

**1/26/11  
OFFICE OF  
MANAGEMENT AND  
BUDGET:  
FY2012 BUDGET  
OVERVIEW**

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MANAGEMENT AND BUDGET FY2012 BUDGET  
OVERVIEW</SUBJECT><COMM>SFIN27</COMM></TARGET>

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# FY2012 Budget Overview



**Senate Finance Committee**

January 26, 2011

Office of Management and Budget

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**Office of Management and Budget  
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# Budget Vision

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Governor Parnell's vision and mission

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**'Position Alaska's economy  
for growth and Alaska's  
families for opportunity.'**



# FY2012 Budget principles

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## Guiding principles

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- **Fiscal Restraint**
- **Strategic Investments**
- **Maintain Cash Reserves**



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# FY2012 Budget priorities

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Focus is on Alaska's constitutional priorities

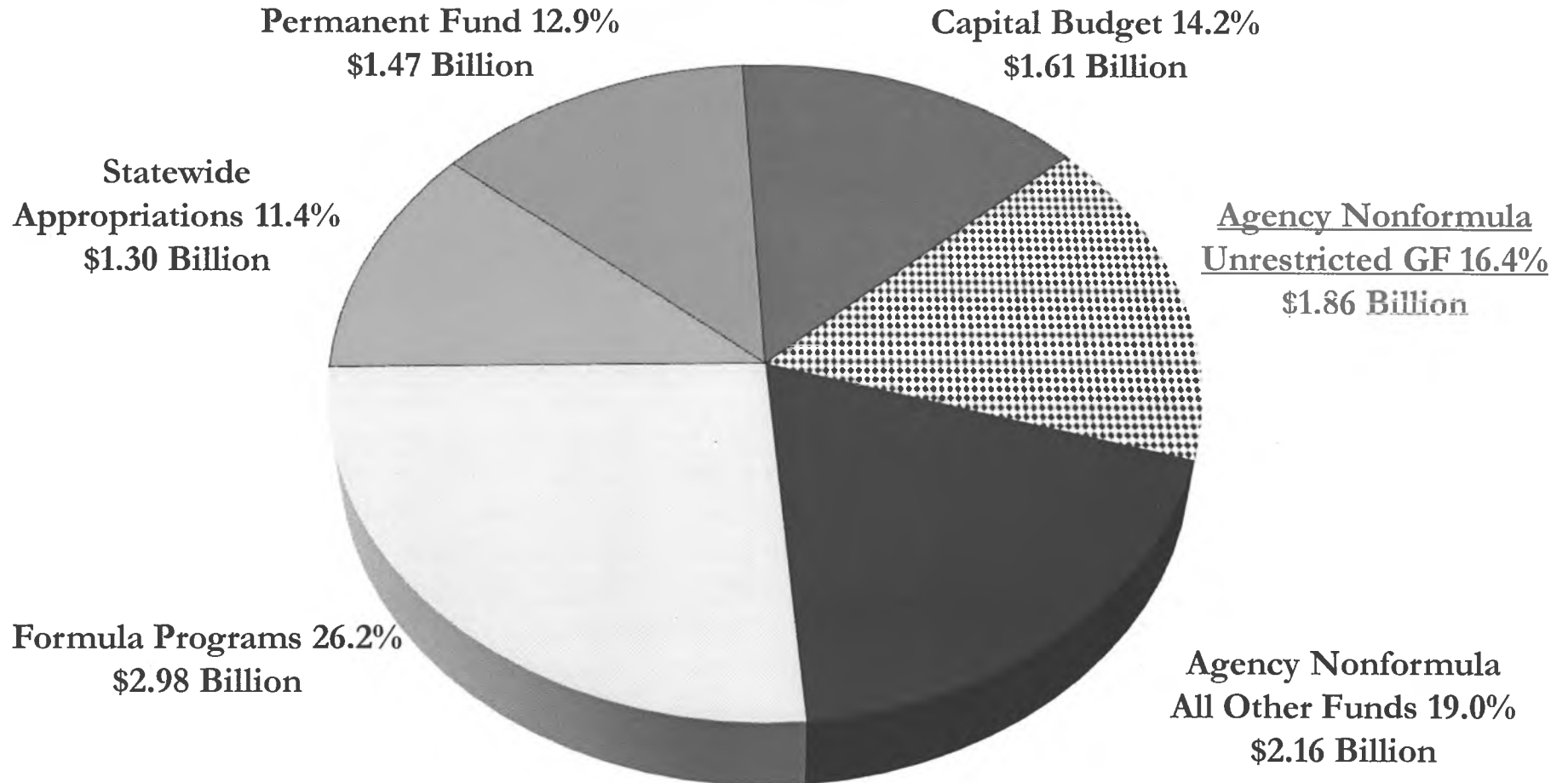
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- **Resource and Economic Development**
  - Energy
  - Access to resources
  - Natural gas development
- **Education**
  - Alaska Performance Scholarship
  - Full funding K-12 FY2012
  - Forward fund K-12 FY2013
- **Public Safety**
  - Prevention
  - Investigation
  - Services to Victims
  - Child Safety/Cybercrimes



# FY2012 Expenditures by Category

Governor's December 15 Spending Plan



# FY2012 Operating Budget-Formula

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Formula growth driving FY2012 overall increase

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- **Formula programs \$2.98 billion**
  - **K-12 and pupil transportation \$1.16 billion**
    - **\$8.2 million Alaska Performance Scholarship**
    - **Fully fund K-12 in FY2012 \$1.13 billion**
    - **Forward fund K-12 for FY2013 \$1.14 billion**
  - **Other Formula programs \$1.82 billion**
    - **Medicaid is \$1.5 billion of the total**



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# FY2012 Operating Budget-Statewide

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Retirement system, debt obligations are also drivers in FY2012 growth

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- **Statewide Appropriations \$1.30 billion**
  - \$479 million retirement unfunded liability
  - \$400 million oil tax credits
  - \$290 million debt service
  - \$60 million Community Revenue Sharing



