OFFICE OF GOVERNOR BILL WALKER

FY2018 10-Year Plan

Office of Management and Budget
December 15, 2016

Mandate

AS 37.07.020(b)(2) requires that the Governor submit a 10-year fiscal plan that must balance sources and uses of funds while providing for essential state services and protecting the economic stability of the state.

Alaska's Fiscal Challenge

Alaska's fiscal challenge is a direct result of overreliance on oil revenues. Between 1980 and 2014, oil revenues accounted for an average of 84 percent of all unrestricted revenue. In FY2018, unrestricted general fund revenues are anticipated to be just over $1.6 billion at a projected average Alaska North Slope (ANS) oil price of $54.00/barrel with an additional $1.1 billion being supported by designated fund sources. This level of unrestricted revenue is down 70 percent since FY2013 when unrestricted revenues were $5.4 billion and average ANS oil price was $107.57/barrel with an additional $2.1 billion being supported by designated sources (see Table 4). Not only has ANS oil price declined precipitously over the past few years, but production is on the decline as well. In FY2018 the state projects production of only 455,600 barrels of oil per day, half of FY2003 production of almost 1,000,000 barrels a day and only a quarter of the 2,000,000 barrels a day produced during FY1988 when production peaked. During past oil price declines, production was healthy enough to allow the state to weather the storm and wait for price recovery; this is not the case in today's crisis.

The State of Alaska has traditionally been vulnerable to economic boom and bust cycles because of its economic dependence on natural resources -- from fur to timber to gold, and finally, to oil and natural gas. With each price decline came a discussion of how to best insulate the state from the inherent volatility of commodity markets. In 1976, voters approved a constitutional amendment to create the Alaska Permanent Fund (Article IX, Section 15) in order to hedge against the risk of declining oil revenues. Subsequently, the Statutory Budget Reserve (SBR) and the Constitutional Budget Reserve (CBR) were created in 1986 and 1991 respectively. The SBR and CBR have acted as "rainy day" funds. In the past when oil prices declined, the state spent from these accounts until the price recovered. Over three decades, the SBR and CBR have staved off budget shortfalls and have acted as a buffer against commodity price volatility. Today, after five consecutive years of insufficient revenue to cover the budget, the SBR and CBR have only enough funding remaining for one more year of deficit spending.

While the majority of Alaska's revenue is unrestricted funds (coming primarily from oil taxes and royalties), the budget also contains designated fund sources. The largest designated fund source is the earnings of the Permanent Fund but other investment earnings and designated fee increases have increased the amount of designated funding available by $400.0 million since FY2013. User fees that better reflect the cost of providing services can preserve valued government services that Alaskans rely on while also reducing the budget gap.

The Department of Revenue forecasts that ANS oil price recovery will be gradual, but production will continue to decline an average of four percent per year over the next 10 years. The state's dwindling savings balances will not be enough to rely on until the price recovers. For this reason, the

Governor is again proposing a bold fiscal plan. This plan has many commonalities with the previous year's fiscal plan. This plan represents a balanced and sustainable fiscal solution that includes ongoing cost containment, sustainable use of Permanent Fund earnings, and broad-based tax measures to ensure that no subset of Alaskans bears an undue burden. Generating additional state revenue must be part of the solution. Some features of the plan:

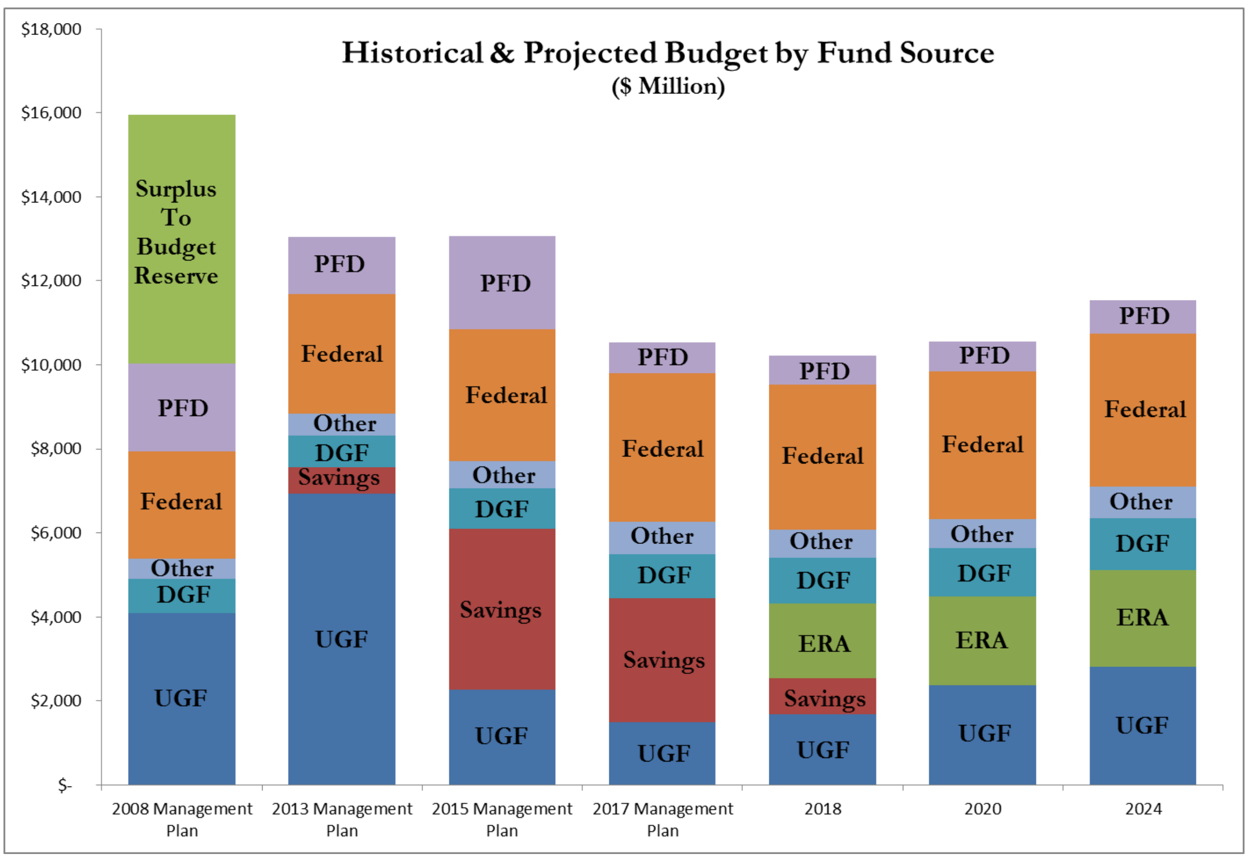
- The PFD will be protected for generations to come. In the near term this means approximately $1,000 dividends with future dividends to increase based on the value of the Permanent Fund and revenues from resource royalties. Thus, when the state's fiscal house is in order, Alaskans will see increasing PFD amounts.
- Departments will continue to become more efficient while maintaining vital government services.
- Broad-based taxes will be implemented where residents and non-residents all contribute a modest amount.
- Other taxes such as corporate income tax and motor fuel taxes are proposed at a level in line with other states.
- Changes to oil and gas tax credits have been enacted and additional reforms are expected.
- Permanent Fund earnings will be restructured to help pay for government services in a manner that preserves the value of the fund for future generations. Use of this resource allows the state to maintain vital services while still having one of the lowest tax burdens in the country.

