

State of Alaska Fiscal Overview

December 6, 2017

Office of Management and Budget
Pat Pitney, Director

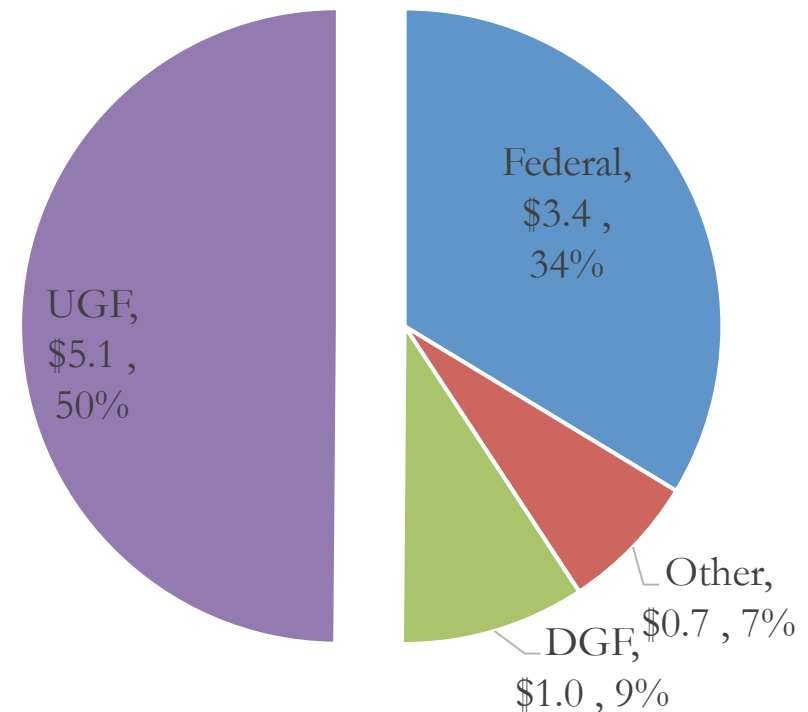
Spending: State Budget Overview

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

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

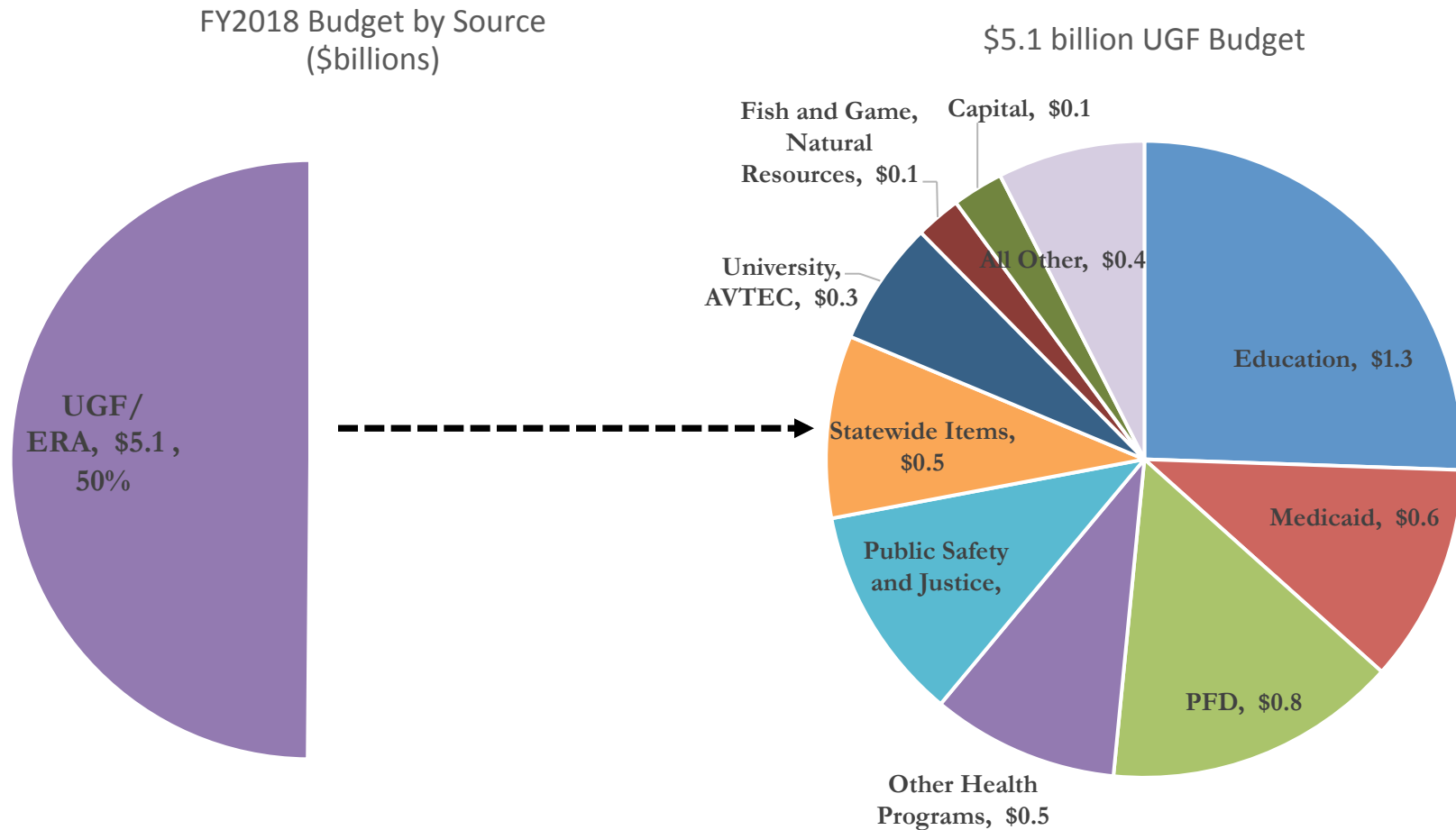
Only 50% of the budget impacts the deficit, the unrestricted general fund (UGF) portion.

