

FY23 State Fiscal Update

Office of Governor Mike Dunleavy





Imagine a State with...

- ✓ No budget deficit
- ✓ \$1.6 billion surplus
- ✓ 7% less spending since 2019
- ✓ Lowest crime rate in 40+ years
- ✓ \$82+ billion sovereign wealth fund
- ✓ Stable pension system
- ✓ \$3,700 dividend to residents this year
- ✓ Relatively low debt
- ✓ Increased natural resource production
- ✓ World-class energy & resource opportunity

Governor Dunleavy's FY23 Proposed Budget: Overview

FY 2020 Deficit
\$1.6 BILLION
 FY 2020 inherited by Governor Dunleavy in first year

FY 2023 Deficit
\$0
 Governor Dunleavy's 4th year in office

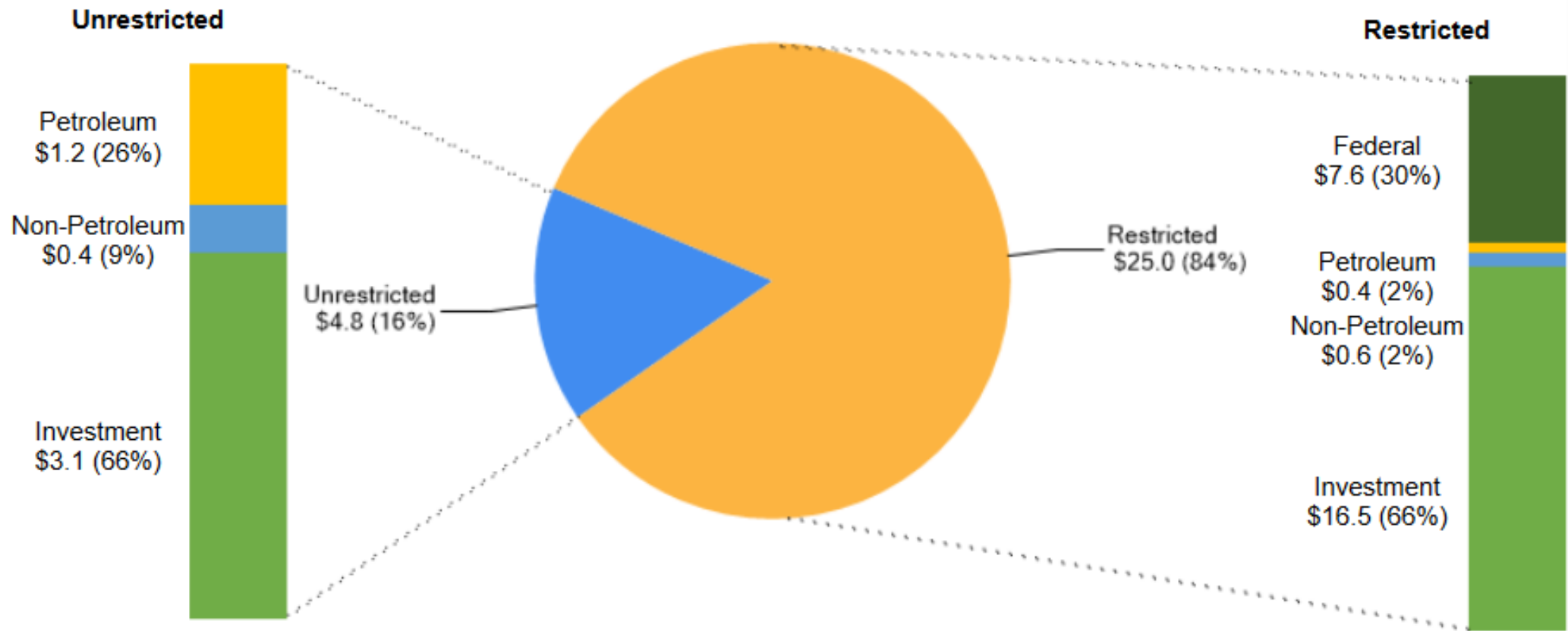
SUSTAINABLE GOVERNMENT

Prior Administration's FY 2019 Budget
\$4.9 BILLION

Governor Dunleavy's FY 2023 Budget
\$4.6 BILLION

- ✓ \$24 million increase for **public safety** to hire more State Troopers and VPSOs
- ✓ Fully funds **K-12 education**, as has occurred every year of the Dunleavy Administration
- ✓ Fulfills 100% of **school bond debt** reimbursement (\$79 million), providing Alaskans with local property tax relief
- ✓ \$325 million G.O. Bond package to invest in **Alaska's infrastructure** and grow the economy
- ✓ Alaskans receive a **\$2,545 PFD** in 2022 and remaining **\$1,216 PFD** balance for 2021
- ✓ **Bottomline:** A smaller, sustainable government that maintains essential services has been achieved in Governor Dunleavy's FY23 budget

