

The Need for a Sustainable Budget

Bradford G. Keithley
Partner, Perkins Coie LLC

Meet Alaska
Alaska Support Industry Alliance
January 11, 2013

Key Points

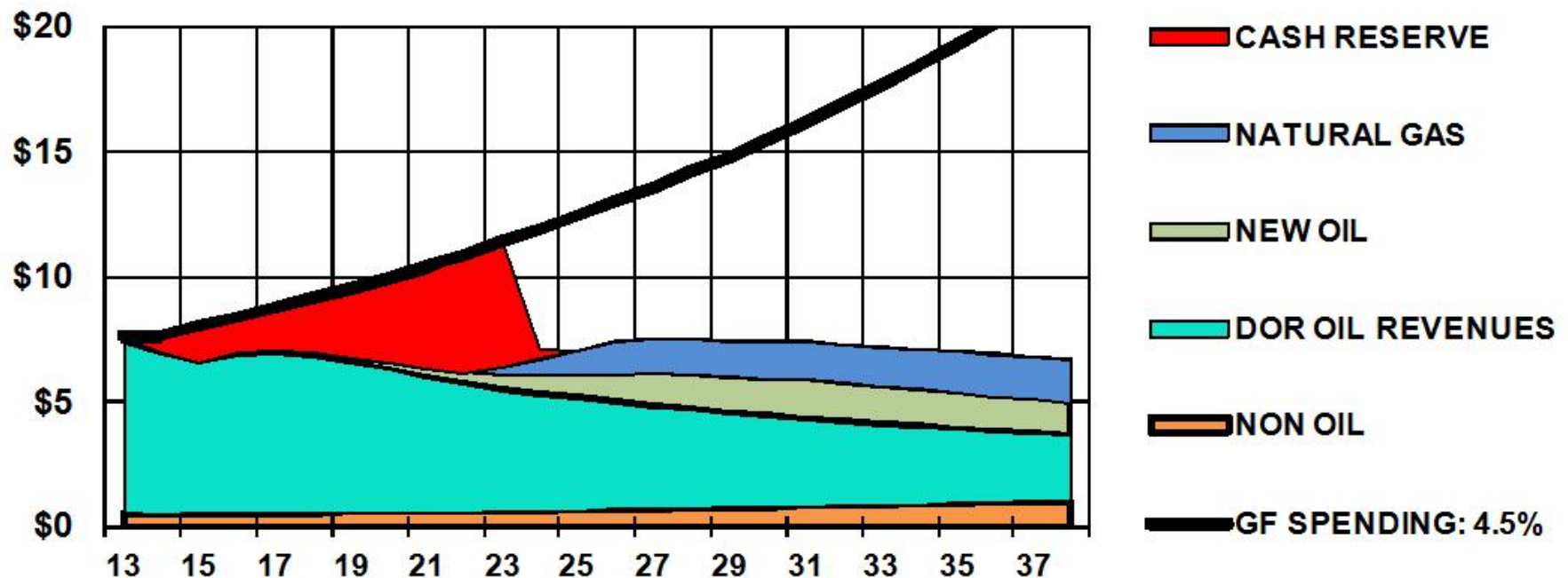
- Alaska's current fiscal future is highly uncertain
- The risk of instability undermines long-term investment
 - *Who wants to invest in an uncertain fiscal climate (creating an uncertain tax structure)*
- Finding a solution to fiscal instability is key to maintaining long-term investment

ISER January 2013

"Right now, the state is on a path it can't sustain. Growing spending and falling revenues are creating a widening fiscal gap."

"Reasonable assumptions about potential new revenue sources suggest we do not have enough cash in reserves to avoid a severe fiscal crunch soon after 2023, and with that fiscal crisis will come an economic crash."

