



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

ALASKA'S ECONOMY

A bright future, but...
are we prepared?

Mike Navarre, Commissioner
Department of Commerce, Community and
Economic Development



Our future is bright...





Misconceptions

“We don’t need a fiscal plan because....”

- 1. “The status quo is ok, oil and gas will save us”**
- 2. “Economic development will save us”**
- 3. “Cutting government will save us”**

..let’s review these statements..



**Can't we just wait on oil and gas
development?
or
Oil price increases?**



Good news in oil and gas..

1. Modest increases in production

North Slope oil production forecast in 2018 at 533,000 barrels/day — up for the third year in a row



2. NPR-A beating expectations

Conoco beat its flow projections at CD5 within NPR-A



3. New prospects on the horizon

Conoco's Greater Mooses Tooth start-up late 2018.
ConocoPhillips at Willow, Caelus Energy at Smith Bay,
Armstrong, Repsol, Oil Search at Pikka & Nanushu





Maybe even better than good..

4. ANWR Potential

First ANWR lease sale could occur by 2021-2022



5. North Slope future looks bright

With more leasing in NPR-A, plus ANWR, plus new discoveries west of Prudhoe Bay, the North Slope has decades of production potential



6. LNG Project

The long-awaited North Slope gas line project could add to Alaska's success stories in the 2020s





Maybe even better than good..

4. ANWR Potential

First ANWR lease sale could occur by 2021-2022

All of this will require **billions** in private investment. When making a decision, investors look closely at profit potential and **fiscal stability**

5. No

With
discov
has de

6. LNG Project

The long-awaited North Slope gas line project could add to Alaska's success stories in the 2020s





Uncertainty is the enemy of investment

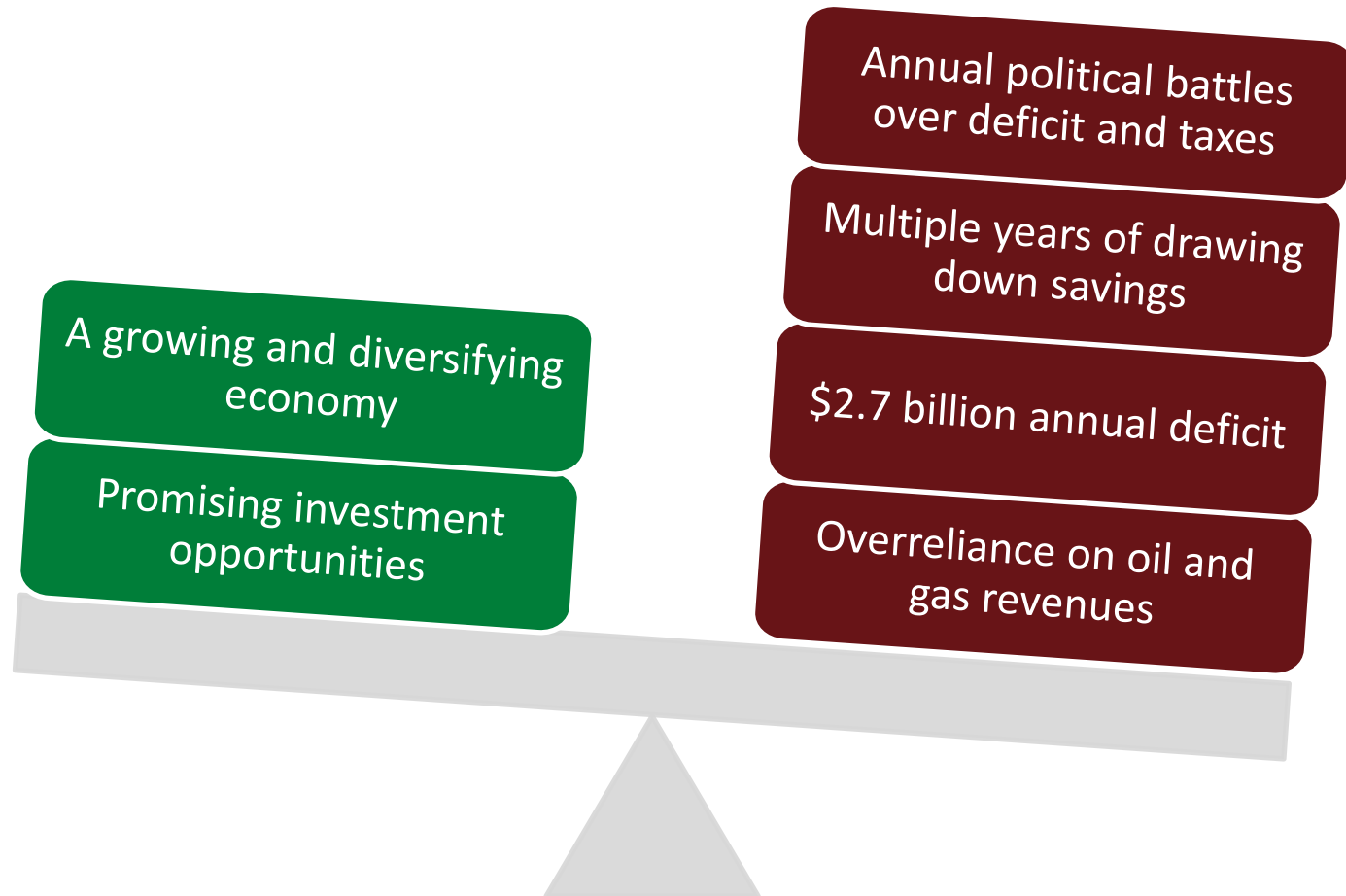
“ Private Construction spending in 2017 is supposed to be around 4 billion dollars. Using the 5 to 15% estimated by Jens (2013), we would conclude that **the direct effects of policy uncertainty is costing the state somewhere between 200 and 600 million in private capital spending.** The decline in spending due to policy uncertainty would indicate that **waiting is not a costless option.** ”

– Mouchine Guettabi, ISER (February 2018) *What do we know to date about the Alaska recession and the fiscal crunch?*



How does Alaska compete?

