

## EXECUTIVE SUMMARY FY2016 10-YEAR PLAN

*Note: The projections in the FY2016 plan are intended to be used as a planning tool. They do not represent a commitment by the Walker Administration to propose spending nor bring in revenue at a particular level in FY2015, FY2016, or any future year.*

### Executive Summary FY2016 10-Year Projection

The following projections are intended to meet the statutory requirement at AS 37.07.020 (b) of the Governor's Office of Management and Budget to submit a 10-year projection of expenditures and revenues in addition to the budget bills required under (a) of the same statute.

In order to meet the statutory deadline of December 15, 2014, referred to in AS 37.07.020 (a), the new administration has submitted the outgoing administration's FY2016 operating budget recommendations without revision and a minimal capital budget that provides the state funds required to generate federal matching dollars for transportation and other infrastructure projects. Also included in the capital proposal are two proposed appropriations associated with the administration's intention to meet the requirements of the settlement of the *Kasayulie v. State of Alaska* lawsuit.

While the submitted budget document meets the statutory requirement for budget submission, **the administration does not endorse the submitted budget proposal.** It is the intention of the administration to submit a fully endorsed budget in advance of the statutory deadline to submit amendments to the fiscal year 2016 budget, which is the 30<sup>th</sup> day of the Legislative session.

The expenditure projections in this document should be considered in a similar vein as the budget that was submitted to meet the statutory requirement. These expenditure projections are not endorsed by the current administration and should not be considered an indicator or commitment by the administration to propose spending or bring in revenue at a particular level in FY2015, FY2016, or any other future year. The projections contained below should be considered illustrative of Alaska's current fiscal condition and help to describe the challenges that face the state given the current economic climate. In publishing these projections, the primary goal of the administration is inform the Legislature and Alaskans about the State's long-term fiscal situation given the circumstances and most current available information. The intent is to provide the public with the knowledge of the State's long-term fiscal outlook, which in turn will inform an open dialog about our state's policy and budget decisions to provide stability in the long-term.

Recent developments in Alaska's unrestricted general fund revenue picture, which are outlined in detail in the Fall 2014 Revenue Sources Book, have placed a greater sense of urgency on the administration to address the fiscal stability of Alaska's state government. The administration is looking forward to beginning a dialogue with the legislature and Alaskans to address these issues.

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The following pages pair revenue forecast information from the Fall 2014 Revenue Sources Book to expenditure levels as if the level of expenditure proposed in the submitted budget was accepted in FY2016 and held at that level for the next ten years. Again, this is not the intended course of the Walker administration, it is an illustration of a status quo future. Three alternate revenue scenarios are shown in the projections; one could be considered the “base case” revenue forecast as published in the Fall 2014 forecast, scenario 2 could be considered a “high case production” scenario and scenario 3 could be considered a “lower prices than forecast” scenario.

### Three Scenarios Provide Dramatic Range of Potential Futures

While Alaska’s current financial outlook is healthy, recent events in the world oil markets have reminded Alaskans that the link between the State of Alaska’s revenue and the price of oil or changing production levels can change Alaska’s fiscal outlook quickly and dramatically. The projections also clearly illustrate the current dependence of the state’s fiscal stability on oil. Although oil prices can change overnight, Alaskan’s deserve an inclusive and deliberate (but urgent) approach to reductions in state government.

For an illustration of a range of possible impacts for Alaska’s current spending and revenue policies, three scenarios are modeled. It is clear from all three scenarios, Alaska fiscal policies need to be rationalized for long term stability. This administration is committed to engaging state entities, legislators, and state citizens in a transparent process of policy development to stabilize the state government and Alaskan economy to provide a breadth of opportunity for all those who call Alaska home. A brief description and synopsis of each scenario is presented below:

**Scenario 1: Fall 2014 Forecast with flat General Fund spending beginning in FY2016:** This scenario assumes that annual general fund spending is held at approximately \$5.6 billion for all segments of General Fund spending through FY2025 while assuming the Fall 2014 revenue forecast.

**Synopsis:** Budget deficits through FY2025 with steady draws from the Statutory Budget Reserve (SBR) and the Constitutional Budget Reserve (CBR) exhausting the CBR and SBR reserve balances in FY2023.

