

---

# BUILDING A **SUSTAINABLE** FUTURE: *conversations with Alaskans*



## **Presentation to House Finance**

August 24, 2015



Randall J Hoffbeck, Commissioner  
Alaska Department of Revenue

Pat Pitney, Director  
Office of Management and Budget

<http://gov.alaska.gov/>



**Potential Revenue and Fiscal Options (PDF), Revenue White Paper**

**Revenue and Expenditure Model (xlsx)**

**Short Video Alaska Fiscal Situation (Youtube)**

# The Conversation

*It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood... who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.*

*Teddy Roosevelt 1910*

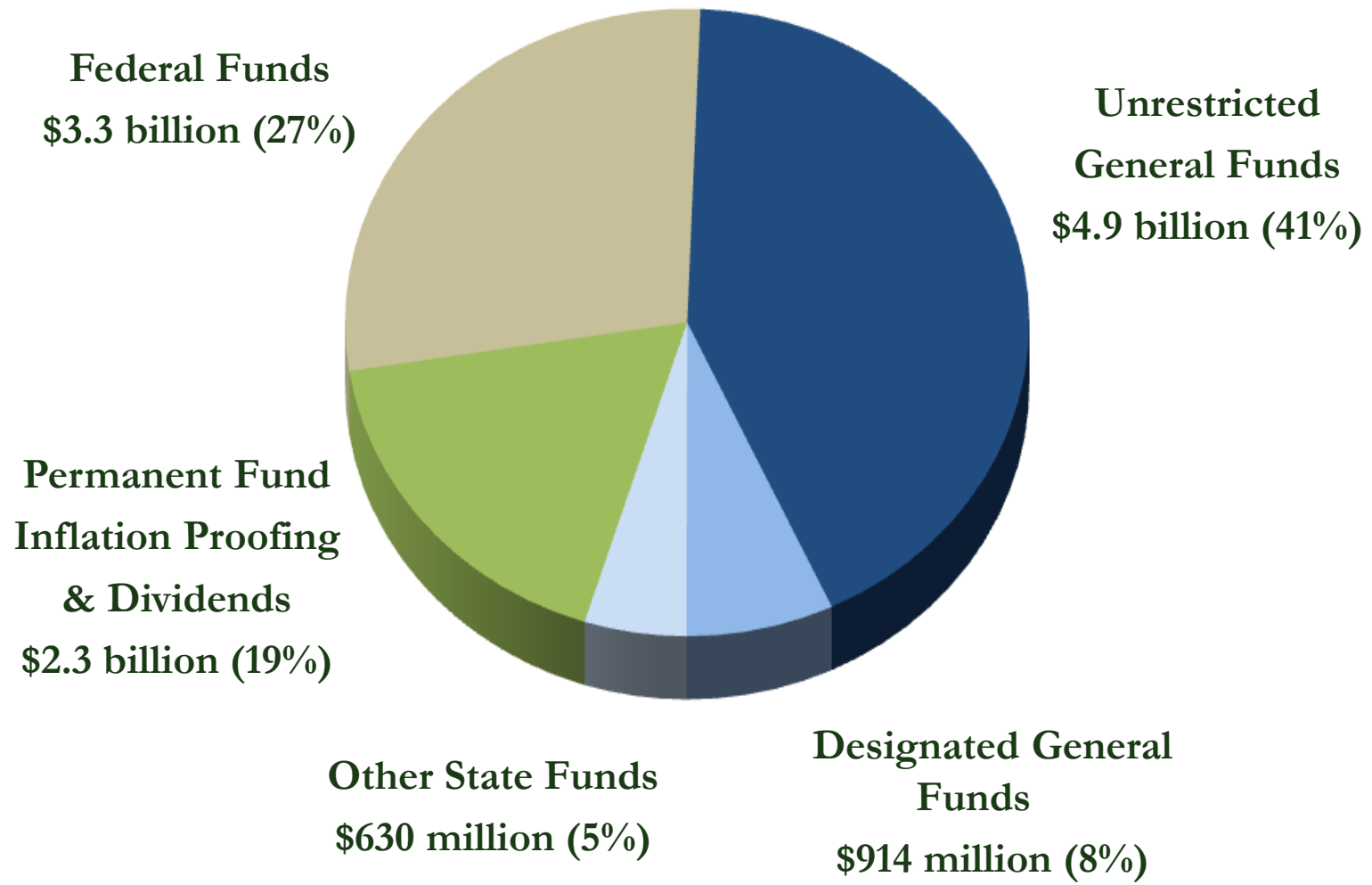
# The Conversation

**Fiscal Challenge**

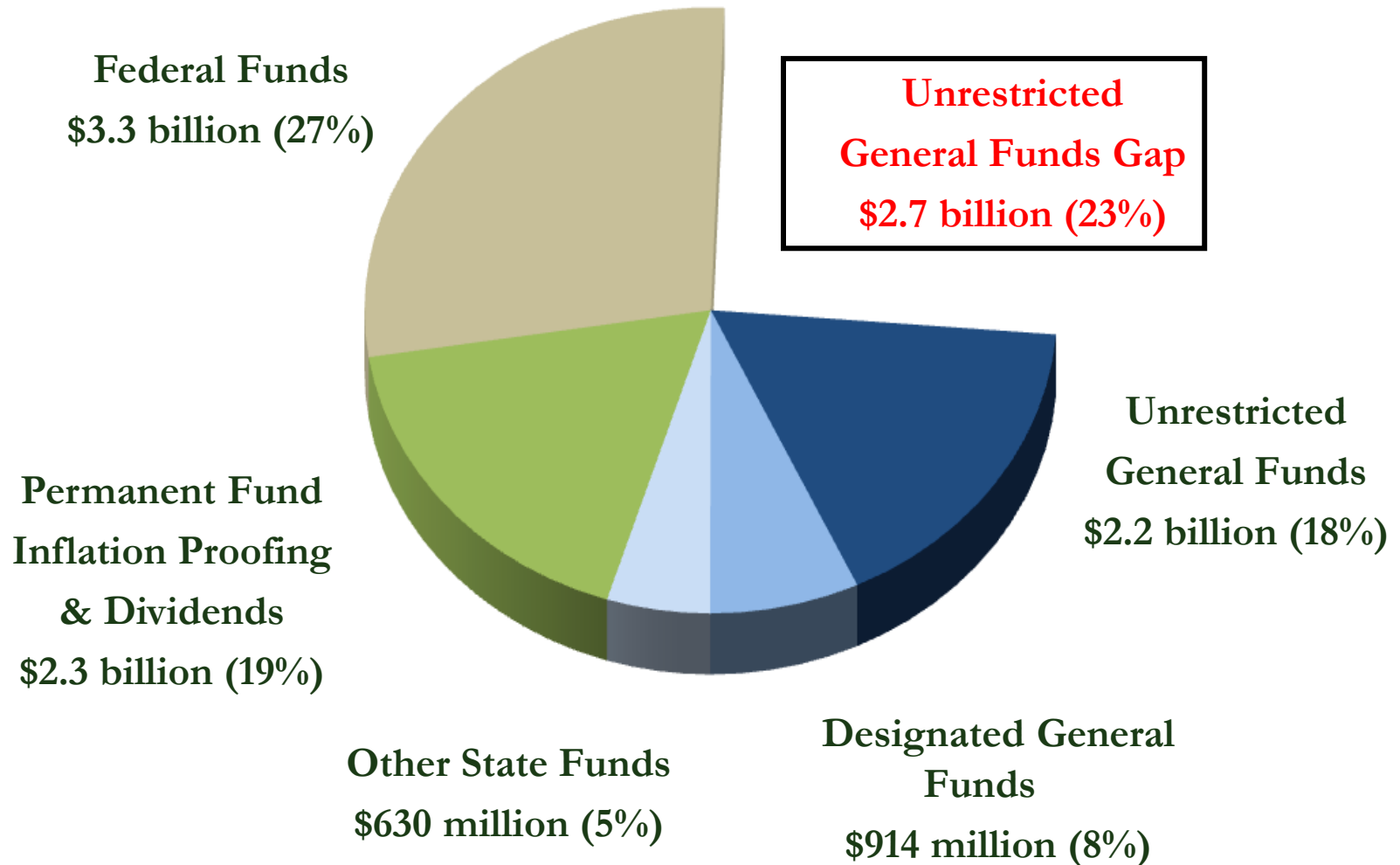