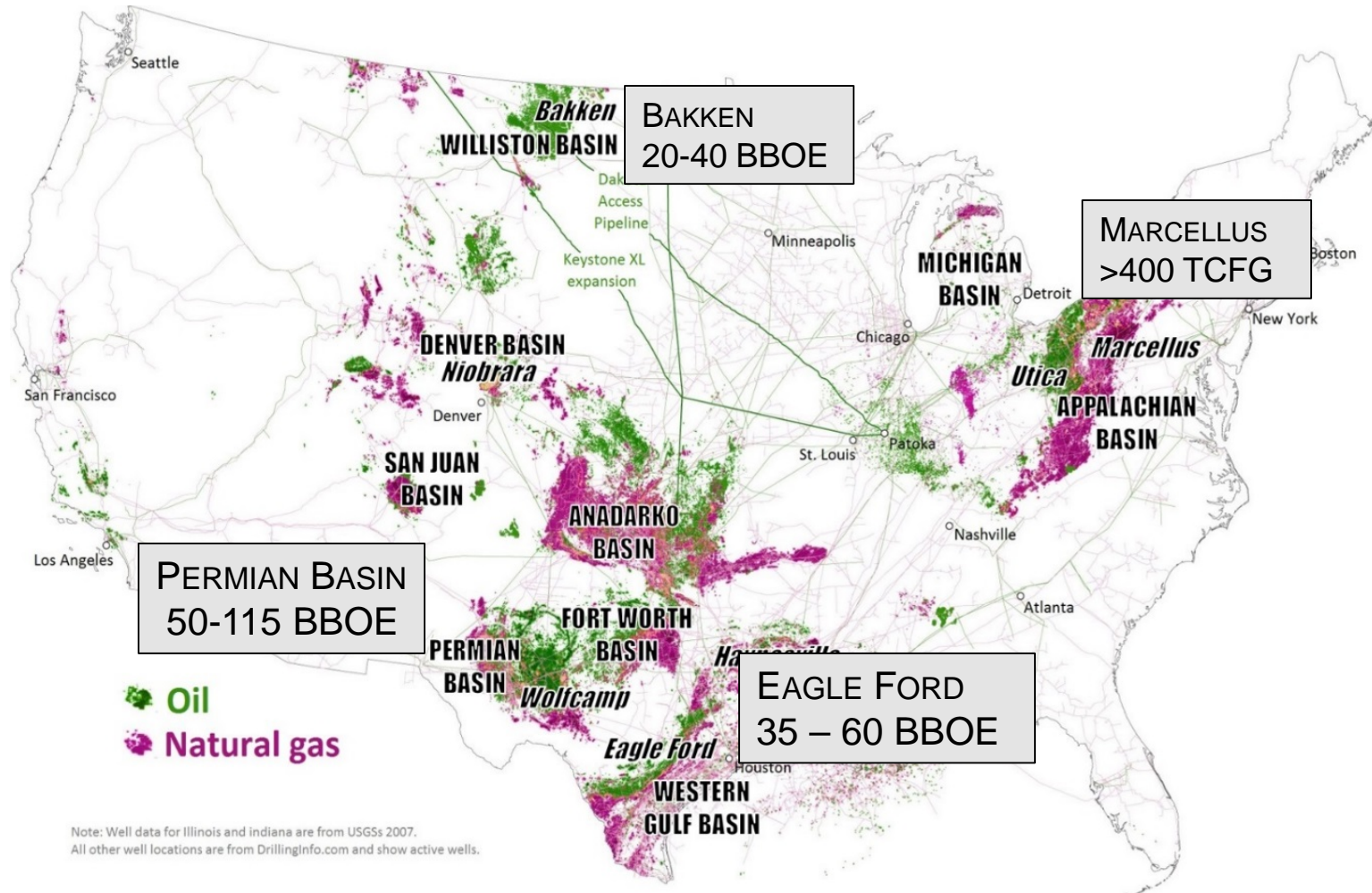
From an investors perspective...





