

State of Alaska

FY2019 Budget Overview

Office of Management and Budget

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Senate Finance Committee

1/17/2018

Key Budget Items

Safer Alaska

Public Safety Investments - \$34.0 million; 18 positions

- \$2.9 million for enhanced trooper and prosecutor presence in rural Alaska
- \$18.0 million for substance abuse treatment grants
- \$10.4 million for Corrections prison operations
- \$0.2 million for statewide drug prosecutor
- \$0.6 million for support positions to free trooper time
- \$0.5 million public defender support
- \$1.0 million Anchorage prosecutor/investigator positions

Medicaid

- Medicaid fully funded

Health Care

- \$1.0 million for continued work towards health care authority (\$0.75 million) and stakeholder process for broader Alaska health care reform strategies (\$0.25 million)

Key Budget Items

Stronger Alaska

Oil and Gas Exploration Credits

- Debt refinancing
- Statutory calculation would pay credits off in FY2025
- Small producers offered the opportunity to receive payment today at a discount
 - Discount starts at 10%, reduced for additional future royalty interest
- Discount covers state's financing costs (budget neutral)

Alaska Liquefied Natural Gas Pipeline

- Signed 5-party agreement
 - For the first time, interested buyers are coming to the table
 - Natural gas is available to Alaskans, first and foremost
 - Over 12,000 jobs and \$2.0 billion in annual economic activity
 - Future revenue stream to the state
- Budget only includes authority to accept third party investor funds but no additional state funds requested

Key Budget Items

Base Capital Budget

The Governor's FY2019 capital budget prioritizes annual federal match programs, housing, energy, maintenance, and information technology.

| | UGF | Total |
|--------------------------|----------|------------|
| Federal Match & Leverage | \$ 103.4 | \$ 1,108.6 |
| Housing | \$ 15.0 | \$ 30.3 |
| Energy | \$ 1.3 | \$ 34.2 |
| Maintenance | \$ 16.3 | \$ 24.5 |
| Information Technology | \$ 14.0 | \$ 87.6 |
| Total | \$ 150.1 | \$ 1,285.2 |

Table in Millions

Key Budget Items

Stronger Alaska

Alaska Economic Recovery Act

- \$800.0 million over 3 years (\$280.0 million in FY2019)
- \$1.4 billion in economic impact with federal, local, and private funds
- Housing, state and school deferred maintenance, and energy projects
 - Many smaller projects to ensure work is started today, not after years of environmental studies
 - School maintenance impacts 60+ communities, both rural and urban
 - Does not grow government, takes care of current liabilities
- Funded by a 1.5% wage tax, capped at 2 times the PFD amount
 - Receipts designated for high-value capital projects
 - Sunsets in 2.5 years
- **Creating jobs and getting the economy working is priority #1. Reassess in 2022**

Key Budget Items

Alaska Economic Recovery Act

| Investment Category | Phased Investment | | | Estimated Economic Impact | | | |
|---|-------------------|----------------|----------------|---------------------------|----------------|----------------|------------------|
| | FY19 | FY20 | FY21 | State | Federal | Local | Total |
| K-12 Major Maintenance Grant Fund (AS 14.11.007) | \$70.0 | \$65.0 | \$55.0 | \$190.0 | \$0.0 | \$50.0 | \$240.0 |
| UA Deferred Maintenance, Renovation, Repair and Equipment | \$70.0 | \$65.0 | \$55.0 | \$190.0 | \$25.0 | \$25.0 | \$240.0 |
| State Deferred Maintenance, Renovation, Repair and Equipment | \$50.0 | \$47.0 | \$46.0 | \$143.0 | \$10.0 | \$0.0 | \$153.0 |
| Critical Infrastructure Repair and Upgrade | \$47.0 | \$57.0 | \$58.0 | \$162.0 | \$200.0 | \$100.0 | \$462.0 |
| Port of Anchorage Phase 1 requires Municipal Match | \$40.0 | \$0.0 | \$0.0 | \$40.0 | \$0.0 | \$67.0 | \$107.0 |
| Highway Match to Maximize Available Federal Funds | \$7.0 | \$4.0 | \$6.0 | \$17.0 | \$170.0 | \$0.0 | \$187.0 |
| Future Maintenance Priorities | | \$53.0 | \$52.0 | \$105.0 | \$30.0 | \$33.0 | \$168.0 |
| Community Needs and Housing Investments | \$43.0 | \$36.0 | \$36.0 | \$115.0 | \$60.0 | \$30.0 | \$205.0 |
| Municipal Harbor Facility Grant Fund Projects | \$10.0 | \$10.0 | \$10.0 | \$30.0 | \$0.0 | \$30.0 | \$60.0 |
| Alaska Energy Authority - Bulk Fuel Upgrades | \$5.0 | \$5.5 | \$5.5 | \$16.0 | \$40.0 | \$0.0 | \$56.0 |
| Emergency Medical Services Match for Code Blue | \$1.0 | \$0.5 | \$0.5 | \$2.0 | \$0.0 | \$0.0 | \$2.0 |
| Weatherization Program | \$15.0 | \$10.0 | \$10.0 | \$35.0 | \$8.0 | \$0.0 | \$43.0 |
| Housing Facility Maintenance Program (AHFC) | \$7.0 | \$5.0 | \$5.0 | \$17.0 | \$12.0 | \$0.0 | \$29.0 |
| Supplemental Housing Development Program | \$3.0 | \$3.0 | \$3.0 | \$9.0 | \$0.0 | \$0.0 | \$9.0 |
| Senior Citizens Housing Development Program | \$2.0 | \$2.0 | \$2.0 | \$6.0 | \$0.0 | \$0.0 | \$6.0 |
| Advancing Existing Projects | | | | | | | |
| Restart Paused Road Projects | | | | | | | \$100.0 |
| Total | \$280.0 | \$270.0 | \$250.0 | \$800.0 | \$295.0 | \$205.0 | \$1,400.0 |
| Revenue Estimate | \$160.0 | \$320.0 | \$320.0 | \$800.0 | | | |

Cost Avoidance - Efficiency

Smarter Alaska

Office of Information Technology

The purpose of this centralization is to deliver lower cost information technology services by leveraging the purchasing power of the state as a single organization.

Shared Services

The Shared Services initiative resulted in a ten percent savings to back-office administrative functions during its first year. An additional ten percent savings will be realized in fiscal year 2019.