**Options**

**Path to Fiscal Stability**

# Fiscal Challenge

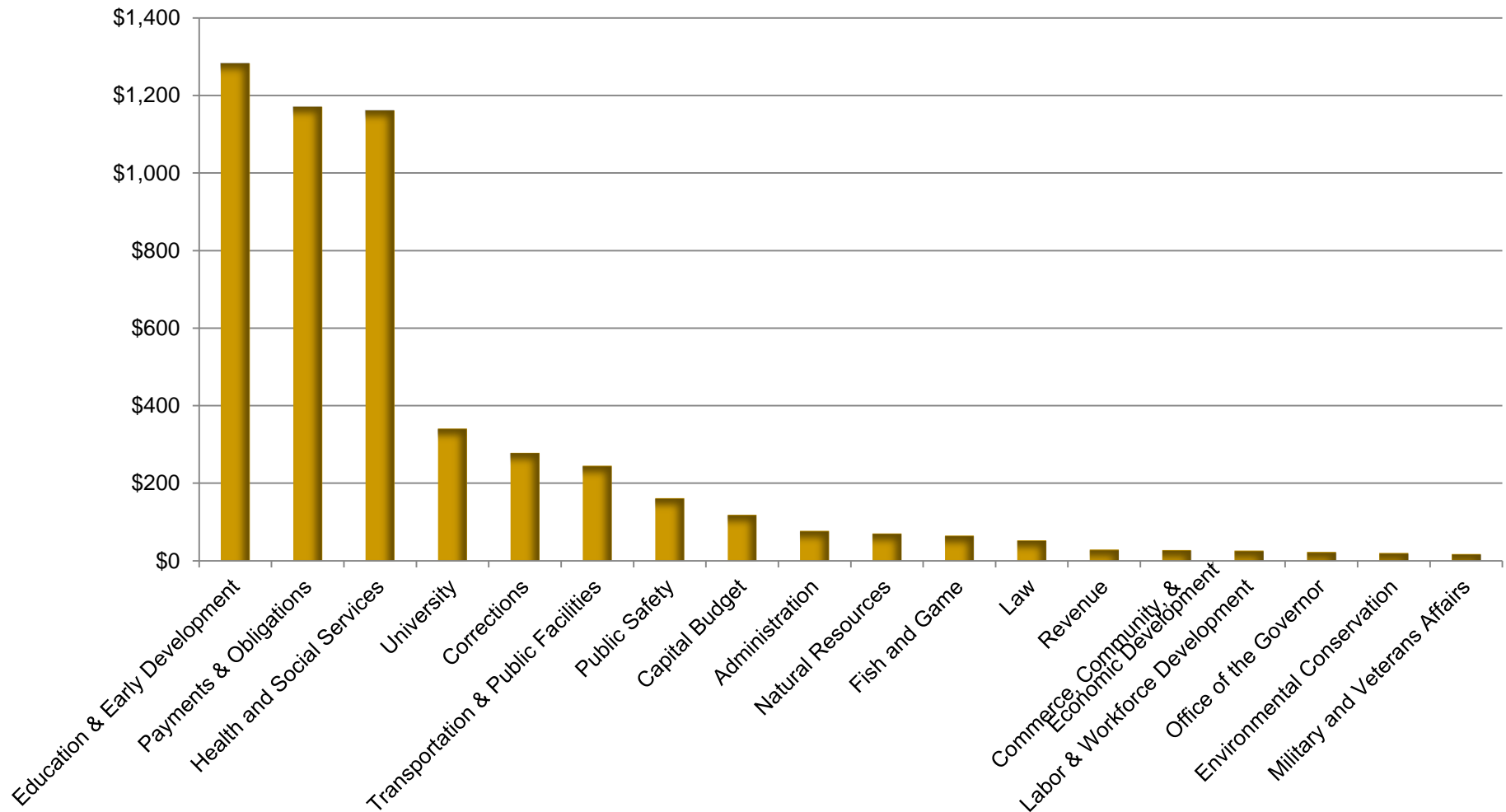


# Fiscal Challenge



# Fiscal Challenge

## Executive Branch Agencies and Payments & Obligations Unrestricted General Funds (\$ Millions)



# Fiscal Challenge

## Agencies reductions FY15-FY16

Most significant % reductions

**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 \$ reductions

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)



# Fiscal Challenge

## Efficiency Initiatives:

***Maximizing service delivery under the 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 efficiency efforts are on-going within each agency**

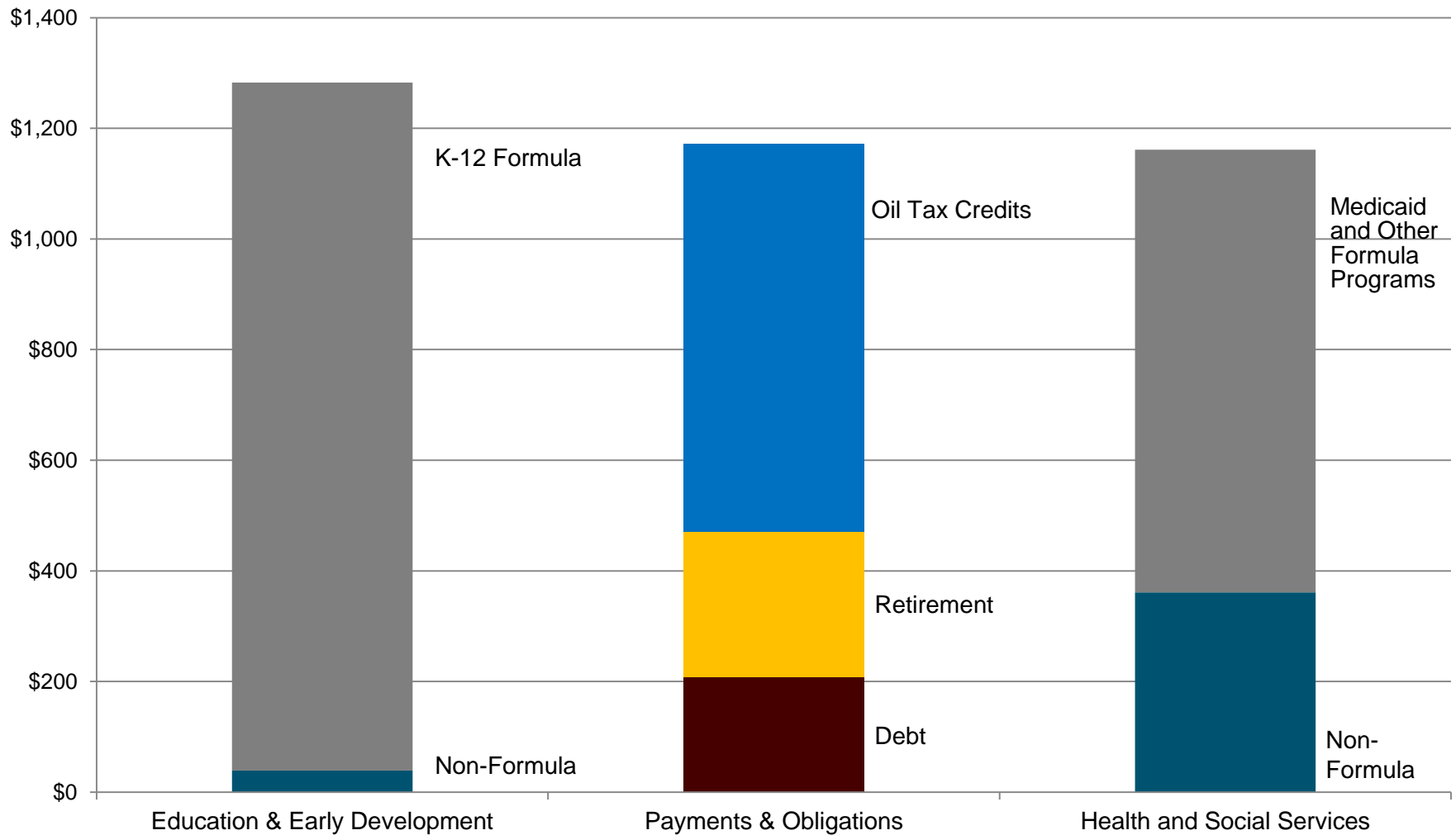
Executive Agencies: 500 fewer full-time permanent employees - December 2014 to July 2015