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

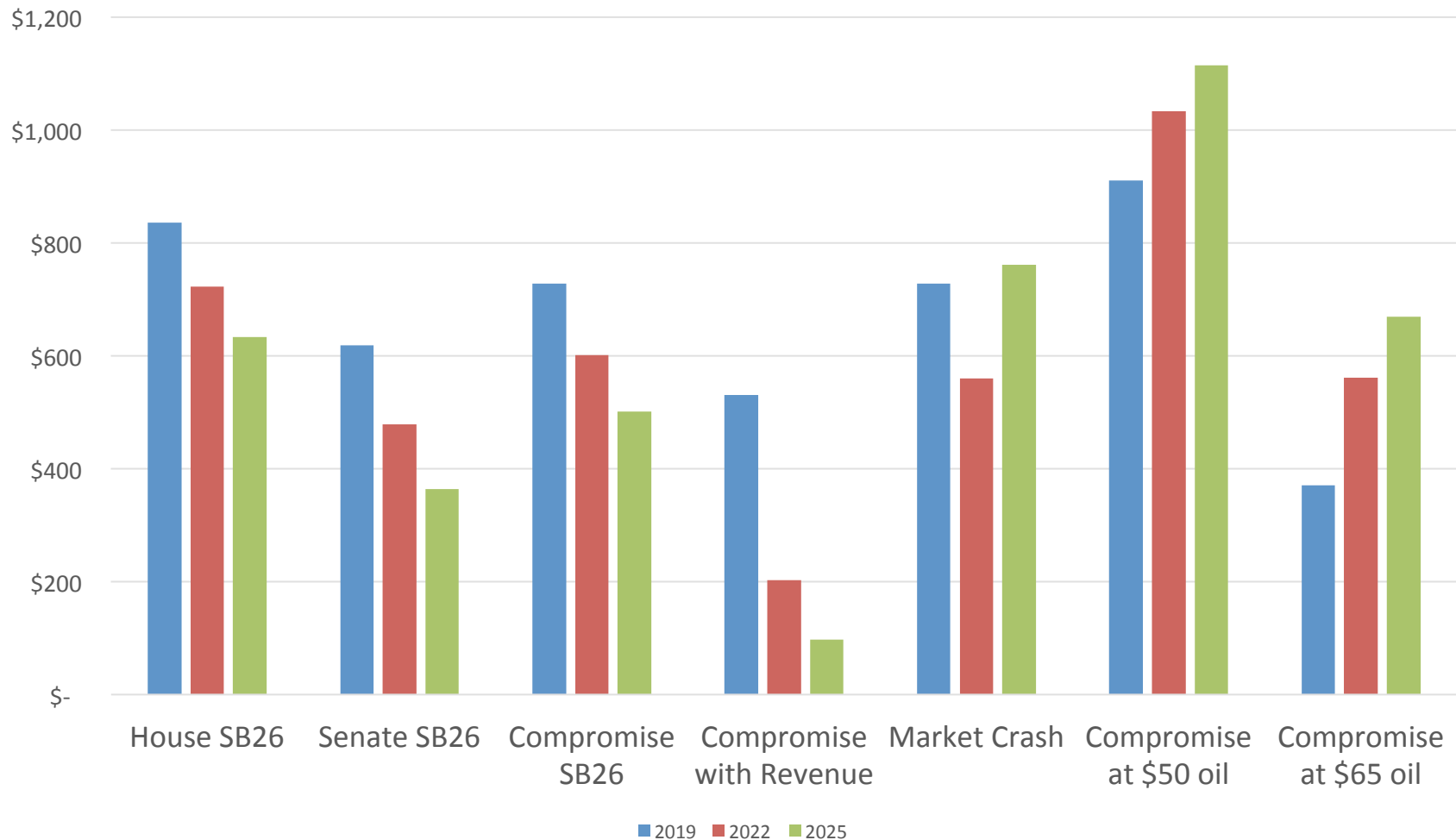
Less than 50% of state funded budget is spent on government services like troopers, road maintenance, ferries, airports, prisons, the legislature, Pioneer Homes, the courts, the governor's office, fish and game, etc.

Spending: State Budget Overview

Unrestricted General Fund Spending Trend