# FY2012 Capital Budget

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Putting Alaskans to work

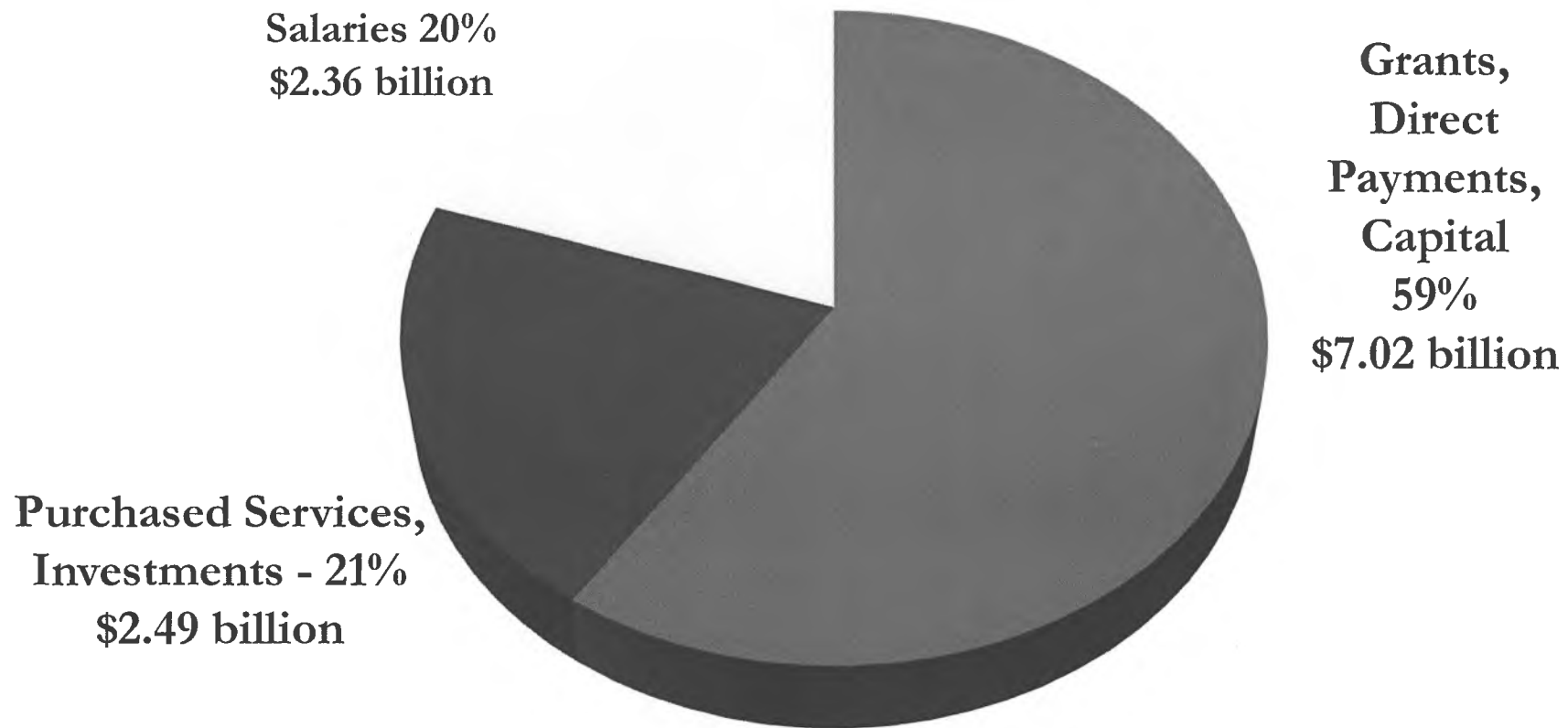
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- **\$1.6 billion in capital spending proposed**
- **\$644.9 million in state general funds**
  - \$160 million for AGIA gas pipeline work
  - \$103 million match leverages \$705 million federal funds
    - transportation, highway, aviation & water/sewer projects
  - \$60 million for resource roads and ports
  - \$65.7 million for Susitna hydro planning and design
  - \$25 million each for Renewable Energy and Weatherization
  - \$100 million year 2 deferred maintenance
  - \$28.4 Quinhagak K-12 construction/renovation (#1 DEED)
  - \$19.9 14 school major maintenance projects



# State Budget- Another Perspective

Nearly 60% of Alaska's budget benefits communities, organizations and individuals through grants, direct payments and capital project funding



Includes duplicate funds, savings, investments and the Permanent Fund



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# For More Information on the Budget

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How can I get more details about the Governor's FY2012 budget?

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

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## **Executive Summary FY2012 10-year plan**

### **Diversification of Revenue: Plotting a course from 2011 to First Gas**

Looking ahead at the next 10 years, Alaska must move toward diversification and expansion of its revenue base. The main emphasis of the 10-year plan is to facilitate Alaska's transition from a predominantly oil revenue base to an oil and natural gas revenue base. Construction of pipeline infrastructure to monetize Alaska's natural gas resource is a key element in providing for the future fiscal and economic stability of the state. Revenue generated from natural gas would help diversify Alaska's revenue sources and provide a substantial source of new revenue to offset declining oil revenue. In addition, the gas pipeline will provide economic opportunity through the provision of a stable, clean source of energy to fuel Alaskan businesses and homes for years to come. Efforts to diversify revenue cannot be solely reliant on the construction of a natural gas pipeline though- Alaska must continue to make strides to maximize production from existing oil fields and develop other economic opportunities.

Assuming the Alaska Department of Revenue's Fall 2010 forecast, Alaska can use spending discipline combined with the prudent use of reserve accounts to sustain itself through fiscal year 2021. This would achieve the goal of transitioning the state from FY2012 to first gas, which is currently estimated to occur in the 2019 to 2021 time period. Assuming the Fall 2010 forecast and a range of spending assumptions, the combined balances of the state's primary reserve accounts, the Statutory Budget Reserve and the Constitutional Budget Reserve, would remain positive during the next ten years. By the end of the period, the anticipated fall in oil production starts the overall state revenue curve on a downward trajectory; however the onset of gas revenue could potentially position the state on more solid financial footing. The 10-year forecast shows that anticipated budget shortfalls during the 10-year period could be filled through the use of reserve funds; however, other fiscal tools, including spending reductions, would likely be used in addition to, or in lieu of, reserve funds.

The plan examines a range of possible spending and revenue scenarios. Taking one scenario as an example, it assumes relatively modest spending growth of 3.0% annually beginning in FY2013, and no change to the revenue forecast that was developed in the fall of 2010. The expenditure growth rate assumption in this scenario would be challenging to meet, and implies that the delivery of state services will become more efficient over the 10-year period. Inflation is assumed at 2.75% and population growth will be slightly above 1.0% annually. That implies that state spending on a per capita basis will decline over the next ten years in real terms.

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While overall spending in this scenario is projected at an average annual growth rate of 3.0%, it is anticipated that portions of the budget will grow faster, and that would require other areas of the budget to grow at a slower rate or decline to meet the projected growth rate. One particularly challenging example of this issue in the operations portion of the budget is the state's projected Medicaid spending. In FY2011 the state's portion of the federal Medicaid program was \$441 million. Over the next 10 years that figure is projected to increase at an annual rate of over 9.0% and by FY2021 is projected to require a \$1.15 billion contribution from the state's general fund. This percentage change assumes that the state's participation rate in the Medicaid program reverts back to levels experienced prior to the passage of the health-care reform bill.

Among the other challenges that must be considered in the planning horizon are: financing investment expenses associated with the gas line project; the unfunded liability to the public employee and teachers retirement systems, dealing with the high cost of energy for Alaskans; shoring up aging transportation and other state-owned infrastructure; handling the effects of growing elderly and prison populations; and tackling the adverse affects of climate change. All of these issues must be considered while continuing to provide an acceptable level of government services to Alaskans.

### **Oil Prices and the Plan**

In view of history, the possibility of oil prices falling below the Fall 2010 forecast must be considered. In that scenario, spending projections and use of the state's reserve accounts must be reevaluated. More conservative spending plans would be necessary and the ability of the state's available reserve accounts to facilitate a transition from today to the onset of revenue from a gas pipeline becomes more challenging. While alternate revenue and expenditure scenarios are not discussed extensively, they are presented as part of this document as a means to inform the public of what alternate revenue and expenditure scenarios look like in terms of the magnitude of change they could present.

### **The Plan's Imperative**

The overarching objectives of the 10-year fiscal plan are guided by the statutory language that requires the Executive branch to produce a 10-year plan on an annual basis. Alaska Statute 37.07.020 (b) (2): says that the fiscal plan

*“must balance sources and uses of funds held while providing for essential state services and protecting economic stability of the state.”*

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Essentially, there are three requirements that the Executive’s plan must meet:

- Balance the budget between sources and uses of finds,
- Provide for essential state services, and
- Protect Alaska’s economic stability.

### **The Plan’s Guiding Principles and Supporting Strategies**

The 10-year plan meets the statutory objectives through the application of several foundational principles. The principles outlined below provide the framework and guidance for spending and savings strategies represented in the plan.

#### **Principle: Responsibly Develop Alaska’s Natural Resources**

The State of Alaska’s future prosperity hinges on the responsible development of its abundant natural resources. In 1959, when Alaska became a state, 99.8 percent of the land was owned by the federal government. The Alaska Statehood Act gave the State the right to select and acquire approximately 104 million of the nearly 365 million acres of federal lands in Alaska. It was envisioned that the management of this land base and the associated resources would provide the State with a viable economic foundation. That stable economic base would then enable the State to provide governmental services to the people of Alaska, and reduce the likelihood that Alaska would be a drain on the federal treasury.

