

# **State of Alaska**

# **FY2019 Budget Overview**

**Commonwealth North**  
**July 13, 2018**

**Presented by:**  
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**Office of Management and Budget**

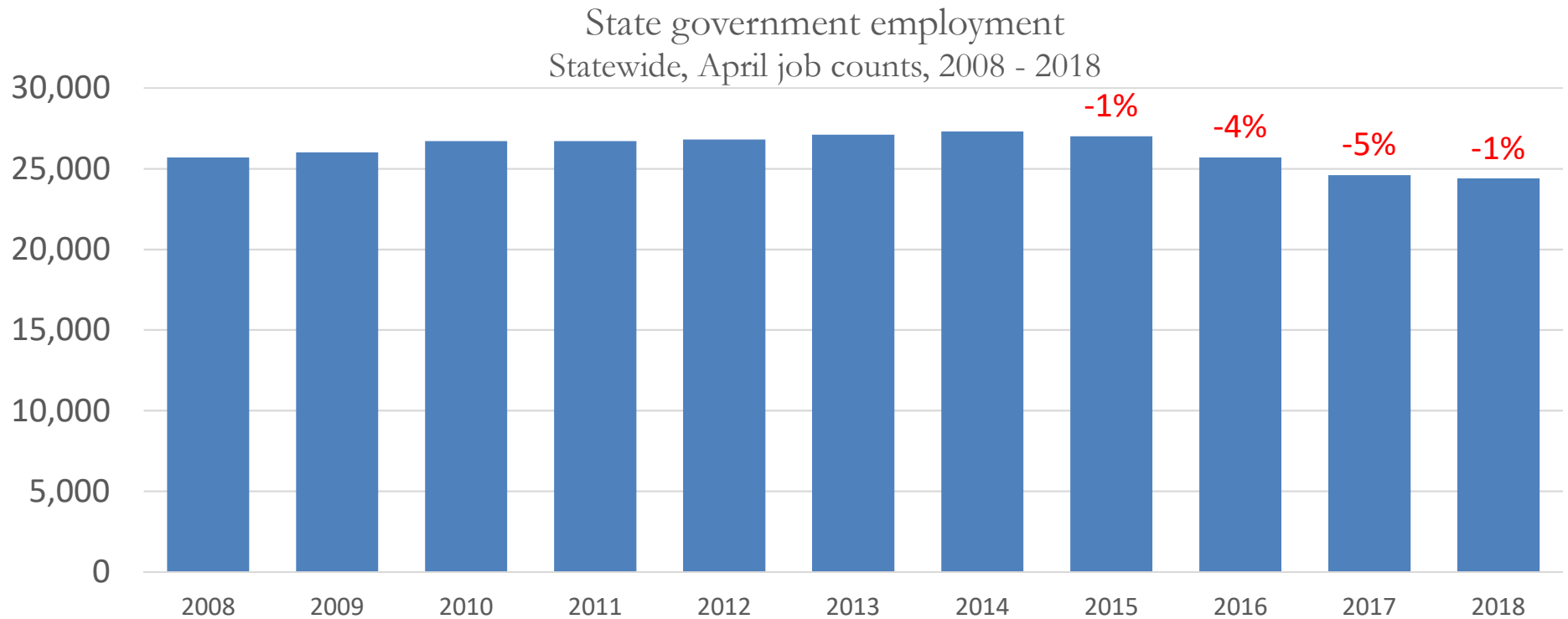
## Budget highlights

- The Walker-Mallott administration inherited a \$6.1 billion budget with just \$2.3 billion in revenue
  - The remaining \$3.7 billion budget gap was funded from savings
- Today, the budget is \$4.7 billion – a 20% reduction – and the deficit funded from savings is estimated to be \$700 million
- Thanks to the hard work done by the legislature and this administration, 80% of the gap has been solved with **spending cuts** and the passage of SB26 – allowing structured and sustainable use of Permanent Fund earnings. Slightly higher oil price is helping too.
- The 2018 Permanent Fund dividend will be \$1,600 for every Alaskan

## State spending – agency cuts

- State agency operating budgets have been cut by \$563 million, or 13%, since FY15 (UGF), inclusive of DGF the reduction is 10.5% from FY15
- The administration continues to work toward savings from efficiencies with Shared Services, Facility Maintenance, OIT and department specific efforts
- Targeted program cuts are increasingly difficult to make without considerable adverse consequences to Alaskans' health, safety, and economy