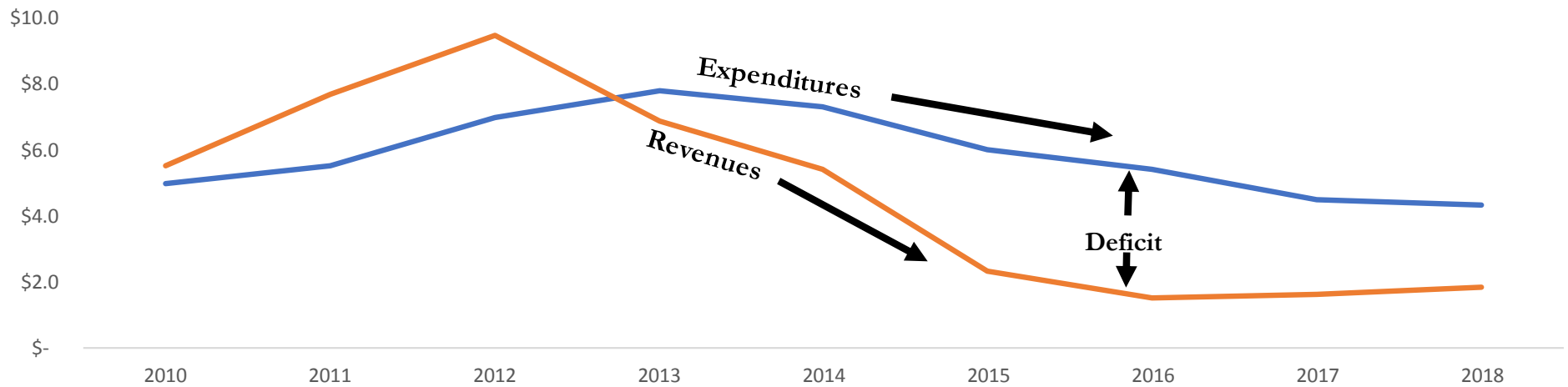
| | FY2015 | FY2018 | FY2015-2018 | |
|---------------------------------|-------------------|-------------------|---------------------|-------------|
| Education & University | \$ 1,722.1 | \$ 1,584.6 | \$ (137.5) | -8% |
| Health & Safety Departments | \$ 936.6 | \$ 849.2 | \$ (87.3) | -9% |
| Medicaid & 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% |