Department of Revenue Fall 2016 Oil Price and Production Forecast					
Fiscal Year		**Oil Price ($/barrel)**	**Production (Millions of Barrels/day)**		**Unrestricted Revenue ($Billions)**
2018	$	54.00	0.456	$	1.62
2019	$	60.00	0.442	$	1.87
2020	$	63.00	0.429	$	1.91
2021	$	67.00	0.413	$	1.94
2022	$	71.00	0.398	$	2.01
2023	$	75.00	0.380	$	2.04
2024	$	78.00	0.363	$	2.07
2025	$	84.00	0.346	$	2.17
2026	$	88.00	0.331	$	2.22
2027	$	91.00	0.316	$	2.17

Budget

Since FY2013, the total general fund budget, when considering both unrestricted and designated sources, has been reduced by over 36 percent and when considering only unrestricted general funds, the budget has been reduced by 44 percent. Additionally, operating agencies will reduce their budgets by an additional $72 million (1.6%) in total general funds and $123.1 million in unrestricted general funds (3.2%) in FY2018. The state is fighting significant headwinds in budget reduction efforts, specifically mandatory contributions to address the state's unfunded retirement liability as well as increasing debt service costs. On top of all this, personnel costs are increasing due to rising health insurance costs, despite nearly every union having agreed to zero percent COLA and mandatory furlough days. All told, the total general fund budget will be essentially flat from FY2017 even after significant reductions are made to operating agencies.

The state has 2,500 fewer employees than two years ago and estimates 400 additional positions will be eliminated by January 2018 (see Graph 7). The state workforce is down to FY2002 levels and cannot continue to be reduced without significantly impacting services to the public. The unrestricted general fund budget is just above FY2008 levels in nominal terms (not counting the dividend) and inflation will continue to exert upward pressure on spending in the future. Unrestricted general fund spending for agency operations is down to nominal FY2011 levels.



Gas Pipeline & Other Priority Investments

Completing the natural gas pipeline project to ensure the earliest possible new revenue stream is a critical investment in Alaska's future fiscal health. Alaskans will benefit from the economic stimulus of pipeline pre-construction and construction jobs and, upon completion, revenue from the sale of Alaska's gas will return hundreds of millions of dollars annually for decades. This legacy project will further strengthen the Permanent Fund and open opportunities for Alaska's future.

Additionally, the state has a commitment to future generations. Making key investments in Alaska's future will allow us to create a vibrant, robust Alaska for future generations. Among these investments are protecting education by holding formula funding flat, investing in initiatives to encourage cross school district collaboration to improve outcomes, investing in our infrastructure, and managing financial assets like the Permanent Fund more effectively.

Shared Services and Other Efficiencies

Shared Services

For the last 18 months the administration has been laying the groundwork to implement shared services. Shared Services of Alaska (SSoA) will find efficiencies and take advantage of economies of scale by bringing all 'back office' functions under one entity. The shared services model is different from simply consolidating services in a number of important ways. First, SSoA will sign service level agreements (SLAs) with each department for each service to be provided that spell out the level of service that will be provided. These contracts will be monitored by an Independent Verification and Validation (IV&V) organization that will be housed in OMB. SSoA will be data driven; IV&V uses data to ensure that SSoA really is meeting its mission to provide services 'better, faster, and cheaper.' Additionally, SSoA allows departments to focus on their core missions rather than paying bills or procuring necessary supplies.

As part of laying the groundwork, efforts have been made to find efficiencies wherever possible. One element of this has been to use the Lean methodology which aims to maximize customer value while minimizing waste. Simply, Lean means creating more value for agencies with fewer resources. A number of Lean initiatives have taken place and the state is pushing to create a culture where the Lean philosophy permeates employees' thinking. Ideally process improvement will become ingrained in the culture.

In the fall a director of SSoA was hired along with several project managers. After meeting with each department, relevant positions were identified for transfer to SSoA. Initial efforts are small to ensure success and build good will for this large change while allowing time to work out the bugs. The savings goal for the first year of SSoA is 10 percent with a more ambitious goal of 30 percent savings from the baseline in the second year (initiatives have differing timelines – expect full implementation to take three to four years). SSoA is part of the Department of Administration.

Shared Services of Alaska will be a business processing center that provides common administrative transactions for state agencies with an emphasis on efficiency and customer service. SSoA partners with departments through consolidated management of business activities, including accounts payable, travel and expense reimbursements, procurement, and collections.

Through these partnerships, SSoA will be focused on delivering a single, standardized approach for processing all business transactions. This standardization is done in an effort to bring cost savings through efficiency and enabling state agencies to focus on their core missions.