To date, the strategy of building Alaska’s economy on natural resources has been effective. The State takes in significant revenues from companies that lease State-owned lands for extraction of oil, natural gas and coal, gold, zinc and other minerals and shares with the federal government revenues from oil, natural gas and other assets extracted from federal lands leased by private companies. Currently, nearly 90% of the State’s unrestricted General Fund revenue is generated from petroleum production activities. For the foreseeable future, the health of Alaska’s fiscal system will be linked to the wealth generated from the monetization of Alaska’s natural resource base.

**Strategy: Facilitate Gas Line Development-** The Administration’s highest priority is the development of the State’s natural resources. The State’s long-term planning is based in part on efforts to develop natural gas resources before oil resources are depleted. Currently, natural gas produced in conjunction with oil production on the North Slope is stranded from the market, and development of this critical resource has been limited because a means to transport recovered natural gas to markets

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outside Alaska has not been available. To spur commercialization of Alaska natural gas, the Alaska Gasline Inducement Act (“AGIA”) was enacted in 2007; and in August 2008, authorized the State to award an AGIA license to TransCanada Alaska, a wholly-owned subsidiary of the TransCanada Corporation (“TransCanada”). Along with the license, the state committed to a cost-sharing agreement with TransCanada that provided a \$500 million state commitment to assist in underwriting a portion of the pre-development costs of the project. TransCanada subsequently joined forces with ExxonMobil, one of the three major North Slope producers, to form the Alaska Pipeline Project. In addition to the Alaska Pipeline Project, two of the three major North Slope producers, ConocoPhillips and BP, are pursuing their own gas pipeline project, called Denali. While the State’s economic past and present is tied to oil, the state’s future is dependent upon the development of its abundant natural gas resources. During the next several years the Administration will be actively pursuing a project to monetize Alaska’s gas.

**Strategy: Facilitate Other Oil & Gas Development-** The State is also financing and promoting pre-development activities associated with production of a project plan for an in-state natural gas pipeline. House Bill 369 established the Joint In-State Gasline Development Team and Alaska Gasline Development Corporation (AGDC) to deliver a plan by July 2011 that would bring gas to Southcentral Alaska by 2016. AGDC is working in several critical areas:

- Performing market analysis and assessments to define project parameters that would allow the project to be commercially viable.
- Obtaining feedback from private pipeline construction and operating companies on their level of interest in the project.
- As necessary preparing any legislation in support of the project.

The Administration intends to pursue oil tax changes to incentivize investment and create private sector jobs. Additionally, the Administration intends to foster other oil and gas development by assuring that the State regulatory process is consistent, clear and timely. The Administration will also budget for roads to resources projects to lower the cost of access to state lands and foster additional jobs and investment.

**Strategy: Facilitate Other Natural Resource Development-** While oil and gas resources are the largest potential revenue sources for the state, other resource development efforts can also help diversify the state’s revenue base. While they currently play smaller roles than oil and gas in terms of generating revenue to the state, mineral mining activity, fisheries and tourism also are critical contributing industries to the State’s revenue stream and economic diversity.

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**Strategy: Invest in Hydropower and Other Cost-Effective Renewable Energy Projects-** The State has an ambitious energy goal of having 50% of all of Alaska's electricity generated by renewable resources by 2025. In order to meet this goal the Administration advocates state investment in a large-scale hydroelectric power project as well as continued investment in smaller regional projects that use wind, hydroelectric and other renewable resources as the energy source for power generation. In many of these areas, high cost diesel is currently the primary fuel for electrical power generation. The Administration also proposes to continue investment in programs that provide resources for projects that promote energy conservation.

### **Principle: Restrain Spending**

In contrast to revenue, the part of the fiscal equation that Alaska's policy makers can have the greatest impact on is the size of the State budget.

**Strategy: Implement Results Based Budgeting-** The Administration implemented results-based budgeting with the intention of restraining government spending. The Administration has directed agencies to focus on agency missions, core services and results expected for the current spending level. This is intended to assure Alaskans that state government dollars are being spent wisely. Within that framework, spending areas that will be a priority are those that are constitutionally mandated: natural resource development, education, and public safety. By implementing this approach the Administration has committed to promoting more efficient ways of providing and delivering government services.

**Strategy: Evaluate Long term Costs of Investment Initiatives-** In addition to assessing current spending for effectiveness, the Administration is committed to evaluating the long-term financial implications of proposed savings and investment initiatives. Taking a long-term view is intended to provide a framework for budget and policy decisions that promote the economic growth and fiscal stability necessary for Alaskans to prosper beyond the current budget cycle.

In order to restrain growth, the Administration will have to implement multiple strategies. Substantial reductions in state spending would require reductions in important public services and less investment in Alaska natural resource development and infrastructure. Anticipated growth in areas such as Medicaid, K-12 education and retirement system costs also make it challenging to reduce total state spending over time.

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## **Principle: Save for Future Generations of Alaskans**

Along with resource development, the savings element of the plan meets a basic challenge facing Alaska, turning the non-recurring revenue stream produced from Alaska's resources into a long term recurring revenue source that can help maintain Alaska's economic stability beyond the life of the resource. The primary vehicle for this effort is Alaska's Permanent Fund, and a primary objective of the plan is to continue growing the Permanent Fund. In addition to growing the Permanent Fund, when an opportunity presents itself, the plan contemplates depositing unspent unrestricted revenue in reserve accounts such as the Constitutional Budget Reserve and Statutory Budget Reserve. Continual building of Alaska's reserve accounts provides the State a means to stabilize a revenue stream that is subject to the dramatic swings of oil prices or production interruptions. The availability of reserves underpin the state government's ability to provide the services that are mandated without having to draw upon other means of revenue generation such as broad-based taxes or use of the Permanent Fund.

**Strategy: Preserve and Grow The Permanent Fund** - The primary vehicle for this effort is Alaska's Permanent Fund, which receives ongoing deposits of mineral royalty revenue as well as annual appropriations to inflation proof the fund. Currently, the main contribution of Alaska's Permanent Fund to the state's residents is the annual Permanent Fund dividend payment. In 2010, the dividend amounted to \$822 million distributed to an estimated 641,595 dividend eligible citizens. If this distribution were added to payroll wages, it is the equivalent of a 5.5% boost to the overall wage and salary payroll in the state's economy.

**Strategy: Build Reserves When Possible, Use Them Judiciously When Necessary-** Beyond continuing to grow the Permanent Fund; the plan contemplates that in times of surplus unrestricted general fund revenue that a portion of that revenue be used to build reserve accounts. To date, the primary reserve account drawn upon to fund ongoing operations of state government has been the Constitutional Budget Reserve fund (CBRF). Since its inception more than \$5.2 billion has been borrowed from that fund to pay for state funded services. Recent general fund revenue surpluses have allowed the CBRF to be replenished so that as of June 30, 2010 the entire borrowed balance had been repaid by the general fund. The available balance has grown to approximately \$9.7 billion as of December 2010. Additionally, \$1.2 billion has been placed in another savings account called the Statutory Budget Reserve.