Budget Gap: State Budget Overview



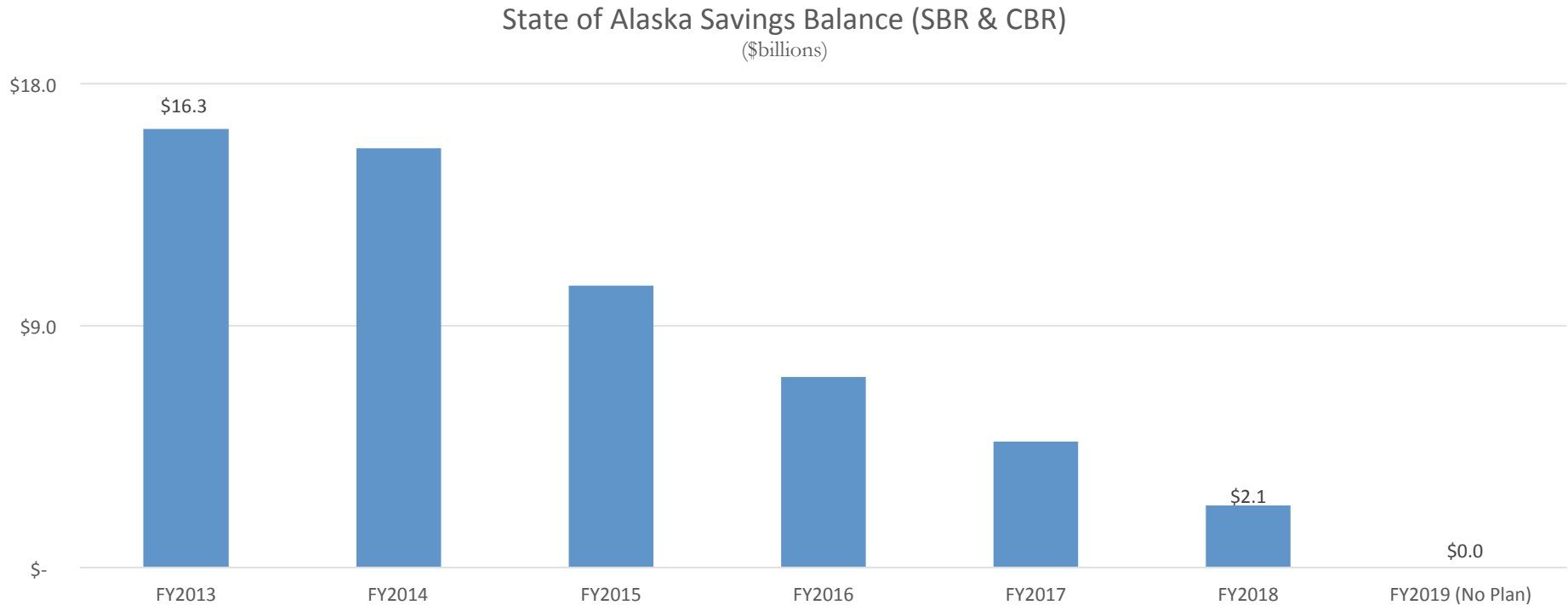
Savings: State Budget Overview

FY2010-2018 State Revenue and Expenditure (Without Dividend)
(\$Billions)