# Fiscal Challenge

## Top Three Unrestricted General Funds Spending Categories

**Total \$3.4 billion**

(\$ Millions)



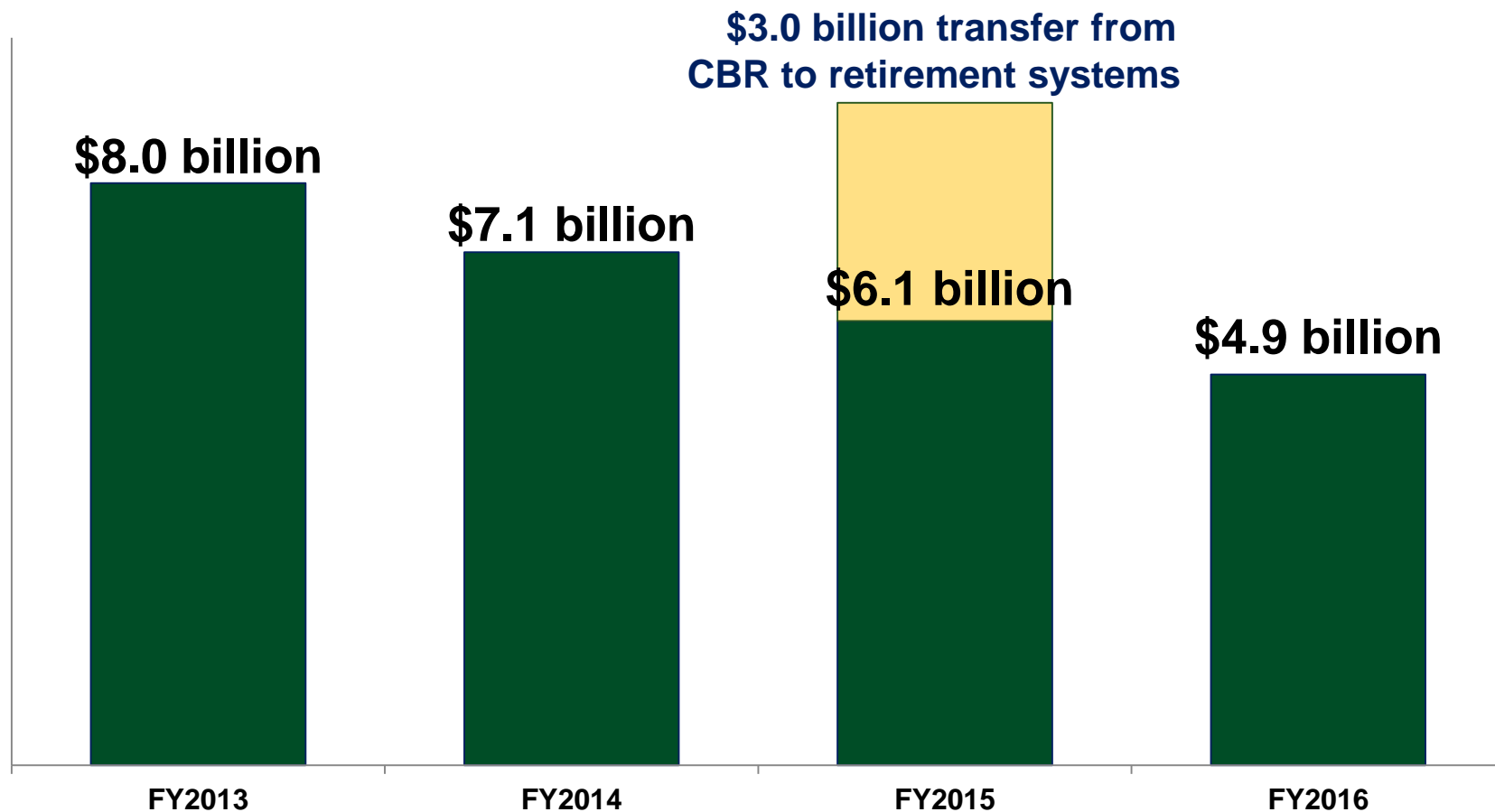
# The Conversation

Fiscal Challenge

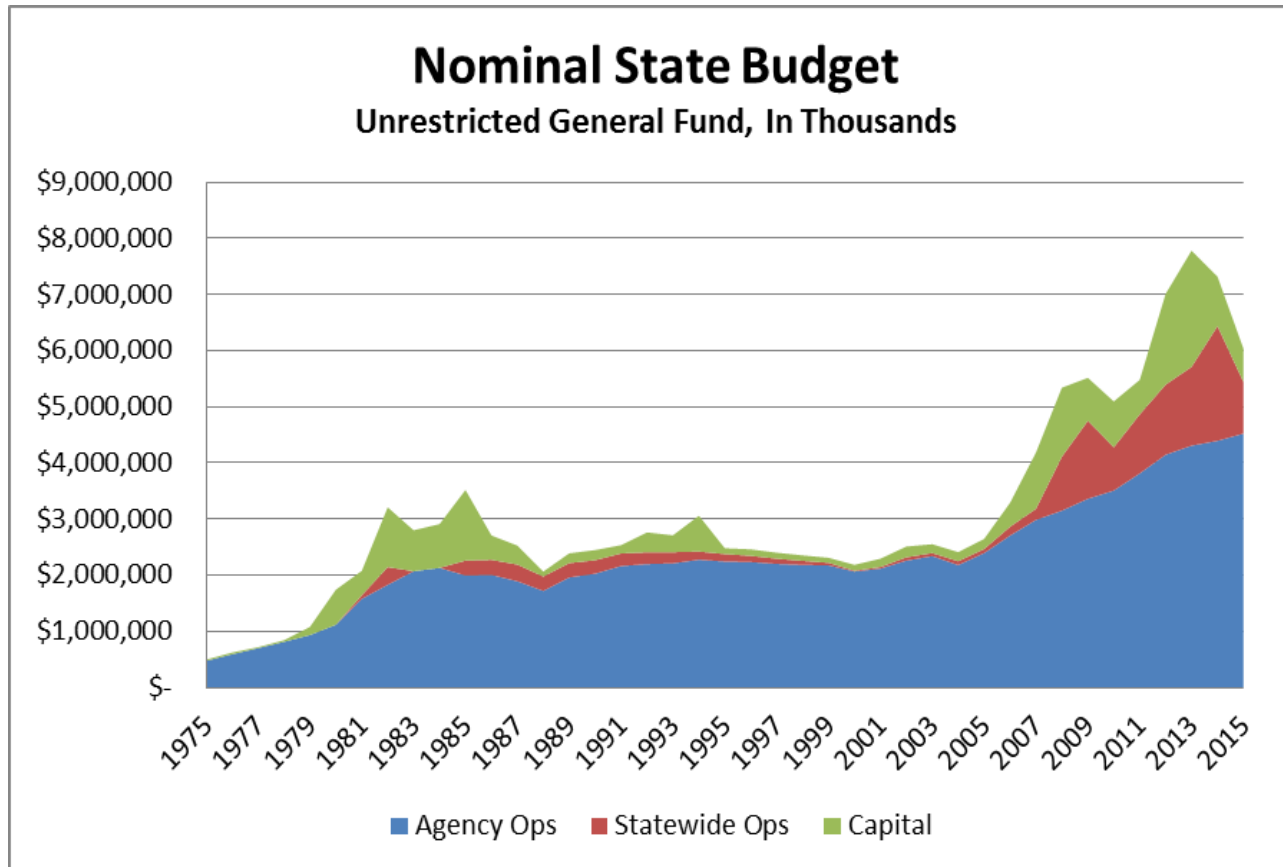
Options

Path to Fiscal Stability

# Options (Cut Government)

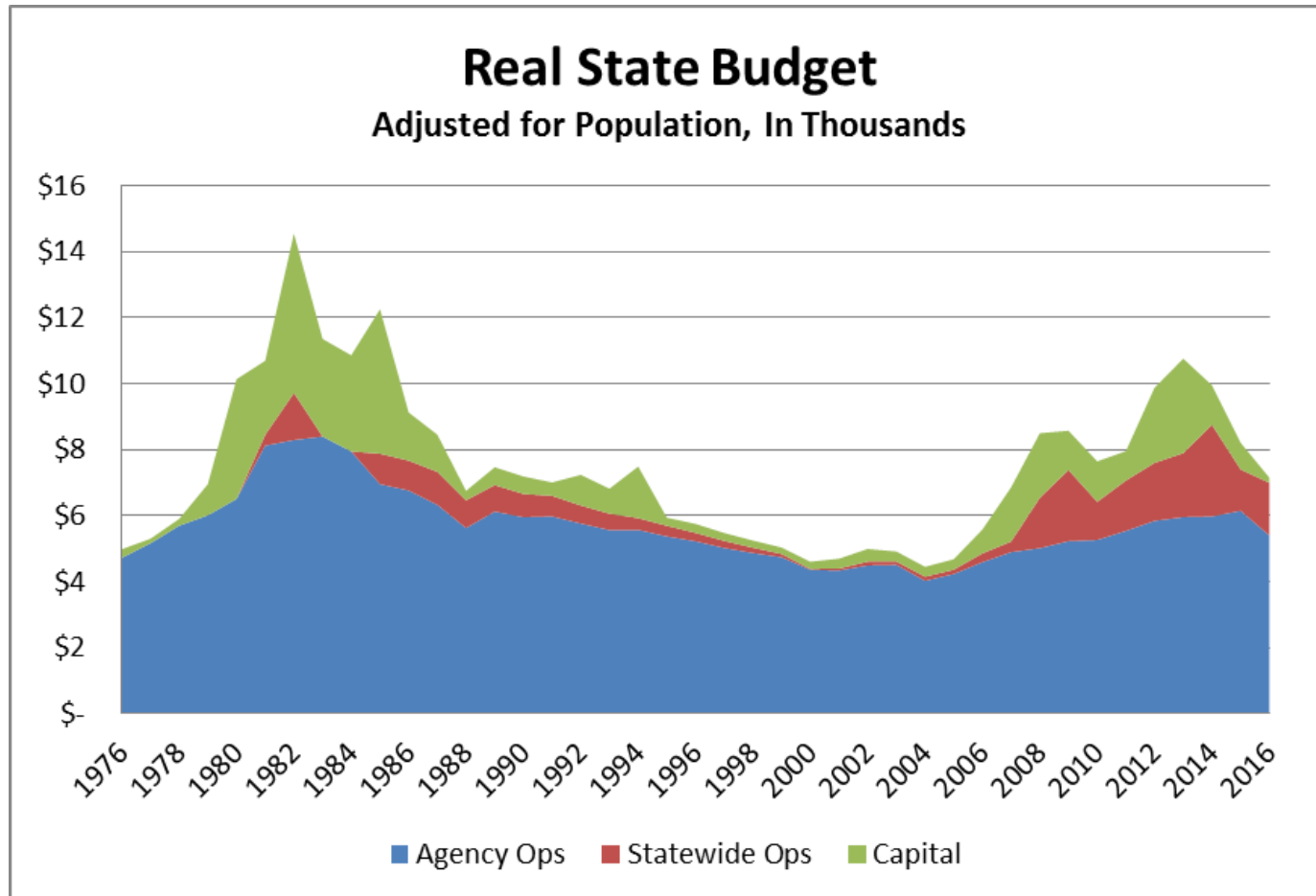


# Options (Cut Government)



In nominal terms, the General Fund budget has increased steadily over time and steeply since the mid-2000's