Fiscal Year 2021 – Historic State Revenues

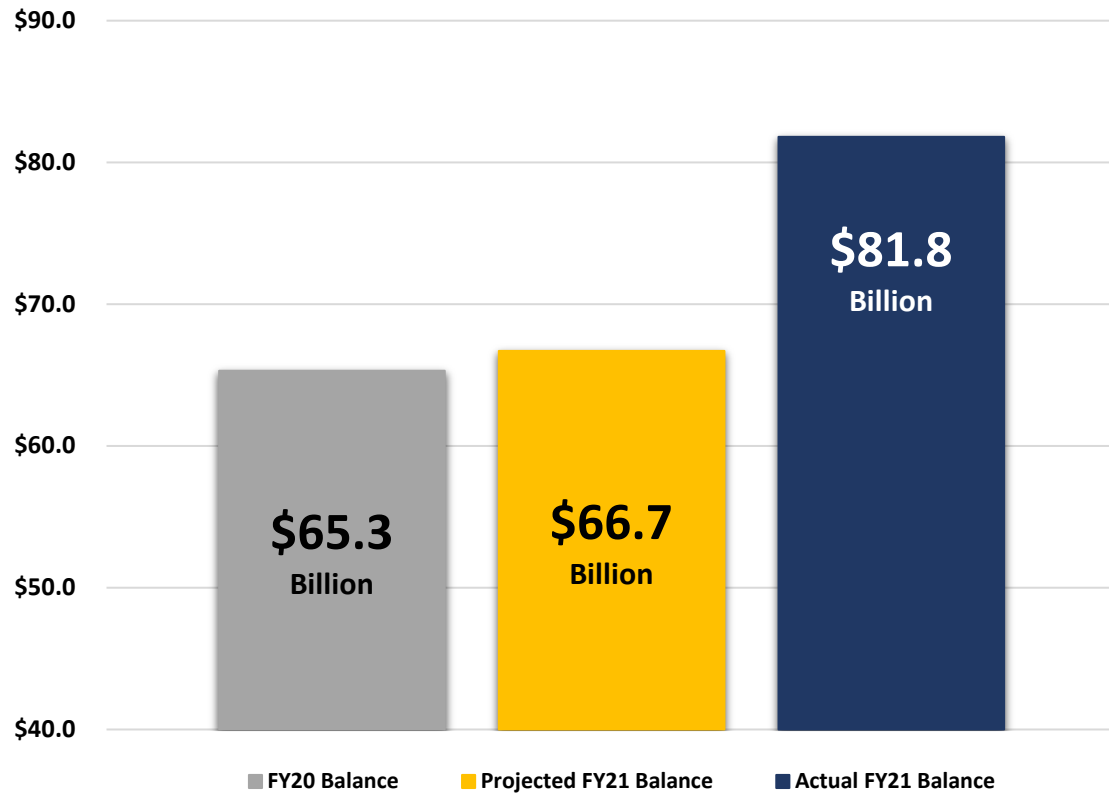


FY21 State, Federal, & Investment Revenue: \$29.8 Billion



Fiscal Year 2021 – Historic Permanent Fund Performance

Permanent Fund Balance
FY20 - FY21



Total Fund Value (June 30, 2021)
\$81.8 Billion

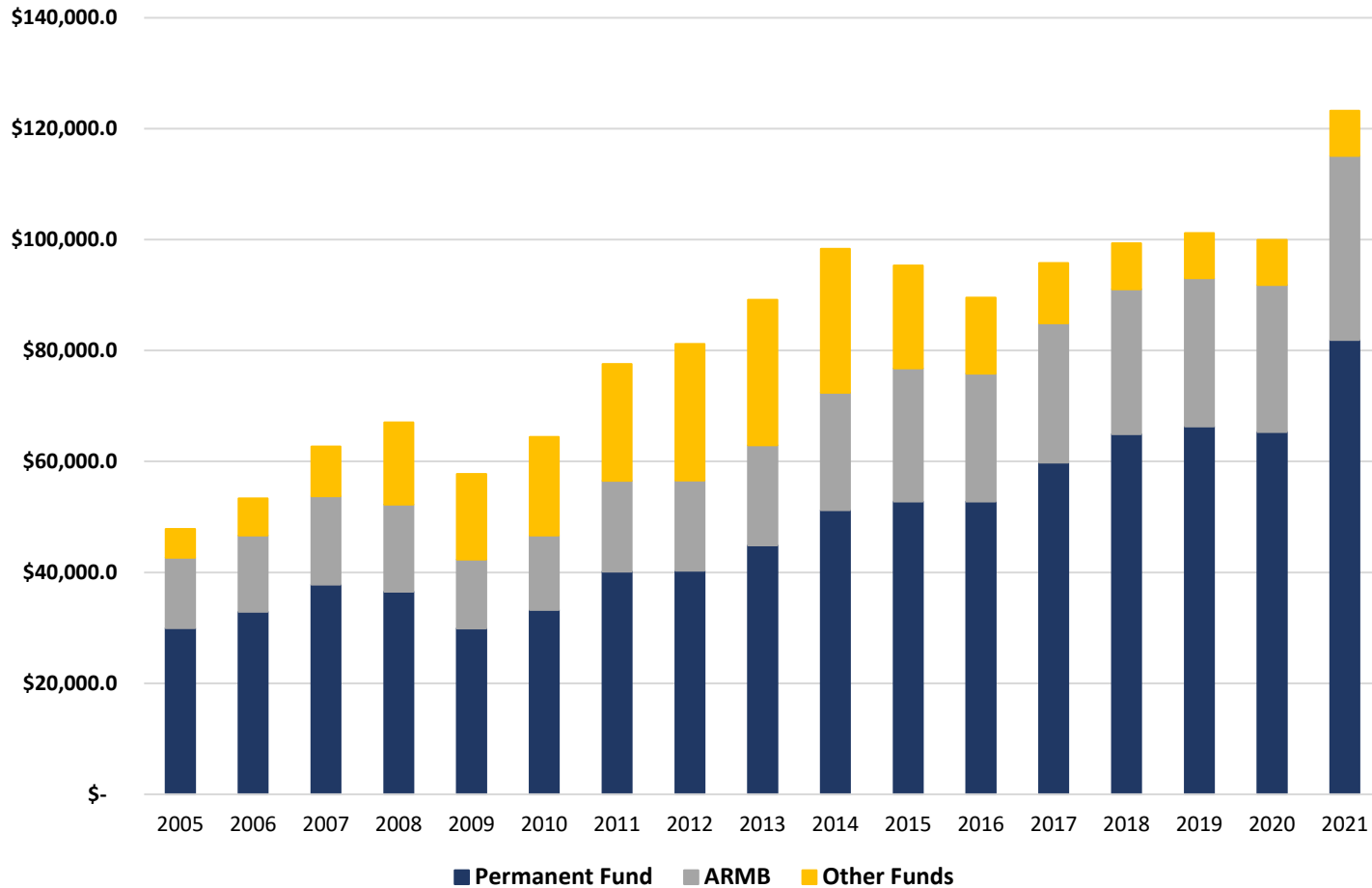