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



- 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

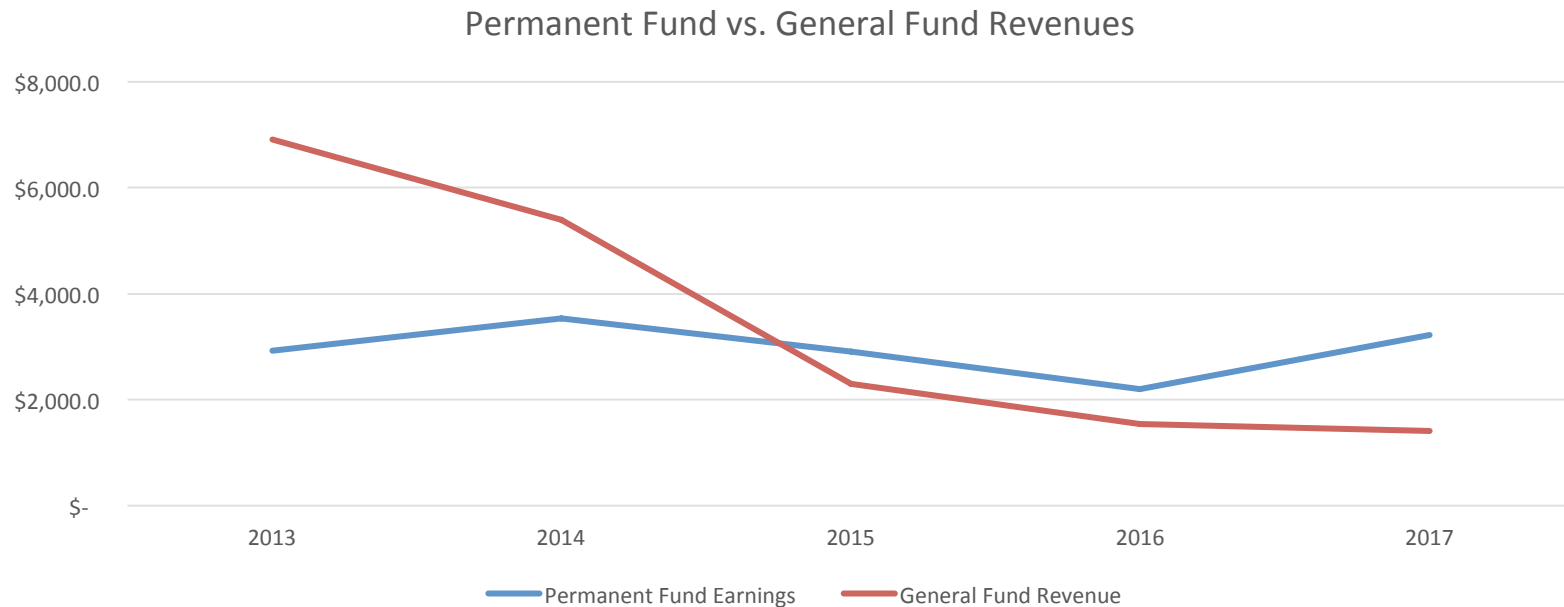
Savings: State Budget Overview

Other Fund Balances

| Selected Fund Balances (\$millions) | |
|-------------------------------------|--------------------------------------|
| Fund | Projected FY2018 Year End Balance |
| Power Cost Equalization* | \$ 1,024 |
| Alaska Higher Education Fund* | \$ 339 |
| AHCC Account | \$ 22 |
| Capital Income Fund | \$ 26 |
| Community Assistance Fund | \$ 60 |
| Vessel Replacement | \$ 22 |
| Various Smaller Funds | \$ 12 |
| <i>Public School Trust Fund</i> | <i>\$ 623</i> |
| Total | \$ 2,170 |