Facilities Consolidation

The new Facilities Services division strives to place the right maintenance employee at the right facility at the right time to better care for state facilities and realize savings.

| Savings from Shared Services and Other Efficiencies (All funds - \$ millions) | | | | | |
|---|--------|-------|--------|-------|-----------|
| | FY2019 | | FY2020 | | FY2021 |
| Office of Information Technology | \$ | (1.3) | \$ | (5.0) | \$ (12.0) |
| Shared Services of Alaska | | (1.0) | | (2.0) | (3.0) |
| Additional Administrative Efficiencies | | (0.5) | | (1.0) | (2.0) |

Cost Drivers – Health Care

Health care costs funded directly and indirectly in state budget

| Fiscal Year 2019 | All state funds |
|--|------------------------|
| Employer health plan contributions for employees | \$650,500.0 |
| Employer health plan contribution (all branches) | \$223,500.0 |
| State employee workers compensation | \$25,000.0 |
| University health plan contribution* | \$30,000.0 |
| School District and local government health plan contribution* | \$310,500 |
| PRS/TRS Retiree Health Contribution** | \$61,500.0 |
| Individual market | \$13,000.0 |
| Alaska Reinsurance Program*** | \$13,000.0 |
| Direct state program health care costs | \$750,000.0 |
| Medicaid | \$705,000.0 |
| Inmate/Juvenile Justice Health | \$45,000.0 |
| Total Spend | \$1,413,500.0 |

*Estimates based on trend projection from PRM Group Health Care Authority Feasibility study

**Payments estimate based on average contribution to retiree health trust

***Share of state funded payments from reinsurance fund based on actuarial projection

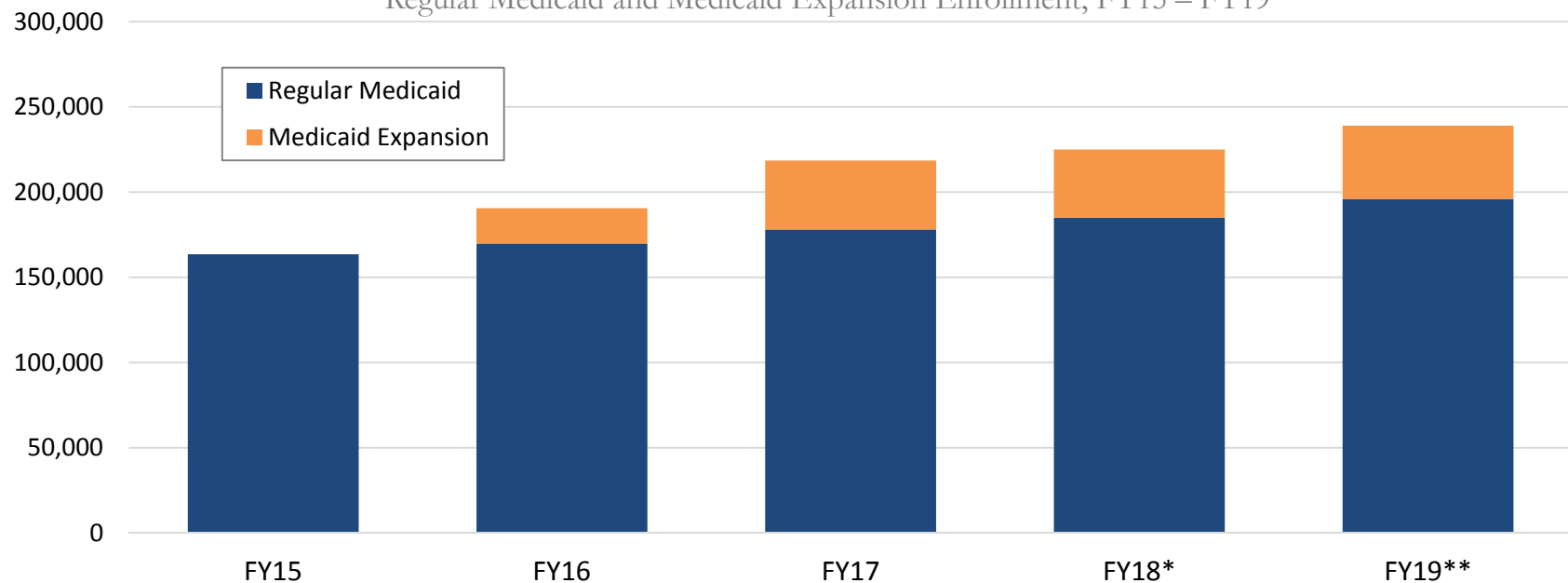
Cost Drivers – Health Care

Medicaid enrollment increases due to statewide recession

- Medicaid will provide health coverage for 75,000 more Alaskans in FY19 than FY15
- 32,500 of these new enrollees are in the regular Medicaid program
- The state UGF cost for Medicaid is \$691 million in FY19, compared to \$693 million in FY15

*Medicaid UGF, DGF, Other \$703 m in FY15 and \$705 m in FY19

Regular Medicaid and Medicaid Expansion Enrollment, FY15 – FY19



*FY18 estimated annual unduplicated Medicaid enrollment

**FY19 forecast annual unduplicated Medicaid enrollment

Cost Avoidance - Efficiency

Health Care

- \$25.5 million will be saved through Medicare Part-D Employer Group Waiver Plan (EGWP) (shifts retiree health costs to federal Medicare)
- Continued work on the individual market (HB374). Monthly premiums to fall over 20%
- \$1.0 million for continued work towards health care authority (\$0.75 million) and stakeholder process for broader Alaska health care reform strategies (\$0.25 million)
 - 340,000 lives directly or indirectly covered by the state
 - Total cost of over \$1.4 billion to state (non-federal health care funds in budget)
 - Health care costs impact Alaska businesses, particularly small businesses
 - Set an aggressive goal to reduce the cost increases at or below inflation

Cost Avoidance – Efficiency

(\$millions)

Health care cost avoidance scenarios

Potential Health Care Budget Cost Avoidance Projections (millions)

