State of Alaska
Update on Fiscal Outlook

Commonwealth North
May 8, 2020

Legislative Finance Division

www.legfin.akleg.gov

Outline

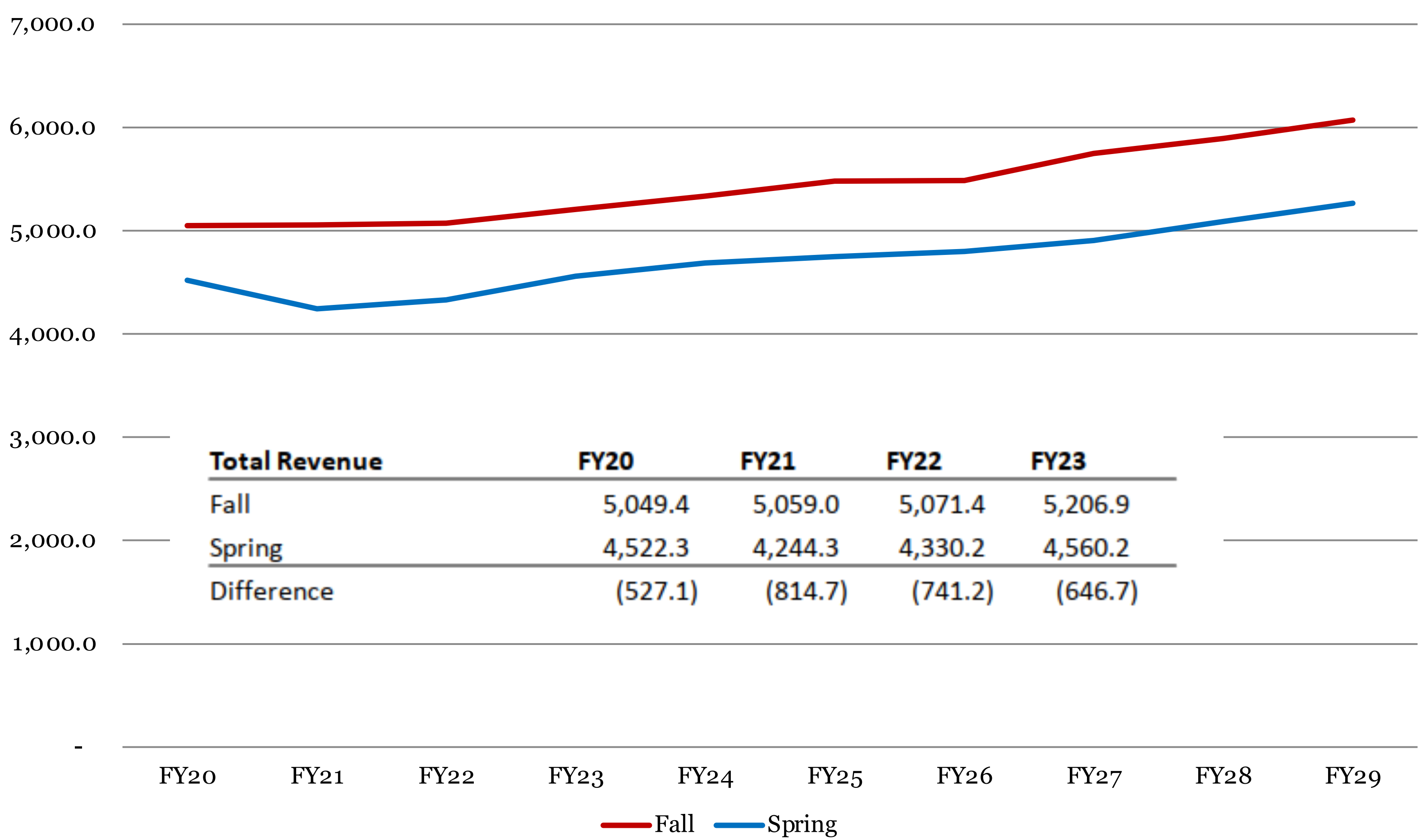
- Alaska's General State Revenue
- Alaska's fiscal reserves
- Options to address the growing structural budget deficit

Revenue Forecast

- DOR Spring Revenue Forecast assumes $51.65/bbl average oil price in FY20 down from $63/bbl
- In FY21 Spring Forecast is $37/bbl down from $59/bbl
- Optimistic given the $10/bbl price range and supply and demand expectations
- Production forecast is optimistic given known reductions
- Assumed the Alaska Permanent Fund's "low" FY20 projection (ending balance of $63.2 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.)