**Strategy: Forward Fund When Appropriate** - Another method the plan contemplates to provide fiscal stability is forward funding programs. Examples where the state has built or plans to build reserves to fund programs in future years include:

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- **Public Education Fund:** More than \$1 billion was set aside to fund the State's projected contribution to funding K-12 education one year in advance. This fund has stabilized the funding stream for Alaska's K-12 education sector, and during the FY2010 budget cycle this fund was critical in balancing the budget at a time when oil prices were lower than forecast. The Administration proposed fully funding FY2012 projected K-12 costs with projected FY2011 revenue, and will repeat this proposal in FY2012, by proposing to forward fund projected FY2013 education costs.
- **Community Revenue Sharing Fund-** \$180 million is set aside in an attempt to stabilize annual funding to local communities for provision of local government services. The Administration will propose to deposit \$60 million in the Community Revenue Sharing fund to bring the balance of the fund to \$180 million. This insures communities stable funding in FY2012 as well as a revenue sharing program through at least FY2015 given the programs current funding mechanism.
- **Alaska Housing Capital Corporation Fund:** More than \$300 million was set aside to fund future capital projects, the Administration is proposing in FY2012 to use a portion of these funds for gas line and other important infrastructure expenditures.
- **Alaska Performance Scholarships:** As part of the FY2012 budget, the Administration included \$8.2 million to fund performance scholarships to in-state universities or job-training programs for students who complete a rigorous academic course of study and earn higher grades. Additional work needs to occur to implement a funding mechanism for performance scholarships that will be sustainable over time.

**Strategy: Focus Investment** - The plan prioritizes spending according to the Administration's investment priorities of:

- Economic and Resource development
- Education
- Transportation infrastructure
- Public Safety, health and welfare

### **Alternate Scenarios Provide Reason for Optimism and Caution**

While Alaska's current financial outlook is easily characterized as among the best in recent history one only need look at the recent past to remind Alaskans that the link between the State of Alaska's fiscal health and the price of oil can change the fiscal outlook quickly and dramatically. In view of history, the examination of different spending growth paths or lower oil

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prices than forecast can temper the optimism of the state's current long term outlook. It also illustrates the dependence of the state's fiscal stability on oil.

For an illustration of possibilities that may lie ahead for Alaska, three spending scenarios and two alternate revenue and spending scenarios were modeled. A brief description and synopsis of each scenario is presented below:

**Scenario 1: 2010 Forecast with flat spending:** This scenario holds spending constant at FY2012 levels for the next 10 years assuming the Fall 2010 revenue forecast.

**Synopsis:** Budget surpluses through FY2021 while the SBR and CBR combined account balances grow to \$36.8 billion by the end of FY2021.

**Scenario 2: 2010 Forecast with 3% spending growth:** This scenario assumes 3.0% annual spending growth beginning in FY2013 and beyond while assuming the Fall 2010 revenue forecast.

**Synopsis:** Budget surpluses through FY2021 while the SBR and CBR combined account balances grow to \$28.9 billion by the end of FY2021.

**Scenario 3: 2010 Forecast with 6% spending growth:** This scenario assumes 6.0% annual spending growth beginning in FY2013 and beyond while assuming the Fall 2010 revenue forecast.

**Synopsis:** Budget surpluses through FY2018 while the SBR and CBR combined account balances grow to \$20.1 billion by the end of FY2021.

**Scenario 4: \$80 oil with 3% spending growth:** This scenario assumes that oil prices hold steady at \$80 a barrel and annual spending growth is 3.0% beginning in FY2013 and beyond.

**Synopsis:** Budget shortfalls begin in FY2013 while the SBR and CBR combined account balances reach nearly \$12 billion in the short run but the steady draws on those two accounts erode the combined SBR and CBR balances to \$3.1 billion by the end of FY2021.

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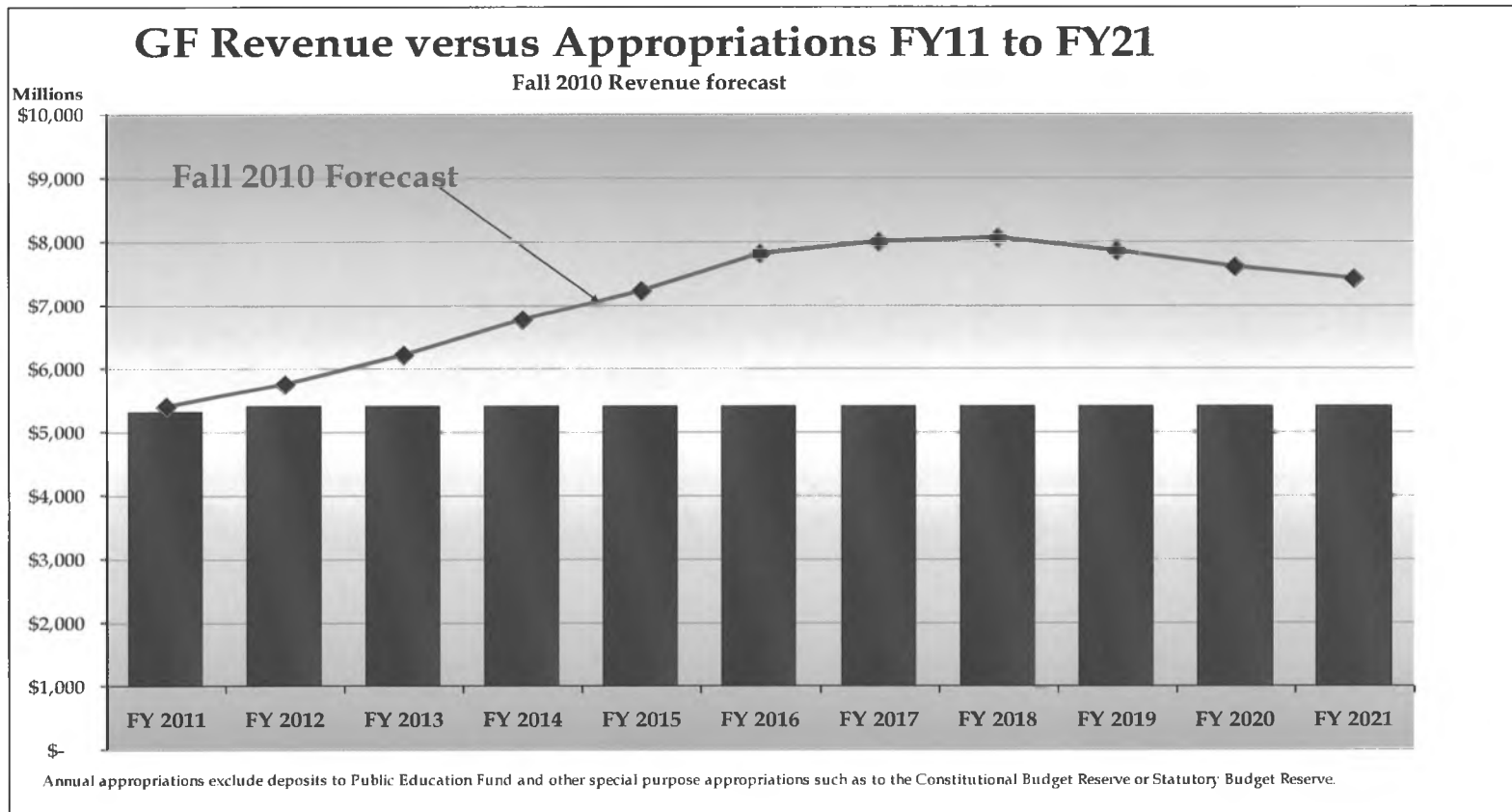
**Scenario 5: \$70 oil with 1% spending growth:** This scenario assumes that oil prices hold steady at \$70 a barrel and annual spending growth is 1.0% beginning in FY2013 and beyond.

**Synopsis:** Budget shortfalls begin in FY2012 and the SBR and CBR reserve accounts are exhausted by the end of FY2020.

In summary, there is a wide range of possible scenarios that could lie ahead for Alaska. While the future holds the promise of fiscal stability if given steadily increasing price of oil, the past has demonstrated on numerous occasions that the state must take a cautious approach to its finances, and carefully consider the obligations that it makes today to insure that it has the means to provide essential services in the future. The challenge will remain to strike a balance between the needs of current Alaskans against the need to provide essential public services to Alaska's future generations.