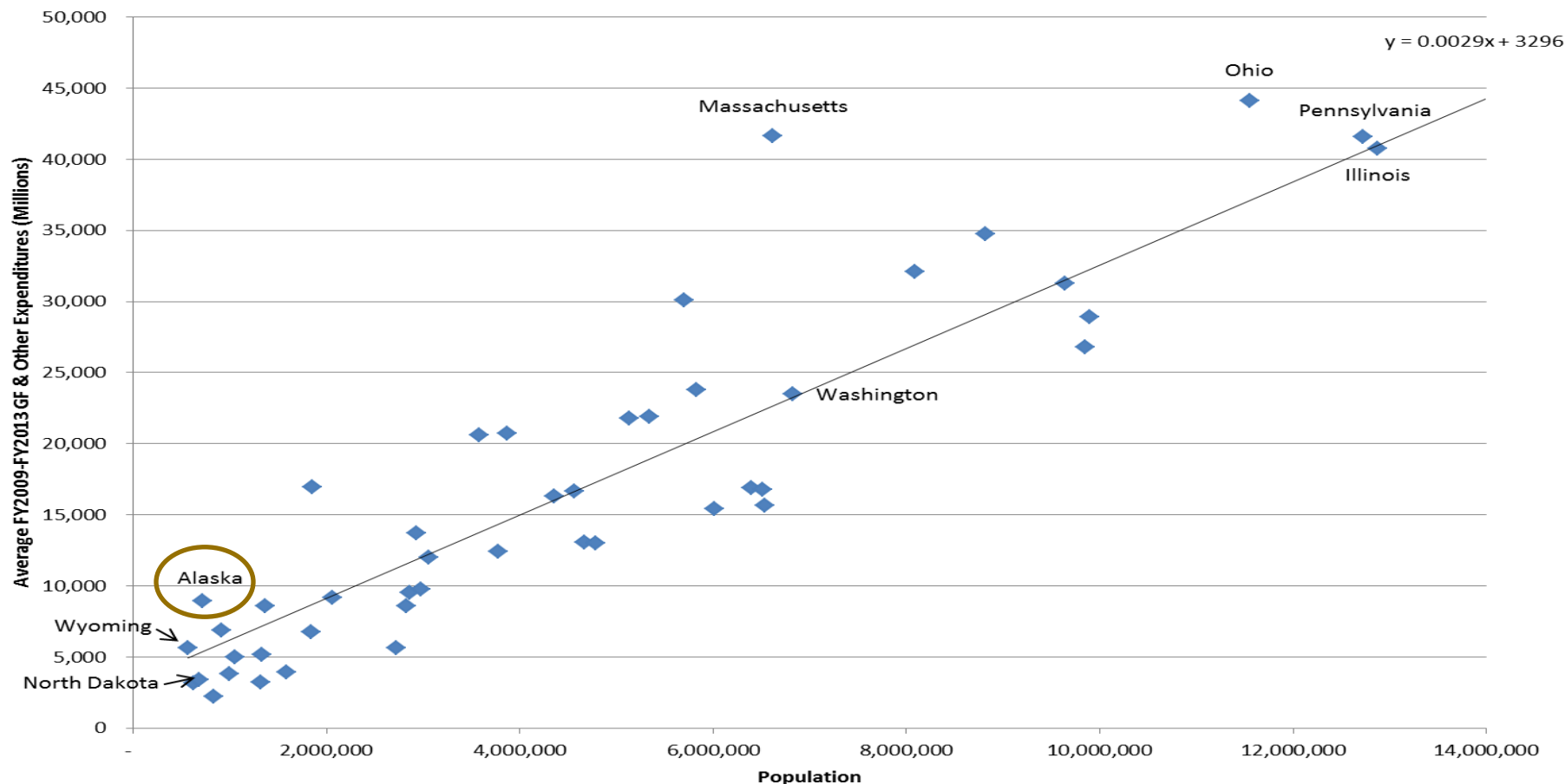
# Options (Cut Government)



Adjusted for inflation and population, the current budget is lower than most years during the post-pipeline boom

# Options (Cut Government)

**Average FY2009-2013 Total State Expenditures by Population**



For purposes of displaying Alaska better, the display of data points for CA, FL, TX and NY are outside the chart axes but are included in the regression line.