Revenue: State Budget Overview

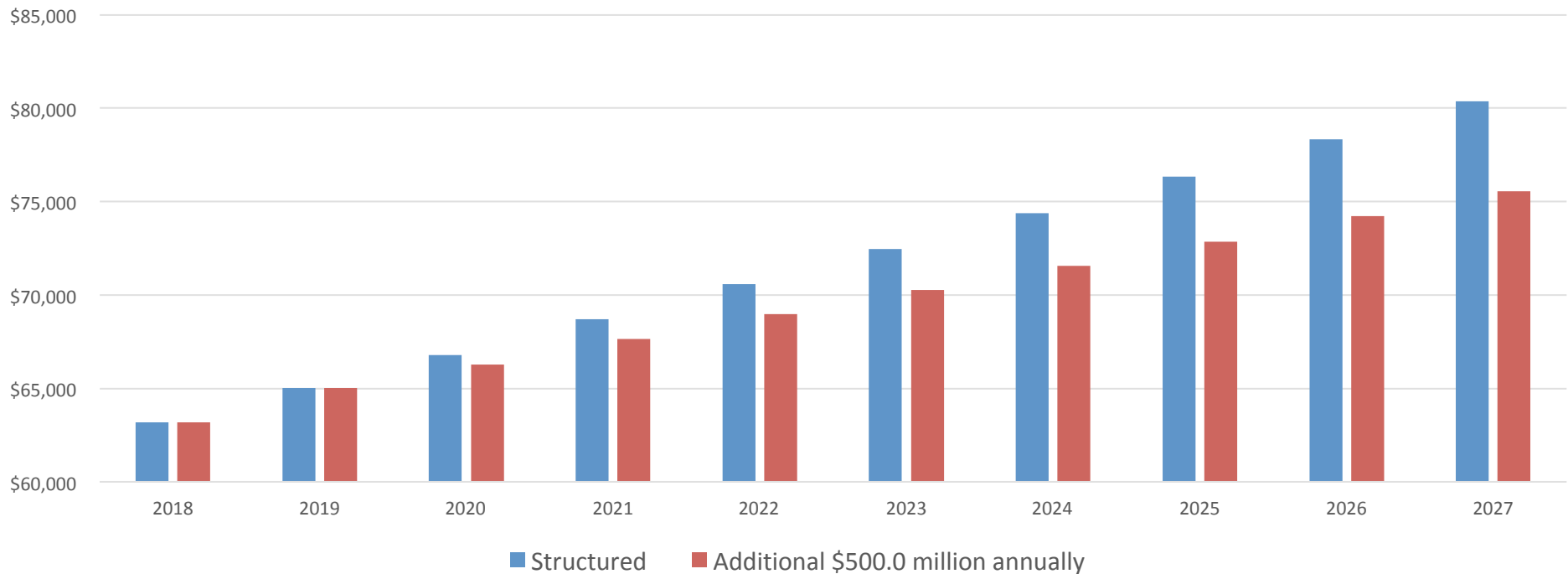
Alaska Permanent Fund Earnings



- During this time of low oil revenues, the Permanent Fund continues to generate \$2-3 billion in annual revenue
- The state has not been utilizing Permanent Fund earnings revenue (except for dividends)
- It is time to consider using this revenue stream