# State spending – job cuts



- There are 2,900 fewer state jobs (including University) in April of 2018 compared to April of 2014
- State government employment has been reduced to 2002 levels
- Total state employee wage and salary earnings fell by \$25 million from 2014 to 2016

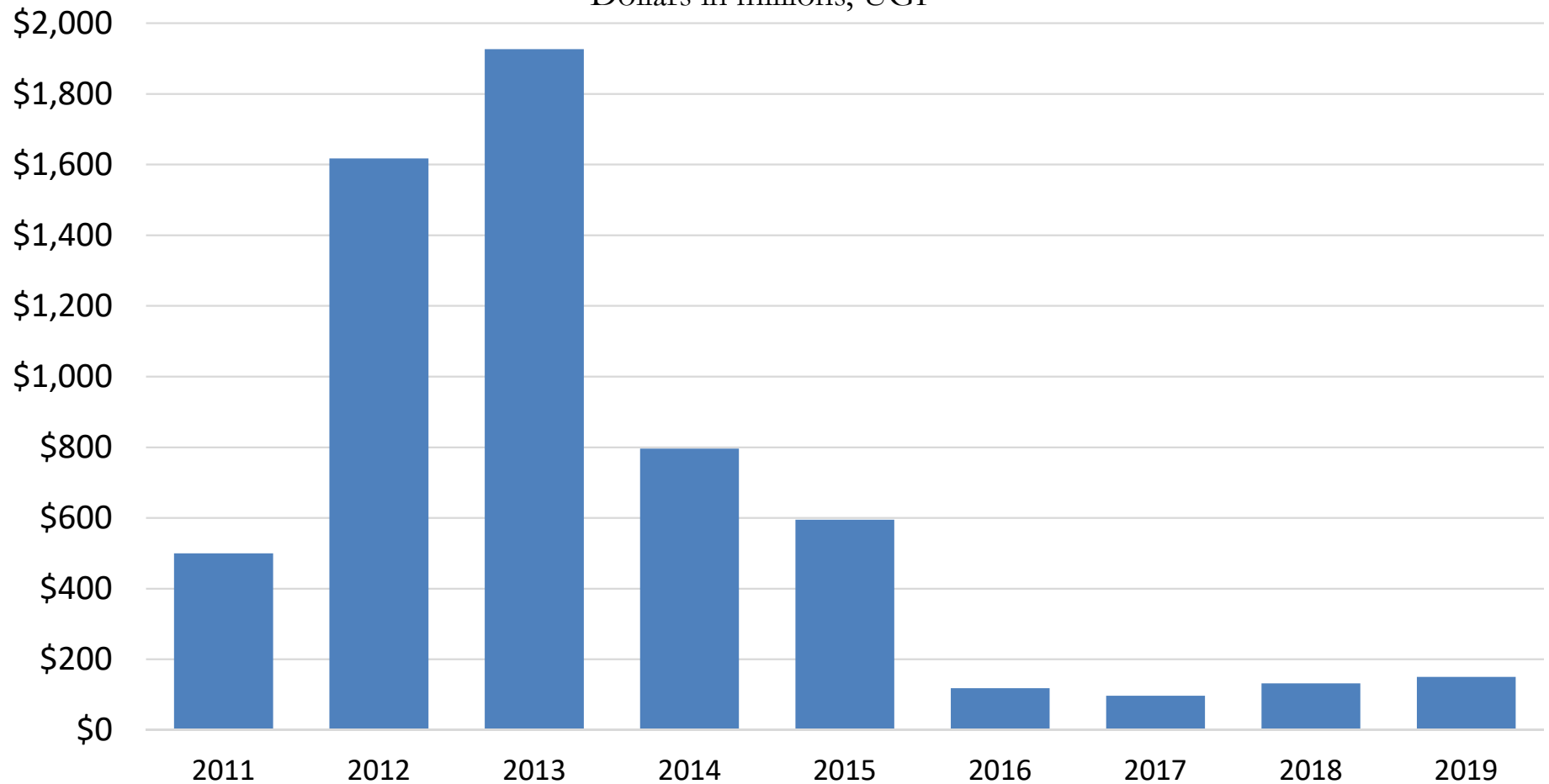
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section 5/25/18