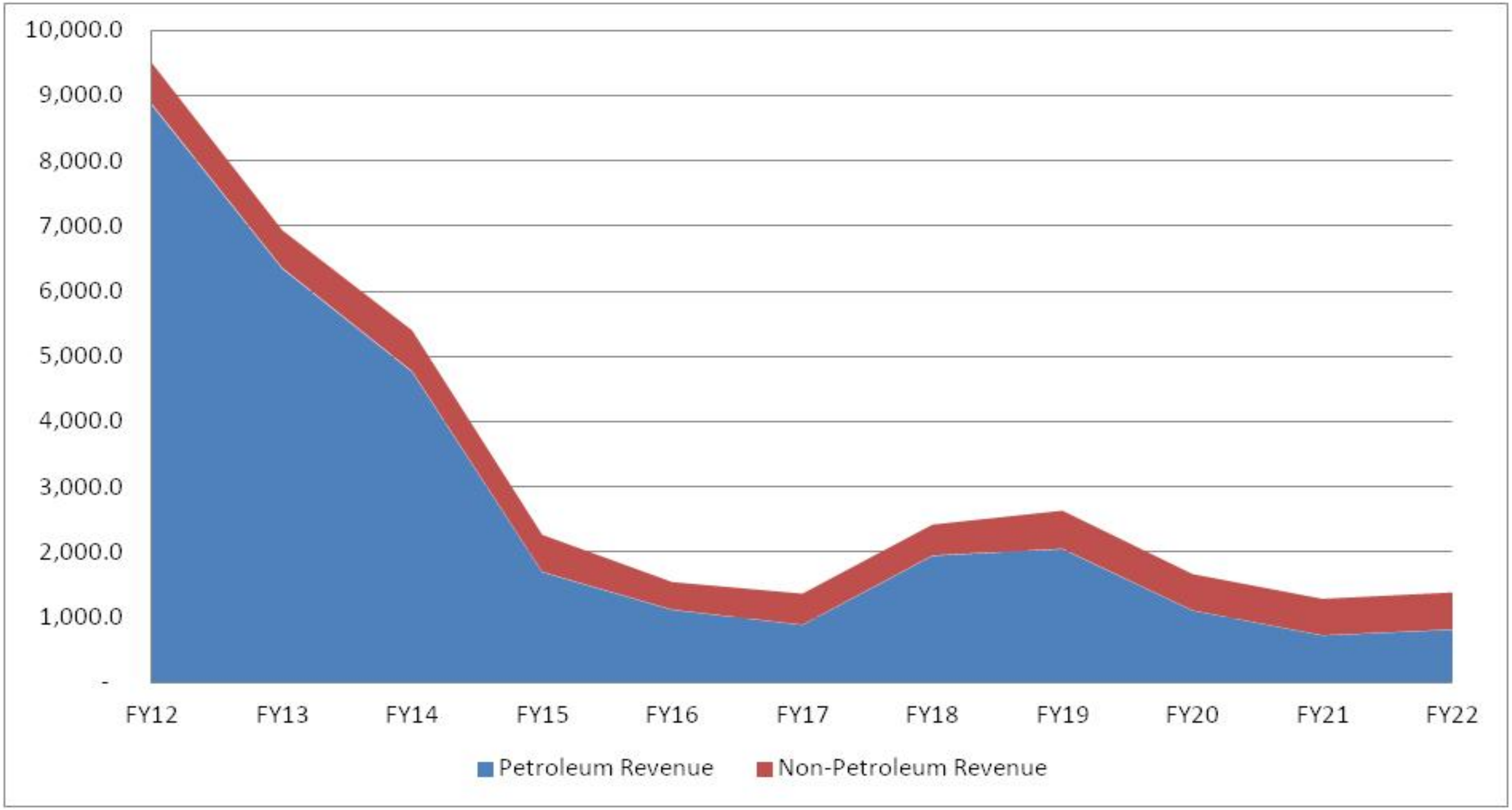
Fall to Spring Forecast Comparison



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)