# Options (Cut Government)

Governor Protected Life, Health & Safety. (\$2 billion)

## **What is Missing:**

- Education (All Foundation Formula) (\$1 billion)
- HSS (Half of Expected Cost) (\$550 million)
- Public Retirement Contributions (\$250 million)
- Oil and Gas Tax Credits (\$700 million)

## **What is Still Missing:**

- General Agency Spending (Funded at 27%)



# Options (Oil Taxes)

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

**Budget = \$4.9 Billion**

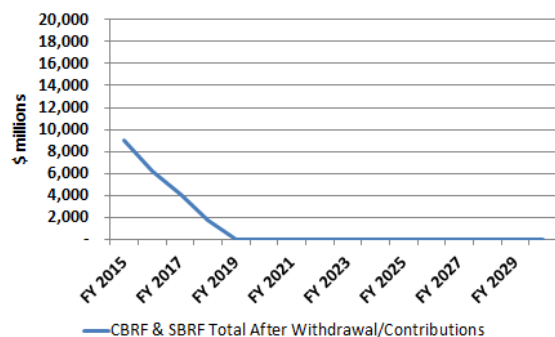
Price of Oil	Barrels Per Day			
	500,000	600,000	700,000	800,000
\$40	\$ 1.5	\$ 1.7	\$ 1.9	\$ 2.1
\$50	\$ 1.8	\$ 2.1	\$ 2.3	\$ 2.6
\$60	\$ 2.0	\$ 2.3	\$ 2.6	\$ 2.9
\$70	\$ 2.3	\$ 2.7	\$ 3.0	\$ 3.4
\$80	\$ 2.5	\$ 2.9	\$ 3.3	\$ 3.8
\$90	\$ 3.2	\$ 3.8	\$ 4.4	\$ 4.9
\$100	\$ 4.0	\$ 4.8	\$ 5.5	\$ 6.4
\$110	\$ 4.9	\$ 5.8	\$ 6.8	\$ 7.7
\$120	\$ 5.8	\$ 6.9	\$ 8.0	\$ 9.1

**Current Production: Break even Price = \$109/ bbl**

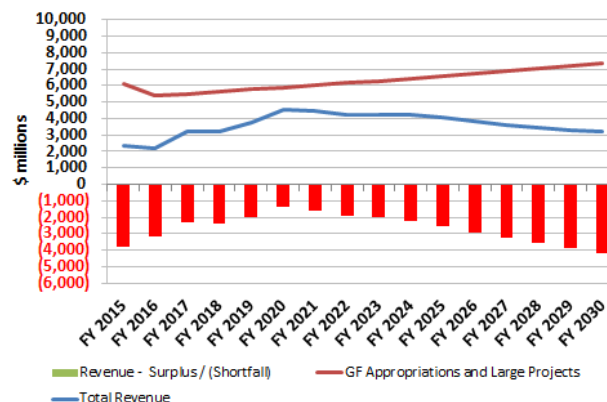
**Current Price: Break even Production = 1.6 million bbl/day**

# Options (Increase Revenue)

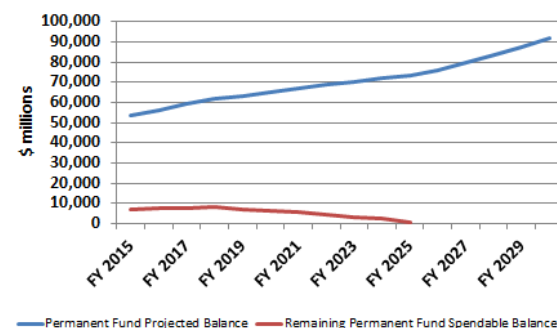
## CBRF & SBRF Balance



## Budget Overview



## Permanent Fund Balances



## Revenue Options

Inflation Assumption	2.25%
Long Run Price Of ANS Crude	Official Forecast

### Financial

PERS/TRS "Net" Arbitrage Bonds	<input type="checkbox"/> Add
Current PF Revenue Methodology	<input checked="" type="radio"/> Status Quo PF Revenue Methodology
Percentage of Market Value	<input type="radio"/> Implement POMV Methodology
POMV @ X%	4.0%
State Share of PF Revenues	0%
PFD Cap	No Cap
SB 114	<input type="radio"/> Implement SB 114
Collateralization Revenues	<input type="checkbox"/> Implement
Loan to Value Ratio	20%
Securitization Revenue (Only When Collateralization Enabled)	<input type="checkbox"/> Implement

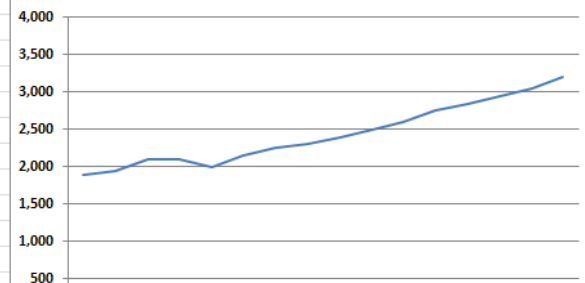
### Petroleum

Flat Tax for Non-CIT Petroleum Companies	<input type="checkbox"/> Add
Net Severance Tax - Additional Revenue	
Net Severance Tax - Current Base Rate 35%	<input type="checkbox"/> Change 35%
Gross Value Reduction	<input type="checkbox"/> Remove

## Fund Changes

Total Cuts From Budget (In Billions)	\$0.00
Total additional revenue generated (In Billions)	\$0.00