Alaska's competition

Active oil and gas wells February 2017

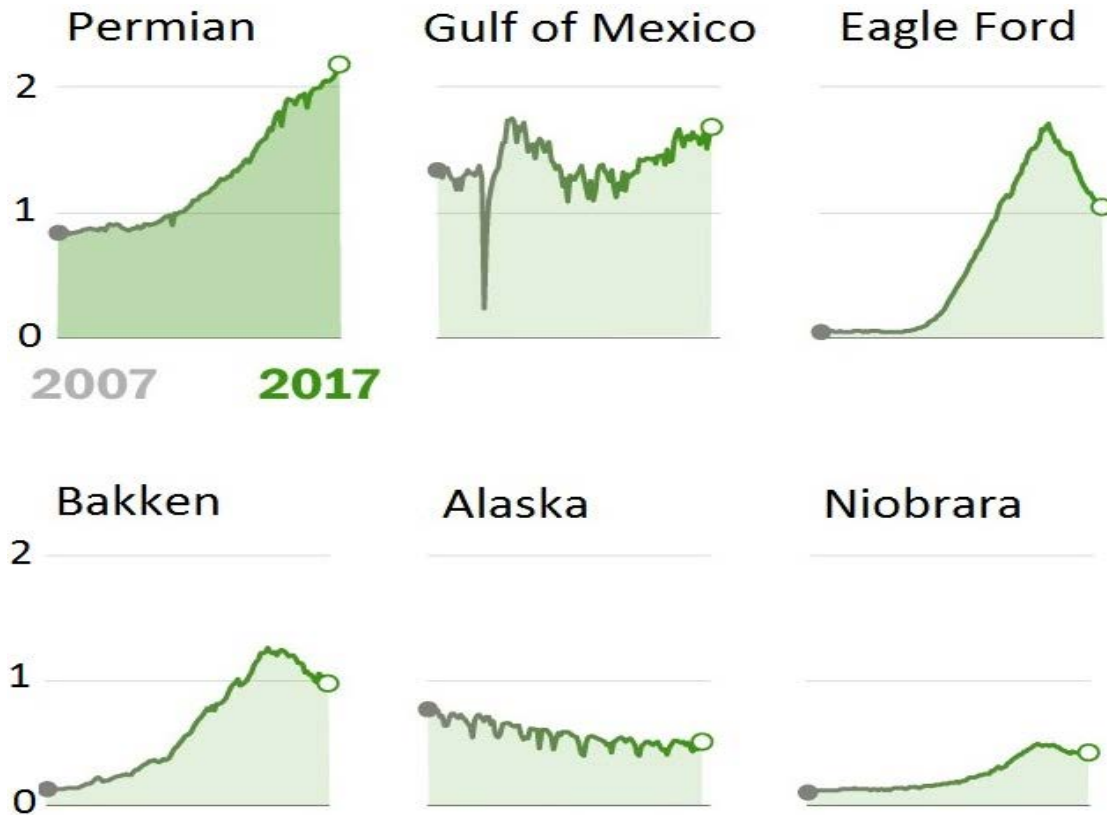




Alaska's competition

Oil Production by Geologic Region

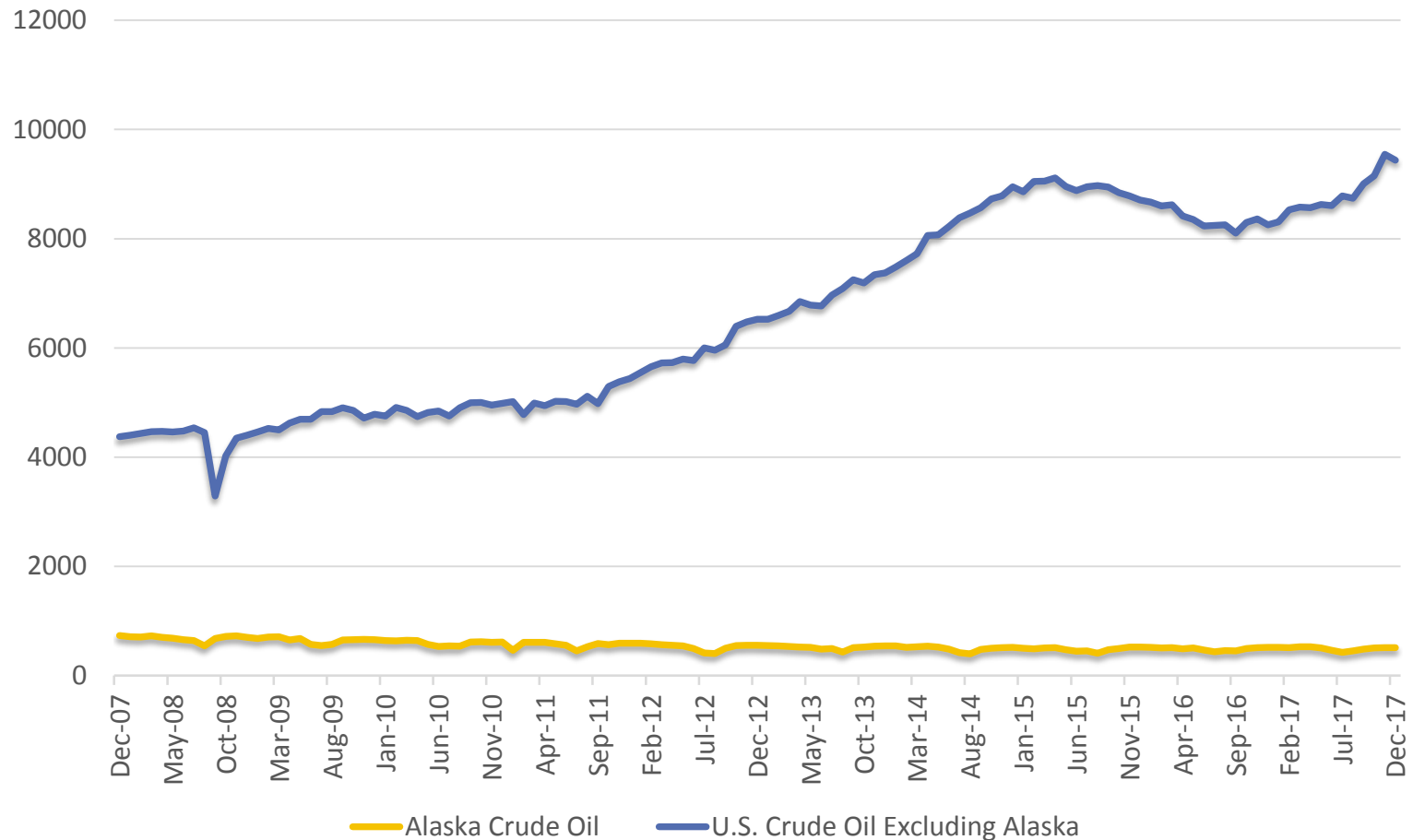
Millions of barrels of oil production per day, 2007-2017





Alaska's competition

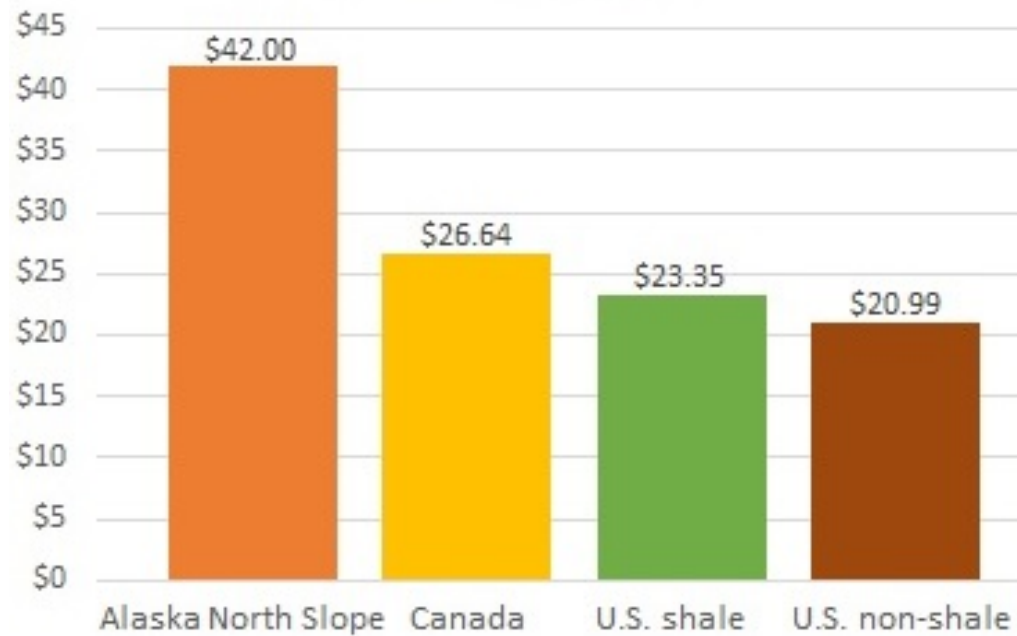
U.S. Crude Oil Production Thousand barrels of oil per day, 2017-2017





Are we competitive?