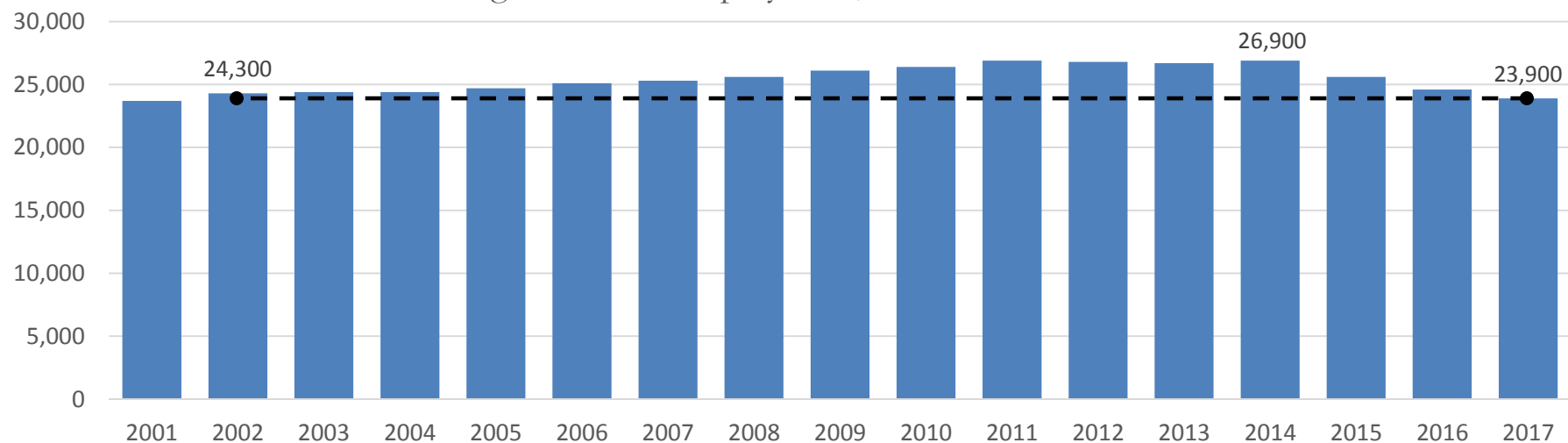
| | FY2019 | FY2020 | FY2021 |
|--|-----------|-----------|-----------|
| Baseline State Health Care Budget Projection (Current Trend 5.2%) | \$1,414.0 | \$1,487.0 | \$1,565.0 |
| Sustainable State Health Care Budget Projection (Inflation 2.25%) | \$1,414.0 | \$1,445.8 | \$1,478.3 |
| Savings Needed (sustainable - current) | | (\$41.2) | (\$86.7) |
| Cost Avoidance Strategies | | | |
| Implement EGWP CY2019 | (\$25.5) | (\$51.0) | (\$51.0) |
| Health Care Authority savings | | (\$10.0) | (\$20.0) |
| Medicaid enrollment declines as economy recovers | | | (\$10.0) |

Cost Avoidance - Efficiency

State government employment below 2002 levels

- There were 3,000 fewer state government employees in November 2017 than the same month in 2014, the year state government employment peaked.
- State government employment is at its lowest level in 16 years, since 2002. Over this period, Alaska's population has grown 15%.

State government employment, November 2001 - 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Note: Total includes University

Budget Summary

| | UGF | DGF | Other | Federal | Total |
|---|------------------|------------------|----------------|------------------|------------------|
| FY2018 Management Plan Budget | \$4,368.4 | \$1,001.8 | \$727.1 | \$3,034.5 | \$9,131.8 |
| FY2018 Supplementals | \$170.1 | \$44.4 | \$9.1 | \$529.0 | \$752.6 |
| FY2018 Total | \$4,538.5 | \$1,046.2 | \$736.2 | \$3,563.5 | \$9,884.4 |
| | | | | | |
| FY2019 Budget | \$4,597.7 | \$834.1 | \$766.6 | \$3,670.5 | \$9,868.9 |
| | | | | | |
| Difference | \$59.2 | (\$212.1) | \$30.4 | \$107.0 | (\$15.5) |
| Difference FY18 Management Plan to FY19 | \$229.3 | (\$167.7) | \$39.5 | \$636.0 | \$737.1 |

Decline in DGF due to AMHS funding in FY2018, AK Comprehensive Insurance Program and Retirement Increase entirely accounted for within AMHS and PSAP

Budget Summary

(\$ millions)

| Department | FY2019 Capacity Budget | FY2019 CBR Items | FY2019 Budget |
|----------------------------------|------------------------------|---------------------|-------------------|
| Agency Non-Formula | \$ 1,824.6 | \$ - | \$ 1,824.6 |
| Formula | \$ 2,092.7 | \$ - | \$ 2,092.7 |
| Agency Operating | \$ 3,917.3 | \$ - | \$ 3,917.3 |
| Debt Service | \$ 113.7 | \$ 87.9 | \$ 201.6 |
| Direct Approp to Retirement Acct | \$ - | \$ 245.5 | \$ 245.5 |
| Oil and Gas Tax Credits | \$ - | \$ 27.0 | \$ 27.0 |
| REAA School Construction | \$ - | \$ 39.7 | \$ 39.7 |
| Fund Capitalization (DRF) | \$ 2.0 | \$ - | \$ 2.0 |
| Total Statewide | \$ 115.8 | \$ 400.0 | \$ 515.8 |
| Capital Projects | \$ 150.1 | \$ - | \$ 150.1 |
| Total Budget | \$ 4,183.1 | \$ 400.0 | \$ 4,583.1 |
| Transfers | \$ 14.6 | \$ - | \$ 14.6 |
| Total Budget With Transfers | \$ 4,197.7 | \$ 400.0 | \$ 4,597.7 |

- Provide the legislature with the tools necessary to pass a timely budget
- Agency budgets fully funded with existing revenue, ERA draw and SBR
- Certain statewide items CBR-funded (school debt/REAA, retirement, exploration credits)
 - While inconvenient, late passage will not disrupt schools or government services