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### Scenario 1: FY2012 Governor’s Budget with 0% Annual Expenditure Growth



Appropriations projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2011, FY2012 or any future year. The 10 year forecast shows that unanticipated budget shortfalls during the 10-year period could be filled primarily through the use of reserve funds; however, other fiscal tools including spending reductions would likely be used in addition to, or in lieu of, reserve funds.

The plan will be revisited as conditions warrant.

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## Scenario 1: FY2012 Governor's Budget with 0% Annual Expenditure Growth

<b>Oil Price &amp; Production</b>	<b>FY 11</b>	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>	<b>FY20</b>	<b>FY21</b>
Fall 2010 forecast ANS West Coast (\$/bbl.)	\$77.96	\$82.67	\$87.86	\$92.41	\$97.34	\$100.08	\$102.90	\$105.80	\$108.78	\$111.84	\$114.99
Fall 2010 forecast production (mmbbl./day)	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520	0.496
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>1/</sup>	\$5,452.2	\$5,790.3	\$6,207.7	\$6,767.8	\$7,233.1	\$7,822.4	\$7,992.7	\$8,060.4	\$7,845.7	\$7,610.7	\$7,424.1
General Fund Expenses	\$5,403.6	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4	\$5,446.4
<b>Budget Surplus/Shortfall</b>	<b>\$48.6</b>	<b>\$343.9</b>	<b>\$761.3</b>	<b>\$1,321.4</b>	<b>\$1,786.7</b>	<b>\$2,376.0</b>	<b>\$2,546.3</b>	<b>\$2,614.0</b>	<b>\$2,399.3</b>	<b>\$2,164.3</b>	<b>\$1,977.7</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$5,126.1	\$5,346.9	\$5,576.3	\$5,814.6	\$6,062.3	\$6,319.7	\$6,587.1	\$6,864.9	\$7,153.7	\$7,453.7	\$7,765.4
CBRF Subaccount Balance End of Year	\$4,890.7	\$5,242.2	\$5,618.9	\$6,022.7	\$6,455.5	\$6,919.4	\$7,416.7	\$7,949.6	\$8,520.9	\$9,133.3	\$9,789.6
<b>CBRF Total</b>	<b>\$10,016.8</b>	<b>\$10,589.0</b>	<b>\$11,195.2</b>	<b>\$11,837.3</b>	<b>\$12,517.8</b>	<b>\$13,239.1</b>	<b>\$14,003.7</b>	<b>\$14,814.6</b>	<b>\$15,674.6</b>	<b>\$16,587.0</b>	<b>\$17,555.0</b>
Statutory Budget Reserve Balance	\$1,048.6	\$1,392.4	\$2,153.7	\$3,475.1	\$5,261.8	\$7,637.9	\$10,184.2	\$12,798.2	\$15,197.5	\$17,361.7	\$19,339.4
<b>TOTAL RESERVES</b>	<b>\$11,065.4</b>	<b>\$11,981.5</b>	<b>\$13,348.9</b>	<b>\$15,312.4</b>	<b>\$17,779.6</b>	<b>\$20,876.9</b>	<b>\$24,187.9</b>	<b>\$27,612.8</b>	<b>\$30,872.1</b>	<b>\$33,948.7</b>	<b>\$36,894.4</b>

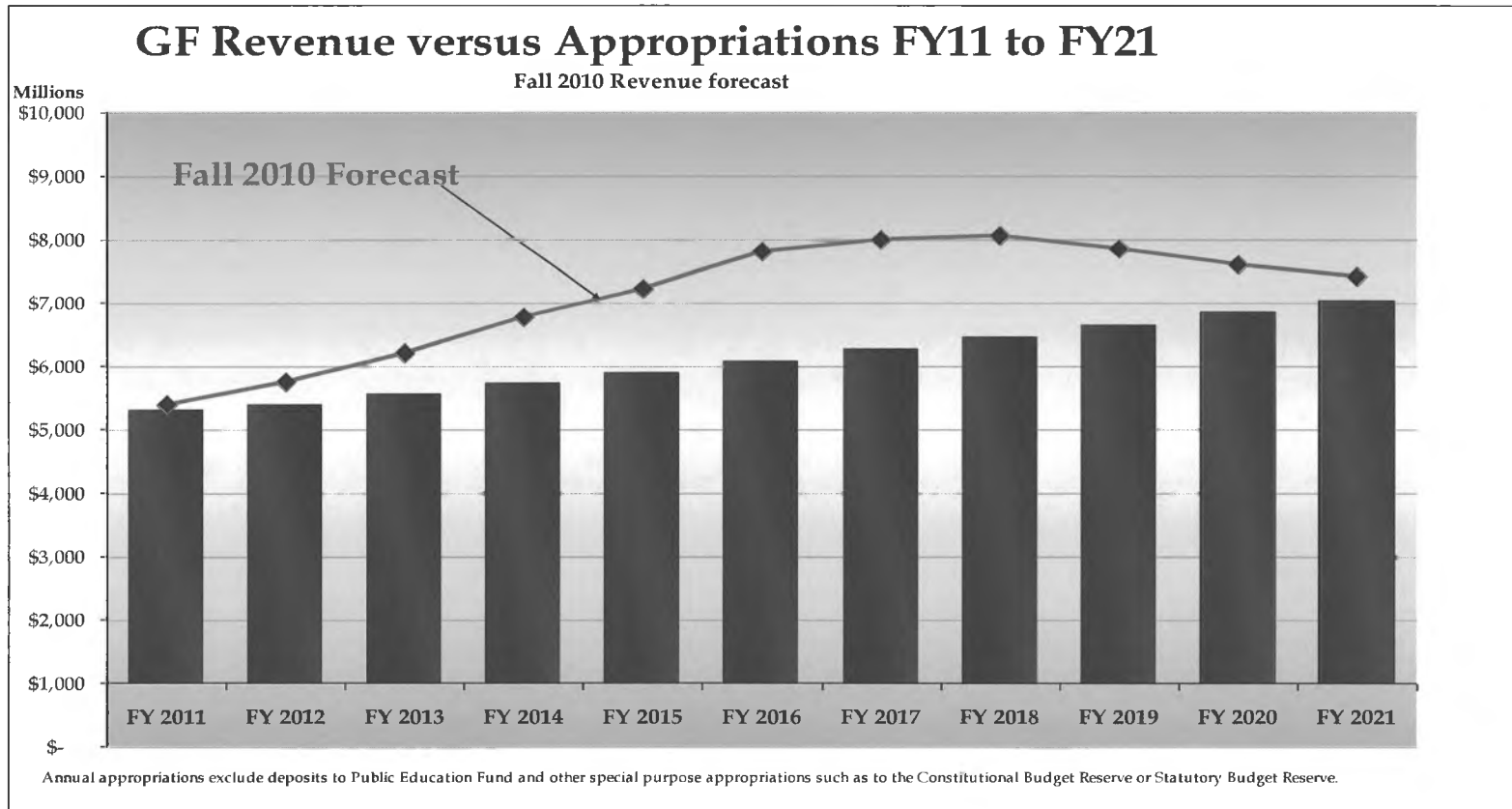
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*Note: The projections in the FY2012 plan are intended to be used as a planning tool. They do not represent a commitment by the Administration to propose spending nor bring in revenue at a particular level in FY2011, FY2012, or any future year.*

## Scenario 2: FY2012 Governor’s Budget with 3% Annual Expenditure Growth



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## Scenario 2: FY2012 Governor's Budget with 3% Annual Expenditure Growth