Production costs per barrel



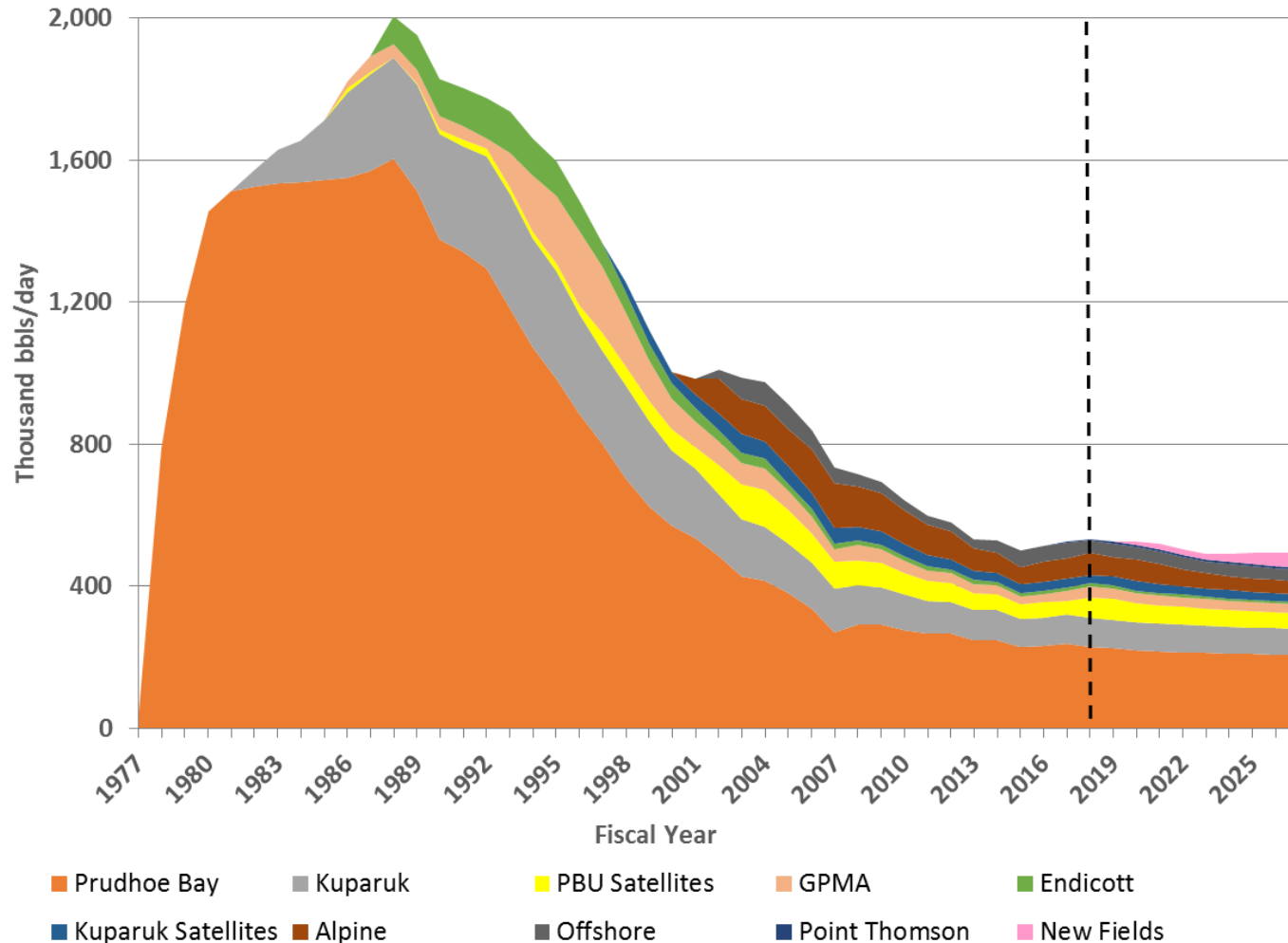
All numbers 2016. Cost is average of all barrels produced, including operating and capital expenses, transportation, royalty expenses, production and property taxes.

Sources: Alaska Department of Revenue Fall 2016 Revenue Source Book,
Rystad Energy UCube



Can we rely solely on oil and gas?

Production Forecast: ANS History and Forecast by Pool





“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real and significant disincentive to investment.



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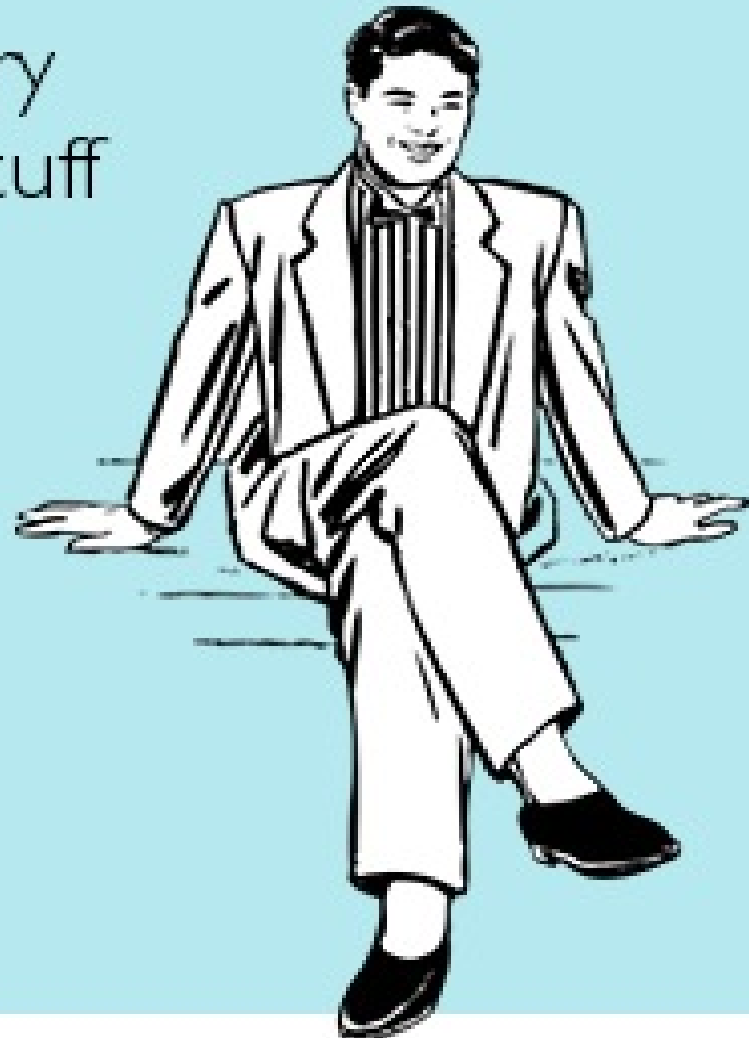
2. “Economic development will save us”



Is economic development alone the solution?