## State spending – capital budget

- A significant source of state government savings has come from reduced capital budgets
- In the short term, the capital budget can be a good pressure-release valve for managing shortfalls
- But over the long term, deferred maintenance, community needs and demand for better infrastructure to keep pace with the economy drive demand for capital projects
- Alaska's construction workforce has been one of the hardest hit industries in the current recession

# State spending – capital budget

Capital Spending – FY11 to FY19  
Dollars in millions, UGF



## The PFD in perspective

This administration is committed to paying a dividend to all Alaskans in perpetuity and will work to ensure it is as large as the state can afford.

With that in mind, increasing the PFD from \$1,100 in 2017 to \$1,600 in 2018 cost an additional \$263 million.

\$263 million is equivalent to:

- \$850.00 per-student increase to the K-12 base student allocation (BSA)
- 1.5 times the size of the FY19 capital budget
- nearly 10 years of full community revenue sharing

The total cost of the 2018 dividend payment is \$1.02 billion. That's equivalent to the combined budgets of 13 state departments, including transportation, public safety, fish and game, and the University.

# FY19 Accomplishments

## Safer Alaska

### Public Safety Investments - \$37 million; 21 positions

- Public defender support
- Substance abuse prevention grants (community non-profits)
- New statewide drug prosecutor
- Added support positions to free trooper time to focus on law enforcement
- Enhanced “9-1-1” project
- Public Safety – Crime prevention and response equipment

## Health Care Costs

- \$1.25 million for continued work towards health care authority (\$750,000) and stakeholder process for broader Alaska health care system transformation (\$500,000)



# FY19 Accomplishments

## Smarter Alaska

### **K-12 formula fully funded with \$20 million outside the formula:**

- Statewide K-12 formula: \$1.3 billion
- Additional K-12 funding outside formula: \$20 million
  - Equates to a \$78.00 per-student increase

### **Education forward-funded for FY2020:**

- Districts have certainty in funding – no pink slips
- Additional \$30 million in funding allocated per the BSA
  - Equates to a \$118.00 per-student increase
- \$19.5 million for curriculum innovation fund

# FY19 Accomplishments

## Stronger Alaska

### Constrained capital budget:

- Federal match – leveraging state general funds
- Includes minimal funds to address deferred maintenance
- Invests in critical state information technology projects

### Alaska Marine Highway System:

- Fully funded to ensure consistent service levels
- Capital funds for ferry maintenance and terminal work