Annualized Return Since Inception
9.12%

FY21 Investment Earnings
\$19.6 Billion

FY21 Total Return
29.73%

Fiscal Year 2021 – Historic Combined Investment Assets

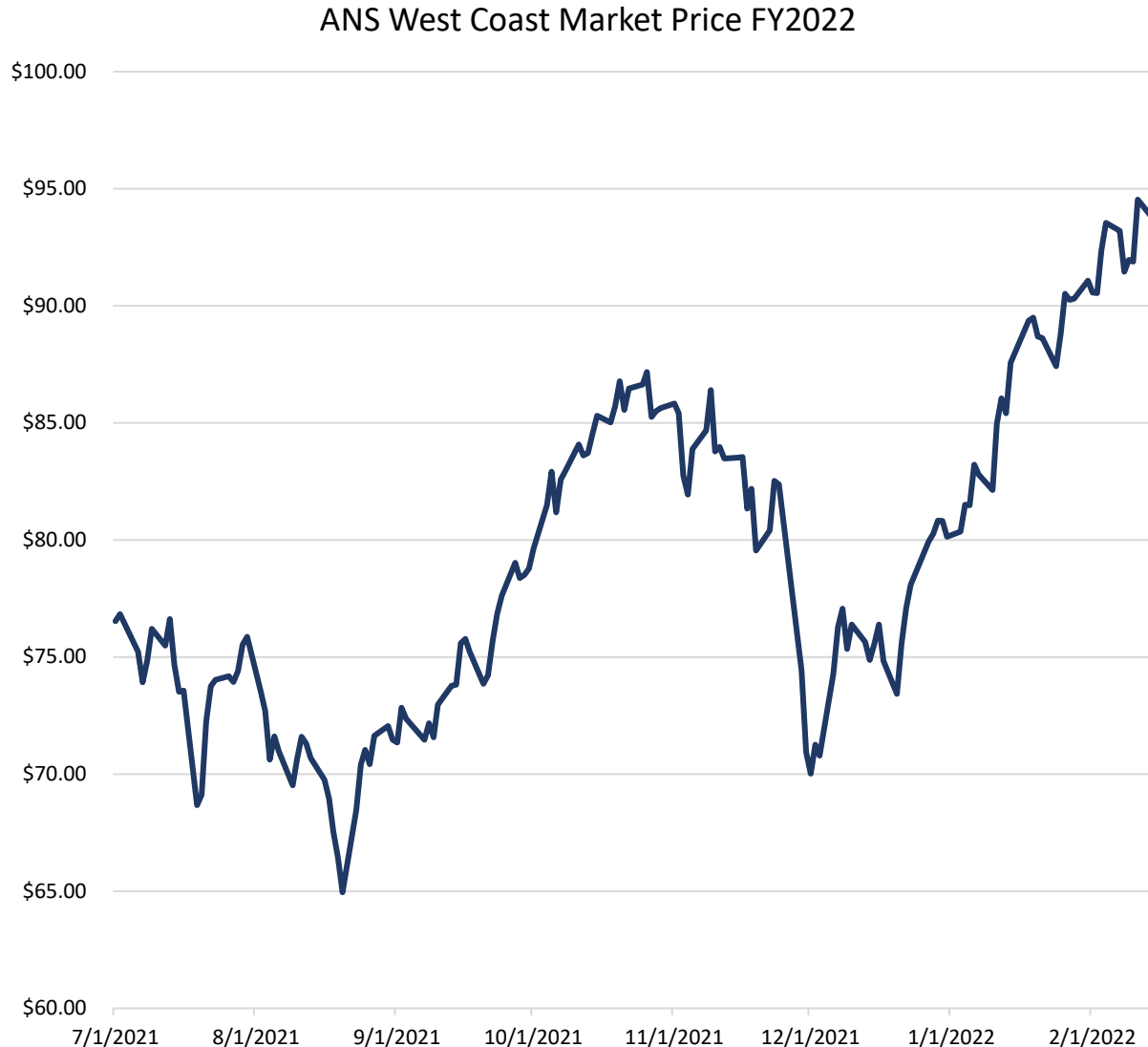
Invested Assets of the State of Alaska



The State’s combined invested assets are at an all-time high – \$123 Billion

- **Permanent Fund – \$82 Billion**
 - ✓ FY2021 return: 29.73%
 - ✓ Additional FY23 POMV: \$291.3 million
- **Retirement Funds – \$33 Billion**
 - ✓ FY2021 return: 30.1%
 - ✓ Generated \$179 million in budget savings from retirement contributions due to high performance
- **Other State Funds – \$8 Billion**