Budget Detail

(\$ thousands)

| | UGF | DGF | Other | Fed | Total |
|---|---------------------|----------------------|----------------------|----------------------|----------------------|
| Increases to the Budget | | | | | |
| Life/Health/Safety | \$ 3,033.7 | \$ 295.0 | \$ 945.9 | \$ 13,972.4 | \$ 18,247.0 |
| DMVA and DNR initiatives | \$ 593.3 | \$ 75.0 | \$ - | \$ 963.0 | \$ 1,631.3 |
| APFC | \$ - | \$ - | \$ 17,549.7 | \$ - | \$ 17,549.7 |
| Education | \$ - | \$ 81.6 | \$ 1,050.0 | \$ - | \$ 1,131.6 |
| Judiciary | \$ 606.3 | \$ - | \$ - | \$ - | \$ 606.3 |
| Legislature | \$ 712.8 | \$ - | \$ - | \$ - | \$ 712.8 |
| Medicaid | \$ 127,177.5 | \$ 427.4 | \$ - | \$ 418,915.2 | \$ 546,520.1 |
| Other Increases | \$ 2,097.0 | \$ 921.8 | \$ 1,159.9 | \$ 25.0 | \$ 4,203.7 |
| Replace Under-Funding | \$ 54,641.3 | \$ (45,171.7) | \$ - | \$ - | \$ 9,469.6 |
| Benefit Adjustments | \$ 1,665.5 | \$ 504.7 | \$ 1,069.0 | \$ 801.0 | \$ 4,040.2 |
| Healthcare initiatives | \$ - | \$ 1,000.0 | \$ 3,750.0 | \$ - | \$ 4,750.0 |
| Public Safety and Criminal Justice Investment | \$ 15,714.9 | \$ - | \$ - | \$ - | \$ 15,714.9 |
| Total | \$ 206,242.3 | \$ (41,866.2) | \$ 25,524.5 | \$ 434,676.6 | \$ 624,577.2 |
| Decreases to the Budget | | | | | |
| Information Technology Centralization Savings | \$ (285.3) | \$ - | \$ (958.6) | \$ (61.9) | \$ (1,305.8) |
| Shared Services of Alaska Savings | \$ (501.2) | \$ - | \$ (464.8) | \$ (56.8) | \$ (1,022.8) |
| Administrative and Lease Savings | \$ (1,004.6) | \$ - | \$ (1,000.0) | \$ - | \$ (2,004.6) |
| Align to Actuals or Removal of Unrealizable Funding | \$ (227.1) | \$ (3,378.8) | \$ (17,900.1) | \$ (20,612.4) | \$ (42,118.4) |
| Program Decrements | \$ (2,481.8) | \$ (656.9) | \$ (185.2) | \$ (281.0) | \$ (3,604.9) |
| K-12 Enrollment Change | \$ (2,296.8) | \$ - | \$ - | \$ - | \$ (2,296.8) |
| Total | \$ (6,796.8) | \$ (4,035.7) | \$ (20,508.7) | \$ (21,012.1) | \$ (52,353.3) |

Budget Detail

(\$ thousands)

| | UGF | DGF | Other | Fed | Total |
|--|-----------------------|-----------------------|---------------------|---------------------|-----------------------|
| Fund Changes | | | | | |
| Fund Changes | \$ (5,948.7) | \$ 2,546.8 | \$ 4,906.3 | \$ (1,904.4) | \$ (400.0) |
| Total | \$ (5,948.7) | \$ 2,546.8 | \$ 4,906.3 | \$ (1,904.4) | \$ (400.0) |
| Mental Health Change | | | | | |
| Mental Health Budget Change | \$ (118.5) | \$ - | \$ 487.2 | \$ - | \$ 368.7 |
| Total | \$ (118.5) | \$ - | \$ 487.2 | \$ - | \$ 368.7 |
| Net OTI's | | | | | |
| New One Time Items | \$ 350.0 | \$ 400.0 | \$ 700.0 | \$ - | \$ 1,450.0 |
| OTI Restore | \$ 9,928.3 | \$ 33,404.0 | \$ 1,691.3 | \$ 9,750.0 | \$ 54,773.6 |
| OTI Reverse (fiscal notes, end of multi-year programs) | \$ (43,214.8) | \$ (128,930.0) | \$ (2,927.7) | \$ (10,494.8) | \$ (185,567.3) |
| Total | \$ (32,936.5) | \$ (95,126.0) | \$ (536.4) | \$ (744.8) | \$ (129,343.7) |
| Statewide and Non-Agency Items | | | | | |
| PFD Increase | \$ 58,876.5 | \$ - | \$ - | \$ - | \$ 58,876.5 |
| Debt Service | \$ 1,657.2 | \$ 10.4 | \$ (24,034.4) | \$ - | \$ (22,366.8) |
| Fund Transfer | \$ (7,401.0) | \$ (228.0) | \$ - | \$ - | \$ (7,629.0) |
| Retirement (Funded from CBR) | \$ (163,501.6) | \$ (29,000.0) | \$ 245,460.1 | \$ - | \$ 52,958.5 |
| School Debt (Funded from CBR) | \$ (97,356.6) | \$ 3,600.0 | \$ 85,857.3 | \$ - | \$ (7,899.3) |
| Oil and Gas Credit Change (Funded from CBR) | \$ (57,000.0) | \$ - | \$ 27,000.0 | \$ - | \$ (30,000.0) |
| REAA Change (Funded from CBR) | \$ (40,640.0) | \$ - | \$ 39,661.0 | \$ - | \$ (979.0) |
| Other Normal Capitalizations | \$ 8,977.9 | \$ (55.6) | \$ 190.5 | \$ 291.5 | \$ 9,404.3 |
| Total | \$ (296,387.6) | \$ (25,673.2) | \$ 374,134.5 | \$ 291.5 | \$ 52,365.2 |
| Total Change to budget | \$ (135,945.8) | \$ (164,154.3) | \$ 384,007.4 | \$ 411,306.8 | \$ 495,214.1 |

Budget Detail

(\$thousands)

| | UGF | DGF | Other | Fed | Total |
|--|---------------------|--------------------|-------------|-----------------|---------------------|
| FY2018 Supplementals Items in December 15th Release | | | | | |
| Community & Energy Support | \$ - | \$ 44,000.0 | \$ - | \$ - | \$ 44,000.0 |
| Initiatives | \$ 315.1 | \$ 400.0 | \$ - | \$ 663.0 | \$ 1,378.1 |
| Public Safety | \$ 18,000.0 | \$ - | \$ - | \$ - | \$ 18,000.0 |
| PSAP (base in FY2019) | \$ 10,447.6 | \$ - | \$ - | \$ - | \$ 10,447.6 |
| Replace Underfunding (Medicaid - base in FY2019) | \$ 100,000.0 | \$ - | \$ - | \$ - | \$ 100,000.0 |
| Replace Underfunding (all other) | \$ 34,713.2 | \$ - | \$ - | \$ - | \$ 34,713.2 |
| Settlements | \$ 672.0 | \$ - | \$ - | \$ - | \$ 672.0 |
| Total | \$ 164,147.9 | \$ 44,400.0 | \$ - | \$ 663.0 | \$ 209,210.9 |

Deficit Reconciliation

(\$ millions)

| OMB to LFD Deficit Reconciliation | | |
|-----------------------------------|-------------------|---|
| LFD Calculated Deficit | \$ (671.7) | |
| EGWP Provision | \$ 25.5 | LFD denies these savings because the Board approved motion did not include actuarial estimates. |
| Economic Recovery Plan | \$ 120.0 | LFD reports assume SBR draw, it is meant to be funded by and contingent upon the new wage tax |
| Adjustments to Dividend Estimates | \$ 18.3 | Final AHFC and AIDEA Dividend figures not yet known |
| Identified Double Counting | \$ 28.0 | OMB inadvertently double-counted revenue from the Alaska Capital Income Fund |
| Other Adjustments | \$ 2.5 | |
| Total | \$ (477.4) | |

- Absent cash-flow from the Economic recovery plan, which is deficit neutral over 3 years and presuming EGWP savings, the deficit will be near \$525 million for FY2019.