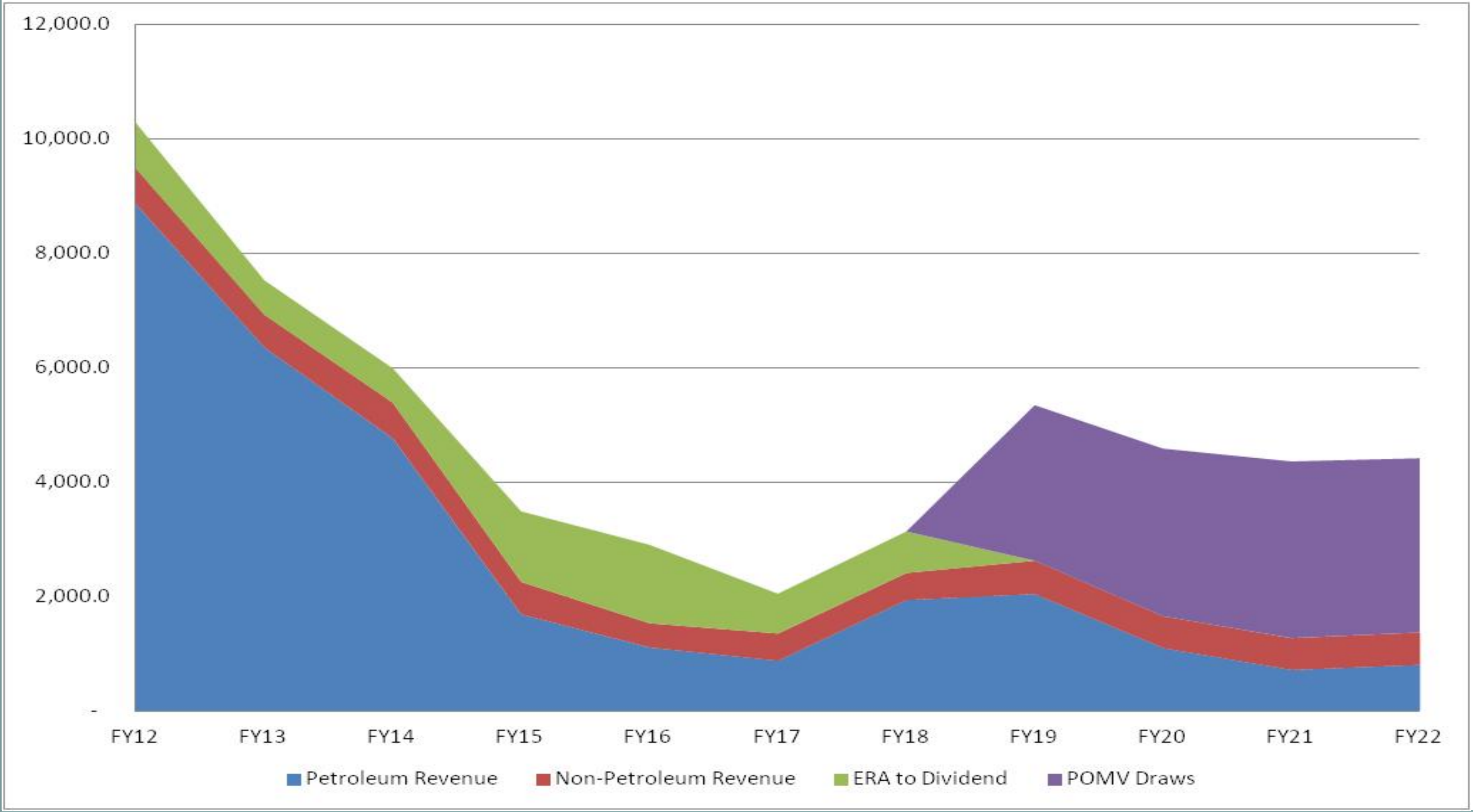
Spring Revenue Forecast (cont.)

