ALASKA’S ECONOMY

A bright future, but... are we prepared?

Mike Navarre, Commissioner
Department of Commerce, Community and Economic Development
Our future is bright…
1. **Modest increases in production**
North Slope oil production forecast in 2018 at 533,000 barrels/day — up for the third year in a row

2. **NPR-A beating expectations**
Conoco beat its flow projections at CD5 within NPR-A

3. **New prospects on the horizon**
Conoco’s Greater Mooses Tooth start-up late 2018. ConocoPhillips at Willow, Caelus Energy at Smith Bay, Armstrong, Repsol, Oil Search at Pikka & Nanushu
Maybe even better than good..

4. ANWR Potential
First ANWR lease sale could occur by 2021-2022

5. North Slope future looks bright
With more leasing in NPR-A, plus ANWR, plus new discoveries west of Prudhoe Bay, the North Slope has decades of production potential

6. LNG Project
The long-awaited North Slope gas line project could add to Alaska’s success stories in the 2020s
4. ANWR Potential
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5. North Slope Future
With more leasing in NPR-A, plus ANWR, plus new discoveries west of Prudhoe Bay, the North Slope has decades of production potential.

6. LNG Project
The long-awaited North Slope gas line project could add to Alaska’s success stories in the 2020s.

All of this will require **billions** in private investment. When making a decision, investors look closely at profit potential and **fiscal stability**.
How does Alaska compete?

From an investors perspective...

- A growing and diversifying economy
- Promising investment opportunities
- Annual political battles over deficit and taxes
- Multiple years of drawing down savings
- $2.7 billion annual deficit
- Overreliance on oil and gas revenues
Alaska’s competition

Active oil and gas wells February 2017

- **Permian Basin**: 50-115 BBOE
- **Bakken**: 20-40 BBOE
- **Eagle Ford**: 35 – 60 BBOE

Alaska’s competition

Oil Production by Geologic Region
Millions of barrels of oil production per day, 2007-2017

Permian | Gulf of Mexico | Eagle Ford
---|---|---
2007 | | |
2017 | | |

Bakken | Alaska | Niobrara
---|---|---
2007 | | |
2017 | | |

Source: Washington Post, February 2017
Are we competitive?

Production costs per barrel

All numbers 2016. Cost is average of all barrels produced, including operating and capital expenses, transportation, royalty expenses, production and property taxes.

Sources: Alaska Department of Revenue Fall 2016 Revenue Source Book, Rystad Energy UCube
Can we rely solely on oil and gas?

Production Forecast: ANS History and Forecast by Pool

- Prudhoe Bay
- Kuparuk
- PBU Satellites
- GPMA
- Endicott
- Kuparuk Satellites
- Alpine
- Offshore
- Point Thomson
- New Fields
Do we need a fiscal plan?
Is economic development alone the solution?
You seem to be very well educated on stuff that you made up.
1. Hypothesis: A company proposes a major investment in the Fairbanks North Star Borough

2. Evaluation: It must be economically viable for both the state and Fairbanks North Star Borough

3. Criteria: The project must pay its own way — no subsidies
Hypothetical new factory in Fairbanks

5,000 new jobs (1,000 jobs filled by local residents)

4,000 new families move into borough for jobs

2,500 new students for the school district

$1 billion capital investment

4,000 new housing units at an average taxable value of $200,000 per home
Fairbanks decision: New revenues

- **5,000** new jobs
- **4,000** new families
- **2,500** new students
- **4,000** new homes, **$200,000** per home
- **$1 billion** capital investment

$10 million a year in borough areawide property taxes on the new homes

$12 million a year in borough areawide property taxes on widget factory investment

**TOTAL:** $22 million / year
2,500 students would be more than an 18% increase over current school district enrollment. The state pays almost 2/3 of the school district budget. An 18%-plus increase in the local share of K-12 funding would cost the borough about $10 million a year.

**TOTAL:** $10 million / year
Fairbanks - the math

- 5,000 new jobs
- 4,000 new families
- 2,500 new students
- 4,000 new homes, $200,000 per home
- $1 billion capital investment

$10 million a year in increased school funding

$12 million available for other expenses

$12 million a year in borough areawide property taxes on factory investment

$10 million a year in increased school funding
Fairbanks - the math

- **5,000** new jobs
- **4,000** new families
- **2,500** new students
- **4,000** new homes, **$200,000** per home
- **$1 billion** capital investment

$10 million a year in increased school funding
$12 million a year in borough areawide property taxes on factory investment

Decision:
Yes! The borough can cover the costs of the development.
5,000 new jobs

4,000 new families

2,500 new students

4,000 new homes, $200,000 per home

$1 billion capital investment

State - new revenues?
State – new expenses

- **5,000** new jobs
- **4,000** new families
- **2,500** new students
- **4,000** new homes, **$200,000** per home
- **$1 billion** capital investment

$5 million a year in higher expenses for troopers, highways, courts, prisons, agency operations, etc.

$25 million a year in increased school funding costs (18% gain in enrollment)
$5 million a year in higher expenses for troopers, highways, courts, prisons, etc.