Improved Fiscal Outlook – Oil Prices Rebound



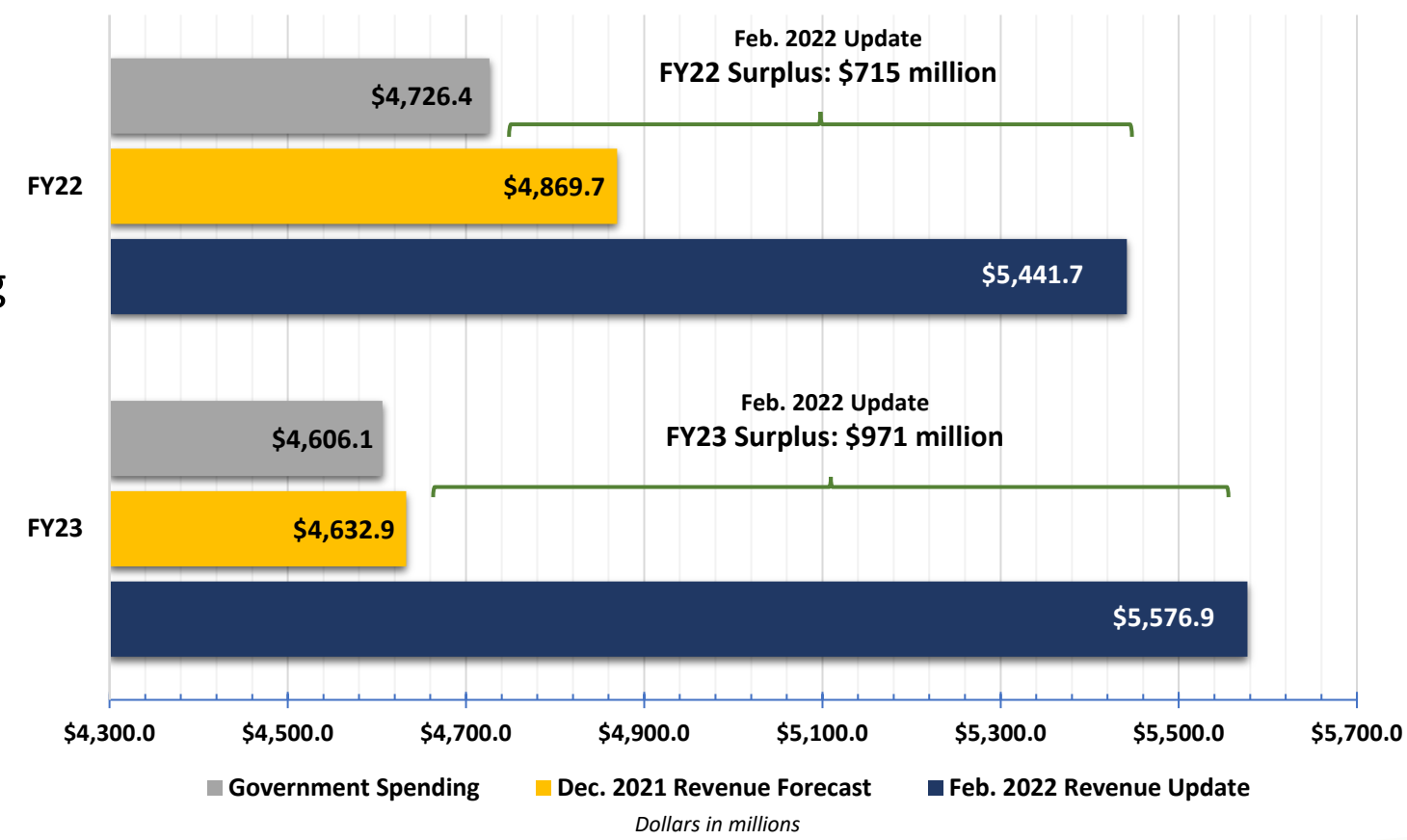
- **February 2022 revenue update**
 - ✓ FY22 oil estimate: \$84.34/bbl
 - ✓ FY23 oil estimate: \$85.44/bbl
 - ✓ Highest oil price since 2014
- **Positive oil sentiment (near term)**
 - ✓ Goldman Sachs' base case expects Brent crude to hit **\$100 per barrel** in 2022 & 2023
 - ✓ Bank of America predicts Brent crude oil, which drives gas prices, will rise to **\$120/bbl** by June 2022
- **Good for State revenue, but negative impact to fuel prices & inflation**

State Revenue Supports a 50-50 PFD & Future Savings

- Revenue projections fully-fund government operations, provide for significant capital investment, and support a **full 50-50 PFD** for 2021 & 2022
- After fully-funding government and upholding the State's PFD commitment to Alaskans, the Department of Revenue projects a combined **~\$1.6 billion surplus** for FY22 & FY23
- Bottomline:** Governor Dunleavy's FY23 budget fully-funds government and pays a 50-50 PFD this year through prudent budget measures and **NO new taxes or Permanent Fund overdraws**

Government Spending & Revenue Forecast

Fiscal Year 2022 & Fiscal Year 2023



Source: Office of Management & Budget; Alaska Department of Revenue
 Note: UGF Budget & Revenue figures assume paying a full 50-50 PFD in FY22 & FY23