Project Design Efficiencies

The Department of Transportation & Public Facilities is embarking on an aggressive plan to get more projects completed from the available federal transportation funding by shifting to private contractors not only for construction, but for the design phase as well. The department will increase work completed by the private sector while shrinking internal design staff. This has the added advantage of bolstering the private sector economy. By operating with more contract staff and fewer in-house engineering staff, the department will balance public and private sector specialized expertise and be able to quickly scale up and down based on available funding.

Seventy-six design positions are eliminated in the FY2018 budget. These reductions represent the initial phase of the plan to maximize the use of private design contractors while reducing the proportion of design work done in-house to among the lowest in the nation. The department currently contracts over 55 percent of all design work and will strive to send all design work to contractors by FY2019. Department of Transportation positions that remain after this initiative will be responsible for project management and contractor oversight as opposed to hands-on engineering work.

Continued Reductions to the Operating Budget

By the end of FY2017 the budget has already been reduced to the level the Governor had targeted for FY2019. However, due to the lack of action on revenue and the continued draining of the state's savings accounts, more cuts have been imposed. Given the level of agency reductions achieved in just three years while largely insulating public safety and education -- 17 percent in unrestricted general funds and 12 percent when accounting for both designated and unrestricted fund sources -- it is challenging to find additional reductions that can be implemented without harming Alaskans or discontinuing services that residents rely on and value. (See Departmental Operating Budget Forecasts.)

Capital Bonding

The capital budget will be highly constrained for the next several years. All projects will require significant due diligence before they receive funding. The majority of the funding will be directed to meet matching fund requirements for transportation and other projects as well as for deferred maintenance. The only significant new project during this period will be the gas pipeline for which the Governor and the Alaska Gasline Development Corporation are pursuing third party financing to avoid use of constrained state funding. New construction will be viewed through the lens of the fiscal environment with emphasis toward those that have a strong return on investment and are absolutely necessary. General obligation bonds will be issued to supplant general funds in FY2020-2021 to reduce state spending until significant revenue measures can be actualized.

Oil and Gas Credits

The Governor plans to contribute the statutory formula amount towards oil and gas tax credits. Based on statute, the state is current on its oil tax credit payments. Adequate reforms to limit the state's significant liability as well as stable state revenue solutions are needed for higher payments. These credits are owed and must eventually be paid, but spreading payments over a longer time frame makes more sense from a cash-flow perspective.

Revenue

Permanent Fund Draw

> *"I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity"*
>
> -Governor Jay Hammond, on the purpose of the Permanent Fund

Wise Alaskans knew that the time would eventually come when the state could no longer rely on oil revenues to provide the majority of state revenues. As a result of an amendment to the state's constitution, the Permanent Fund was created to benefit Alaskans through the ages. As it turns out, saving a quarter of the state's oil revenues was a smart decision. At the end of FY2016, the balance of the fund was over $53.0 billion. By drawing on the Permanent Fund in a responsible, formula-driven manner, the Permanent Fund can live up to its name and provide funding for vital government services and dividends for generations to come.

The Governor's plan accepts many provisions of the Permanent Fund Protection Action passed by the Senate last session; it calls for a draw of 5.25 percent of the 5-year average value of the fund; this is known as a Percentage of Market Value method, or POMV. Since earnings of the Permanent Fund have averaged 10 percent annually, the fund will be protected from the effects of inflation. Proceeds from the draw will be used for the Permanent Fund Dividend and to supplement general fund revenues to preserve current government service levels and limit the taxes imposed on residents and businesses.

In conjunction with the Permanent Fund restructuring, the Governor is also proposing a $1,000 'transitional' dividend for two years and then a new PFD formula based on both oil royalties and Permanent Fund earnings. Since the old formula was solely based on Permanent Fund earnings and not oil revenues, there was a disconnect between the size of PFD checks and the fiscal health of the state. Under the new formula when resource revenue increases, Alaskans will share in the bounty.

Of the sustainable draw, approximately $695.7 million will be used for dividends in FY2018 while $1.8 billion will be used to partially fund government services. The Permanent Fund restructuring bill will be retroactive to FY2017 in order to replenish spent funds from the CBR, thus preserving its balance in case it is needed for an emergency like an earthquake, fire, or flood.

Motor Fuel Tax

Alaska has one of the lowest motor fuel taxes in the nation. Alaska has had an excise tax on motor fuel since 1945, but the highway tax rate was last increased in 1970; marine rate in 1977; aviation and jet fuel rates in 1994. The revenue received by the state from motor fuel taxes has not kept pace with inflation and, with fuel costs at record lows, now is the best time for an increase without harming Alaskans struggling with fuel bills.

The tax increase will double motor fuel taxes in FY2018 and triple them (from the current level) in FY2019. After these increases, Alaska's motor fuel tax rates will be near the average tax for the country. A two year phase-in period is planned for this increase to diminish the shock of increased fuel prices to the consumer.

Assuming that the average Alaskan drives the typical 14,000 miles per year with an average fuel consumption rate of 25 miles per gallon, the cost increase after the first year of implementation for each Alaskan driver will be only $44.80 per year. The proceeds of this tax will be deposited into a designated fund called the Alaska Transportation Maintenance Fund and will be used for highway, airport and marine highway maintenance to ensure those paying this tax see a direct benefit to the transportation system they rely on every day.