# FY19 Accomplishments

## Stronger Alaska

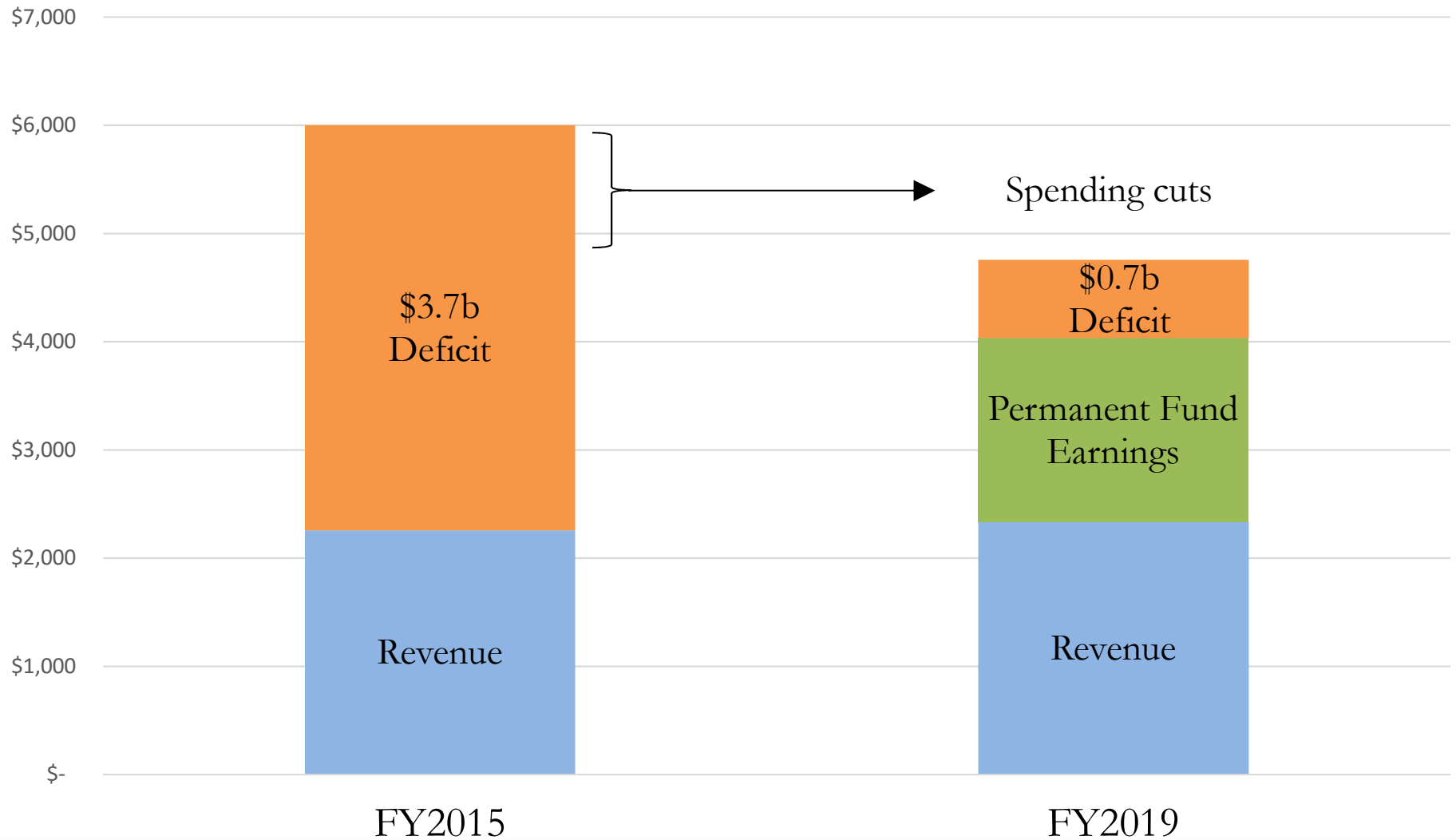
### Oil and Gas Exploration Credit Refinancing:

- Debt refinancing
- 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)
- Absent this measure, some credit holders won't be paid until 2025