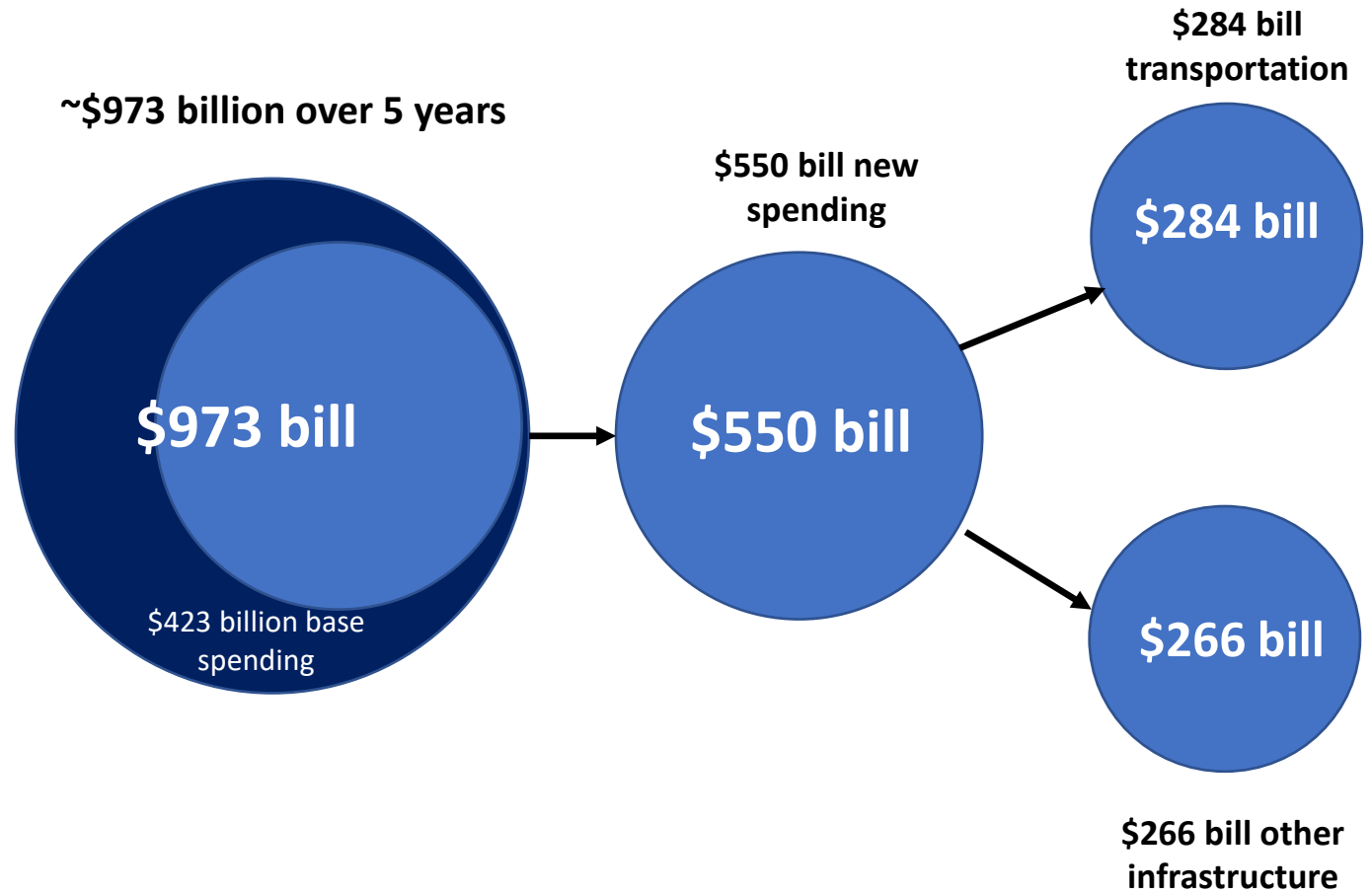


Infrastructure Investment & Jobs Act: Preliminary Observations

- **Not a “stimulus” bill**
 - ✓ Long-term assets and core infrastructure
- **Much less discretionary than recent federal stimulus, *e.g.*, CARES, CRRSA, ARP**
 - ✓ Shovel-worthy vs. shovel-ready
- **Spending is largely directed by federal agencies**
- **5-year reauthorization of established federal programs**
 - ✓ FHWA, Transit, Safety, AIP, VSW, IHS, BIA
- **No real “earmarks”**
 - ✓ State/Local capital priorities are largely ineligible for funding – not CAPSIS
- **Only a portion of “Alaska” funding will come through the State of Alaska**
 - ✓ Local governments, tribes, and other entities eligible for most programs



Infrastructure Investment & Jobs Act: Overview



- **Transportation**
 - ✓ Roads
 - ✓ Bridges
 - ✓ Airports
 - ✓ Waterways
 - ✓ Rail
 - ✓ Public Transit
 - ✓ Electric Vehicles
 - ✓ Safety Programs

- **Other Infrastructure**
 - ✓ Energy
 - ✓ Power Grid
 - ✓ Broadband
 - ✓ Water
 - ✓ Resiliency
 - ✓ Environmental Remediation