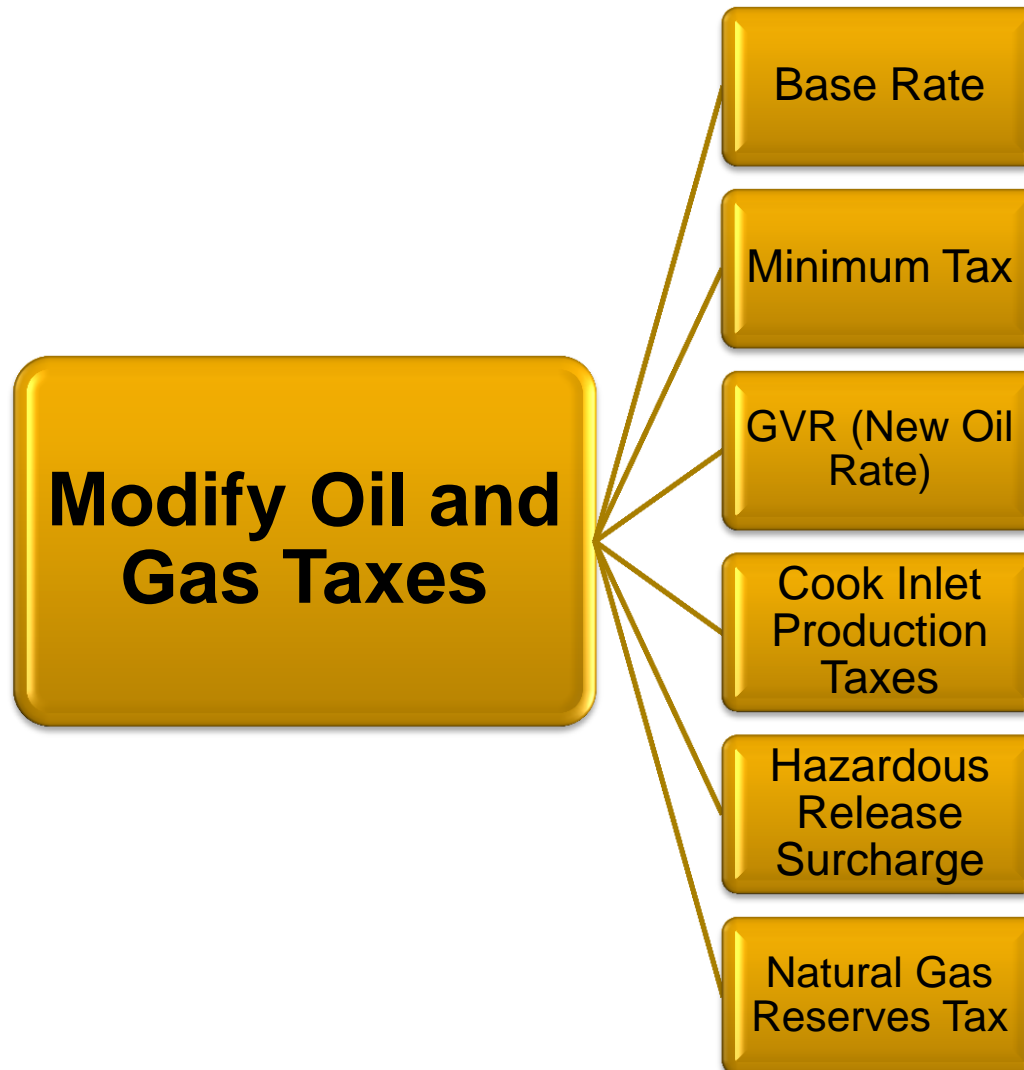
## Individual PFD Values



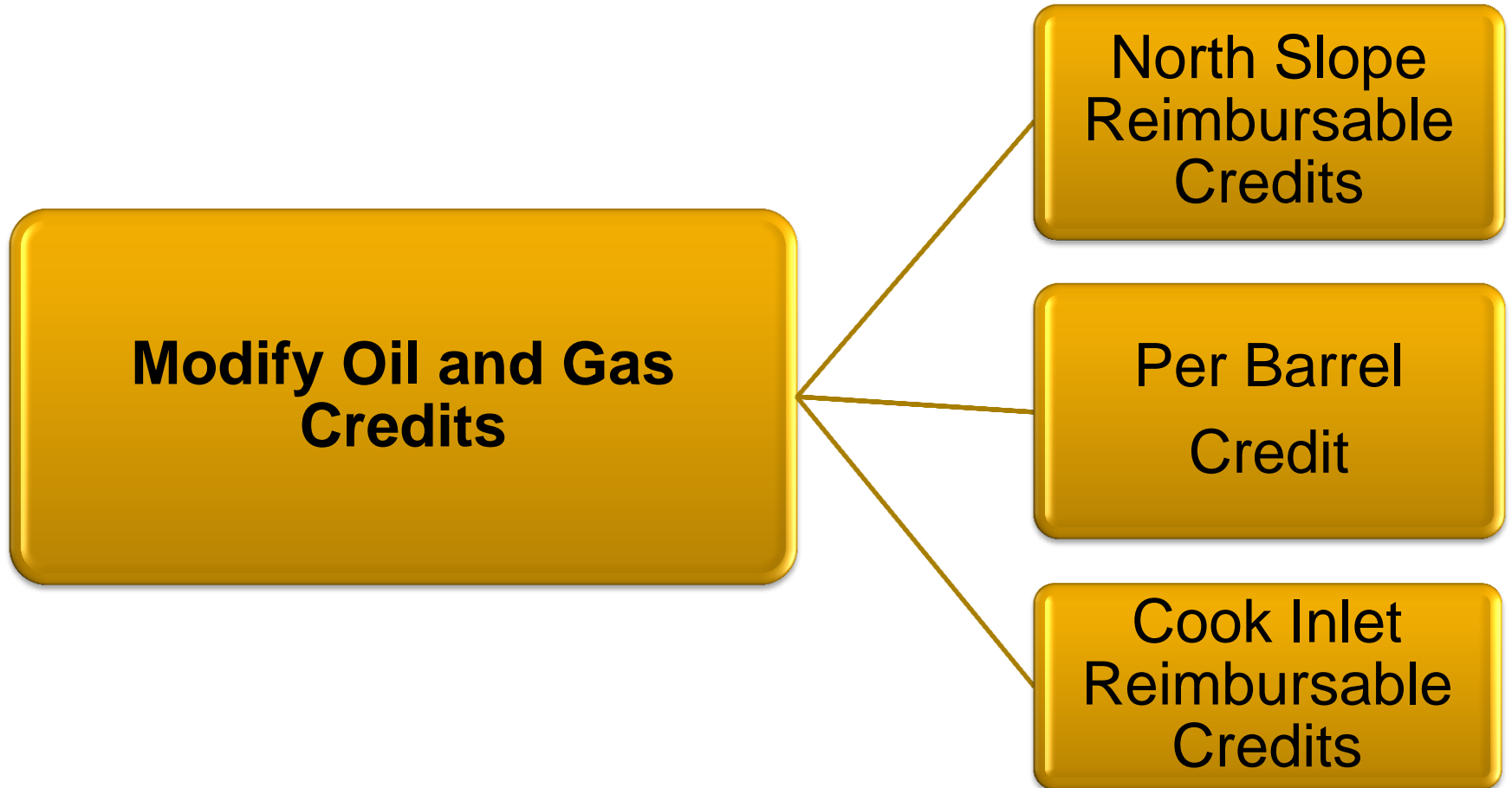
## Budget Options

State Budget General Funds Unrestricted	
DEPARTMENT OF ""	DEPARTMENT CUT AMOUNT
Administration	0%
Commerce, Community and Economic Development	0%
Corrections	0%
Education and Early Development	0%
Environmental Conservation	0%
Fish and Game	0%
Health and Social Services	0%
Labor and Workforce Development	0%
Law	0%
Military and Veterans' Affairs	0%
Natural Resources	0%
Public Safety	0%
Revenue	0%
Transportation and Public Facilities	0%
University of Alaska	0%
Office of the Governor	0%
Branch-wide Unallocated Appropriations	0%
Alaska Court System	0%

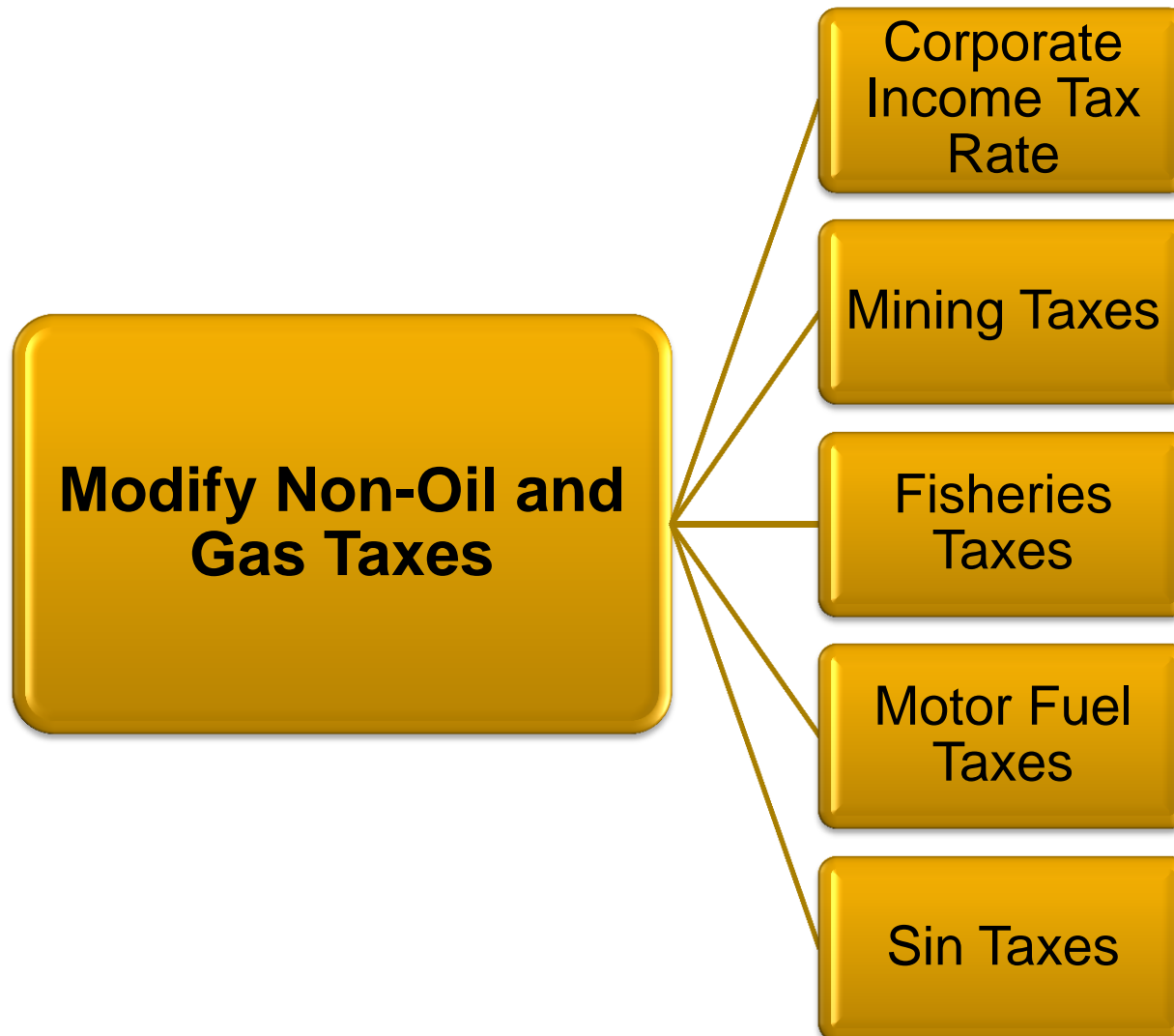
# Options (Increase Revenue)