You seem to be very
well educated on stuff
that you made up.



som^{ee}cards
user card



Economic development scenario

1. Hypothesis: A company proposes a major investment in the Fairbanks North Star Borough
2. Evaluation: It must be economically viable for both the state and Fairbanks North Star Borough
3. Criteria: The project must pay its own way — no subsidies



Hypothetical new factory in Fairbanks



5,000 new jobs (1,000 jobs filled by local residents)



4,000 new residents, some with families



2,500 new students for the school district



\$1 billion capital investment



4,000 new housing units at an average taxable value of **\$200,000** per home



Fairbanks decision: New revenues



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes,
\$200,000 per home



\$1 billion capital
investment

\$10 million a year in
borough areawide
property taxes on the
new homes

\$12 million a year in
borough areawide property
taxes on capital investment

TOTAL: \$22 million / year



Fairbanks decision: More expenses



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes,
\$200,000 per home



\$1 billion capital
investment

2,500 students would be more than an 18% increase over current school district enrollment. The state pays almost 2/3 of the school district budget. An 18%-plus increase in the local share of K-12 funding would cost the borough about **\$10 million a year.**

TOTAL: \$10 million / year



Fairbanks - the math



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes
\$200,000 per home



\$1 billion capital investment



\$10 million a year in increased school funding

\$12 million available for other expenses



\$12 million a year in borough areawide property taxes on factory investment



Fairbanks - the math



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes
\$200,000 per home



\$1 billion capital investment



\$10 million a year in increased school funding

Decision:
Yes! The borough can cover the costs of the development.



\$12 million a year in borough areawide property taxes on factory investment



State - new revenues?



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes,
\$200,000 per home



\$1 billion capital
investment





State – new expenses



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes,
\$200,000 per home



\$1 billion capital
investment

\$5 million a year in
higher expenses for
troopers, highways,
courts, prisons, agency
operations, etc.

\$25 million a year in
increased school
funding costs (18% gain
in enrollment)



State – the math



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes
\$200,000 per home



\$1 billion capital investment

\$30 million in additional expenses
\$0 in new revenue

\$5 million a year in higher expenses for health care, law enforcement, etc.

\$25 million a year in increased school funding costs (18% gain in enrollment)



State - It doesn't add up



5,000 new jobs



4,000 new families



2,500 new students



4,000 new homes
\$200,000 per home



\$1 billion capital investment

\$5 million a year in higher expenses for courts, corrections, and health care

Decision:
The state budget would increase without new revenues

\$25 million a year in increased school funding costs (18% gain in enrollment)













The math

| Fairbanks North Star Borough | State of Alaska |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| 4,000 jobs move to Fairbanks Borough | 5,000 new jobs created in the borough |
| \$22 million in new tax revenues | No new revenues |
| \$10 million in new expenses | \$25 million in new expenses |
| \$12 million in new emergency services, social services, and other needs | \$5 million in new expenses for troopers, corrections, Medicaid, child care assistance, etc. |
| New revenues exceed new expenses | \$30 million in additional expenses, no new revenues |
| Can the borough afford it? Yes +\$12 million | Can the state afford it? No -\$30 Million |



Across communities, it's the same

| Alaska Community | Local Impact | State Impact |
|------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Kenai Peninsula Borough | +4M  | -26.5M  |
| Fairbanks North Star Borough | +12M  | -30.M  |
| Mat-Su Borough | +20M  | -27M  |
| City and Borough of Juneau | +13M  | -25M  |
| Municipality of Anchorage | +9M  | -20M  |