Other Revenue Measures Being Considered

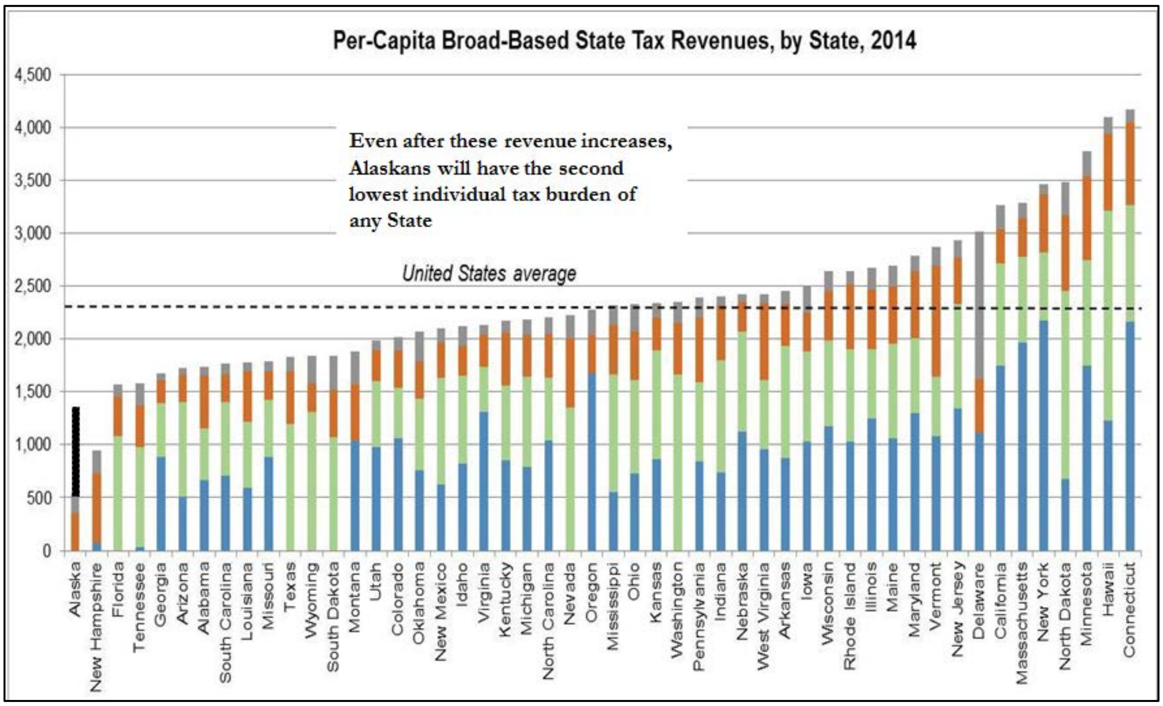
Corporate Income Tax

Alaska already levies a corporate income tax on corporations doing business in the state, including oil and gas companies. The corporate income tax has not had a major overhaul since the 1970s. The current tax consists of graduated rates ranging from zero percent to 9.4 percent, divided across ten tax brackets. Condensing these brackets and adjusting rates will provide $50 million in additional revenue. The new tax will range from zero percent for those corporations with under $25,000 in taxable income to 11 percent for those with over $500,000 in taxable income. Changes will focus on the higher brackets in order to insulate small corporations (including "mom and pop shops") from bearing too great a burden.

Additionally, the administration has plans to include "pass through entities" in the state's tax structure. Most large corporations are C-corps and are captured by this tax, but other entities such as Limited Liability Companies (LLCs) and S-corps pay no income taxes in Alaska. These organizations are known as "pass through" entities meaning taxes are not paid at the corporate level, rather they are paid by the business owners on their personal income tax returns. Most other states capture revenue from these corporations through personal income tax, but Alaska has none. By removing this loophole, the State of Alaska can capture additional revenue by requiring all corporate entities to pay the same rates regardless of whether shareholders reside in the state or not.

Other Tax Proposals to be Discussed with the Legislature

All of the mentioned revenue measures, along with continued downward budget pressure, while significant, are not enough to balance the budget. In future legislative sessions, the Governor will be introducing legislation for a broad-based tax along with various other targeted taxes. The specifics of this package are still being vetted by the Governor and his staff, but it is estimated that they will bring in a combined $600 million. Even after all of these increases, Alaskans will still have the second lowest tax burden of any state.



Fee Increases

Fee increases are a targeted tool for increasing revenue. Since they are service-specific, there is an element of fairness built in. Proceeds from fees are typically directly related to supporting the services they charge for (like drivers' license fees being spent on running the DMV). Fees are classified as designated general funds (DGF) and adjusting them will become more important in meeting future state program and service priorities. Alaska is fortunate that many state fees, such as vehicle registration, fish and game licenses, business licenses, and university tuition are below national averages, enabling an increase to help maintain specific programs while remaining at reasonable levels. Over the course of the next few years, DGF sources are expected to increase three to five percent annually as industry and private citizens ask for services to be maintained.

Savings

The CBR and SBR have traditionally acted as the state's greatest budget balancing tool. In the past when oil prices collapsed, we have drawn from CBR and SBR savings to close the budget gap. However, the price of oil has been depressed for far too long (especially with decreased production) for this to continue to be a viable solution. Even after substantial budget cuts the budget gap remains in the $3.0 billion range. Efficiencies such as Shared Services must be pursued, but cannot achieve the magnitude of reduction needed to solve the crisis. New revenues are a required element to achieve a balanced budget by FY2020. Without action, our reserves will only last another year and a half. See Table 5 for a summary of savings balances.

Additionally, it is smart to keep a minimum of $2.0 billion in reserves at all times. By their nature, emergency needs often arise unexpectedly. Major natural disasters, global recessions, and even oil price declines are often unforeseen. Having $2.0 billion in the CBR will allow the state to react to these circumstances as they arise.

Cost of Delay

Delay has a cost. Failing to act leaves us with only more expensive solutions. Any viable fiscal plan includes using investment income earned on the state's savings accounts and the Permanent Fund. The longer we wait, the more savings are spent which reduces available interest earnings on an annual basis *every single year going forward*. The loss of annual revenue must be made up in some other way. For example, the delay created by not addressing the issue in 2016 will require an additional $200 million in new taxes. Failure to act will hit Alaskans' pocketbooks hard and risks the long-term viability of the Permanent Fund. Delay also causes uncertainty in the economy. Business owners will be skeptical of opening businesses and creating jobs in Alaska due to the uncertainty caused by the current fiscal crisis.

Conclusion

This plan provides the state with a way forward. It maintains vital government services and provides a means to pay for it. Under this plan, Alaskans will still receive a dividend as well as all of the other government services that they rely on. Permanent Fund restructuring, as well as modest revenue measures, will ensure that no Alaskan pays more than his or her fair share.

This plan represents the Governor's vision for Alaska – one where investments are made in a strong, educated, future citizenry who will benefit from the decisions we make today. Failure to adopt a plan will harm the state's savings balances, deplete the Permanent Fund and mortgage the future of Alaska.