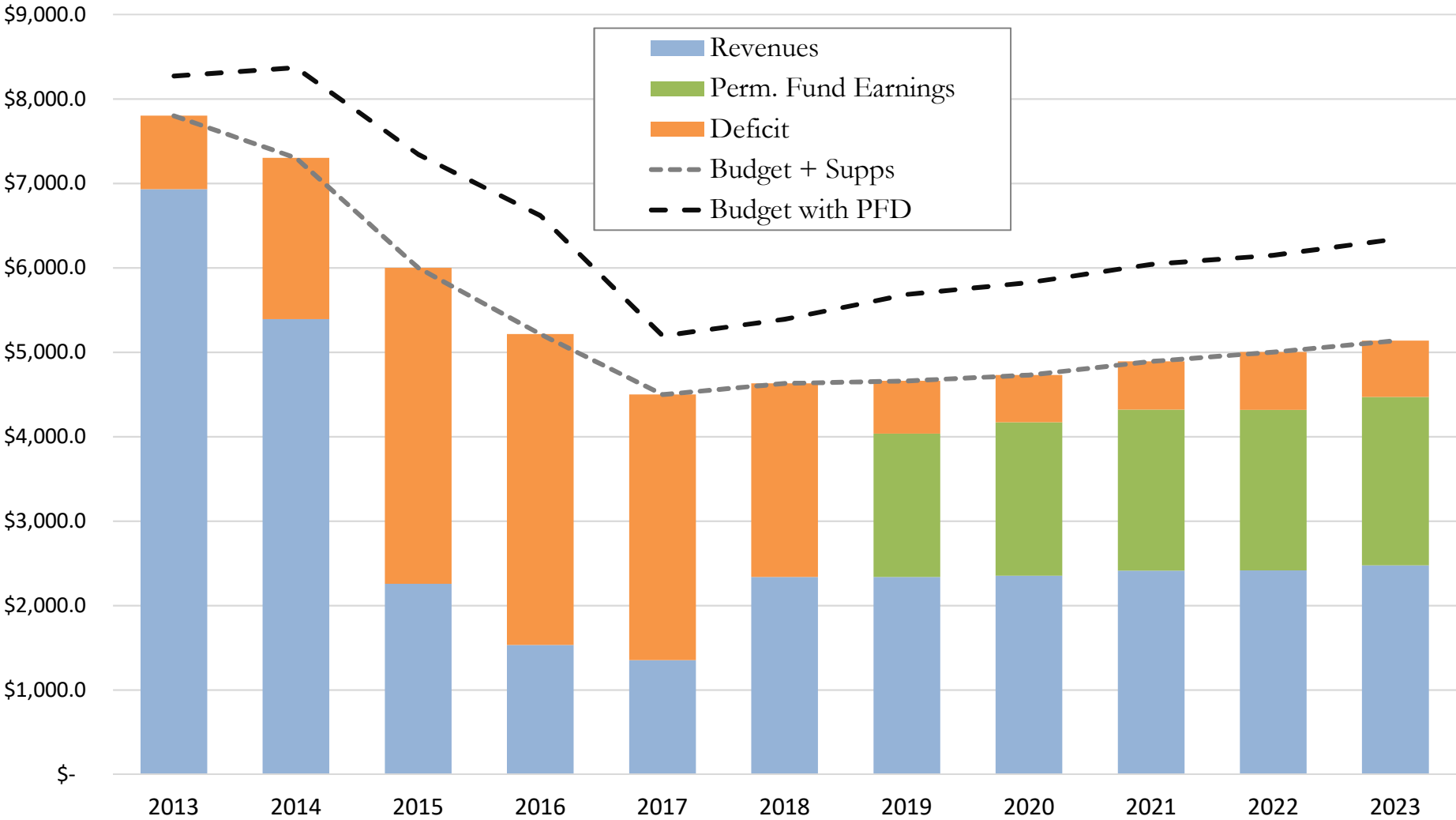
### Alaska Liquefied Natural Gas Pipeline:

- Signed 5-party agreement
  - Alaska now has a buyer for the first time
  - Natural gas is available to Alaskans, first and foremost
  - Over 12,000 jobs and \$2 billion in annual economic activity
  - Future revenue stream to the state will brighten fiscal future
- Trade mission to China
- Gas supply agreement with BP

# FY19 Accomplishments



# Looking ahead



## Looking ahead

FY2019 Budget Outlook by Oil Price (\$millions)				
	Pre-SB26		SB26 - \$1,600 PFD	
Oil Price	(Deficit)/Surplus		(Deficit)/Surplus	
\$40.00/bbl	\$	(3,098)	\$	(1,399)
\$45.00/bbl	\$	(2,950)	\$	(1,251)
\$50.00/bbl	\$	(2,802)	\$	(1,103)
\$55.00/bbl	\$	(2,654)	\$	(955)
\$60.00/bbl	\$	(2,505)	\$	(806)
\$65.00/bbl	\$	(2,228)	\$	(529)
\$70.00/bbl	\$	(1,828)	\$	(129)
\$75.00/bbl	\$	(1,445)	\$	254
\$80.00/bbl	\$	(1,053)	\$	646
\$85.00/bbl	\$	(657)	\$	1,042
\$90.00/bbl	\$	(117)	\$	1,582
\$95.00/bbl	\$	274	\$	1,973

- SB26 can produce \$2.7 billion, and this amount must be shared between government and dividends
- A \$1,600 PFD leaves \$1.7 billion for government
- The state remains highly dependent on oil. The latest DOR forecast is \$63/bbl. The budget balances at \$73/bbl.