Budget Reconciliation to Fall Estimates

(\$ millions)

| | Estimated Increase | Governor's Budget | Difference | |
|-------------------------------|-----------------------|----------------------|-------------------|--|
| Medicaid | \$ 75.9 | \$ 127.2 | \$ 51.3 | Estimated flat with FY2017 levels. Additional growth for FY18 and FY19 |
| AMHS | \$ 44.0 | \$ 44.0 | \$ - | - |
| Inmate Health | \$ 10.0 | \$ 10.3 | \$ 0.3 | Estimate only included short-funding, not ongoing operational needs |
| Debt Service | \$ (4.0) | \$ (7.8) | \$ (3.8) | Final debt projections differed slightly |
| Community Assistance | \$ (8.0) | \$ (8.0) | \$ - | - |
| Exploration Credits | \$ 118.0 | \$ (30.0) | \$ (148.0) | Debt-Financed Exploration Credit Proposal |
| Public Education | \$ 17.0 | \$ (5.6) | \$ (22.6) | Additional funds from Public School Trust available, pending legislation |
| Retirement | \$ 107.9 | \$ 82.6 | \$ (25.3) | EGWP proposal and earnings adjustment |
| Public Safety Items | \$ - | \$ 15.7 | \$ 15.7 | Additional 18.0 million as a supplemental |
| Subtotal | \$ 360.8 | \$ 228.3 | \$ (132.5) | |
| Capital Budget | \$ 93.0 | \$ 18.1 | \$ (74.9) | Economic Recovery Plan allows for a leaner capital program |
| Fiscal Notes, OTIs & Sunsets | \$ (65.5) | \$ (25.7) | \$ 39.8 | Senior Benefits restored (needs legislation), some reductions not realizable |
| Other Items Not Accounted For | \$ - | \$ 9.9 | \$ 9.9 | |
| Total Budget Change | \$ 388.3 | \$ 230.6 | \$ (157.7) | |

Transparency Report

The Alaska Budget Transparency Report corrects for budget strategies to show a more accurate trend:

- Reclassification of unrestricted revenues to designated or other
- Other general fund offsets
- Retroactive budget items (i.e. multi-year supplemental appropriations)
- Supplemental items
- Reappropriations

Budget Transparency Proposed Next Steps

- Work with Legislative Budget and Audit Committee to codify reporting rules

Budget Trend

(Transparent Budget)

Agency operating budgets increased by less than one percent from FY2018 after accounting for supplementals:

- Investment in public safety of \$34.0 million
- Higher than anticipated prison population
- Increased formula costs of \$27.2 million for Medicaid

Statewide Items (Debt, Retirement, Credits, etc.) declined 12.6 percent driven by:

- Medicare Part-D Employer Group Waiver Plan (\$25.5 million in savings)
- Exploration Credit Financing (more in a later slide)

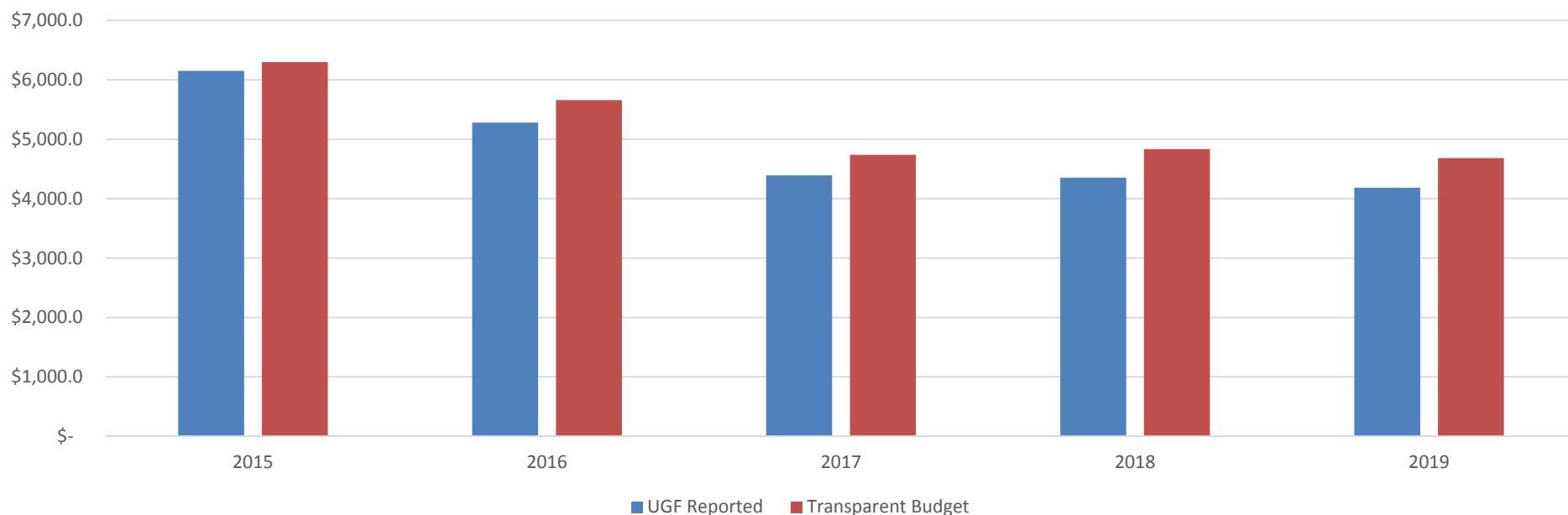
Total Operating and Capital reduced by 3.1%

Including the Dividend, total budget is down 1.7% or \$93.1 million

- 30 percent compromise dividend proposed (7.7% above 2018 levels), estimated at \$1,216/Alaskan. Growing to above \$1,500 in 10-years