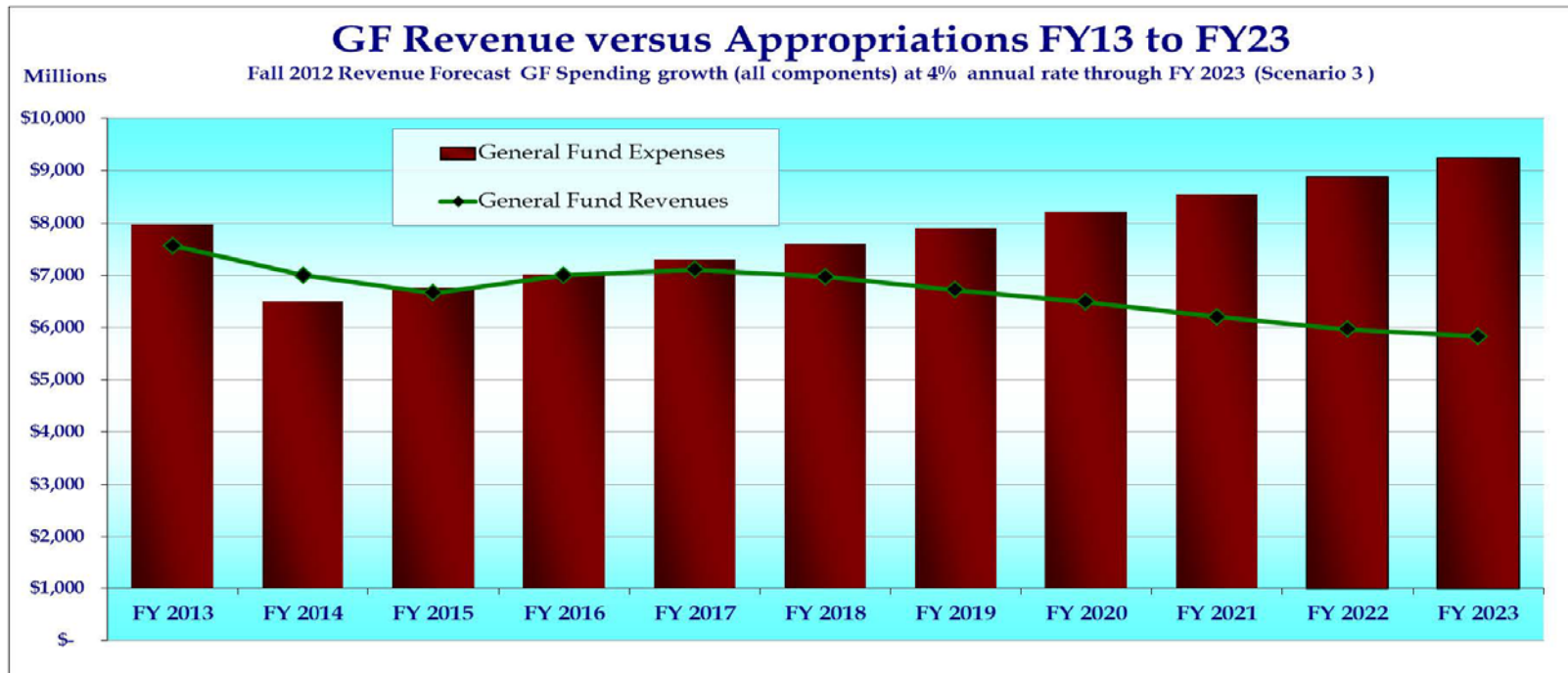
LOOKING BEYOND THE 10-YEAR HORIZON



“The figure ... shows the growing General Fund fiscal gap—even assuming new revenues from natural gas production and more oil production—if spending increases at a rate of 4.5% annually. “

Note: The projections in the FY2014 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 FY2013, FY2014, or any future year.

Scenario 3: Governor's FY2014 Budget with 4% Annual GF Expenditure Growth beginning in FY2015