Source: National Association of Counties, IJA Analysis 11/7/21

Governor Dunleavy's AMHS Plan - Charting a Sustainable Course

- **New Federal FTA Rural Ferry Program**

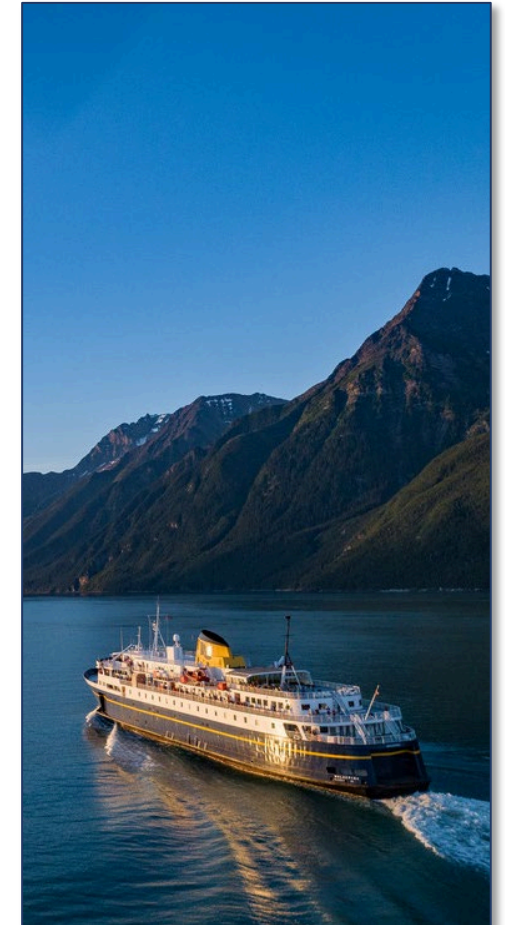
- ✓ Established by law in the IJA federal infrastructure act, the new program for rural community ferry service will initially fund the Alaska Marine Highway System's (AMHS) operating costs over 5 years
 - ✓ *Excerpts from the IJA: The Secretary shall establish a program to ensure... basic essential ferry service ... basic essential ferry service means scheduled ferry transportation service.*
- ✓ The State anticipates it will receive **\$150 - \$200 million annually** from this program
- ✓ Administered by the Federal Transit Administration, the new program has been authorized in federal law much like the Federal Highway Administration's surface transportation programs
- ✓ These dedicated federal funds will offset AMHS general fund appropriations, allowing fare revenues to accumulate in a savings account

- **Governor Dunleavy's AMHS Saving Account Legislation**

- ✓ Legislation will transform the AMHS Fund into a long-term savings account
- ✓ A federally-funded system **allows AMHS to deposit 100% of farebox receipts** into the AMHS Fund
- ✓ AMHS receipts could be invested to earn at least 4% and spent on operations without further appropriation

- **Farebox Receipts Protected from the "Reverse Sweep"**

- ✓ The AMHS Fund would exist outside of the General Fund, protecting it from the "reverse sweep" contained in Art. 9 §17(d) of the Alaska Constitution
- ✓ Allows the AMHS Fund to retain money from year-to-year, growing the balance over time
- ✓ Provides **predictable, dependable funding and service** relied on by thousands of Alaskans



General Obligation Bonds – Optimizing Alaska’s Capital Structure

- **SB 166 / HB 285 – \$325 million**
 - ✓ 14 projects spread across Alaska
 - ✓ Potential for additional projects
 - ✓ Alaskans get a voice – G.O. bonds require voter approval

- **G.O. Bonds are Affordable**
 - ✓ Tax-exempt 20-year bond rate is fixed at 2.5%
 - ✓ Estimated annual cost of ~\$20 million