<b>Oil Price &amp; Production</b>	<b>FY 11</b>	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>	<b>FY20</b>	<b>FY21</b>
Fall 2010 forecast ANS West Coast (\$/bbl)	\$77.96	\$82.67	\$87.86	\$92.41	\$97.34	\$100.08	\$102.90	\$105.80	\$108.78	\$111.84	\$114.99
Fall 2010 forecast production (mmbbl./day)	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520	0.496
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>1/</sup>	\$5,452.2	\$5,790.3	\$6,207.7	\$6,767.8	\$7,233.1	\$7,822.4	\$7,992.7	\$8,060.4	\$7,845.7	\$7,610.7	\$7,424.1
General Fund Expenses	\$5,403.6	\$5,446.4	\$5,609.8	\$5,778.1	\$5,951.4	\$6,130.0	\$6,313.9	\$6,503.3	\$6,698.4	\$6,899.3	\$7,106.3
<b>Budget Surplus/Shortfall</b>	<b>\$48.6</b>	<b>\$343.9</b>	<b>\$597.9</b>	<b>\$989.7</b>	<b>\$1,281.7</b>	<b>\$1,692.4</b>	<b>\$1,678.9</b>	<b>\$1,557.1</b>	<b>\$1,147.3</b>	<b>\$711.3</b>	<b>\$317.8</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$5,126.1	\$5,346.9	\$5,576.3	\$5,814.6	\$6,062.3	\$6,319.7	\$6,587.1	\$6,864.9	\$7,153.7	\$7,453.7	\$7,765.4
CBRF Subaccount Balance End of Year	\$4,890.7	\$5,242.2	\$5,618.9	\$6,022.7	\$6,455.5	\$6,919.4	\$7,416.7	\$7,949.6	\$8,520.9	\$9,133.3	\$9,789.6
<b>CBRF Total</b>	<b>\$10,016.8</b>	<b>\$10,589.0</b>	<b>\$11,195.2</b>	<b>\$11,837.3</b>	<b>\$12,517.8</b>	<b>\$13,239.1</b>	<b>\$14,003.7</b>	<b>\$14,814.6</b>	<b>\$15,674.6</b>	<b>\$16,587.0</b>	<b>\$17,555.0</b>
Statutory Budget Reserve Balance	\$1,048.6	\$1,392.4	\$1,990.3	\$2,980.0	\$4,261.7	\$5,954.2	\$7,633.0	\$9,190.1	\$10,337.4	\$11,048.7	\$11,366.5
<b>TOTAL RESERVES</b>	<b>\$11,065.4</b>	<b>\$11,981.5</b>	<b>\$13,185.5</b>	<b>\$14,817.4</b>	<b>\$16,779.5</b>	<b>\$19,193.2</b>	<b>\$21,636.8</b>	<b>\$24,004.7</b>	<b>\$26,012.0</b>	<b>\$27,635.7</b>	<b>\$28,921.6</b>

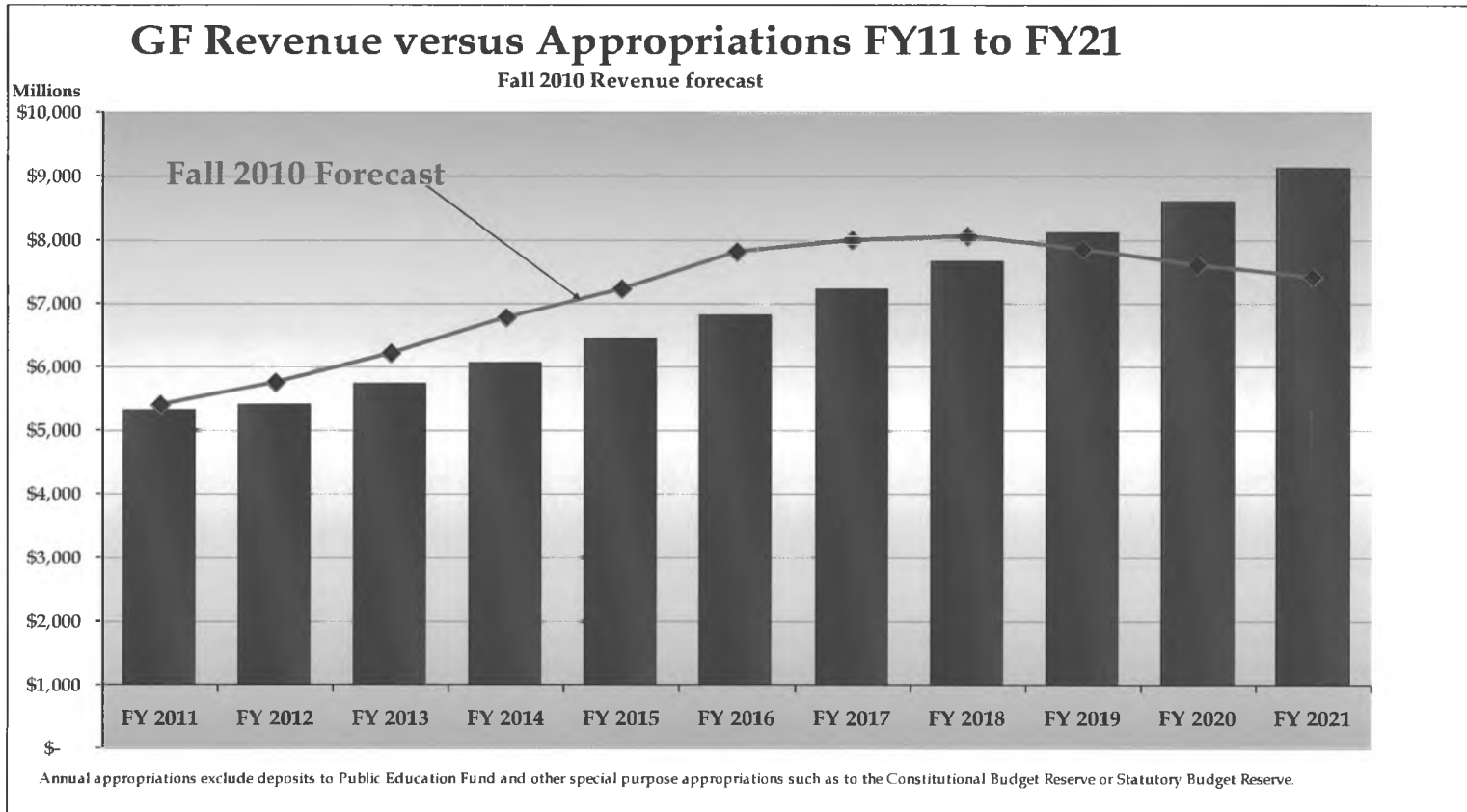
<sup>1/</sup>FY 2011 and FY 2012 General Fund Revenue includes Corporate Dividends, Reappropriations and Carry Forward.

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### Scenario 3: FY2012 Governor’s Budget with 6% Annual Expenditure Growth



**Appropriations projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2011, FY2012 or any future year. The 10 year forecast shows that unanticipated budget shortfalls during the 10-year period could be filled primarily through the use of reserve funds; however, other fiscal tools including spending reductions would likely be used in addition to, or in lieu of, reserve funds.**

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### Scenario 3: FY2012 Governor's Budget with 6% Annual Expenditure Growth