**Scenario 2: Fall 2014 forecast for prices with expected investment case (unrisked) oil production and flat General Fund spending beginning in FY2016:** This scenario assumes the Fall 2014 price forecast, and the expected industry investment case prior to risking the projected oil production. The resultant higher oil production scenario assumes that oil production will equal the unrisked, independent technical assessment provided to the Department in the Fall 2014 forecast. (This could also be

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referred to as a high case oil production scenario.) This oil production forecast is paired with the Fall 2014 price forecast and an annual general fund spending plan of \$5.6 billion.

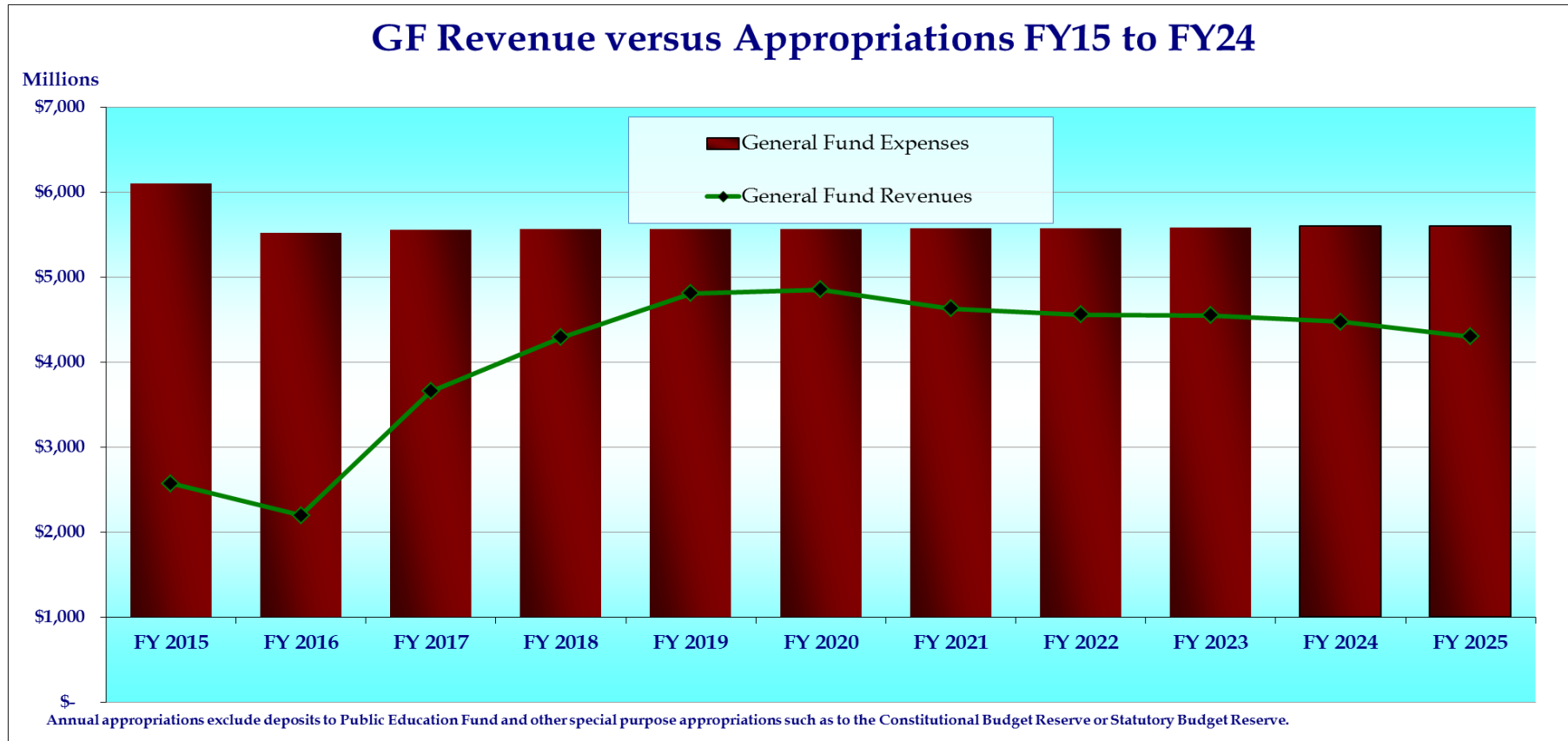
**Synopsis:** A short-term \$3.0 to \$3.5 billion deficit in FY2015 and FY2016 begins the 10 year period with significant draws on the State's two reserve accounts, however increased production and rising prices combine to close the deficit substantially and by FY2021 the Constitutional Budget Reserve first stabilizes and then reverses its decline as a result. Annual draws from the CBR are still required to balance the budget through FY2023; however the relatively small draws beginning in FY2022 result in a climbing CBR balance through FY2025. At the end of the 10-year period, the CBR balance of is approximately \$3.5 billion.

