State of Alaska
Update on Fiscal Outlook

House Finance Committee
April 22, 2020

Legislative Finance Division
www.legfin.akleg.gov

Outline

- Update on FY20/21 Fiscal Summary
  - Spring Revenue Forecast
  - Updated Fiscal Summary
  - Outstanding Items
- Outlook for FY22
- Longer-Term Outlook
- Federal Funds in CARE Act

Spring Revenue Forecast

- DOR released its Spring Revenue Forecast on April 6
- It assumed $51.65 average oil price in FY20 and $37 in FY21
- Minimal changes to production forecast – not updated based on March events
- Assumed the Alaska Permanent Fund's "low" FY20 projection (ending balance of $63.1 billion) and then 7% return in subsequent years
- Some non-petroleum forecasts updated but not all due to quickly changing situation

Spring Revenue Forecast (cont.)

Fall to Spring Forecast Comparison

ANS West Coast Price	FY20	FY21	FY22	FY23
Fall	63.54	59.00	61.00	62.00
Spring	51.65	37.00	41.00	44.00
Difference	(11.89)	(22.00)	(20.00)	(18.00)

North Slope Production	FY20	FY21	FY22	FY23
Fall	492.10	490.50	460.10	439.70
Spring	486.40	486.50	458.00	438.20
Difference	(5.70)	(4.00)	(2.10)	(1.50)

Spring Revenue Forecast (cont.)

Fall to Spring Comparison

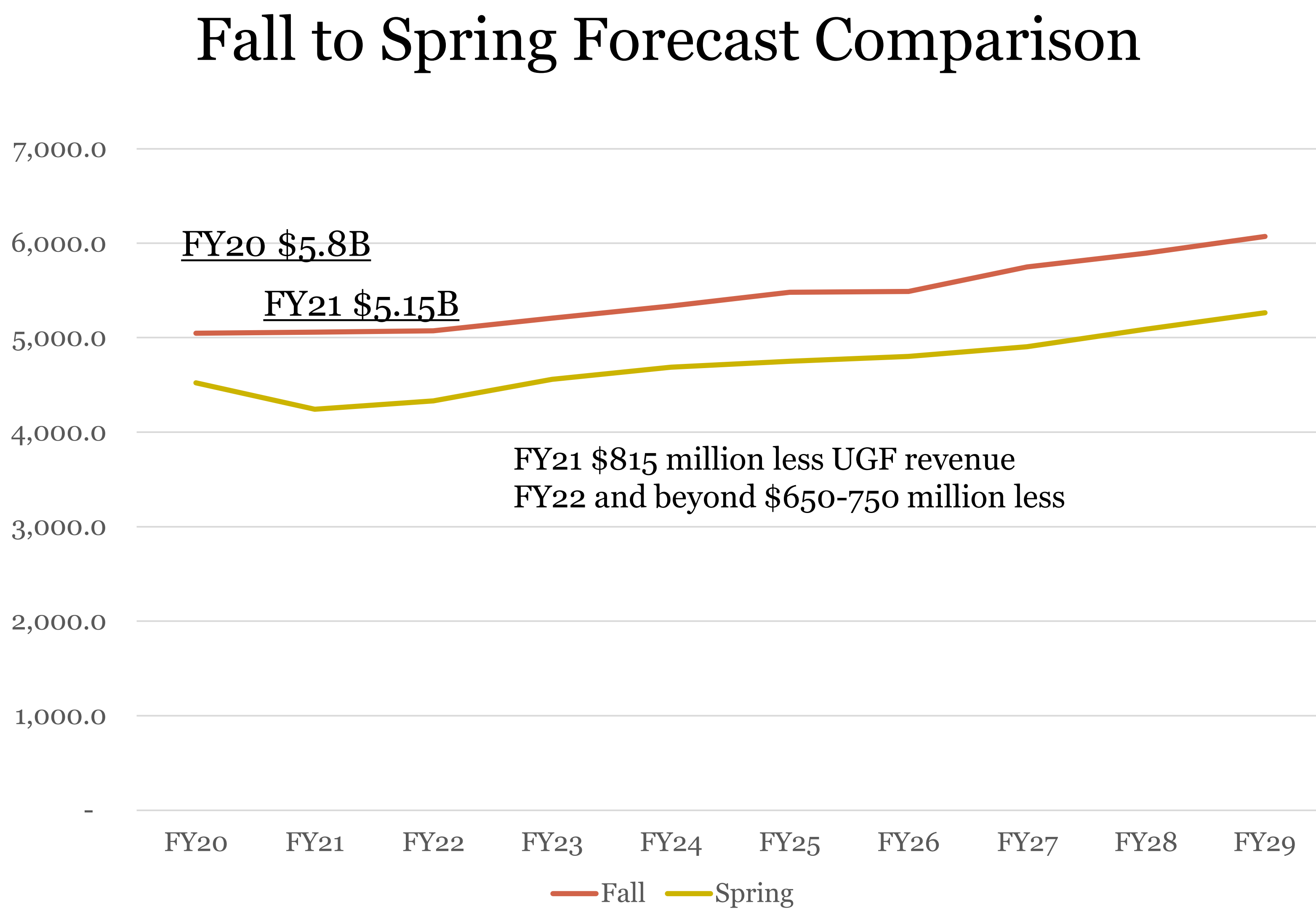
Petroleum Revenue	FY20	FY21	FY22	FY23
Fall	1,559.4	1,410.0	1,408.9	1,364.2
Spring	1,098.8	716.6	805.4	897.0
Difference	(460.6)	(693.4)	(603.5)	(467.2)