That was a hypothetical scenario

**...but diversifying Alaska's economy is
not hypothetical...**



FY18 state revenues

\$1.801 billion

Unrestricted petroleum revenue

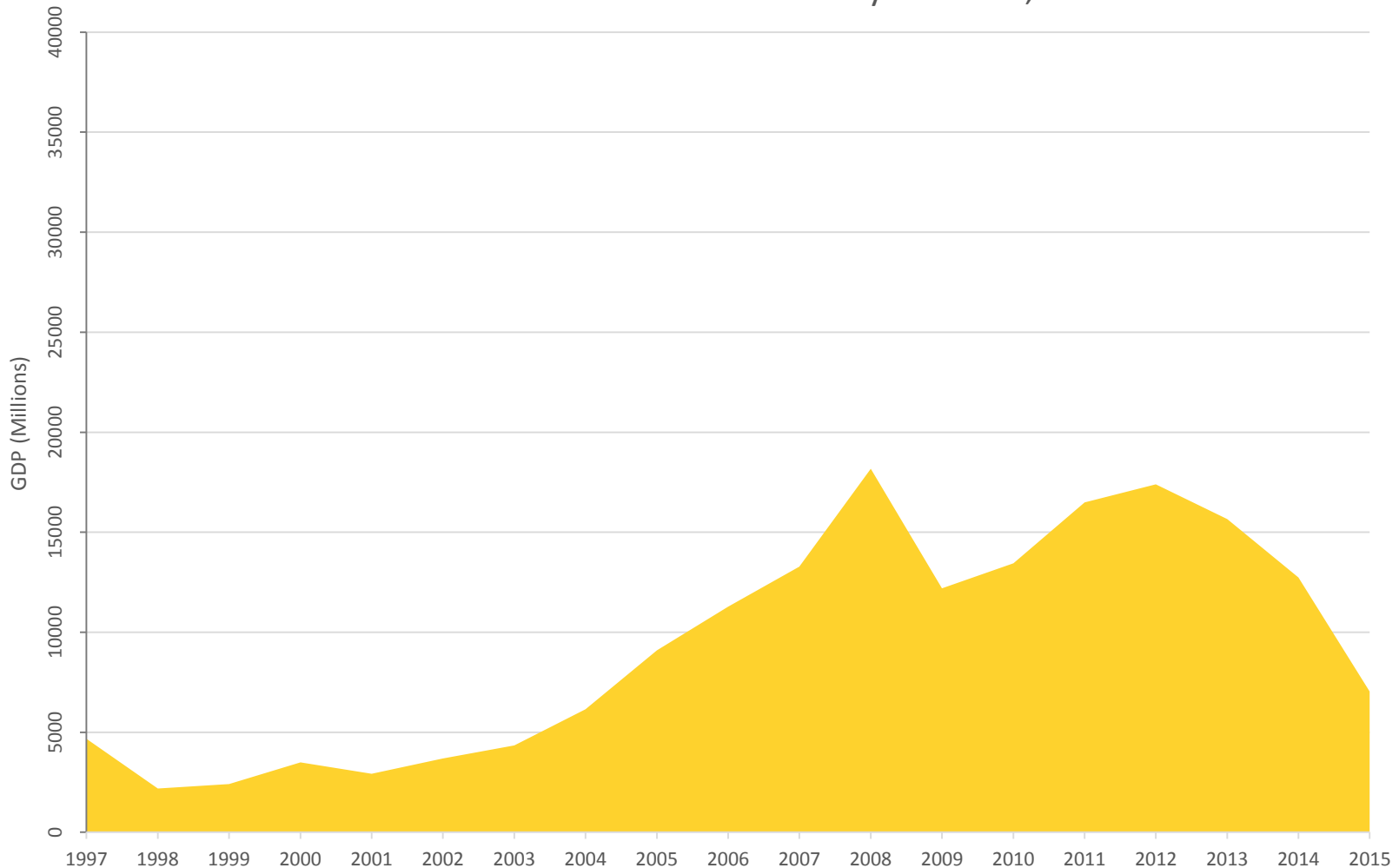
\$536 million

Non-petroleum unrestricted revenue (e.g. fishing, mining, motor fuel, alcohol, tobacco and marijuana taxes, corporate income taxes)



Oil and Gas GDP has grown, but is volatile

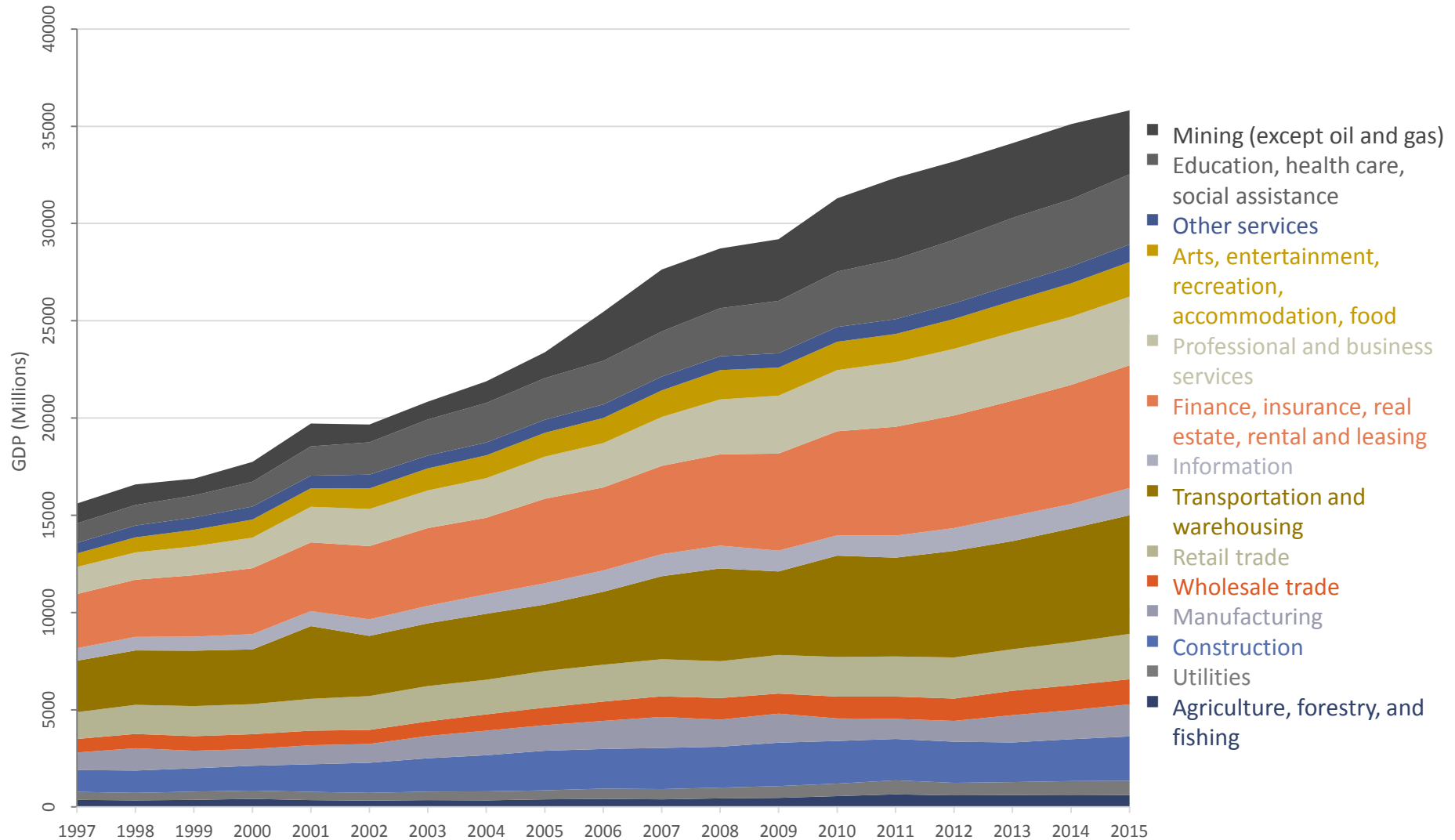
Nominal GDP of Oil and Gas industry in Alaska, 1997-2015