Table 1

Unrestricted and Designated General Fund Budget By Major Component ($ Millions)	FY2015 Management Plan	FY2016 Management Plan	FY2017 Management Plan	FY2018	FY2019	FY2020	***	FY2026	FY2027
Agency Operations	$ 5,244.6	$ 4,890.8	$ 4,687.3	$ 4,614.5	$ 4,626.3	$ 4,742.0	***	$ 5,499.2	$ 5,636.7
Gasline Investment*	*	*	*	*	*	*	***	*	*
Debt	$ 238.1	$ 230.1	$ 200.5	$ 228.0	$ 271.7	$ 274.2	***	$ 247.7	$ 245.7
Direct Appropriations to Retirement	$ 5.2	$ 262.5	$ 224.1	$ 192.5	$ 250.2	$ 308.9	***	$ 437.9	$ 458.4
Revenue Sharing**	$ 52.0	$ -	$ 13.6	$ -	$ 60.0	$ 30.0	***	$ 30.0	$ 30.0
Special Appropriations	$ 33.4	$ 8.6	$ 59.4	$ 55.0	$ 15.0	$ 15.0	***	$ 15.0	$ 15.0
Oil & Gas Tax Credits	$ 625.0	$ 500.0	$ 30.0	$ 74.0	$ 54.0	$ 53.0	***	$ 102.0	$ 102.0
Capital^	$ 759.4	$ 175.0	$ 140.6	$ 158.8	$ 215.0	$ 105.0	***	$ 200.0	$ 200.0
Capitalizations	$ 47.1	$ 42.4	$ 34.8	$ 44.2	$ 45.0	$ 45.0	***	$ 45.0	$ 45.0
Transfers	$ 73.5	$ (204.3)	$ 92.3	$ 55.2	$ 55.2	$ 56.2	***	$ 64.9	$ 65.9
Total Budget	$ 7,078.3	$ 5,905.1	$ 5,482.6	$ 5,422.2	$ 5,592.3	$ 5,629.2	***	$ 6,641.7	$ 6,798.7
Permanent Fund Dividend~	$ 1,342.0	$ 1,405.0	$ 695.7	$ 695.7	$ 695.7	$ 710.1	***	$ 818.8	$ 831.9
Permanent Fund Inflation Proofing~	$ 867.0	$ 888.0	$ -	$ -	$ -	$ -	***	$ -	$ -
Total GF Budget with Permanent Fund	$ 9,287.3	$ 8,198.1	$ 6,178.4	$ 6,117.9	$ 6,288.0	$ 6,339.4	***	$ 7,460.5	$ 7,630.6
UGF Budget	*$ 6,105.5*	*$ 4,970.5*	*$ 4,388.4*	*$ 5,041.9*	*$ 5,105.6*	*$ 5,114.0*	***	*$ 6,108.2*	*$ 6,253.0*

*The Alaska Gasline Development Corporation is currently seeking third party investors for participation in the AKLNG project. This will eliminate the up-front costs to the state and will offset future revenues, but also mitigate risks to the state. See page 4.

**Revenue Sharing deposit is based on earnings of the Power Cost Equalization Endowment and will be supplemented with unrestricted general funds as needed, assuming a full fiscal plan.

^Presumes general obligation bond debt service for capital match and other projects at $250.0 million in FY2020 and FY2021, $500.0 million total.

~ Dividends will be paid from the general fund beginning in FY2018 under the Governor's Plan. Forward funding of Permanent Fund dividend and inflation proofing was repealed in SLA2015.

Table 2

Unrestricted General Fund Budget By Major Component ($ Millions)										
	FY2015 Management Plan	FY2016 Management Plan	FY2017 Management Plan	FY2018	FY2019	FY2020	***	FY2026	FY2027
Agency Operations	$ 4,503.0	$ 4,098.9	$ 3,878.3	$ 3,755.3	$ 3,709.7	$ 3,676.3	***	$ 4,266.9	$ 4,378.6
Gasline Investment*	*	*	*	*	*	*	***	*	*
Debt	$ 218.8	$ 206.2	$ 182.2	$ 209.4	$ 204.6	$ 224.2	***	$ 241.1	$ 240.6
Direct Appropriations to Retirement	$ 5.2	$ 262.5	$ 134.2	$ 134.2	$ 250.2	$ 308.9	***	$ 437.9	$ 458.4
Revenue Sharing**	$ 52.0	$ -	$ -	$ -	$ 15.0	$ 15.0	***	$ 15.0	$ 15.0
Special Appropriations	$ 33.4	$ 8.6	$ 4.4	$ -	$ 15.0	$ 15.0	***	$ 15.0	$ 15.0
Oil & Gas Tax Credits	$ 625.0	$ 500.0	$ 30.0	$ 74.0	$ 54.0	$ 53.0	***	$ 102.0	$ 102.0
Capital^	$ 594.9	$ 118.4	$ 96.1	$ 115.2	$ 100.0	$ 50.0	***	$ 150.0	$ 150.0
Capitalizations	$ 45.5	$ 40.8	$ 33.2	$ 42.6	$ 43.8	$ 43.8	***	$ 43.8	$ 43.8
Transfers	$ 27.7	$ (264.9)	$ 30.0	$ 15.5	$ 17.7	$ 17.7	***	$ 17.7	$ 17.7
Total Budget	$ 6,105.5	$ 4,970.5	$ 4,388.4	$ 4,346.2	$ 4,409.9	$ 4,403.9	***	$ 5,289.5	$ 5,421.0
Permanent Fund Dividend~	$ -	$ -	$ -	$ 695.7	$ 695.7	$ 710.1	***	$ 818.8	$ 831.9
Total Budget with Permanent Fund	$ 6,105.5	$ 4,970.5	$ 4,388.4	$ 5,041.9	$ 5,105.6	$ 5,114.0	***	$ 6,108.2	$ 6,253.0

*The Alaska Gasline Development Corporation is currently seeking third party investors for participation in the AKLNG project. This will eliminate the up-front costs to the state and will offset future revenues, but also mitigate risks to the state. See page 4.