<b>Oil Price &amp; Production</b>	<b>FY 11</b>	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>	<b>FY20</b>	<b>FY21</b>
Fall 2010 forecast ANS West Coast (\$/bbl)	\$77.96	\$82.67	\$87.86	\$92.41	\$97.34	\$100.08	\$102.90	\$105.80	\$108.78	\$111.84	\$114.99
Fall 2010 forecast production (mmbbl./day)	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520	0.496
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>1/</sup>	\$5,452.2	\$5,790.3	\$6,207.7	\$6,767.8	\$7,233.1	\$7,822.4	\$7,992.7	\$8,060.4	\$7,845.7	\$7,610.7	\$7,424.1
General Fund Expenses	\$5,403.6	\$5,446.4	\$5,773.2	\$6,119.6	\$6,486.7	\$6,876.0	\$7,288.5	\$7,725.8	\$8,189.4	\$8,680.7	\$9,201.6
<b>Budget Surplus/Shortfall</b>	<b>\$48.6</b>	<b>\$343.9</b>	<b>\$434.5</b>	<b>\$648.2</b>	<b>\$746.4</b>	<b>\$946.5</b>	<b>\$704.2</b>	<b>\$334.6</b>	<b>(\$343.7)</b>	<b>(\$1,070.1)</b>	<b>(\$1,777.5)</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$5,126.1	\$5,346.9	\$5,576.3	\$5,814.6	\$6,062.3	\$6,319.7	\$6,587.1	\$6,864.9	\$7,153.7	\$7,453.7	\$7,765.4
CBRF Subaccount Balance End of Year	\$4,890.7	\$5,242.2	\$5,618.9	\$6,022.7	\$6,455.5	\$6,919.4	\$7,416.7	\$7,949.6	\$8,520.9	\$9,133.3	\$9,789.6
<b>CBRF Total</b>	<b>\$10,016.8</b>	<b>\$10,589.0</b>	<b>\$11,195.2</b>	<b>\$11,837.3</b>	<b>\$12,517.8</b>	<b>\$13,239.1</b>	<b>\$14,003.7</b>	<b>\$14,814.6</b>	<b>\$15,674.6</b>	<b>\$16,587.0</b>	<b>\$17,555.0</b>
Statutory Budget Reserve Balance	\$1,048.6	\$1,392.4	\$1,827.0	\$2,475.2	\$3,221.5	\$4,168.0	\$4,872.2	\$5,206.8	\$4,863.1	\$3,793.0	\$2,015.5
<b>TOTAL RESERVES</b>	<b>\$11,065.4</b>	<b>\$11,981.5</b>	<b>\$13,022.1</b>	<b>\$14,312.5</b>	<b>\$15,739.3</b>	<b>\$17,407.1</b>	<b>\$18,875.9</b>	<b>\$20,021.4</b>	<b>\$20,537.7</b>	<b>\$20,380.0</b>	<b>\$19,570.6</b>

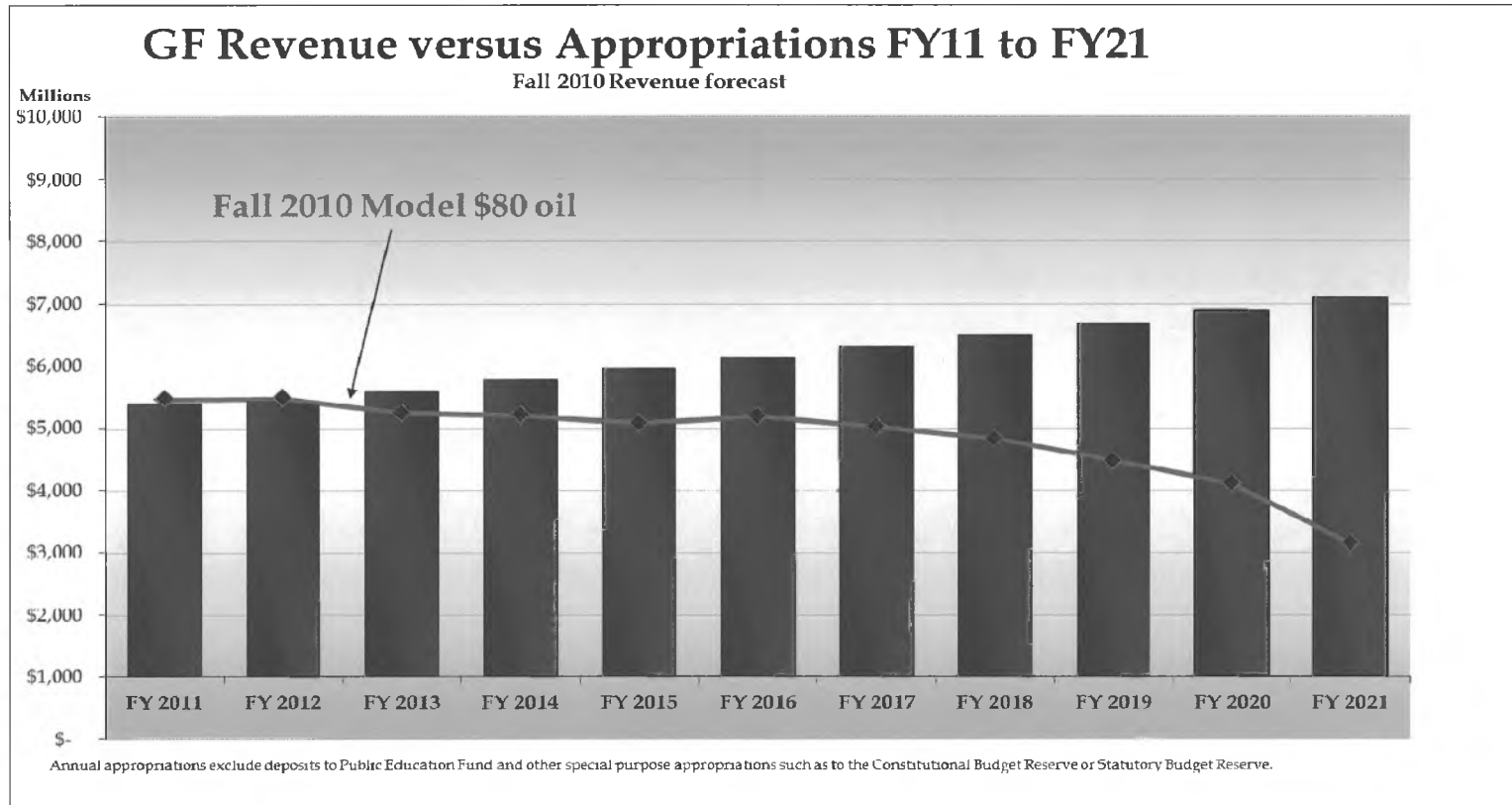
*1/FY 2011 and FY 2012 General Fund Revenue includes Corporate Dividends, Reappropriations and Carry Forward.*

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### Scenario 4: Revenue@ \$80 oil FY2012 Governor's Budget plus 3% Annual Growth



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### Scenario 4: Revenue@ \$80 oil FY2012 Governor's Budget plus 3% Annual Growth

Oil Price & Production	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY20	FY21
Fall 2010 forecast ANS West Coast (\$/bbl)	\$77.96	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00	\$80.00
Fall 2010 forecast production (mmbbl./day)	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520	0.496
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>1/</sup>	\$5,392.4	\$5,423.4	\$5,229.2	\$5,199.3	\$5,066.8	\$5,176.3	\$5,020.6	\$4,821.5	\$4,465.0	\$4,109.4	\$3,835.7
General Fund Expenses	\$5,403.6	\$5,446.4	\$5,773.2	\$6,119.6	\$6,486.7	\$6,876.0	\$7,288.5	\$7,725.8	\$8,189.4	\$8,680.7	\$9,201.6
<b>Budget Surplus/Shortfall</b>	<b>\$48.6</b>	<b>\$23.4</b>	<b>(\$543.9)</b>	<b>(\$920.2)</b>	<b>(\$1,419.9)</b>	<b>(\$1,699.6)</b>	<b>(\$2,267.9)</b>	<b>(\$2,904.3)</b>	<b>(\$3,724.4)</b>	<b>(\$4,571.3)</b>	<b>(\$5,365.9)</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$5,126.1	\$5,346.9	\$5,576.3	\$5,814.6	\$5,274.1	\$4,526.9	\$3,403.8	\$1,840.1	(\$162.4)	\$0.0	\$0.0
CBRF Subaccount Balance End of Year	\$4,890.7	\$5,242.2	\$5,618.9	\$6,022.7	\$6,455.5	\$6,919.4	\$7,416.7	\$7,949.6	\$8,329.4	\$6,051.4	\$3,110.4
<b>CBRF Total</b>	<b>\$10,016.8</b>	<b>\$10,589.0</b>	<b>\$11,195.2</b>	<b>\$11,837.3</b>	<b>\$11,729.6</b>	<b>\$11,446.3</b>	<b>\$10,820.5</b>	<b>\$9,789.7</b>	<b>\$8,167.0</b>	<b>\$6,051.4</b>	<b>\$3,110.4</b>
Statutory Budget Reserve Balance	\$1,048.6	\$1,071.9	\$691.4	\$112.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL RESERVES</b>	<b>\$11,065.4</b>	<b>\$11,661.0</b>	<b>\$11,886.5</b>	<b>\$11,949.9</b>	<b>\$11,729.6</b>	<b>\$11,446.3</b>	<b>\$10,820.5</b>	<b>\$9,789.7</b>	<b>\$8,167.0</b>	<b>\$6,051.4</b>	<b>\$3,110.4</b>