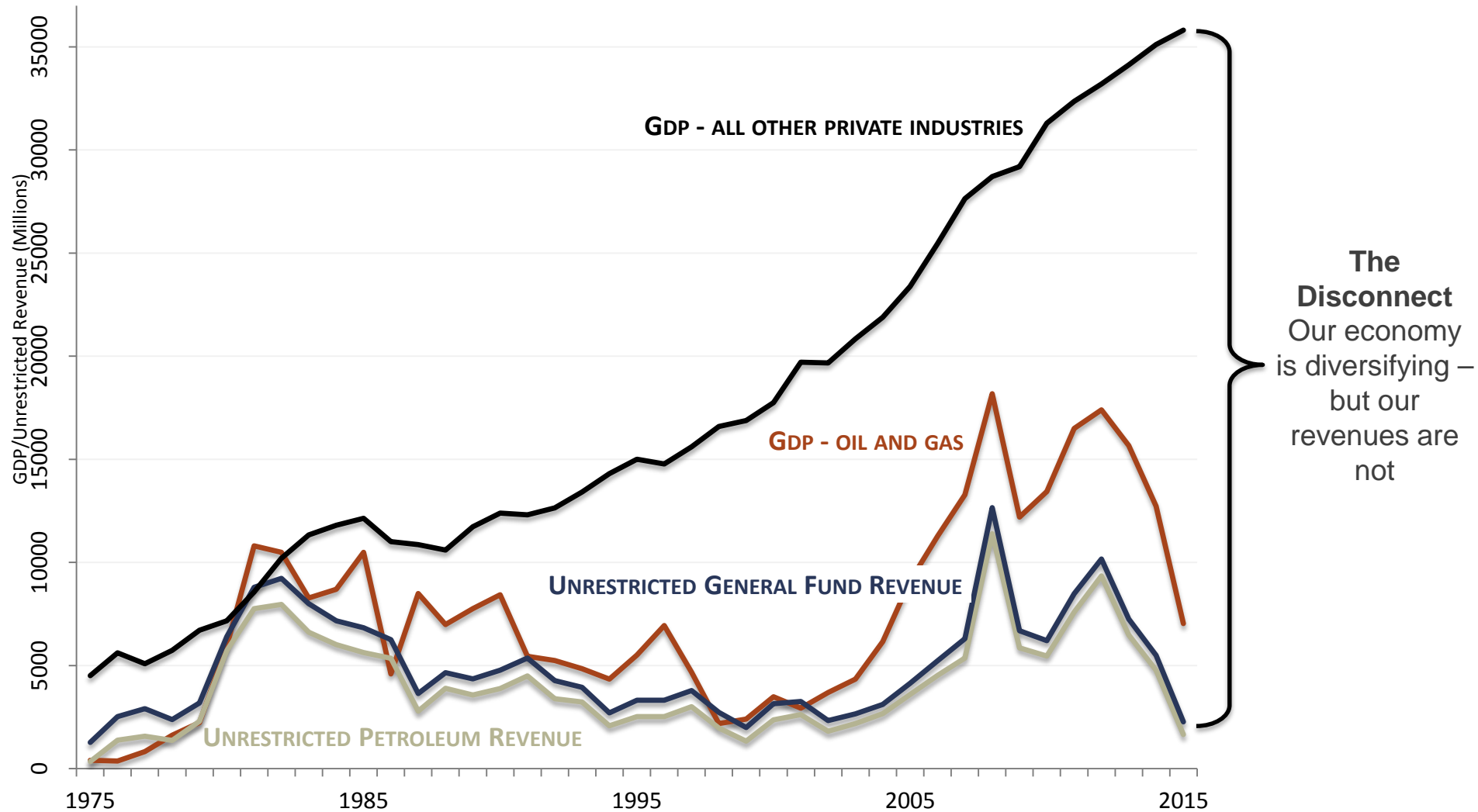
Other private sector industries growing steadily

Nominal GDP of All Other (non-petroleum) Private Industries, 1997-2015





The Disconnect





“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real and significant disincentive to investment.

2. “Economic development will save us”

The state needs to recognize the costs associated with economic development and determine how we’re going to pay for them. Our economy is developing and diversifying, our revenues are not.



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The state needs to be able to cover the costs associated with development. Our economy is developing and diversifying, our revenues are not.

3. “Cutting government will save us”

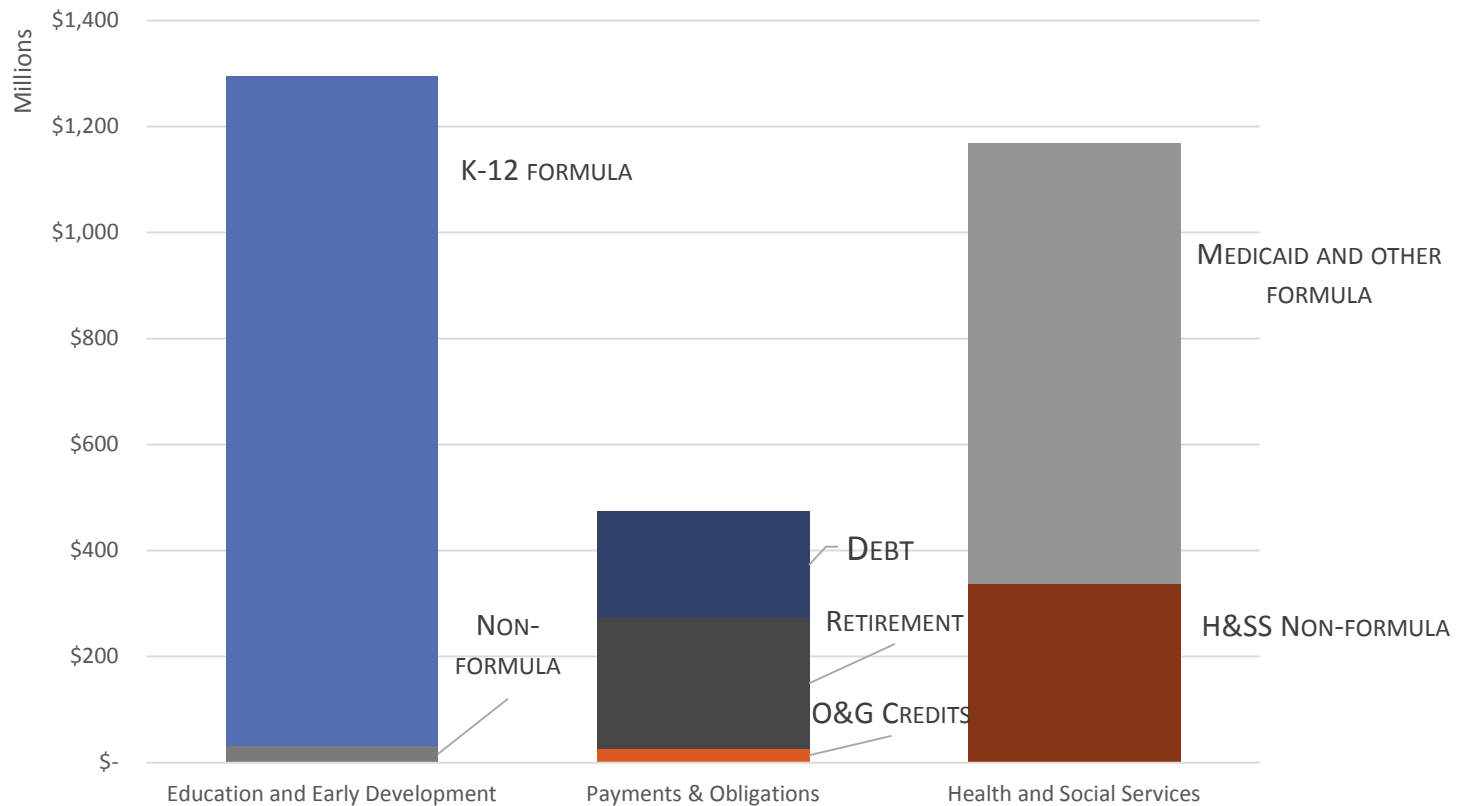


**Can't we just cut expenses
more?**



Cuts have real impacts on services..