**Revenue Sharing deposit is based on earnings of the Power Cost Equalization Endowment and will be supplemented with unrestricted general funds as needed, assuming a full fiscal plan.

^Presumes general obligation bond debt service for capital match and other projects at $250.0 million in FY2020 and FY021, $500.0 million total.

~Forward funding of Permanent Fund dividend and inflation proofing was repealed in SLA2015.

Table 3

Unrestricted and Designated General Fund Revenues By Source ($ Millions)	FY2015 Management Plan	FY2016 Management Plan	FY2017 Management Plan	FY2017 Governor's Plan*	FY2018	FY2019	FY2020	***	FY2026	FY2027
Existing Revenues (UGF)	$ 2,256.5	$ 1,539.8	$ 1,446.7	$ 1,465.7	$ 1,588.4	$ 1,836.7	$ 1,870.5	***	$ 2,186.4	$ 2,135.9
Existing Revenues (DGF)	$ 3,181.7	$ 3,227.6	$ 1,789.9	$ 1,789.9	$ 1,004.6	$ 1,075.2	$ 1,117.6	***	$ 1,237.2	$ 1,261.4
Permanent Fund Draw (UGF)	$ -	$ -	$ -	$ 2,408.1	$ 2,507.0	$ 2,650.8	$ 2,760.2	***	$ 3,159.7	$ 3,225.9
New Revenues (UGF)	$ -	$ -	$ -	$ 51.9	$ 54.9	$ 362.2	$ 483.3	***	$ 988.6	$ 1,069.2
New Revenues (DGF)	$ -	$ -	$ -	$ -	$ 71.4	$ 107.9	$ 107.8	***	$ 115.1	$ 116.0
Savings	$ 3,849.2	$ 3,430.7	$ 2,941.8	$ 462.9	$ 891.7	$ 255.2	$ -	***	$ -	$ -
Total General Fund Revenue	**$ 5,438.2**	**$ 4,767.4**	**$ 3,236.6**	**$ 5,715.6**	**$ 5,226.3**	**$ 6,032.8**	**$ 6,339.4**	***	**$ 7,687.0**	**$ 7,808.4**
Unrestricted Revenues	*$ 2,256.5*	*$ 1,539.8*	*$ 1,446.7*	*$ 3,925.7*	*$ 4,150.3*	*$ 4,849.7*	*$ 5,114.0*	***	*$ 6,334.7*	*$ 6,431.0*
Designated Revenues	*$ 3,181.7*	*$ 3,227.6*	*$ 1,789.9*	*$ 1,789.9*	*$ 1,076.0*	*$ 1,183.1*	*$ 1,225.4*	***	*$ 1,352.3*	*$ 1,377.4*
Dividend Payout ($/resident)	$ 1,884	$ 2,072	$ 1,022	$ 1,022	$ 1,000	$ 1,000	$ 1,094	***	$ 1,246	$ 1,264

*The Governor's plan will modify the current year revenue (FY2017 Management Plan) by adding a $2.4 billion Permanent Fund draw (retroactive to the current year).

Table 4

Unrestricted and Designated General Fund Revenues By Source ($Millions)	FY2015 Management Plan	FY2016 Management Plan	FY2017 Management Plan	FY2018	FY2019	FY2020	***	FY2026	FY2027
Existing Revenue							***		
Baseline Unrestricted Revenue	$ 2,256.5	$ 1,539.8	$ 1,465.7	$ 1,588.4	$ 1,836.7	$ 1,870.5	***	$ 2,186.4	$ 2,135.9
Current Designated Revenue	$ 949.7	$ 913.6	$ 1,071.2	$ 978.6	$ 1,049.2	$ 1,091.6	***	$ 1,211.2	$ 1,235.4
Permanent Fund Earnings*	$ 2,232.0	$ 2,314.0	$ 718.7	$ 26.0	$ 26.0	$ 26.0	***	$ 26.0	$ 26.0
Total Existing Revenue	**$ 5,438.2**	**$ 4,767.4**	**$ 3,255.6**	**$ 2,593.0**	**$ 2,911.9**	**$ 2,988.1**	***	**$ 3,423.6**	**$ 3,397.3**
							***		
New Revenues							***		
Motor Fuel Tax**	$ -	$ -	$ -	$ 71.4	$ 107.9	$ 107.8	***	$ 115.1	$ 116.0
New Revenue Measures	$ -	$ -	$ -	$ -	$ 300.0	$ 413.0	***	$ 718.0	$ 800.0
Permanent Fund Draw	$ -	$ -	$ 2,408.1	$ 2,507.0	$ 2,650.8	$ 2,760.2	***	$ 3,159.7	$ 3,225.9
Additional Royalties Under PFPA	$ -	$ -	$ 51.9	$ 54.9	$ 62.2	$ 70.3	***	$ 70.6	$ 69.2
Total New Revenues	**$ -**	**$ -**	**$ 2,460.0**	**$ 2,633.3**	**$ 3,120.9**	**$ 3,351.3**	***	**$ 4,063.4**	**$ 4,211.1**
							***		
Gasline Revenue	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	***	**$ 200.0**	**$ 200.0**
							***		
Draw on Savings	**$ 3,849.2**	**$ 3,430.7**	**$ 462.9**	**$ 891.7**	**$ 255.2**	**$ -**	***	**$ -**	**$ -**
							***		
Total Unrestricted Revenue	**$ 2,256.5**	**$ 1,539.8**	**$ 3,925.7**	**$ 4,150.3**	**$ 4,849.7**	**$ 5,114.0**	***	**$ 6,334.7**	**$ 6,431.0**
Total Designated Revenue	**$ 3,181.7**	**$ 3,227.6**	**$ 1,789.9**	**$ 1,076.0**	**$ 1,183.1**	**$ 1,225.4**	***	**$ 1,352.3**	**$ 1,377.4**
Total Revenue	**$ 5,438.2**	**$ 4,767.4**	**$ 5,715.6**	**$ 5,226.3**	**$ 6,032.8**	**$ 6,339.4**	***	**$ 7,687.0**	**$ 7,808.4**
							***		
Total Budget	**$ 9,287.3**	**$ 8,198.1**	**$ 6,178.4**	**$ 6,117.9**	**$ 6,288.0**	**$ 6,339.4**	***	**$ 7,460.5**	**$ 7,630.6**
Surplus/Deficit	**$ (3,849.1)**	**$ (3,430.7)**	**$ (462.9)**	**$ (891.7)**	**$ (255.2)**	**$ -**	***	**$ 226.5**	**$ 177.9**

*Forward funding of Permanent Fund dividend and inflation proofing was repealed in SLA2015.