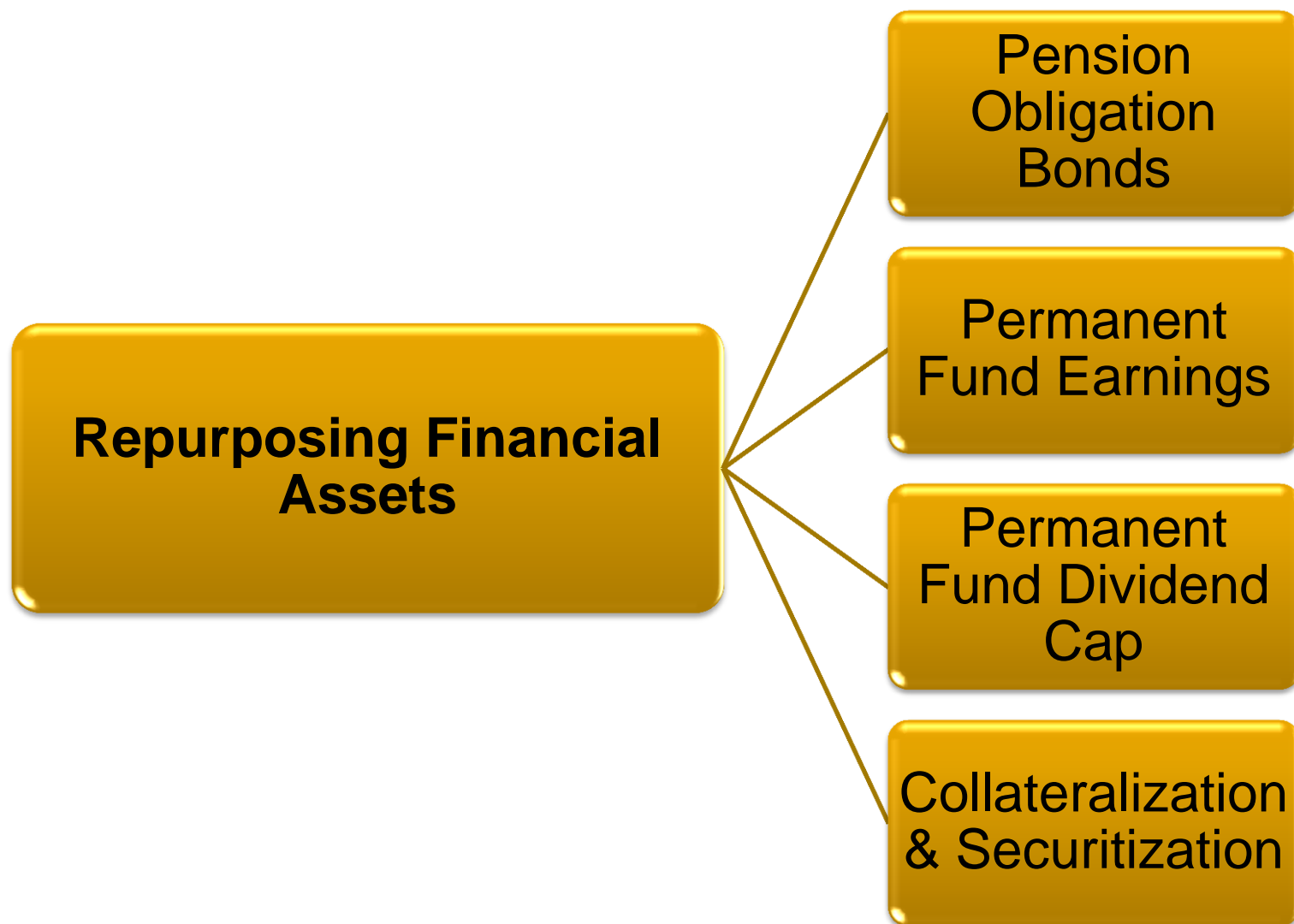
## Options (Increase Revenue)



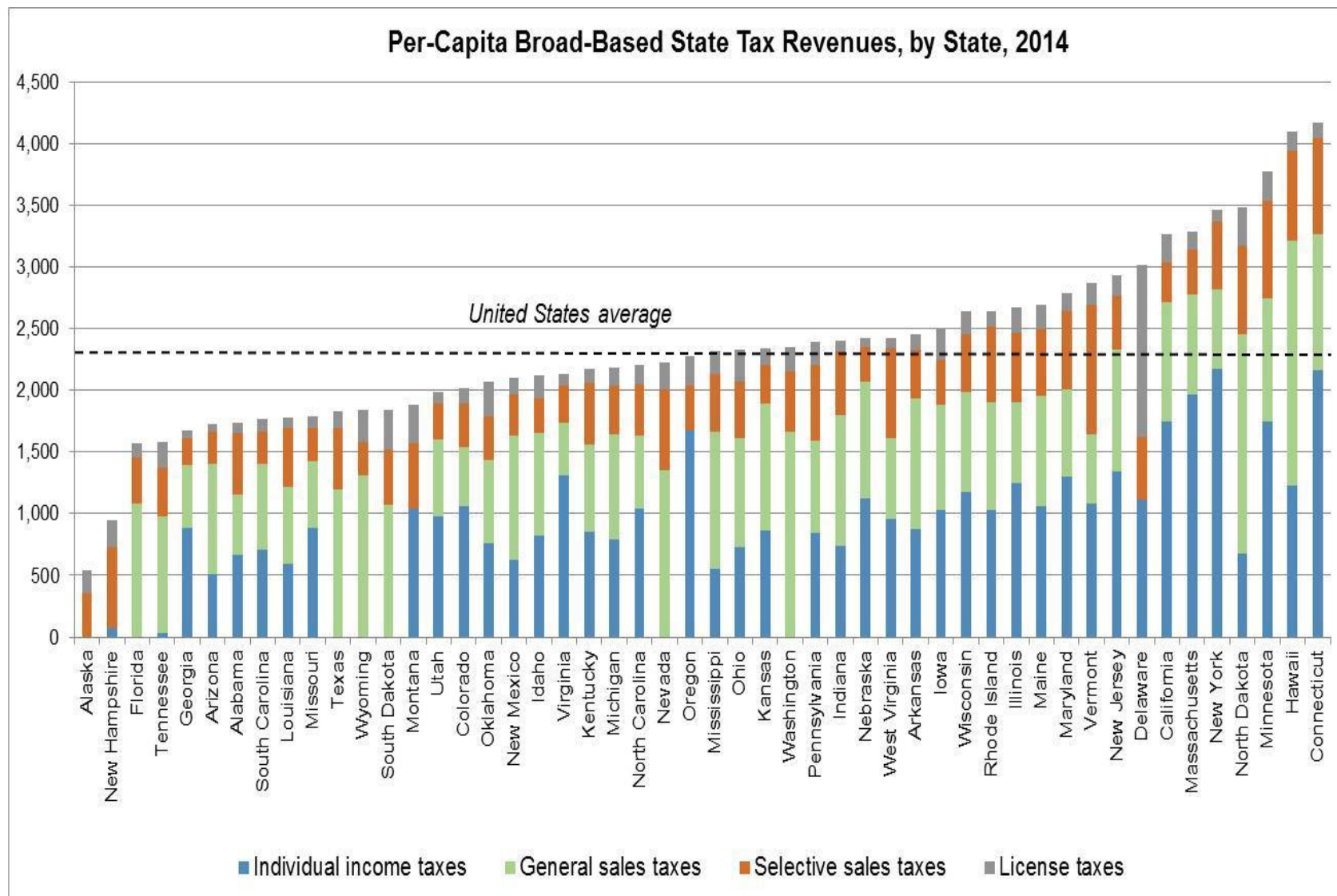
# Options (Increase Revenue)