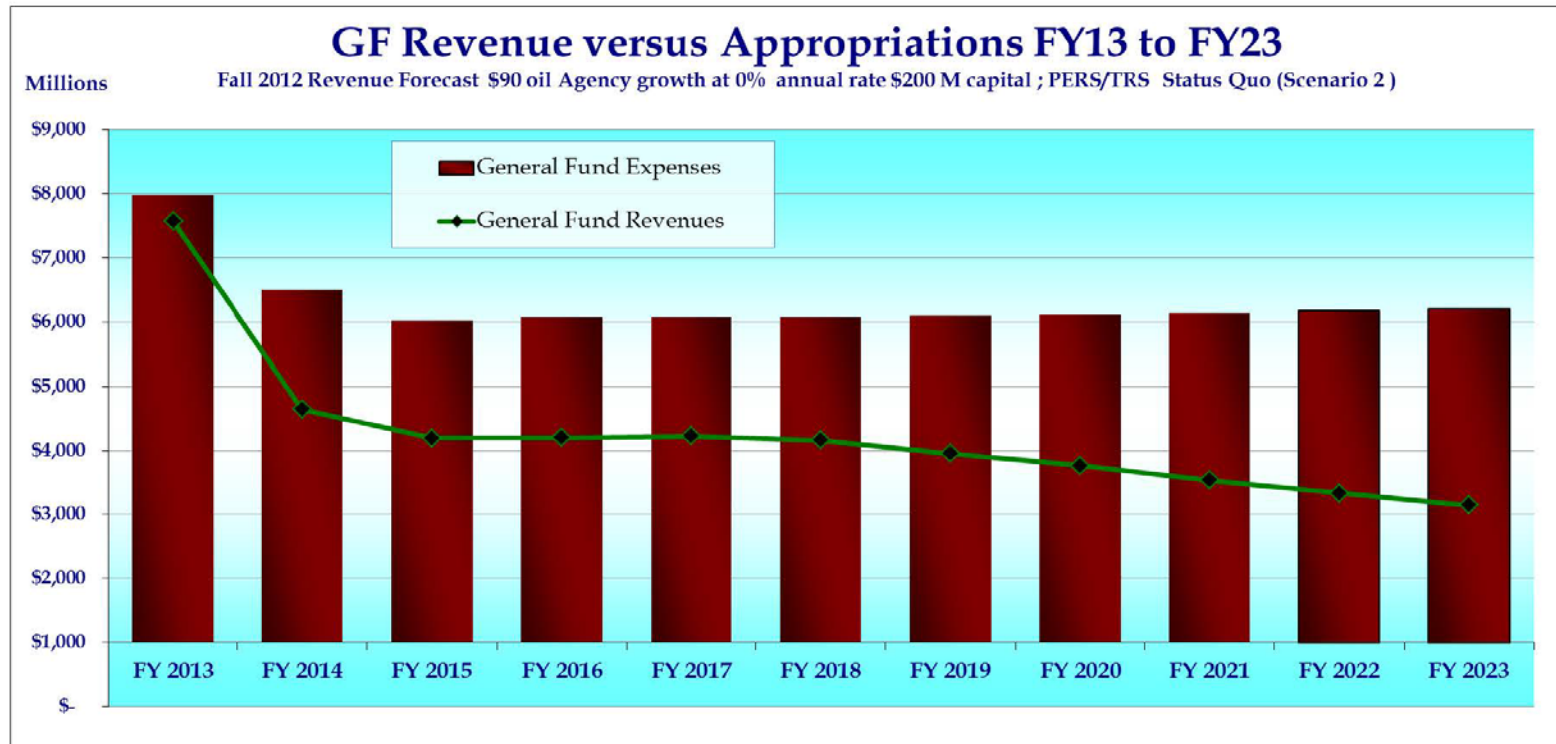


Appropriations projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2013, FY2014 or any future year. The 10-year forecast shows that unanticipated budget shortfalls during the 10-year period could be filled primarily 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.

Note: The projections in the FY2014 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 FY2013, FY2014, or any future year.

Scenario 2: Revenue@ \$90 oil FY2014 Gov, Agency Ops flat, \$200 million capital, PERS/TRS status quo



Appropriations projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2013, FY2014 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.

Note: The projections in the FY2014 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 FY2013, FY2014, or any future year.

Scenario 2: Revenue@ \$90 oil FY2014 Gov, Agency Ops flat, \$200 million capital, PERS/TRS status quo

Oil Price & Production	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Fall 2012 forecast ANS West Coast (\$/bbl.)	\$108.67	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00
Fall 2012 forecast (Total ANS production State + Federal ths. bbl./day)	552.8	538.4	518.6	499.7	476.1	442.9	421.6	394.8	365.9	338.5	315.6
Revenue vs. Spending (\$millions)											
General Fund Revenues ^{1/}	\$7,566.7	\$4,638.7	\$4,194.0	\$4,197.5	\$4,228.7	\$4,163.2	\$3,950.5	\$3,763.5	\$3,535.2	\$3,334.4	\$3,147.7
General Fund Expenses	\$7,977.5	\$6,500.0	\$6,021.4	\$6,080.6	\$6,080.2	\$6,079.5	\$6,100.5	\$6,123.3	\$6,150.2	\$6,179.7	\$6,210.7
Budget Surplus/Shortfall	\$410.8	\$1,861.3	\$1,827.4	\$1,883.1	\$1,851.4	\$1,916.3	\$2,150.0	\$2,359.8	\$2,614.9	\$2,845.3	\$3,063.0
Reserve Balances (\$millions)											
CBRF Main Account Balance End of Year	\$5,863.2	\$5,961.4	\$6,086.6	\$5,363.3	\$3,646.7	\$1,830.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
CBRF Subaccount Balance End of Year	\$5,665.8	\$6,010.5	\$6,382.4	\$6,783.5	\$7,217.0	\$7,685.8	\$8,008.6	\$6,121.1	\$3,847.4	\$1,183.1	\$0.0
CBRF Total	\$11,529.0	\$11,971.9	\$12,469.1	\$12,146.8	\$10,863.7	\$9,516.5	\$8,008.6	\$6,121.1	\$3,847.4	\$1,183.1	\$0.0
Statutory Budget Reserve Balance	\$4,704.9	\$2,843.7	\$1,016.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TOTAL RESERVES	\$16,233.9	\$14,815.6	\$13,485.3	\$12,146.8	\$10,863.7	\$9,516.5	\$8,008.6	\$6,121.1	\$3,847.4	\$1,183.1	\$0.0