Top Three Unrestricted General Fund Spending Categories (FY19 Proposed) Total \$2.9 billion





State funds matter locally

Municipalities and schools depend on state help

Fairbanks North Star Borough and School District

Fiscal Year 2017

Municipal community assistance

\$3 million

State reimbursement of school bond debt

\$9.6 million

State assistance for retirement liability

\$13.6 million

Foundation formula funding K-12 schools

\$116.7 million

Pupil transportation reimbursement

\$12.3 million

\$155 million state funds for Fairbanks Borough



State funds matter locally

Municipalities and schools depend on state help

| <u>Local Governments</u> | <u>Fiscal Year 2017</u> |
|------------------------------|------------------------------|
| Kenai Peninsula Borough | \$103 million |
| Fairbanks North Star Borough | \$155 million |
| Mat Su Borough | \$223 million |
| City and Borough of Juneau | \$59 million |
| Municipality of Anchorage | \$443 million |
| Total | <u>\$ 983 million</u> |



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3. “Cutting government will save us”

Cuts have real impacts that must be weighed. Cutting government means cutting services, cutting local funding, and real economic impacts.



The perfect solution?





The options...

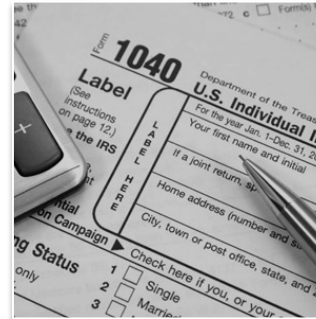


Budget Cuts?

- Easier said than done
- Priorities
- Philosophical differences
- Rhetoric
- Negative economic impacts

Taxes?

- Easier said than done
- Takes time
- Philosophical differences
- Rhetoric
- Negative economic impacts



Permanent Fund Earnings?

- Public Perceptions
- Political consequences
- Impacts to Permanent Fund growth
- Impacts to PFD
- Negative economic impacts

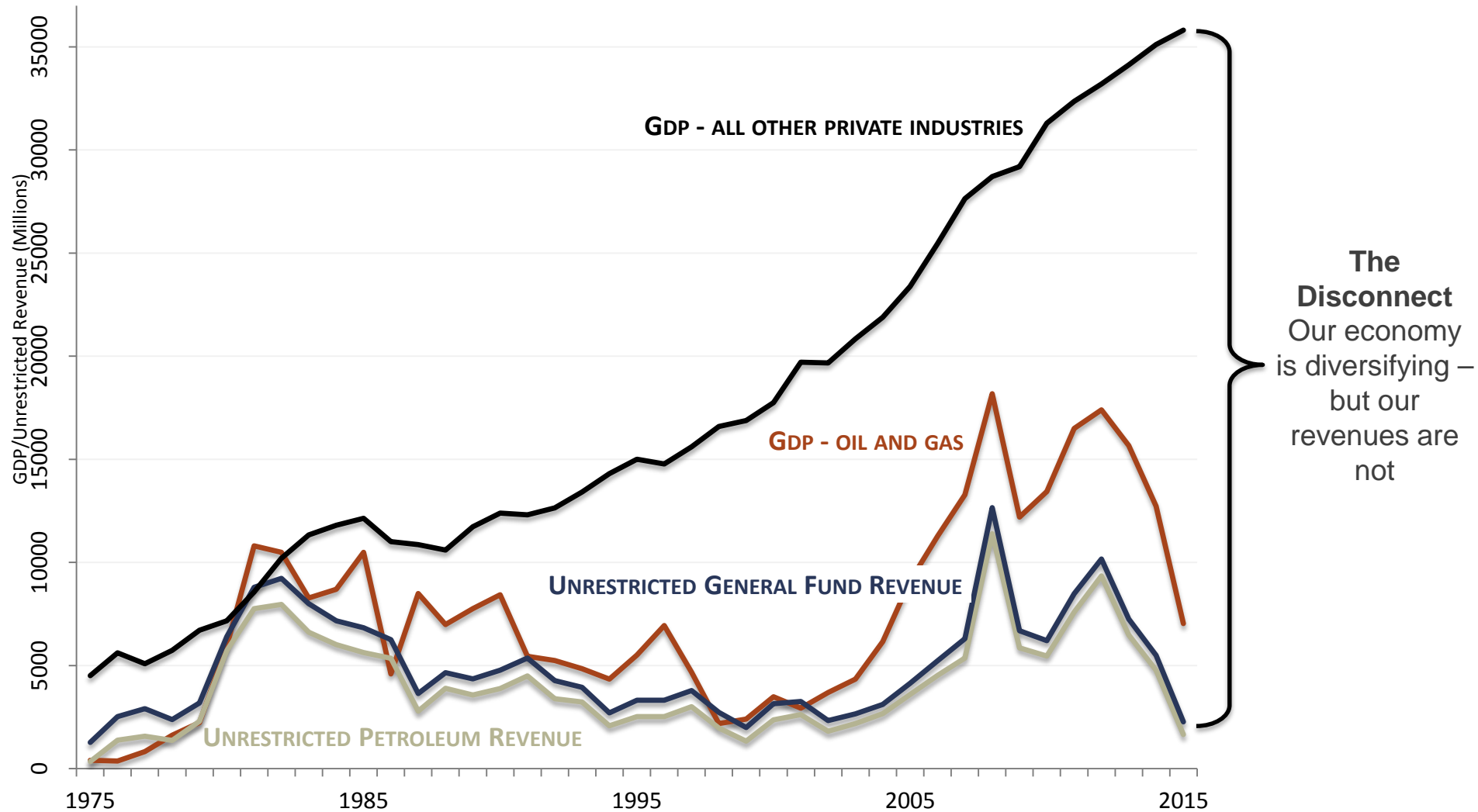


Our future is bright...





The Disconnect







For more information ...

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