Revenue: State Budget Overview

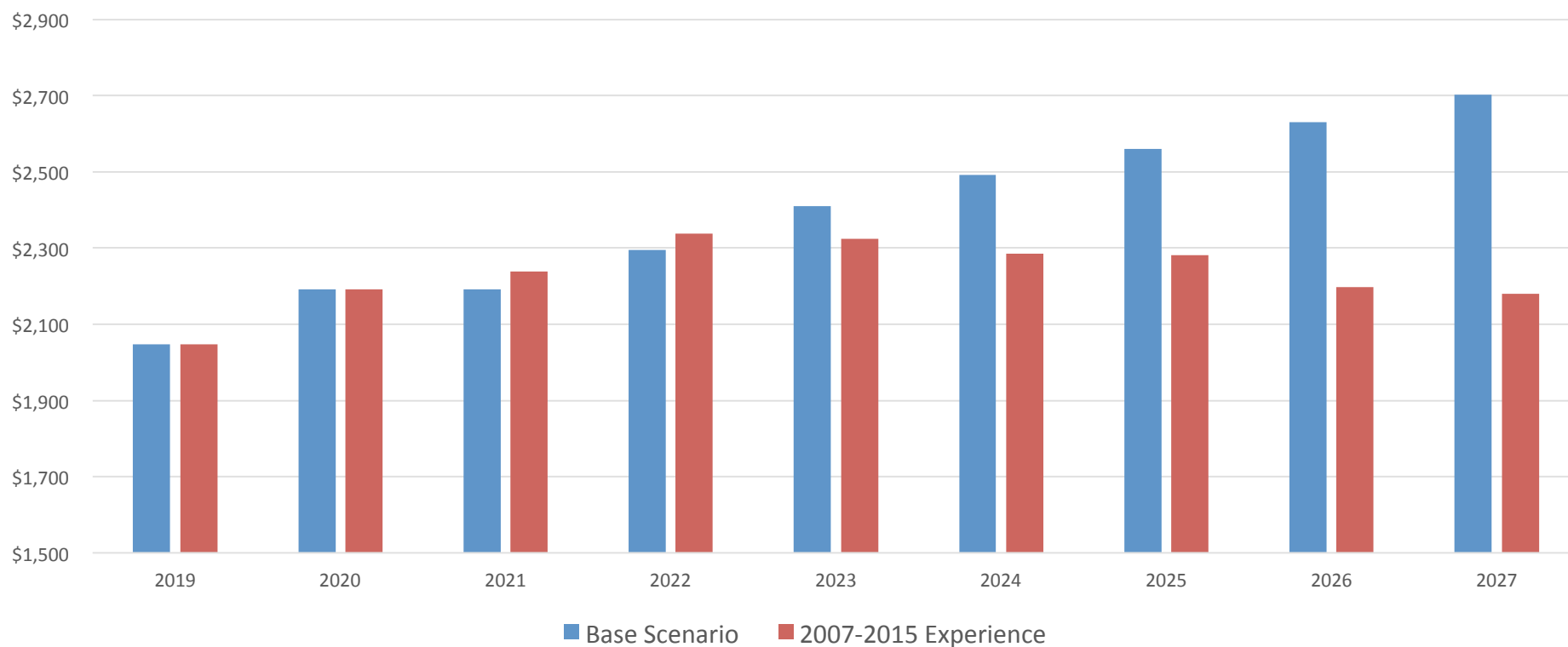
Permanent Fund Earnings Over Draw Impact



- Maintaining the CBR balance at \$2 billion minimum level is crucial but leaves little flexibility.
- An additional \$500.0 million annually taken from the ERA above the structured draw reduces the Permanent Fund balance by \$5 billion compared to a structured draw with additional revenues
- That \$5 billion left in the PF generates \$250.0 million annually - reducing future tax.