Transparency and Budget Reform

Operating and Capital - UGF and Transparent Budget Comparison



Common budget strategies understate total spending authorization

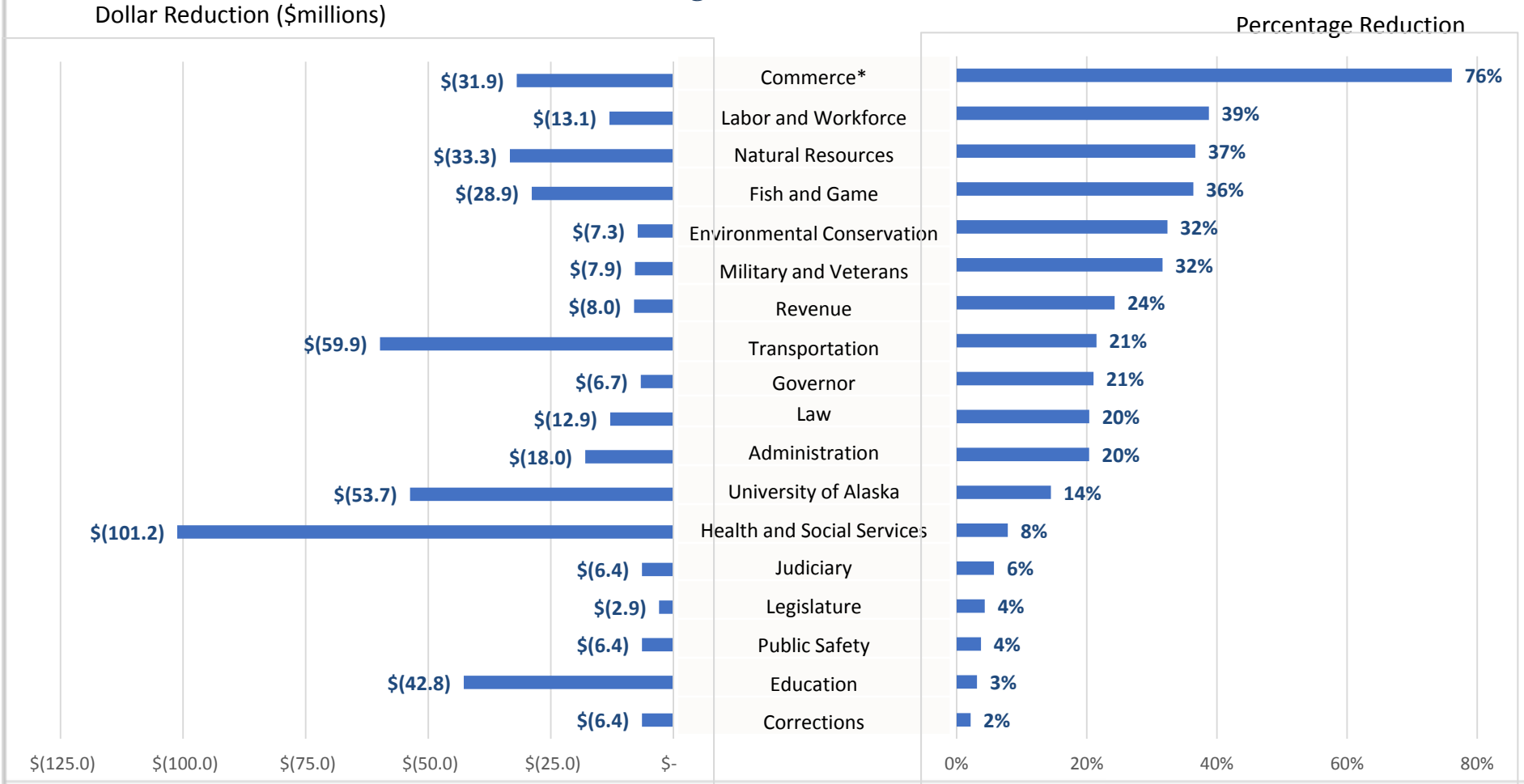
- In FY2015 spending was understated by \$148.0 million in traditional reporting
- In FY2018 spending was understated by \$481.0 million in traditional reporting
- In FY2019 spending is understated by \$499.0 million in traditional reporting

Transparency Report

| | Transparent Budget | | | Transparent Budget - Change | | | |
|-------------------------------------|--------------------|----------------|-----------------|-----------------------------|---------------|--------------------------|--------------|
| | FY2015 | FY2018 | FY2019 Proposed | FY2015 to FY2019 (\$) | (%) | FY2018 to FY2019 (\$) | (%) |
| Agency Operations | \$ 2,277.3 | \$ 1,900.2 | \$ 1,894.1 | \$ (383.3) | -16.8% | \$ (6.1) | -0.3% |
| Education Formula | 1,307.4 | 1,287.6 | 1,285.3 | (22.0) | -1.7% | (2.3) | -0.2% |
| Medicaid Formula | 723.0 | 664.2 | 691.4 | (31.6) | -4.4% | 27.2 | 4.1% |
| Other Formula | 177.8 | 135.6 | 139.3 | (38.4) | -21.6% | 3.7 | 2.8% |
| Total Agency | 4,485.5 | 3,987.6 | 4,010.1 | (475.4) | -10.6% | 22.5 | 0.6% |
| Tax Credits, Debt, Retirement, Etc. | 966.4 | 591.0 | 516.8 | (449.6) | -46.5% | (74.3) | -12.6% |
| Total Operating | 5,451.9 | 4,578.6 | 4,526.9 | (925.0) | -17.0% | (51.8) | -1.1% |
| Capital | 846.7 | 255.0 | 156.0 | (690.6) | -81.6% | (98.9) | -38.8% |
| Total Operating and Capital | 6,298.6 | 4,833.6 | 4,682.9 | (1,615.7) | -25.7% | (150.7) | -3.1% |
| Transfers | 101.1 | 15.9 | 14.6 | (86.5) | -85.6% | (1.3) | -8.2% |
| Dividend | 1,070.0 | 760.0 | 818.9 | (251.1) | -23.5% | 58.9 | 7.7% |
| Total Budget with Dividend | 7,469.6 | 5,609.5 | 5,516.4 | (1,953.3) | -26.1% | (93.1) | -1.7% |
| Alaska Economic Recovery Act | - | - | 280.0 | 280.0 | - | 280.0 | - |

Expenditure Reductions to Date (Transparent)

Transparent Reduction by Agency FY15 Management Plan to FY19 Governor



Budget Reform

“We need to get to the point where the largest employer in the state is not sending a pink slip to all of its employees every year....they are not buying houses, cars, etc....”