FY12-22 Revenue Collapse



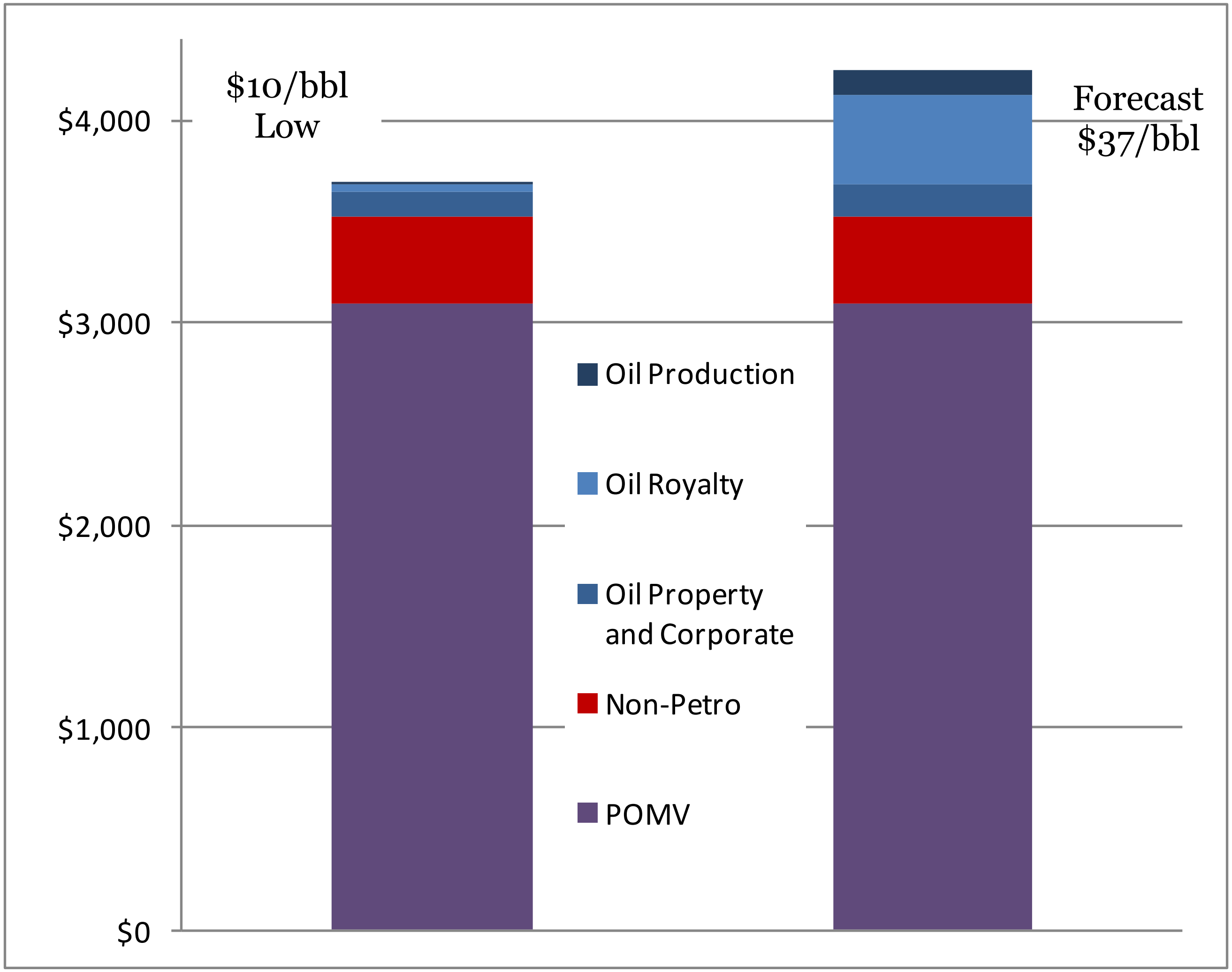
Spring Revenue Forecast (cont.)

FY12-22 Revenue Collapse



Spring Revenue Forecast (cont.)

FY21 Low Price and Production compared to Spring Forecast



Updated Fiscal Summary

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

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

Budget Reserves

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

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

Permanent Fund Status

Permanent Fund Value and Funding Draws (in billions)

	PF Earnings Reserve Account	**Total Permanent Fund Value**	Dividend Before POMV	Percent of Market Value Draw (POMV)
FY16	$8.3	**$53.5**	($1.41)	
FY17	$10.9	**$59.8**	($0.70)	
FY18	$16.5	**$64.9**	($0.73)	
FY19	$16.1	**$66.3**		($2.72)
FY20	*$11.7*	***$63.2***		*($2.93)*
FY21	*$13.8*	***$64.5***		*($3.09)*
FY22	*$15.1*	***$65.9***		*($3.05)*
FY23	*$16.3*	***$67.2***		*($3.17)*
FY24	*$17.5*	***$68.6***		*($3.23)*

Outlook for FY22

- Based on a flat budget from FY21 with its missing items, the FY22 budget with 50% funding of school debt reimbursement, 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
- Addressing the structural deficit requires changing existing laws and enacting new laws focused on reducing expenditures and increasing revenue