$25 million a year in increased school funding costs (18% gain in enrollment)

5,000 new jobs
4,000 new families
2,500 new students
4,000 new homes, $200,000 per home
$1 billion capital investment

Additional expenses, $30 million
New revenues, $0
State - It doesn’t add up

- 5,000 new jobs
- 4,000 new families
- 2,500 new students
- 4,000 new homes, $200,000 per home
- $1 billion capital investment

$5 million a year in higher expenses for troopers, highways, courts, prisons, etc.

$25 million a year in increased school funding costs (18% gain in enrollment)

Decision: The state budget would increase without new revenues
## The math

<table>
<thead>
<tr>
<th>Fairbanks North Star Borough</th>
<th>State of Alaska</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000 jobs move to Fairbanks Borough</td>
<td>5,000 new jobs created in the borough</td>
</tr>
<tr>
<td>$22 million in property tax revenues</td>
<td>No new revenues</td>
</tr>
<tr>
<td>$10 million in new education expenses</td>
<td>$25 million in new education expenses</td>
</tr>
<tr>
<td>$12 million left for roads, emergency services, social services and other needs</td>
<td>$5 million in increased costs for troopers, DOT, courts, Medicaid, child care assistance, etc.</td>
</tr>
</tbody>
</table>

**New revenues exceed new expenses**

**Can the borough afford it?**
Yes

**Can the state afford it?**
No

$30 million in additional expenses, no new revenues
## Across communities, it’s the same

<table>
<thead>
<tr>
<th>Alaska Community</th>
<th>Local Impact</th>
<th>State Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenai Peninsula Borough</td>
<td>+4M +</td>
<td>-26.5M -</td>
</tr>
<tr>
<td>Fairbanks North Star Borough</td>
<td>+12M +</td>
<td>-30M -</td>
</tr>
<tr>
<td>Mat-Su Borough</td>
<td>+20M +</td>
<td>-27M -</td>
</tr>
<tr>
<td>City and Borough of Juneau</td>
<td>+13M +</td>
<td>-25M -</td>
</tr>
<tr>
<td>Municipality of Anchorage</td>
<td>+9M +</td>
<td>-20M -</td>
</tr>
</tbody>
</table>
That was a hypothetical scenario

...but diversifying Alaska’s economy is not hypothetical...
FY17 state revenues

$1.698 billion
Oil and gas
(including permanent fund deposits)

$350 million
Fishing, mining, motor fuel, alcohol, tobacco and marijuana taxes, and corporate taxes

Source – AK Department of Revenue
Oil and Gas GDP has grown, but is volatile

Nominal GDP of Oil and Gas industry in Alaska, 1997-2015

Source - US. Bureau of Economic Analysis
Other private sector industries growing steadily

GDP (Millions)
The Disconnect

Our economy is diversifying – but our revenues are not.

Source - US. Bureau of Economic Analysis, Legislative Finance
The perfect solution?
State funds matter locally

Municipalities and schools depend on state help

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Fiscal Year 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal community assistance</td>
<td>$3 million</td>
<td>Fairbanks North Star Borough and School District</td>
</tr>
<tr>
<td>State reimbursement of school bond debt</td>
<td>$9.6 million</td>
<td></td>
</tr>
<tr>
<td>State assistance for retirement liability</td>
<td>$13.6 million</td>
<td></td>
</tr>
<tr>
<td>Foundation formula funding K-12 schools</td>
<td>$116.7 million</td>
<td></td>
</tr>
<tr>
<td>Pupil transportation reimbursement</td>
<td>$12.3 million</td>
<td></td>
</tr>
</tbody>
</table>

$155 million state funds for Fairbanks Borough
State funds matter locally

Municipalities and schools depend on state help

<table>
<thead>
<tr>
<th>Local Governments</th>
<th>Fiscal Year 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenai Peninsula Borough</td>
<td>$103 million</td>
</tr>
<tr>
<td>Fairbanks North Star Borough</td>
<td>$155 million</td>
</tr>
<tr>
<td>Mat Su Borough</td>
<td>$223 million</td>
</tr>
<tr>
<td>City and Borough of Juneau</td>
<td>$59 million</td>
</tr>
<tr>
<td>Municipality of Anchorage</td>
<td>$443 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 983 million</strong></td>
</tr>
</tbody>
</table>
The options...

Budget Cuts?
- Easier said than done
- Priorities
- Philosophical differences
- Rhetoric
- Negative economic impact

Taxes?
- Easier said than done
- Takes time
- Philosophical differences
- Rhetoric
- Negative economic impacts

Permanent Fund Earnings?
- Public Perceptions
- Political consequences
- Impacts to PF growth
- Impacts to PFD
- Economic impacts
Largest spending categories are formula driven

Top Three Unrestricted General Fund Spending Categories (FY19 Proposed)
Total $2.9 billion

- K-12 Formula
- Medicaid and Other Formula
- Health and Social Services Non-Formula

Source – AK OMB
Our future is bright…
THE PEOPLE DON’T KNOW THEIR TRUE POWER.
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