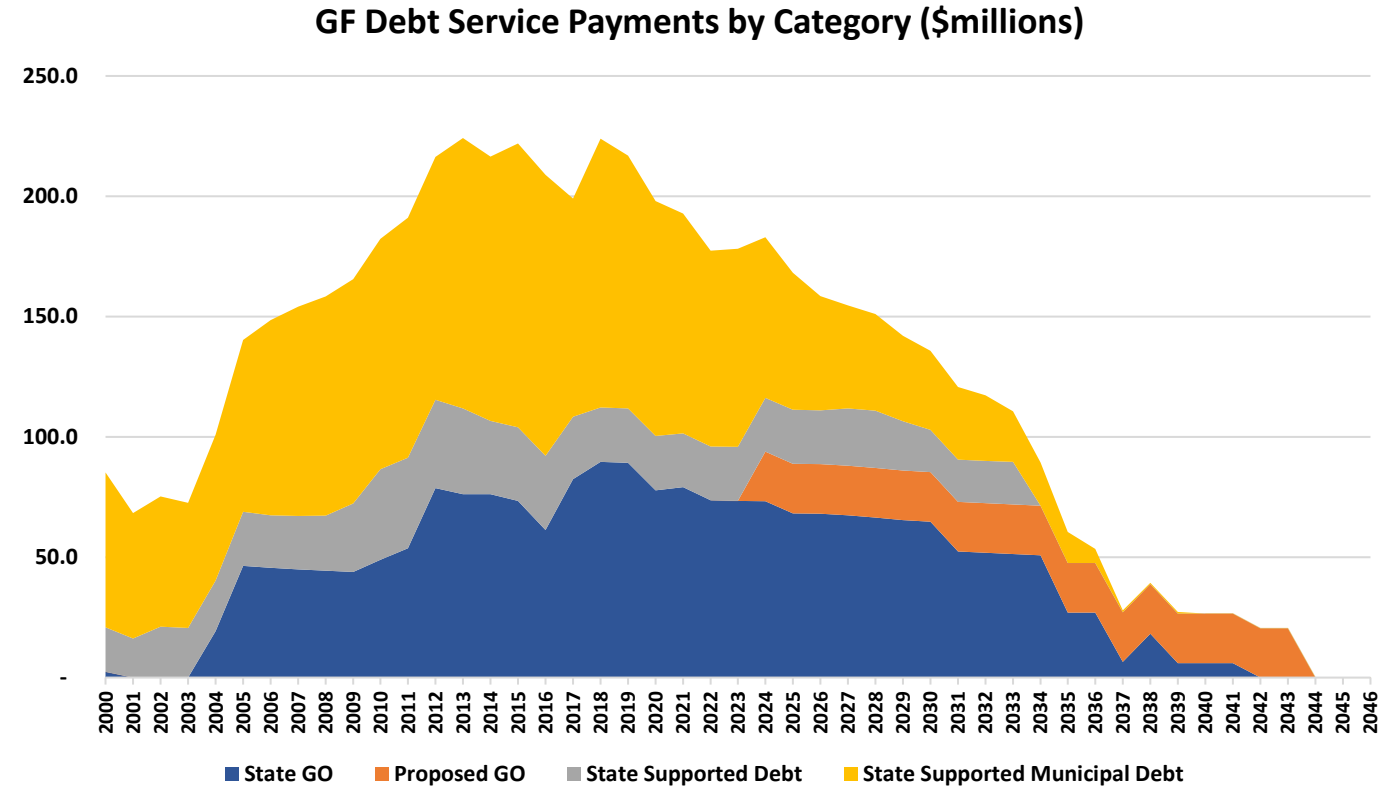
- **Enhancing State Investment Opportunities**
 - ✓ Low-interest rate borrowing allows the State to invest surplus revenue for better returns
 - ↑ *FY21 Permanent Fund & Dept. of Revenue returns: ~30%*
 - ✓ Many projects are eligible for significant federal match, further maximizing state capital dollars

- **Additional Benefits to Bonding**
 - ✓ State funding allows more flexibility on project execution
 - ✓ Bonding for state match accelerates project timing & helps incentivize federal prioritization
 - ✓ Building today avoids rising construction costs tomorrow

Capital Project	G.O. Bond Total	Fed Match?
Craig Harbor	\$8.5 million	✓
Craig Mariculture Infrastructure	\$5 million	✓
Juneau Access	\$25 million	✓
Kenai River Bluff Stabilization	\$6.5 million	✓
Ketchikan Int’l Airport	\$7.5 million	✓
Knik Arm Ports	\$175 million	✓
Kodiak Fire Hall	\$5 million	
Nenana Fire Hall	\$5 million	
Port of Nome	\$10 million	✓
Palmer Muni Airport	\$6.5 million	✓
Seward Freight Dock	\$5 million	✓
UAA Medical District Access	\$22 million	✓
UAF Bartlett & Moore Hall Repairs	\$18.6 million	
Wasilla Airport Runway & Terminal	\$14.1 million	✓

State Debt Outlook is Healthy

- **State debt burden is low**
 - ✓ FY22 state debt service amounts to 3.2% of unrestricted revenue
- **State debt continues to shrink**
 - ✓ 60% of existing G.O. debt retired in 10 years
 - ✓ Annual principal repayments of \$40 - \$50 million
- **State debt limit has improved**
 - ✓ Current borrowing capacity is \$1.35 billion
 - ✓ \$350 million of increased borrowing capacity over last year
- **Additional significant debt savings**
 - ✓ \$179 million savings for FY23 State pension contribution due to investment performance
 - ✓ Oil & gas tax credits projected to be fully paid by FY26



Source: Alaska Department of Revenue – 2022 Debt Affordability Analysis



Don't imagine – That State is Alaska

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- ✓ \$3,700 dividend to residents this year
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Yes, but...

Thank you

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