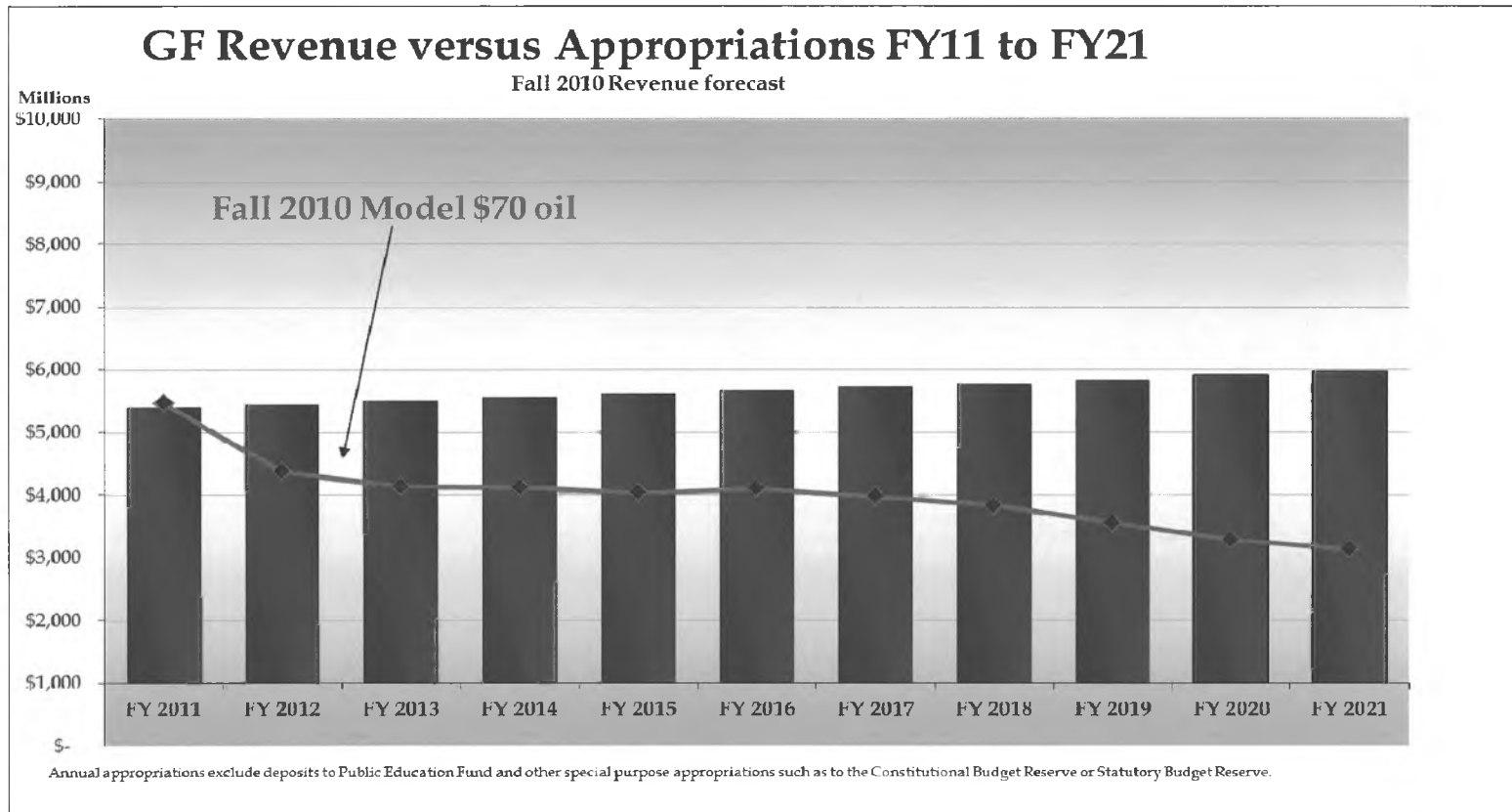
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### Scenario 5: Revenue@ $\$70$ oil FY2012 Governor’s Budget plus 1% Annual Growth



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### Scenario 5: Revenue@ \$70 oil FY2012 Governor's Budget plus 1% Annual Growth

Oil Price & Production	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY20	FY21
Fall 2010 forecast ANS West Coast (\$/bbl)	\$77.96	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00
Fall 2010 forecast production (mmbbl./day)	0.616	0.622	0.642	0.629	0.608	0.623	0.607	0.582	0.551	0.520	0.496
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>1/</sup>	\$5,452.2	\$4,365.3	\$4,127.7	\$4,111.3	\$4,024.5	\$4,091.8	\$3,971.2	\$3,826.5	\$3,556.7	\$3,281.1	\$3,835.7
General Fund Expenses	\$5,403.6	\$5,446.4	\$5,500.9	\$5,555.9	\$5,611.4	\$5,667.5	\$5,724.2	\$5,781.5	\$5,839.3	\$5,897.7	\$5,956.6
<b>Budget Surplus/Shortfall</b>	<b>\$48.6</b>	<b>(\$1,081.1)</b>	<b>(\$1,373.2)</b>	<b>(\$1,444.6)</b>	<b>(\$1,586.9)</b>	<b>(\$1,575.7)</b>	<b>(\$1,753.0)</b>	<b>(\$1,955.0)</b>	<b>(\$2,282.5)</b>	<b>(\$2,616.6)</b>	<b>(\$2,120.9)</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$5,126.1	\$5,313.7	\$4,139.7	\$2,846.9	\$1,358.3	(\$46.8)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
CBRF Subaccount Balance End of Year	\$4,890.7	\$5,242.2	\$5,618.9	\$6,022.7	\$6,455.5	\$6,784.8	\$5,472.6	\$3,856.4	\$1,783.8	\$0.0	\$0.0
<b>CBRF Total</b>	<b>\$10,016.8</b>	<b>\$10,555.8</b>	<b>\$9,758.6</b>	<b>\$8,869.6</b>	<b>\$7,813.8</b>	<b>\$6,737.9</b>	<b>\$5,472.6</b>	<b>\$3,856.4</b>	<b>\$1,783.8</b>	<b>\$0.0</b>	<b>\$0.0</b>
Statutory Budget Reserve Balance	\$1,073.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL RESERVES</b>	<b>\$11,090.3</b>	<b>\$10,576.9</b>	<b>\$9,823.8</b>	<b>\$8,981.3</b>	<b>\$7,974.1</b>	<b>\$6,953.7</b>	<b>\$5,702.2</b>	<b>\$4,263.4</b>	<b>\$2,267.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

<sup>1/</sup>FY 2011 and FY 2012 General Fund Revenue includes Corporate Dividends, Reappropriations and Carry Forward.

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