Southeast Banker

Budget Reform

Defining the Problem – Consequences of an untimely budget

- Employees and teachers receive layoff notices (reduced morale, increases costly turnover)
- Ferries cannot publish their schedule (foregone revenue)
- Agency staff focusing on government shutdown, not service to Alaskans

Budget Reform Legislation

- If the Governor fails to submit the budget by December 15th
 - Forgo salary and per diem
- If a budget is not passed by legislative day 91:
 - Legislative salaries withheld, per diem forfeited
- Shift to biennial budgeting
 - During the first session of each 2 year cycle, 2 budgets are passed
 - During the second session, a supplemental true-up is passed
 - More time to tackle policy issues
 - Avoid lengthy budget negotiations each year

Revenue for Operating and Base Capital

Existing revenue expectation: \$2.0 billion

Compromise Permanent Fund Protection Act: (30% dividend): \$2.0 billion

Other revenues: \$40 million

CBR/SBR: \$477.4 million, Adjusted to \$525 million per recon

- Narrowing the gap reduces uncertainty
- Alaska Economic Recovery Act to addresses the recession
- Reassessment needed when temporary tax expires
 - Savings anticipated to be depleted in FY2025
 - Reassess in FY2022 given current oil price/production levels, success of efficiencies, market returns, etc.

Revenue Sensitivity

(\$ billions)

| | FY2018 | | FY2019 | |
|----------------------------|---------|-------------------|---------|-------------------|
| Oil Price Assumption | Revenue | Remaining Deficit | Revenue | Remaining Deficit |
| Forecast (\$56.00/\$57.00) | \$2.1 | (\$2.4) | \$2.0 | (\$2.5) |
| \$50.00/barrel | \$1.9 | (\$2.6) | \$1.8 | (\$2.8) |
| \$60.00/barrel | \$2.3 | (\$2.2) | \$2.1 | (\$2.4) |
| \$70.00/barrel | \$3.1 | (\$1.4) | \$2.7 | (\$1.8) |
| \$80.00/barrel | \$4.1 | (\$0.4) | \$3.5 | (\$1.1) |
| \$90.00/barrel | \$5.0 | \$0.5 | \$4.4 | (\$0.1) |
| \$100.00/barrel | \$6.1 | \$1.6 | \$5.4 | \$0.8 |

SB26 Can produce \$2.7 billion but this amount must be shared between government and dividends.

75/25 Split – \$2.1 billion for government/Budget Balances just above \$65/bbl

70/30 Split – \$2.0 billion for government/Budget Balances just under \$70/bbl

67/33 Split – \$1.9 billion for government/Budget Balances at \$70/bbl

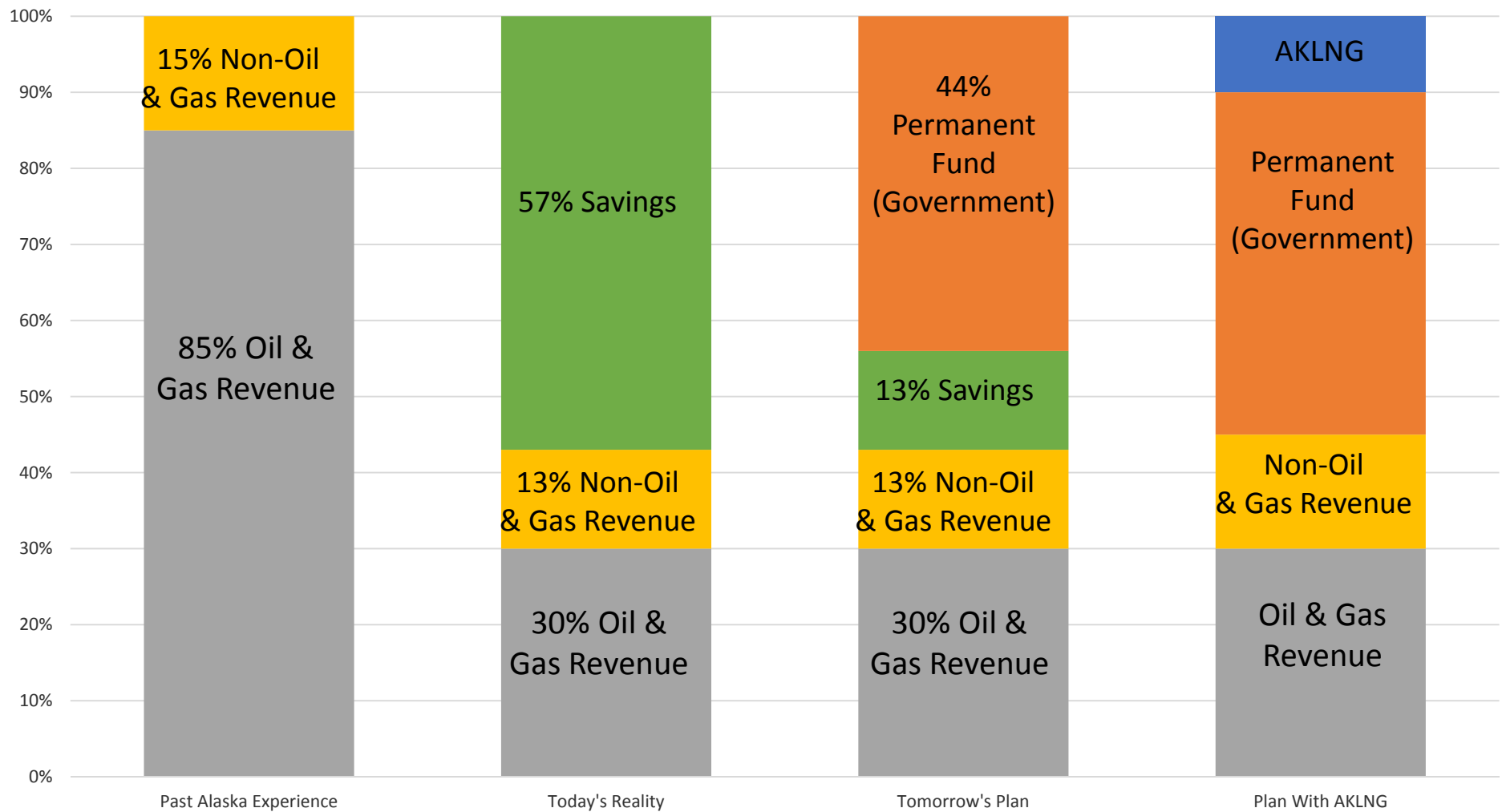
ANS West Coast as of 1/9/2017 – \$69.02/bbl

