Alaska’s Fiscal Facts

Presentation to:
Alaska Seafood Marketing Institute
All Hands on Deck
October 21, 2015
McDowell Group

- Research and consulting since 1972
- 16 professional staff
- Offices: Juneau, Anchorage, Bellingham
- Areas of expertise: seafood, mining, oil & gas, tourism, transportation, health care, education
- Services: economic and socioeconomic analyses, market research, feasibility studies, community planning, program evaluation
- Longtime relationship with ASMI
Presentation Overview

- State of Alaska Budget Situation
  - Building a Sustainable Future
    - Office of Management and Budget
  - Introduction to Alaska Fiscal Facts
    - Institute of Social and Economic Research
- Implications: ASMI and Seafood Industry
http://gov.alaska.gov

Potential Revenue and Fiscal Options, (White Paper)

Revenue and Expenditure Model (.xlsx)

Short Video: Alaska Fiscal Situation (Youtube)
Sustainable Future Dialogues
Kick-Off: Building a Sustainable Future: Conversations with Alaskans - June 5-6, 2015

June – August
- Anchorage, Ketchikan, Juneau, and Kenai/Soldotna Chambers of Commerce
- Rotary Clubs in Juneau, Anchorage, Fairbanks
- Fairbanks Economic Development Corporation
- Alaska Association of School Boards
- Anchorage Board of Realtors
- Alaska Superintendents Association
- Alaska Municipal League
- City of Palmer / City of Wasilla
- UAF e-Learning
- Alaska CHARR

September - December
- Fairbanks and Homer Chamber of Commerce
- Alaska Chamber of Commerce
- Alaska Commission on Aging
- Fairbanks League of Woman Voters
- Institute of the North
- Homer/Ninilchik Town Hall Meetings
- Commonwealth North
- Southeast Conference
- Alaska Municipal League
- Pioneers of Alaska
- UAA Faculty & Staff Association
- The Island Institute and more...
OMB: Recent Reality

- Federal Funds
  $3.3 billion (27%)
- Permanent Fund
  Inflation Proofing
  & Dividends
  $2.3 billion (19%)
- Other State Funds
  $630 million (5%)
- Designated General Funds
  $914 million (8%)
- Unrestricted General Funds
  $4.9 billion (41%)
Federal Funds
$3.3 billion (27%)

Permanent Fund
Inflation Proofing
& Dividends
$2.3 billion (19%)

Other State Funds
$630 million (5%)

Designated General Funds
$914 million (8%)

Unrestricted General Funds Gap
$2.7 billion (23%)

Unrestricted General Funds
$2.2 billion (18%)
OMB: Fiscal Challenge

Executive Branch Agencies
Unrestricted General Funds ($ Millions)
OMB: Fiscal Challenge

Top Three Unrestricted General Funds Spending Categories
Total $3.4 billion
($ Millions)
$3.0 billion transfer from CBR to retirement systems in FY2015
OMB: Agency Reductions (FY15-FY16)

Most significant: %

20-35%: Commerce, Military & Veterans Affairs, Labor & Workforce, Natural Resources, Governor’s Office

12-20%: Fish and Game, Revenue, Law, Administration, Transportation, Environmental Conservation

Most significant: $

Health and Social Services: $88 million (+ $1 million fuel cut)
Transportation: $34 million (+ $15.5 million fuel cut)
Corrections: $20 million (+ $1.8 million fuel cut)
University of Alaska: $20 million (+ $4.5 million fuel cut)
OMB: New Budget Reality

Cross-Agency Efforts

- Smart justice reforms
- Unified state facilities management
- Lean/continuous process improvement management
- Shared services for functions such as procurement and travel
- Travel process redesign
- Statewide IT consolidation, call centers, disaster recovery, security, desktop support and data storage
- Re-examining charge back systems and streamlining internal billing
- Re-negotiating procurement and lease contract
- Centralize collection of fines, debts, and attachments

Intra-Agency Efforts

- 500 fewer full-time employees (Dec 2014 to July 2015)
In nominal terms, the General Fund budget has increased steadily over time since the mid-2000’s
Adjusted for inflation and population, the current budget is lower than most years during the post-pipeline boom.
## OMB: Oil Price & Production

**FY16 General Fund Revenue ($ Billions)**

**Budget = $4.9 Billion**

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<th>Price of Oil</th>
<th>Barrels Per Day</th>
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**Current Production:** Break even Price = $109/ bbl  
**Current Price:** Break even Production = 1.6 million bbl/day
OMB: Oil Production and Population

North Slope Oil Production and Alaska Population

- Alaska Population
- North Slope Oil Production

- Oil production (thousands of barrels per day)
- Population (thousands)
This year oil prices fell drastically and unexpectedly.

- Last spring the Department of Revenue (DOR) projected an average FY15 price of $105/barrel.
- This spring DOR projected an average FY15 price of $67/barrel.
- The June 3 price was $64/barrel (below the average projected price).
ISER: Oil Revenues vs. Non-Oil

Mostly because of the fall in oil prices, our oil revenues have fallen drastically. Falling oil production and higher costs and credits have also played a role.

Alaska Unrestricted General Fund Revenues

$7.2 billion drop in oil revenues from 2012 to 2015 (81% drop)
ISER: Permanent Fund Earnings Reserve

The Permanent Fund is worth more than $50 billion. We can only spend the “realized earnings” in the earnings reserve, which are currently about $7 billion.
There are no easy answers to balancing a $3 billion annual deficit

Likely to require combination:

1. Continued budgetary restraint
2. Taxes impacting individual Alaskans
3. Changes taxes/credits
4. Strategic use of legacy assets
Implications

Delay reduces pain...

Risks

1. Drain reserves
2. Dramatic adjustments
3. Investor confidence
4. Credit rating
5. Lower investment earnings from savings
6. Less savings for future generations
Closing Comments

THE JUNEAU FORUM ON
ALASKA’S FISCAL FUTURE
WEDNESDAY, SEPTEMBER 30th
6:00 to 9:00 P.M.
CENTENNIAL HALL

SPONSORED BY SOME BUSINESSES AND STUFF.