## Options (Increase Revenue)



# Options (Increase Revenue)

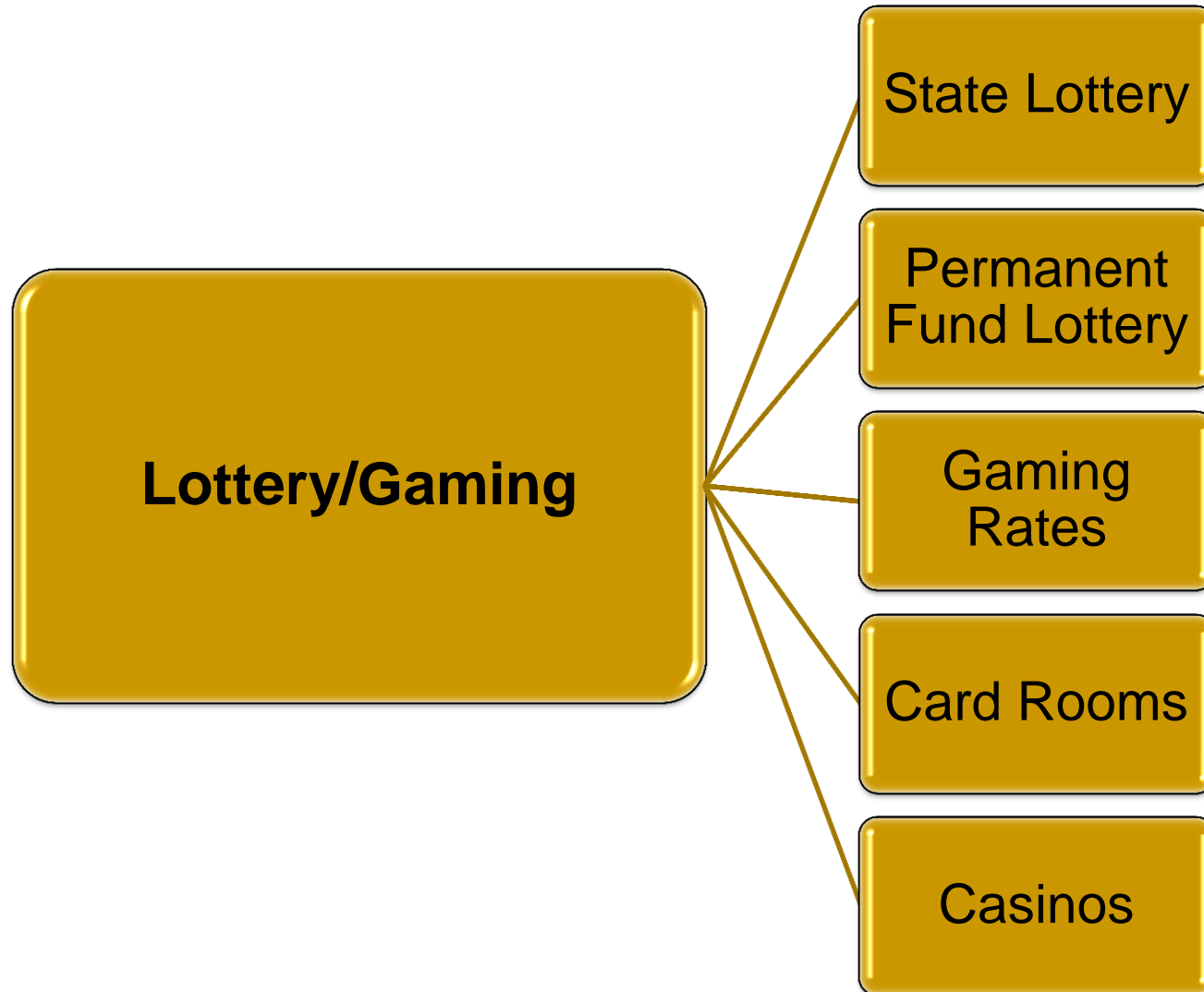


# Options (Increase Revenue)





# Options (Increase Revenue)



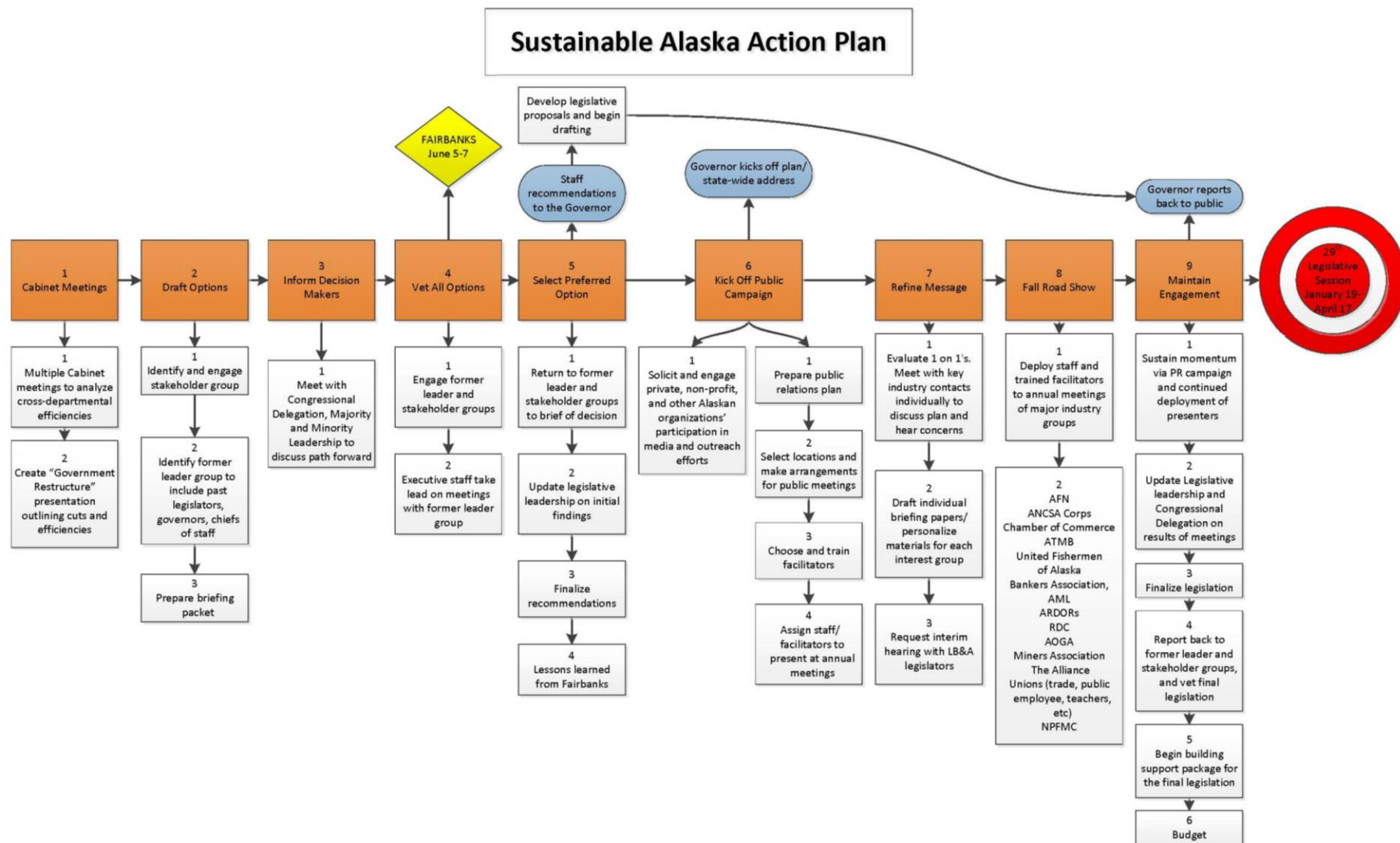
# The Conversation

Fiscal Challenge

Options

Path to Fiscal Stability

# Path to Fiscal Stability



# 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

**Events To  
Date: 17**

## September - December

- Fairbanks and Homer Chamber of Commerce
- Alaska State 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...

**Upcoming  
Events: 25+**

**There are no easy answers to balancing a \$3 billion annual deficit.**

**Takes some combination of four things:**

- 1. Continued budgetary restraint**
- 2. Taxes impacting individual Alaskans**
- 3. Changes to oil and gas taxes/credits**
- 4. Strategic use of our legacy assets**

**Next Steps....**

## Path to Fiscal Stability

*“We expect that if lawmakers do not enact significant fiscal reforms to reduce the imbalance within the next year, the state’s rating could begin transitioning downward. The rating migration lower would likely persist and accelerate if lawmakers continued to fail to act...”*

**Alaska Rating Outlooks Revised To Negative  
Reflecting Its Large Structural Deficit**

Standard and Poor’s Rating Service  
August 18, 2015 Report

## Further Conversations



---

**Randall J Hoffbeck**  
Commissioner, Department of Revenue

randall.hoffbeck@alaska.gov  
(907) 465-2300