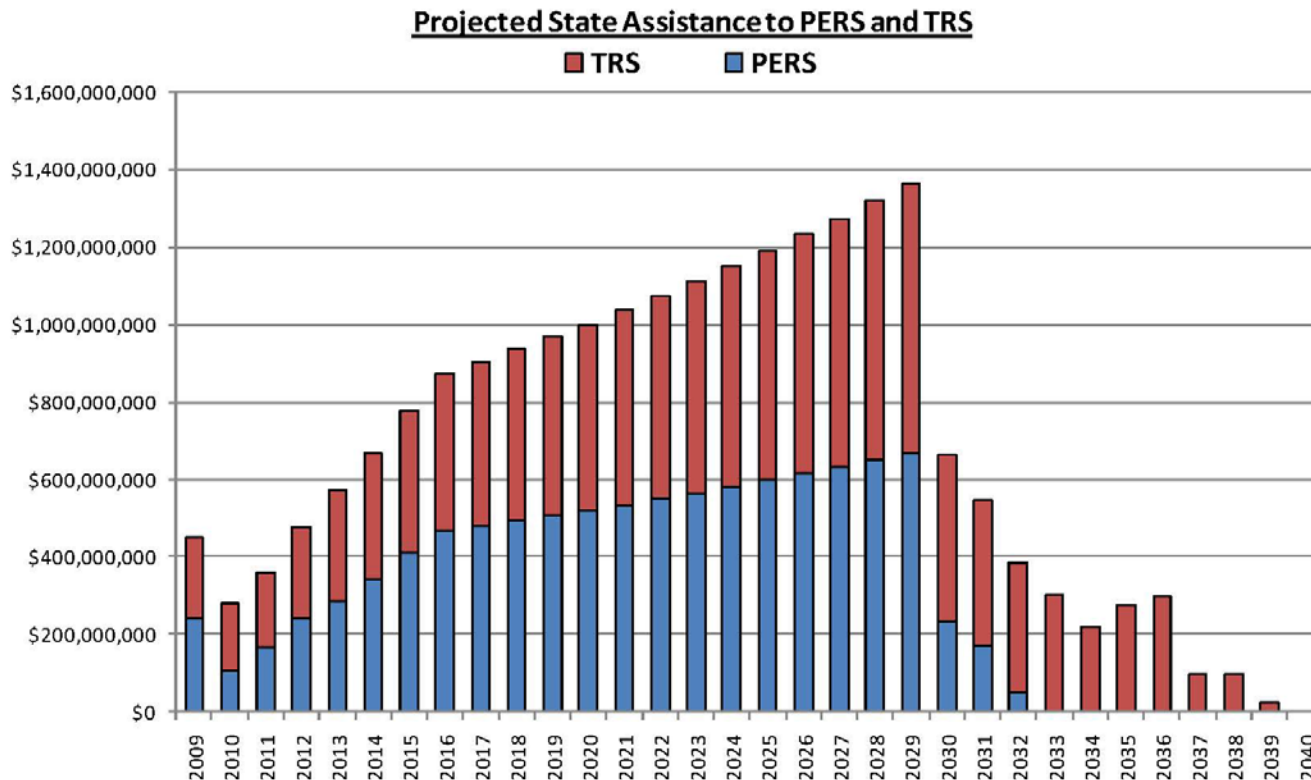
Appropriations projections in the plan do not represent a commitment by the Administration to propose spending or generate revenue at a particular level in FY2013, FY2014 or any future year. The 10-year forecast shows that unanticipated budget shortfalls during the 10-year period could be filled primarily 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.