Non-Petroleum Revenue	FY20	FY21	FY22	FY23
Fall	556.9	557.5	567.5	580.7
Spring	490.4	436.2	476.8	499.2
Difference	(66.5)	(121.3)	(90.7)	(81.5)

POMV Revenue	FY20	FY21	FY22	FY23
Fall	2,933.1	3,091.5	3,095.0	3,262.0
Spring	2,933.1	3,091.5	3,048.0	3,164.0
Difference	-	-	(47.0)	(98.0)

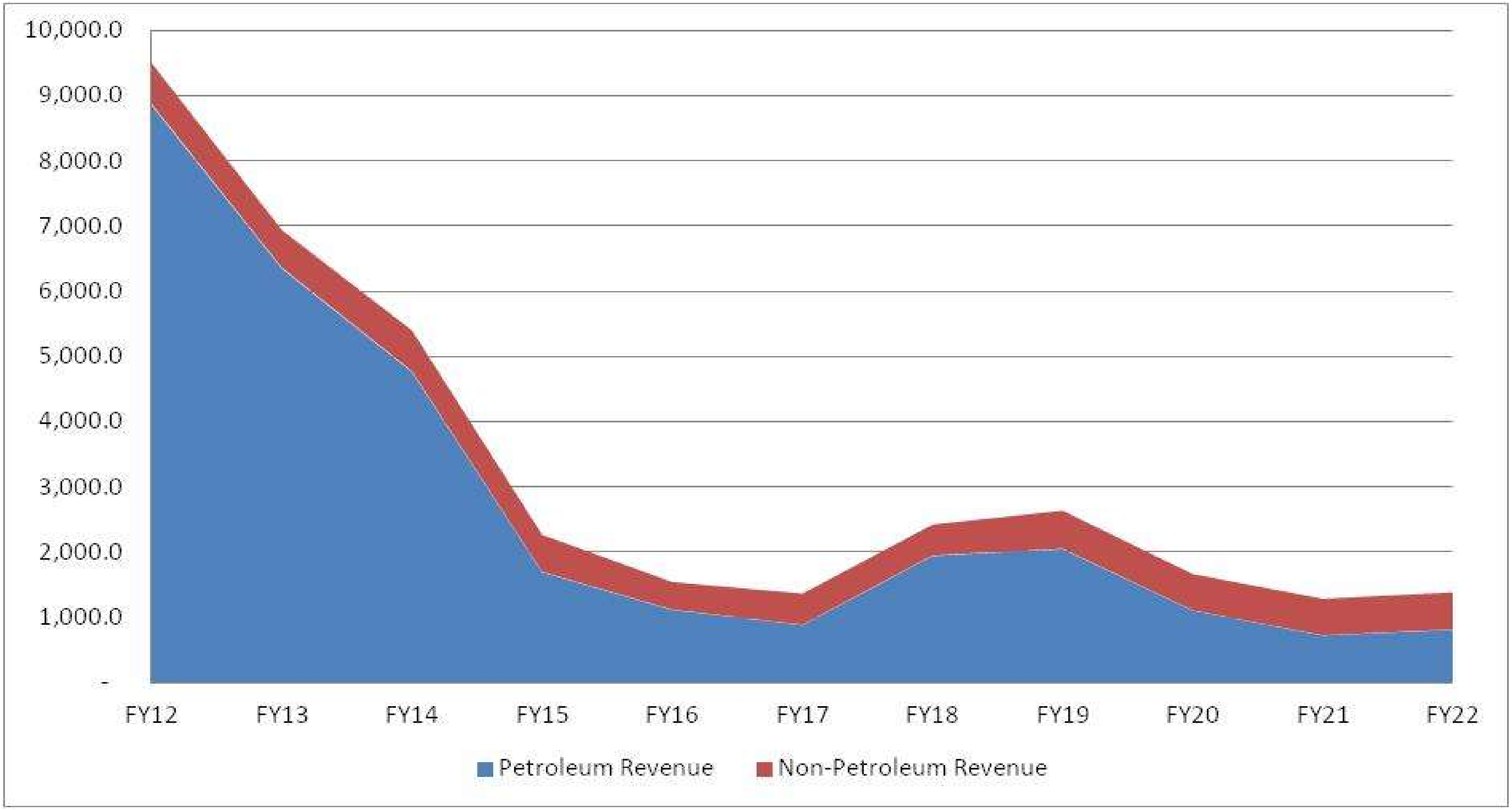
Total Revenue	FY20	FY21	FY22	FY23
Fall	5,049.4	5,059.0	5,071.4	5,206.9
Spring	4,522.3	4,244.3	4,330.2	4,560.2
Difference	(527.1)	(814.7)	(741.2)	(646.7)