**Although the increase in aviation fuel taxes counts as an "other" fund source, it will be used to offset current general fund expenditures.

Grey cells denote designated general fund (DGF) revenues

Table 5

Approximate Reserve Balances Under the Governor's Plan

Constitutional Budget Reserve*	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Beginning Balance	$ 12,986.3	$ 10,153.8	$ 6,318.7	$ 6,205.8	$ 5,464.1	$ 5,482.1	$ 5,756.2	$ 6,044.0	$ 6,346.2	$ 6,663.5	$ 6,996.7	$ 7,346.5	$ 7,713.9
Draw	$ (3,000.0)	$ (3,920.6)	$ (462.9)	$ (891.7)	$ (255.2)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Settlements, Deposits & Earnings	$ 167.5	$ 85.5	$ 350.0	$ 150.0	$ 273.2	$ 274.1	$ 287.8	$ 302.2	$ 317.3	$ 333.2	$ 349.8	$ 367.3	$ 385.7
Surplus	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 226.5	$ 177.9
End Balance	$ 10,153.8	$ 6,318.7	$ 6,205.8	$ 5,464.1	$ 5,482.1	$ 5,756.2	$ 6,044.0	$ 6,346.2	$ 6,663.5	$ 6,996.7	$ 7,346.5	$ 7,713.9	$ 8,099.6

Earnings Reserve Account	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Beginning Balance	$ 5,237.0	$ 6,147.0	$ 8,345.0	$ 7,833.3	$ 7,965.6	$ 8,017.2	$ 8,020.6	$ 8,028.3	$ 8,045.3	$ 8,026.8	$ 8,004.7	$ 7,979.6	$ 8,031.4
Earnings	$ 2,907.0	$ 2,198.0	$ 2,592.4	$ 2,639.3	$ 2,702.4	$ 2,763.5	$ 2,823.3	$ 2,884.0	$ 2,946.7	$ 3,007.7	$ 3,069.5	$ 3,211.5	$ 3,350.0
Dividends**	$ (1,373.0)	$ -	$ (696.0)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Inflation Proofing	$ (624.0)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Draw for Budget	$ -	$ -	$ (2,408.1)	$ (2,507.0)	$ (2,650.8)	$ (2,760.2)	$ (2,815.6)	$ (2,866.9)	$ (2,965.2)	$ (3,029.9)	$ (3,094.5)	$ (3,159.7)	$ (3,225.9)
End Balance	$ 6,147.0	$ 8,345.0	$ 7,833.3	$ 7,965.6	$ 8,017.2	$ 8,020.6	$ 8,028.3	$ 8,045.3	$ 8,026.8	$ 8,004.7	$ 7,979.6	$ 8,031.4	$ 8,155.5

Total Permanent Fund Value	$ 52,800.0	$ 53,464.7	$ 54,984.9	$ 56,301.2	$ 57,573.3	$ 58,820.0	$ 60,092.9	$ 61,389.0	$ 62,661.1	$ 63,948.8	$ 65,259.0	$ 66,586.4	$ 67,932.4

*There also remains $288.0 million in the Statutory Budget Reserve Fund (SBR). It is anticipated these funds will be credited towards the deficit in future years.
Shaded figures represent actual draw rather than planned draw at Management Plan.
**Dividends will be paid from the general fund beginning in FY2018 under the Governor's Plan.

Key assumptions used

- 4.8% of the total Permanent Fund value is actualized annually (adding to ERA balance).
- Annual settlements and deposits into the CBR total $20 million per year.
- Earnings on the balance of the CBR will total 4.7% annually as the CBR will no longer be subjected to cash calls beginning in FY2020.

Table 6

Approximate Reserve Balances (Status Quo)

Constitutional Budget Reserve*	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Beginning Balance	$ 12,986.3	$ 10,153.8	$ 6,318.7	$ 3,726.9	$ 1,118.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Draw**	$ (3,000.0)	$ (3,920.6)	$ (2,941.8)	$ (2,758.0)	$ (1,139.1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Settlements, Deposits & Earnings	$ 167.5	$ 85.5	$ 350.0	$ 150.0	$ 20.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Surplus	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
End Balance	$ 10,153.8	$ 6,318.7	$ 3,726.9	$ 1,118.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Earnings Reserve Account^	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Beginning Balance	$ 5,237.0	$ 6,147.0	$ 8,345.0	$ 10,241.4	$ 10,438.7	$ 9,332.7	$ 7,191.4	$ 4,870.0	$ 2,283.3	$ (498.9)	$ (3,462.5)	$ (6,568.3)	$ (9,642.8)
Earnings	$ 2,907.0	$ 2,198.0	$ 2,592.4	$ 2,639.3	$ 2,705.5	$ 2,711.5	$ 2,668.6	$ 2,617.1	$ 2,552.2	$ 2,477.1	$ 2,392.3	$ 2,299.8	$ 2,207.8
Dividends^	$ (1,373.0)	$ -	$ (696.0)	$ (1,501.0)	$ (1,456.1)	$ (1,369.4)	$ (1,348.9)	$ (1,398.3)	$ (1,400.9)	$ (1,391.8)	$ (1,367.8)	$ (1,334.3)	$ (1,295.5)
Inflation Proofing	$ (624.0)	$ -		$ (941.0)	$ (922.0)	$ (950.0)	$ (979.0)	$ (1,009.0)	$ (1,040.0)	$ (1,071.0)	$ (1,104.0)	$ (1,137.0)	$ (1,171.0)
Draw for Budget	$ -	$ -	$ -	$ -	$ (1,433.4)	$ (2,533.4)	$ (2,662.1)	$ (2,796.6)	$ (2,893.5)	$ (2,977.8)	$ (3,026.3)	$ (2,903.1)	$ (3,085.3)
End Balance	$ 6,147.0	$ 8,345.0	$ 10,241.4	$ 10,438.7	$ 9,332.7	$ 7,191.4	$ 4,870.0	$ 2,283.3	$ (498.9)	$ (3,462.5)	$ (6,568.3)	$ (9,642.8)	$ (12,986.9)