^{1/} FY2013 number includes \$7,511.7 GF Unrestricted Revenue forecast plus \$55.0 of funds reappropriated and/or carried forward from fiscal year 2012 for total of \$7,566.7.

PERS / TRS

SB125 State Assistance

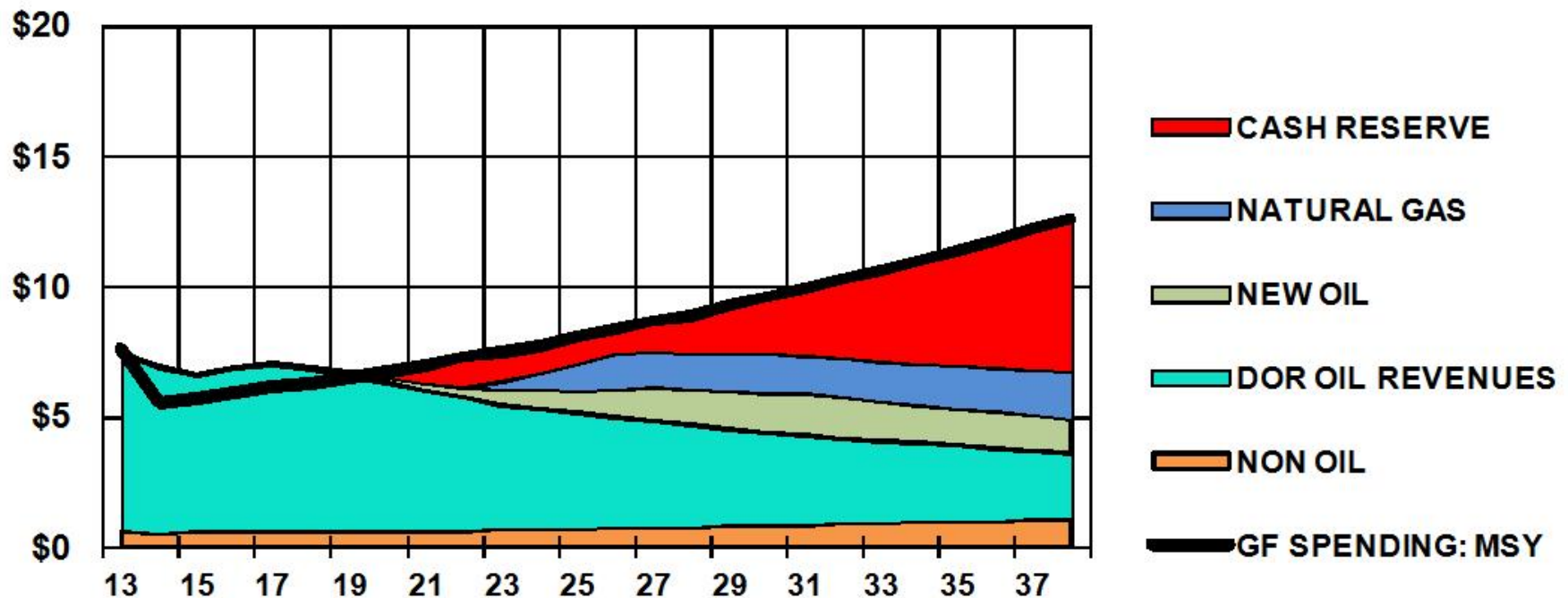


Source: Buck Consultants

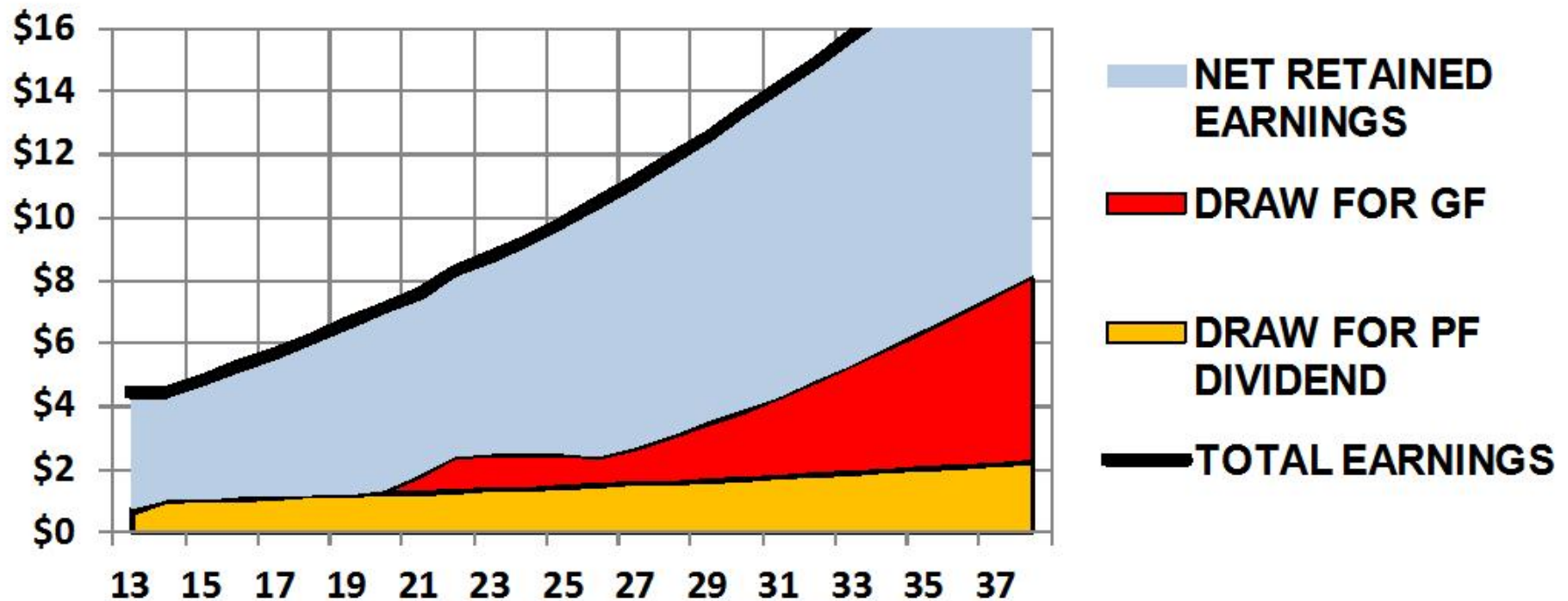
ISER January 2013

"What can the state do to avoid a major fiscal and economic crisis? The answer is to save more and restrict the rate of spending growth. ... the state needs to sharply step up its savings rate, starting now."

"In fiscal year 2014, Alaska's state government can afford to spend about \$5.5 billion."



“All revenues above the sustainable spending level of \$5.5 billion—including Permanent Fund income except the share funding the dividend—would be channeled into savings.”