Ten Year Strategy

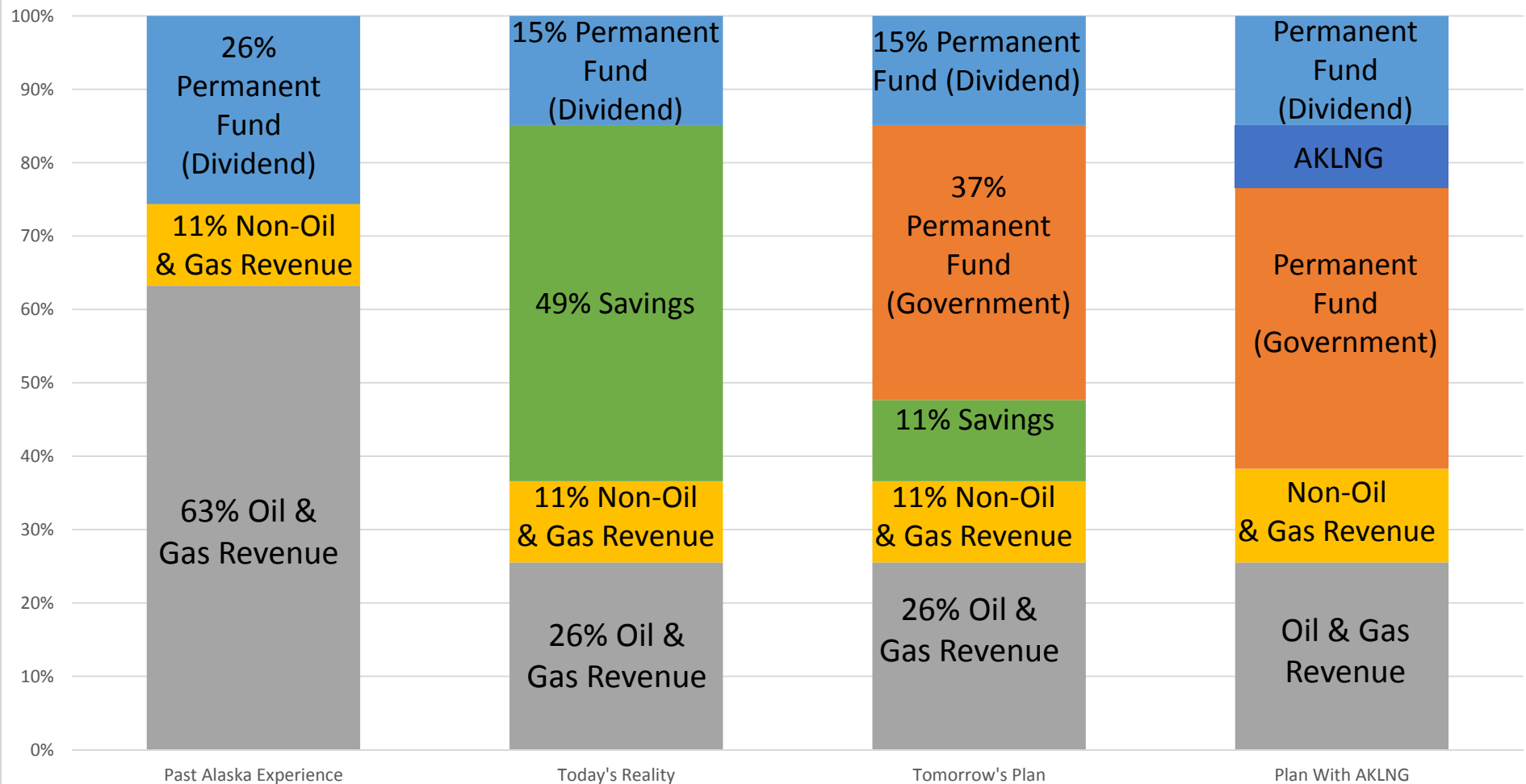
| FY2019-FY2028 Budget Projection (\$millions) | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2019 | 2020 | 2023 | 2024 | 2027 | 2028 |
| Total Budget (with dividend) | \$ 5,416.6 | \$ 5,611.9 | \$ 6,077.6 | \$ 6,211.7 | \$ 6,606.8 | \$ 6,687.5 |
| Current Revenues | \$ 2,047.1 | \$ 2,063.2 | \$ 2,275.2 | \$ 2,297.1 | \$ 2,838.8 | \$ 2,954.0 |
| Permanent Fund Protection Act | \$ 2,785.7 | \$ 2,978.5 | \$ 3,250.0 | \$ 3,347.1 | \$ 3,585.8 | \$ 3,660.7 |
| Motor Fuels Tax | \$ 40.3 | \$ 81.2 | \$ 83.0 | \$ 83.7 | \$ 86.1 | \$ 87.0 |
| Gasline Revenues | \$ - | \$ - | \$ - | \$ - | \$ 250.0 | \$ 250.0 |
| Re-Assess in 2022 - to maintain minimum \$1B CBR | | | \$ 332.1 | \$ 346.5 | \$ - | \$ - |
| Total Revenue | \$ 4,939.2 | \$ 5,122.9 | \$ 5,940.3 | \$ 6,074.3 | \$ 6,760.7 | \$ 6,951.7 |
| Deficit | \$ (477.4) | \$ (489.0) | \$ (137.3) | \$ (137.3) | \$ 153.9 | \$ 264.2 |
| Savings Balance (CBR/SBR) | \$ 1,876.4 | \$ 1,549.0 | \$ 1,000.0 | \$ 1,000.0 | \$ 1,460.4 | \$ 1,879.1 |
| PF Total Value | \$64,697.6 | \$66,083.3 | \$ 70,419.7 | \$ 71,813.0 | \$ 76,190.6 | \$ 80,127.1 |
| Per Person Dividend (\$/person) | \$ 1,215.98 | \$ 1,294.24 | \$ 1,383.01 | \$ 1,413.36 | \$ 1,475.53 | \$ 1,505.47 |

- Future resource development may be able to provide for a balanced budget
- Savings will be depleted before that point is reached

Diversifying Revenues



Diversifying Revenues



For more information on the budget



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