Total Permanent Fund Value	$ 52,800.0	$ 53,464.7	$ 54,984.9	$ 56,365.2	$ 56,489.6	$ 55,596.2	$ 54,523.3	$ 53,170.9	$ 51,605.7	$ 49,838.9	$ 47,913.1	$ 45,995.8	$ 43,790.0

*There also remains $288.0 million in the Statutory Budget Reserve Fund (SBR). It is anticipated these funds will be credited towards the deficit in future years.

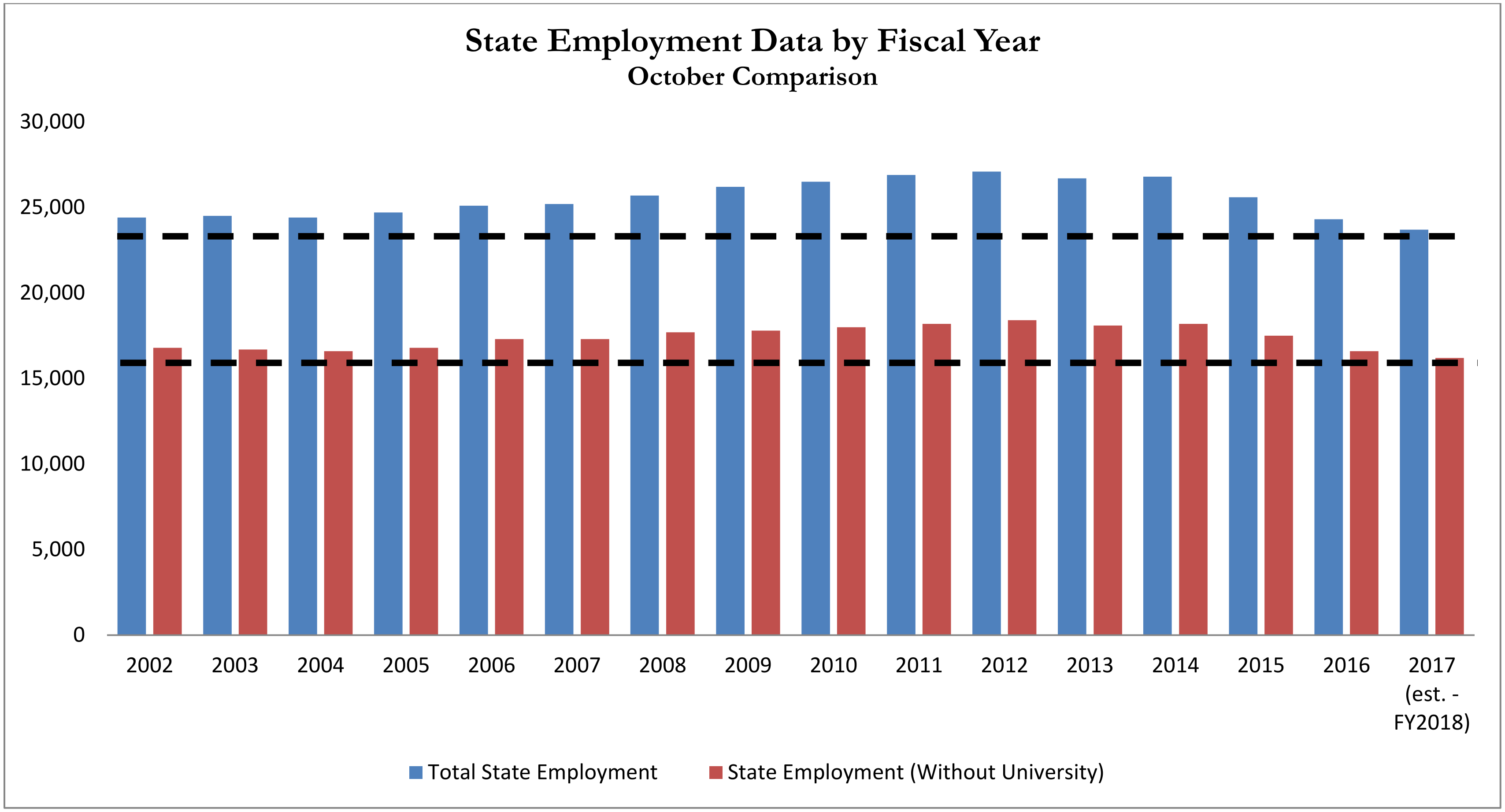
**Shaded figures represent actual draw rather than planned draw at Management Plan.

^The Earnings Reserve Account (ERA) will have insufficient cash-flow to pay dividends beginning in FY2023. Due to continued, ad-hoc draws from the ERA, earnings rates will be diminished.

Key assumptions used

- 4.8% of the total Permanent Fund value is actualized annually (adding to ERA balance).
- Status quo dividend and inflation proofing will occur given Alaska Permanent Fund Corporation projections.
- Annual settlements and deposits into the CBR total $20 million per year.
- The CBR will earn no interest due to continued draws.
- A negative ERA balance denotes that the Permanent Fund corpus will be opened via a constitutional amendment. Negative ERA balances subtract from the total Permanent Fund balance.

Graph 7



Source: Monthly Employment Statistics, Department of Labor and Workforce Development, Research and Analysis

Alaska state government employment includes full-time, part-time and non-permanent jobs for all state agencies and state owned entities including the legislature, courts, university and state-owned corporations. Annual comparisons using the same month produce accurate comparisons by eliminating seasonal variations. At the time of this publication, October 2016 was the most recent available data.

*October 2016 preliminary data; November and December 2016 data is estimated