“On this sustainable path the combined earnings of all the financial assets ... would initially all be reinvested, except the amount set aside to pay the Permanent Fund dividend The financial assets would gradually become the most important source of revenues for the General Fund”

It won't be easy ...

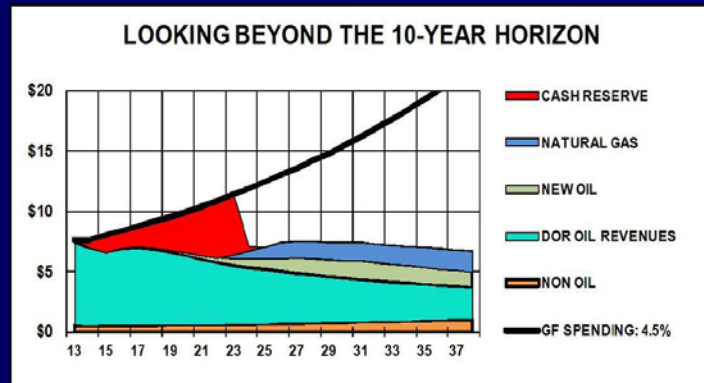
Governor's Proposed Budget

\$6.5 B	Proposed FY2014 Budget
+ .5 B	"Legislative Priorities"
\$ 0	Savings

ISER Calculated Budget

\$5.5 B	ISER Calculated FY2014 Spend
\$1.5 B	Savings

But it is necessary ...



- The risk of instability undermines long-term investment
 - *Who wants to invest in an uncertain fiscal climate (creating an uncertain tax structure)*

Adopting a sustainable budget is as important to attracting and maintaining long-term investment as oil reform