Spring Revenue Forecast (cont.)



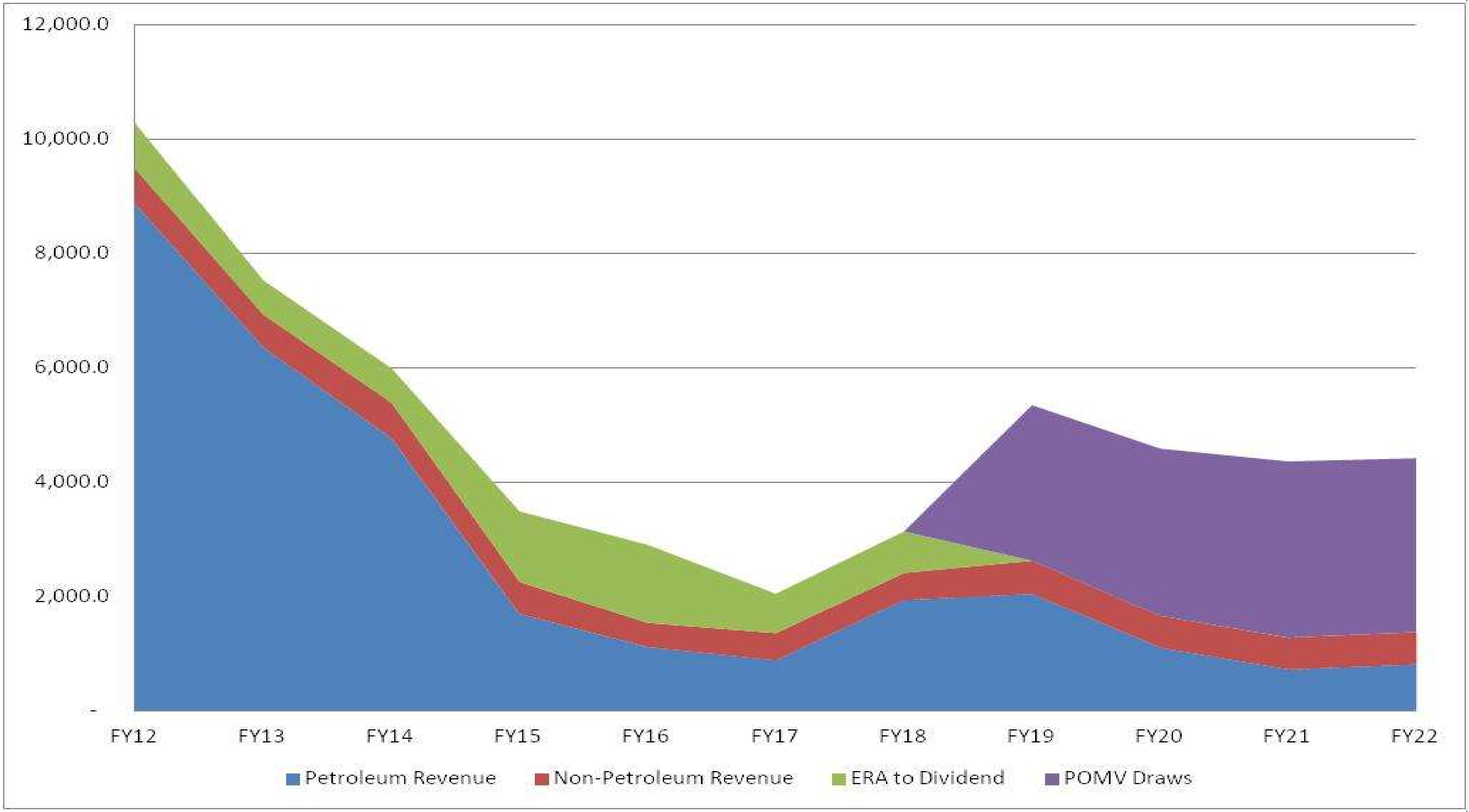
Spring Revenue Forecast (cont.)