## Looking ahead

The remaining deficit:

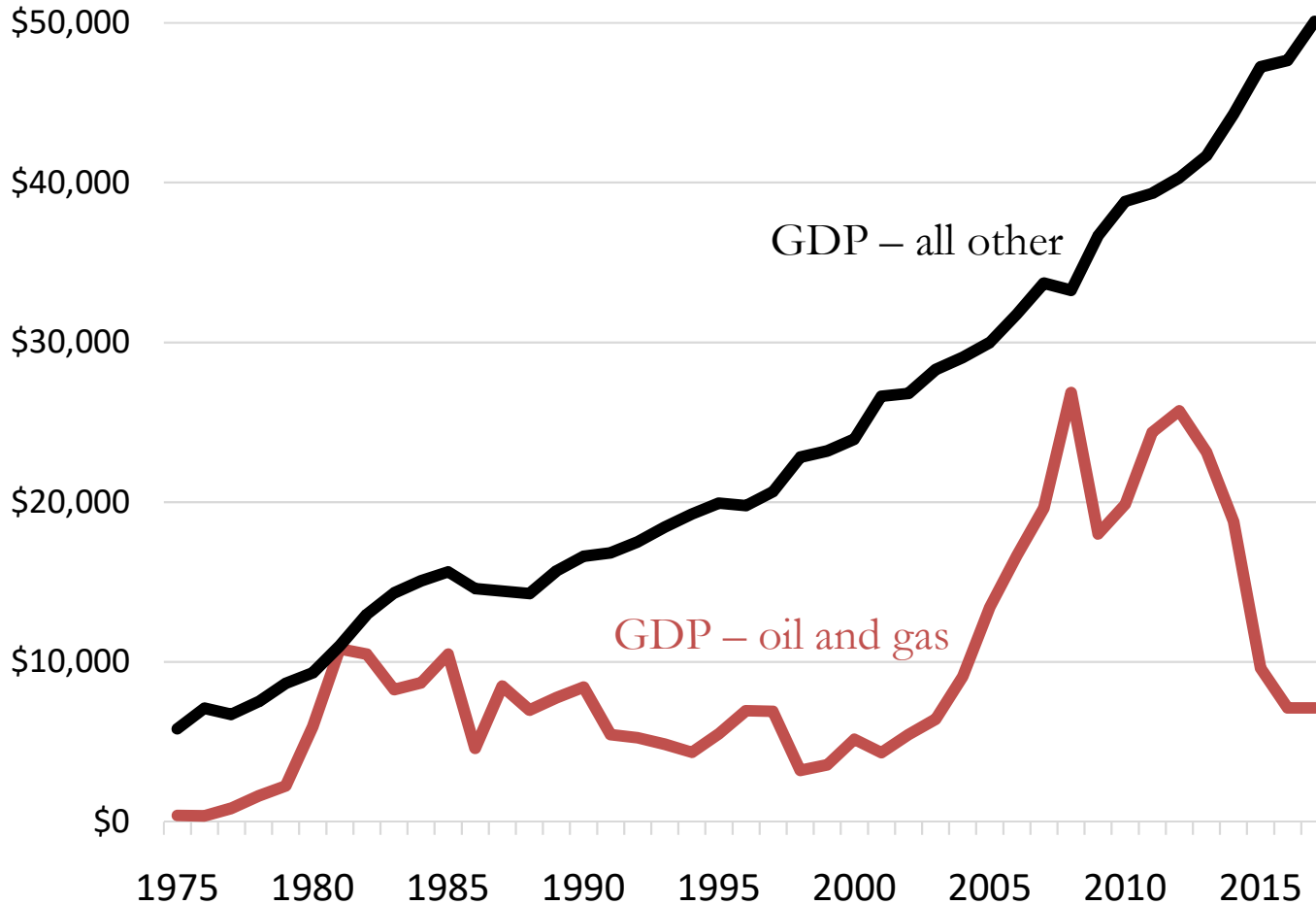
With SB26, a structured and sustainable use of permanent fund earnings enabled us to close most of the deficit. We are committed to a balanced fiscal solution and we will work to build a budget for FY2020 that works toward that end.

Permanent Fund Dividends:

The Walker-Mallott administration is committed to a dividend in perpetuity ensuring that it is as large as we can afford given the fiscal environment. Two opportunities that have tremendous potential to influence our fiscal environment are development in the '1002' area and construction of the AKLNG gasline.

# A note on Alaska's economy

Alaska Gross Domestic Product  
Nominal dollars in millions



Alaska's economy has diversified and grown over time. There must be a link between economic growth and the state services needed to support it.



For more information on the budget



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