Revenue: State Budget Overview

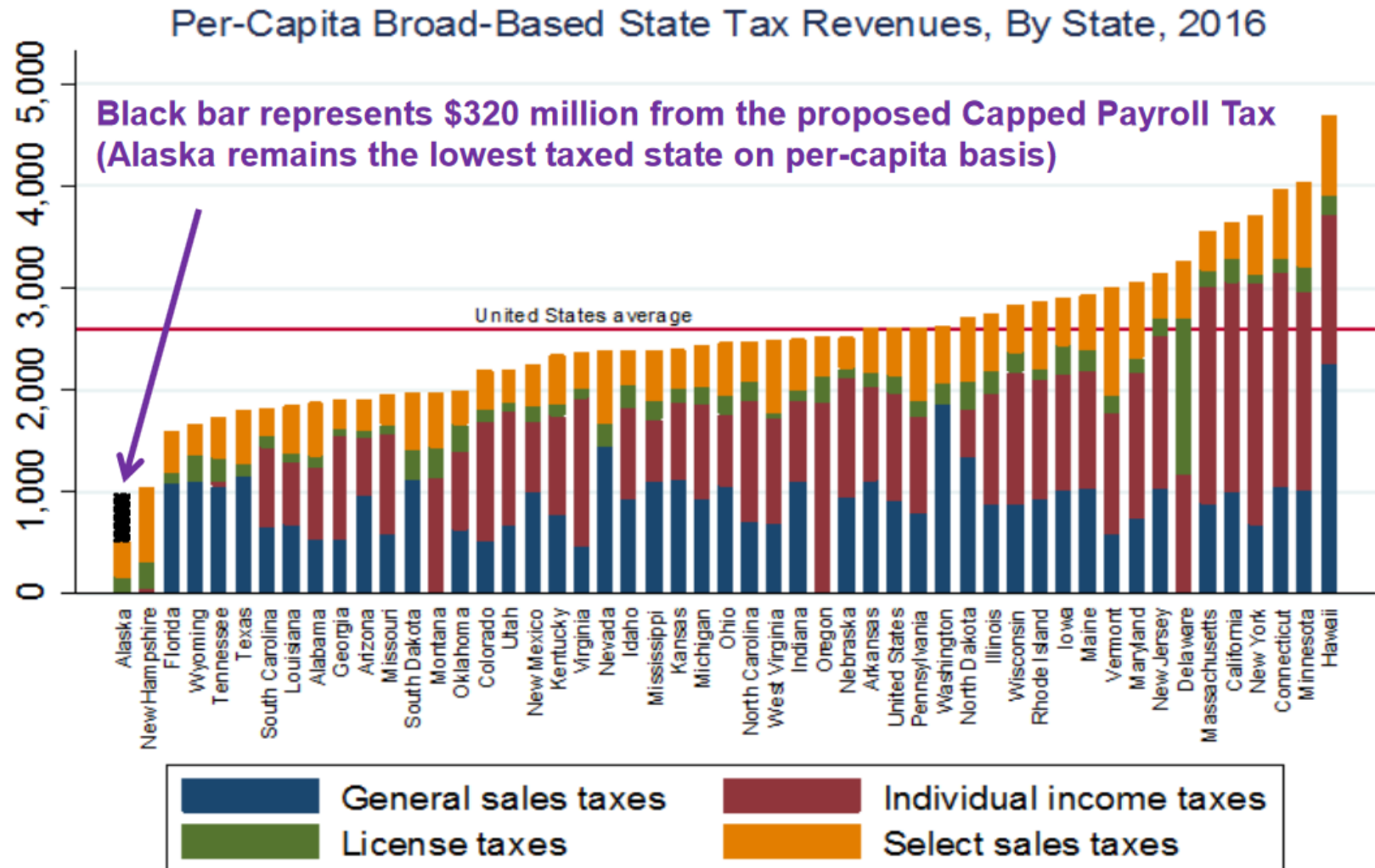
Market Correction Impact



Should Permanent Fund earnings fall short of expectations, the amount available to draw annually declines. For example, using FY07 to FY15 actual returns, the FY2027 draw declines by nearly \$600 million (split between dividend and government).

Revenue: State Budget Overview

Tax Proposal



For more information on the budget



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