

# Presentation to Commonwealth North Fiscal Action Coalition

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# How to evaluate performance & measurement?

1. Financial Reporting – Standards – Audited Financials
2. GASB/GAAP
3. In arrears, past tense, FYE 15 is 6/30/15, 8 months ago! Published 2/1/16
4. Balance sheet – ‘Statement of Net Position’ - Assets less liabilities = Net Position/Net Assets/Capital/Equity/Worth!
5. Income Statement – ‘Statement of Activities’ –
6. Combined is CAFR: “Comprehensive Annual Financial Report”
7. “Qualified” Vs. ‘Unqualified or Clean’ Auditors Opinion
  - a. 2014 was ‘Qualified’ because IS system for Medicaid – ‘pervasive/significant defects’
  - b. 2015 was ‘Unqualified/Clean’ but ‘restated/prior period adjustment’ primarily caused by GASB 68 for pension liability \$6B hit! Combined with deficit spending \$11.3B difference in Unrestricted Net Position resulting in 13% drop.
8. Reconciliation with budget/appropriations is important!
9. Cash Flow shortfall, Liquidity – much bigger than legislative discussion

# Overview of Alaska's Net Position

## Net Position (Stated in millions)

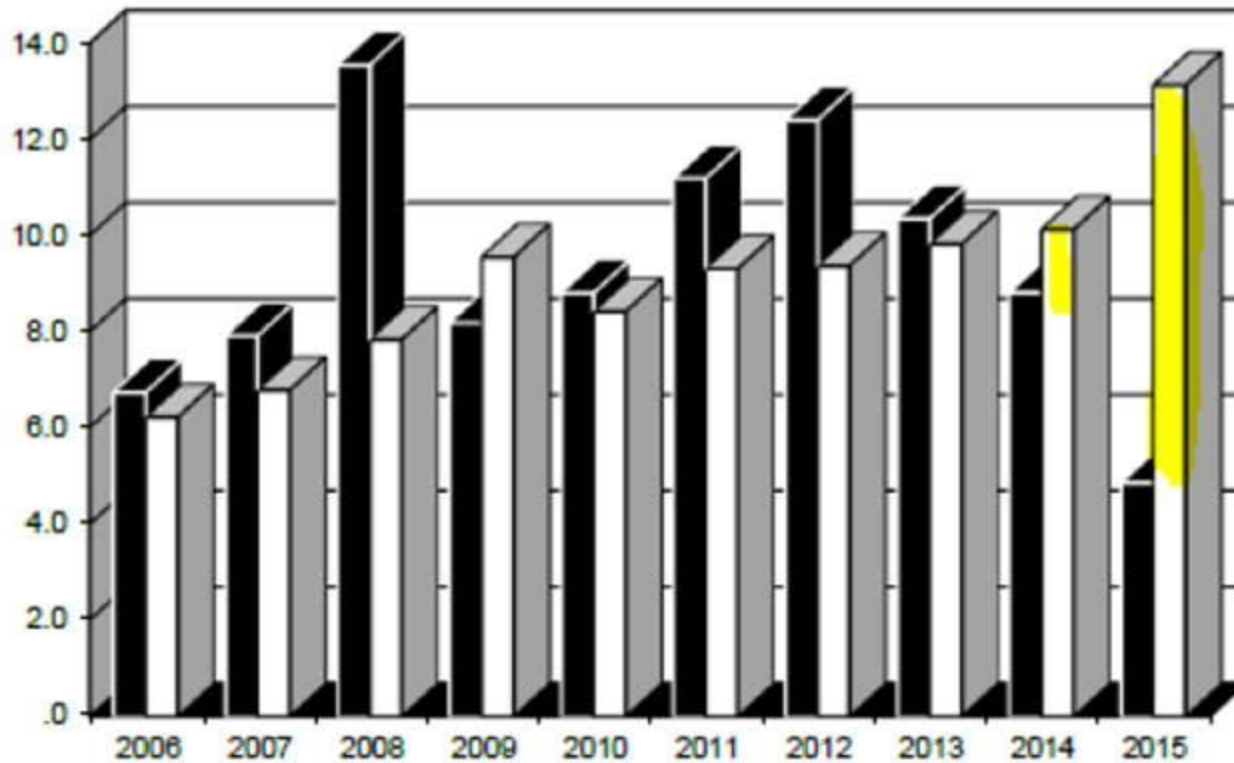
	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 15	FY 14	FY 15	FY 14	FY 15	FY 14
Current and Other Noncurrent Assets	\$ 72,688	\$ 78,597	\$ 1,381	\$ 1,313	\$ 74,069	\$ 79,910
Capital Assets	7,397	6,951	1,254	1,312	8,651	8,263
Total Assets	80,085	85,548	2,635	2,625	82,720	88,173
Deferred Outflows of Resources	1,194	6	18	-	1,212	6
Long-term Liabilities	7,903	2,151	570	521	8,473	2,672
Other Liabilities	2,855	3,385	20	19	2,875	3,404
Total Liabilities	10,758	5,536	590	540	11,348	6,076
Deferred Inflows of Resources	695	-	8	-	703	-
Net Position:						
Net Investment in Capital Assets	6,683	6,205	817	868	7,500	7,073
Restricted	46,443	45,797	940	866	47,383	46,663
Unrestricted	16,700	28,016	298	351	16,998	28,367
Total Net Position	\$ 69,826	\$ 80,018	\$ 2,055	\$ 2,085	\$ 71,881	\$ 82,103

- ▶ This slide is just 'State' including APFC and some airport funds, not including AHFC, AIDEA, ARR, AEA
- ▶ While pleased that our capital/fixed assets (infrastructure) did not drop, you can see the effect of unfunded Pension Liability now showing increase in L-T liabilities.
- ▶ The net position at bottom shows APFC at \$46B but Restricted/not available for state use/funding.
- ▶ The 'Unrestricted' Net Position fell by \$11.3B, half being Pension liability and half being state 'loss' on activities. Of the \$16.7B, \$7B is earnings reserve at APFC.
- ▶ Note the drop from \$28B in FY14. Reminder these unrestricted funds are the only funds available for actual action by legislators. We are running out of flexibility/unrestricted cash/fund balance!