FY12-22 Revenue Collapse



Spring Revenue Forecast (cont.)

FY12-22 Revenue Collapse



Spring Revenue Forecast (cont.)

- DOR’s Spring Forecast may be optimistic on both price and production
- The price collapse this week is unprecedented
- Due to the price and COVID-19, some companies have laid down rigs and announced investment reductions that will reduce long-term production

Spring Revenue Forecast (cont.)

- A note on extreme low oil prices
  - The negative prices this week were primarily a reflection of a broken futures market, not the actual value of oil. True oil prices are still positive (for now)
  - Producers pay taxes on average values, not daily values. If the price were zero for the rest of FY20, the average value for the year would still be nearly $46 per barrel
  - At $10 per barrel, transportation costs are covered
  - At $25 per barrel, operating expenditures for large fields are covered
  - At $40 per barrel, operating and capital expenditures are covered
  - At $79 per barrel, the FY20 budget would be balanced

Updated Fiscal Summary

- Short fiscal summary available at http://www.legfin.akleg.gov/FisSum/FY21-Budget.pdf

	FY20	FY21
Revenue	$4,560.5	$4,244.3
Budget	5,474.4	5,152.2
Supplementals	399.2	-
Total	5,873.6	5,152.2
Deficit Draw SBR/CBR	(1,313.1)	(968.2)

Updated Fiscal Summary (cont.)

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Constitutional Budget Reserve

	FY20	FY21
Start Balance	**2,293.7**	**1,421.1**
Deposits/earnings	268.1	84.5
Draws	(1,140.7)	(968.2)
End Balance	**1,421.1**	**537.4**

- The CBR balance includes $464.9 million that is currently held in the General Fund as short-term cashflow borrowing. Excluding that amount, the CBR balance would be $72.5 million

Outstanding Items

- HB 205 contained an incomplete capital budget. Governor's budget included $172 million of projects that were left out of HB 205
  - Of those, $35.3 million were UGF
  - Additional items like deferred maintenance and school construction and major maintenance could increase the UGF cost
- Fire suppression and other items could require FY21 supplemental
- Legislature did not fund $55 million for tax credit debt service
- Governor vetoed $210 million UGF

Outlook for FY22

- The CBR will be functionally empty after FY21 at Spring Forecast level
  - Remaining balance is entirely used for cashflow
  - Cashflow amount would require more costly alternatives (designated funds, revenue anticipation notes, etc.)
- If prices and production are below Spring Forecast, CBR could be empty before the end of FY21
- If federal funds can be used to counteract vetoes in FY21, it's a one-time fix. What about FY22. Will be difficult to keep budget flat

Outlook for FY22 (cont.)

- Based on a flat budget and 50% funding of school debt reimbursement, the FY22 budget would have a deficit of over $300 million before paying a dividend
- With a $1,000 dividend, the deficit would be over $1 billion
- With a statutory dividend, the deficit would be nearly $2.4 billion
- Without the luxury of the CBR the structural budget deficit must be addressed - continued budget reductions and new diversified revenue sources
- Overdrawing the ERA has a cost. Each $1 billion drawn from Permanent Fund increases future deficits by $50 million annually

Longer-term outlook

- Extreme uncertainty in oil market and economy in general. Long-term predictions made today are total conjecture
- Changing the permanent fund dividend formula is not enough to close the structural budget deficit. Further structural budget reductions and new revenue sources are required to have a structurally balanced budget

Federal Funding in CARES Act

- Some funds will flow directly to recipients
  - Tribes, some airport funding, health care facilities, $1,200 stimulus check, small business loans, etc.
- Some funds will flow through the State with existing appropriations
  - HB 205 gave open-ended federal receipt authority for unemployment, Medicaid, and Public Health
  - Existing federal authority may be able to capture some smaller items like Community Development Block Grants
- Additional Funds to be appropriated by the legislature