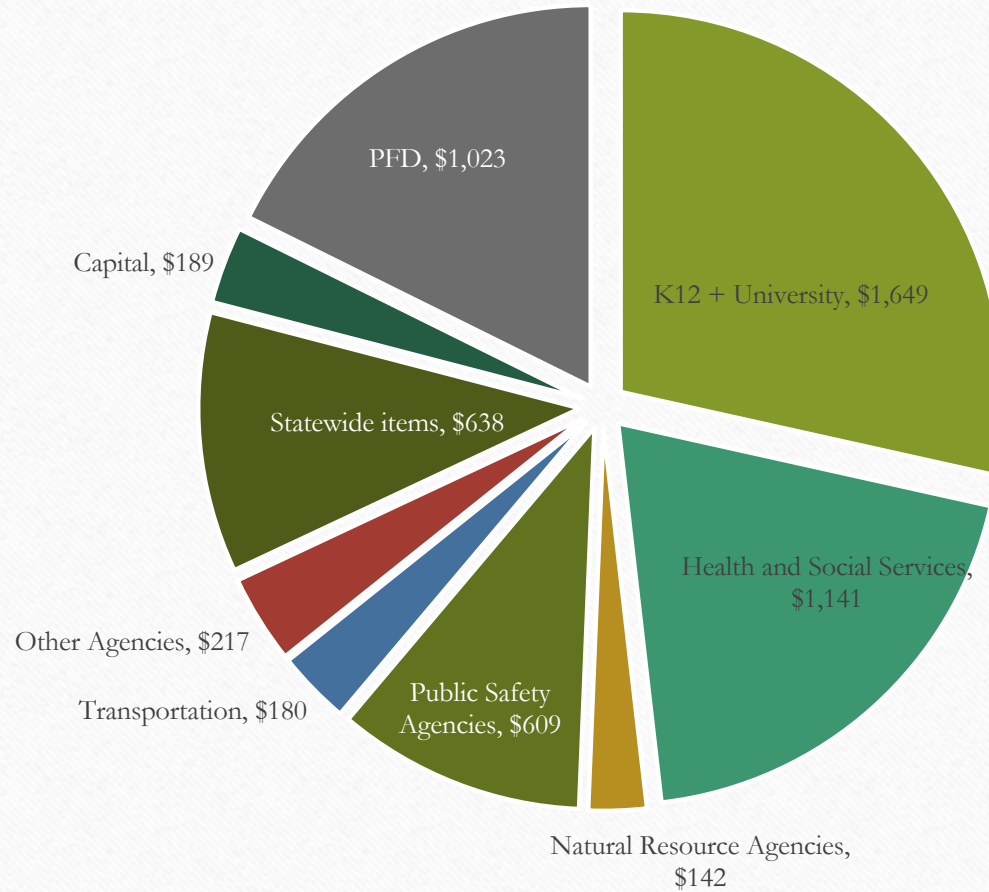
State Budget Overview



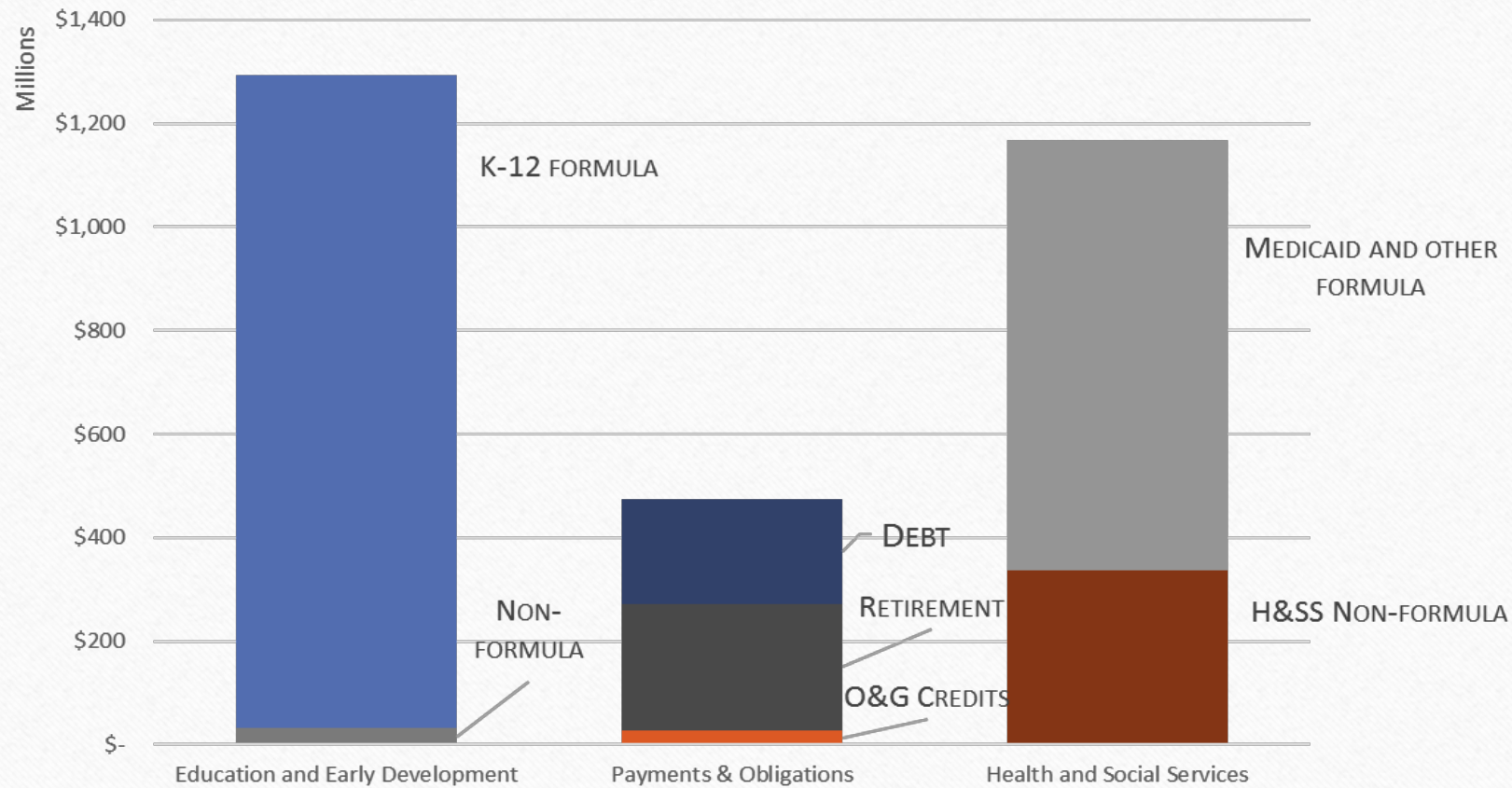
- 6 Consecutive years of deficits.
- The gap between revenue and spending has been funded primarily from the Constitutional Budget Reserve (CBR) -- Alaska's rainy day fund.
- By the end of FY2018, we used over \$14.0 billion from savings.
- The constitution requires that any borrowing from the CBR fund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

FY 19 Unrestricted General Fund Spending

Unrestricted General Fund Spending: \$5.8billion in FY2019



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.
- Attempt to reduce/modify Power Cost Equalization (PCE) Endowment Fund.
- 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.