- ▶ The next two slides show that the difference between budget authorization to spend and what actually was spent via GAAP financial statement reporting – more of a cash flow deficit spend of \$7B!!! Way more than you read in the press at \$4B.
- ▶ These are cut and paste slides from the CAFR! Note that the original budget Deficit for FY15 was supposed to be \$5.3B, adjusted up to \$6.6B via supplemental, and the actual deficit per financials was \$8.8B, but reduced by \$2B for lessor cash impact because some was ‘encumbered/committed/reserved’ but not paid out immediately.

# General Fund; Expenditures and Revenues in Billions



■ Revenues □ Expenditures

# GF Reconciliation of Budgetary/GAAP Reporting (page 140)

**Original 'Budget' Deficit \$5.3B, Final \$6.6B,  
Actual \$8.8B = \$2.2 worse! Net of \$1.2B 'fund transfers'**

## RECONCILIATION OF BUDGETARY/

### GAAP REPORTING:

Adjust Expenditures for Encumbrances Basis Difference	2,135,283 <u>(274,761)</u>
Excess (Deficiency) of Revenues, Expenditures, Other Financing Sources, Special and Extraordinary Items, GAAP Basis	<u>(6,993,332)</u>
Fund Balances - Beginning of Year	22,541,616
Prior Period Adjustment	283,619
Fund Balances - End of Year	<u>\$ 15,831,903</u>

- ▶ The final slide shows more than \$10B in negative swing from FY14 to FY15.
- ▶ This is why the bond rating agencies say “the state of Alaska has an unprecedented structural imbalance” and a “heightened volatility to negative revenue swings”.
- ▶ Note that total revenue changes from FY14 of \$16.7B dropped during FY15 to \$8.2B! Half the revenue!
- ▶ Also note that total expenses went up from FY14 of \$10.7B to \$12.4B.
- ▶ In conclusion, excess revenue in FY14 of \$6B became excess expenditures more than revenue in FY15 of (\$4.3B) for a negative swing of more than \$10B in a single year!

# Overview of Alaska's Net Position

## Changes in Net Position

(Stated in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY15	FY14	FY15	FY14	FY15	FY14
<b>Revenues:</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 2,100	\$ 2,928	\$ 333	\$ 372	\$ 2,433	\$ 3,300
Operating Grants	1,918	1,810	-	26	1,918	1,836
Capital Grants	769	681	69	80	838	761
<b>General Revenues</b>						
Taxes	513	2,974	-	-	513	2,974
Interest and Investment Income/(Loss)	2,833	8,236	(10)	(14)	2,823	8,222
Payments In from Component Units	14	23	-	-	14	23
Other Revenues	34	60	1	5	35	65
<b>Total Revenues</b>	<b>8,181</b>	<b>16,712</b>	<b>393</b>	<b>469</b>	<b>8,574</b>	<b>17,181</b>
<b>Expenses</b>						
General Government	851	554	-	-	851	554
Alaska Permanent Fund Dividend	1,203	571	-	-	1,203	571
Education and University	4,194	2,676	-	-	4,194	2,676
Health and Human Services	2,771	2,587	-	-	2,771	2,587
Law and Justice	259	270	-	-	259	270
Public Protection	791	805	-	-	791	805
Natural Resources	475	383	-	-	475	383
Development	421	1,123	61	5	482	1,128
Transportation	1,278	1,404	-	-	1,278	1,404
Intergovernmental	134	262	-	-	134	262
Debt Service	66	65	-	-	66	65
Loans	-	-	11	10	11	10
Unemployment Compensation	-	-	143	196	143	196
Airports	-	-	150	158	150	158
<b>Total Expenses</b>	<b>12,443</b>	<b>10,700</b>	<b>365</b>	<b>369</b>	<b>12,808</b>	<b>11,069</b>
<b>Excess (Deficiency) of Revenues</b>						
Over Expenditures	(4,262)	6,012	28	100	(4,234)	6,112
Transfers	(1)	(1)	11	1	-	-
Change in Net Position	(4,273)	6,011	39	101	(4,234)	6,112
Net Position - Beginning of Year (restated)	73,813	74,018	2,016	1,984	75,829	76,002
Prior Period Adjustment	286	(11)	-	-	286	(11)
<b>Net Position - End of Year</b>	<b>\$69,826</b>	<b>\$80,018</b>	<b>\$ 2,055</b>	<b>\$ 2,085</b>	<b>\$71,881</b>	<b>\$ 82,103</b>



- ▶ Summary – Know this: We have gotten much worse during this FY 16 which we are already 8 months into!
  - ▶ You can safely bet that our revenue is dropping again and that our expenses did not go down much.
  - ▶ Thus when FY 16 financials are available a year from now (best case 12/15/16), we will have very little unrestricted net funds and our losses will be more than \$4B from a cash flow perspective that is being discussed in the press.
  - ▶ Time is of the essence folks!
  - ▶ Oil prices, financial investment returns, etc. are not performing as anticipated. Prompt action is required to keep some unrestricted reserves for flexibility!
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