**Scenario 3: GF Revenue at P20 price path (Lower price scenario) oil with flat General Fund spending beginning in FY2016:** This scenario assumes that oil prices fall below \$60 for FY2016 and then hold near \$90 through the end of the decade. Prices gradually rise to near \$100 in the last three years of the decade. Annual spending growth is held at approximately \$5.6 billion throughout the period. This scenario is intended to illustrate the potential deficits that could occur in an environment that has long term oil prices that are lower than are currently forecast. It should be noted that it is highly improbable that the state would continue spending at a \$5.6 billion annual pace under ongoing lower revenue circumstances, however this scenario is useful in demonstrating the strength of Alaska's reserve position given that occurrence.

**Synopsis:** Assuming \$5.6 billion in general fund spending results in budget shortfalls of approximately \$2.5- \$3.5 billion annually beginning in FY2015 with consistent deficits throughout the next 10 years. Under those circumstances the Statutory Budget Reserve and Constitutional Budget Reserve combined account balances begin eroding rapidly. The steady draws on those two accounts required in this scenario erode the combined SBR and CBR balances to exhaustion by FY2018.

In summary, there is a wide range of possible scenarios that could lie ahead for Alaska. While the future holds the promise of relative fiscal stability if Alaska experiences oil prices above \$100 a barrel and climbing, the past has demonstrated on numerous occasions that the state must take a cautious approach to its finances, and carefully consider the obligations that it makes today to insure that it has the means to provide essential services in the future. The challenge will be to strike a balance between the needs of current Alaskans against the need to provide essential public services to Alaska's future generations.

Scenario 1: Fall 2014 forecast, Parnell Work In Progress (WIP) Spending assumed \$5.6 billion through FY2025



Appropriations projections in the plan do not represent a commitment by the Walker administration to propose spending or generate revenue at a particular level in FY2015, FY2016 or any future year. The 10-year projection shows that budget shortfalls during the 10-year period could exhaust primary cash reserves; however, it is the intention of the administration to employ additional fiscal tools including spending reductions, or in lieu of, reserve funds.

The projection will be revisited as conditions warrant.

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Scenario 1: Fall 2014 forecast, Parnell Work In Progress Spending assumed \$5.6 billion through FY2025

<b>Oil Price &amp; Production</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
Fall 2014 forecast ANS West Coast (\$/bbl.)	\$76.31	\$66.03	\$93.18	\$102.81	\$112.00	\$117.36	\$121.14	\$123.87	\$129.04	\$134.39	\$137.41
Fall 2014 forecast (Total ANS production State + Federal ths. bbl./day)	509.5	524.1	534.1	503.5	473.2	435.8	400.4	368.5	342.9	314.7	282.2
<b>Revenue vs. Spending (\$millions)</b>											
General Fund Revenues <sup>1/</sup>	\$2,573.0	\$2,196.7	\$3,657.3	\$4,292.1	\$4,808.1	\$4,852.9	\$4,627.6	\$4,555.7	\$4,547.8	\$4,473.2	\$4,296.8
General Fund Expenses	\$6,105.7	\$5,518.4	\$5,558.3	\$5,567.0	\$5,566.9	\$5,563.2	\$5,573.1	\$5,574.3	\$5,586.8	\$5,601.6	\$5,601.5
<b>Budget Surplus/Shortfall</b>	<b>(\$3,532.7)</b>	<b>(\$3,321.7)</b>	<b>(\$1,901.0)</b>	<b>(\$1,274.9)</b>	<b>(\$758.9)</b>	<b>(\$710.3)</b>	<b>(\$945.5)</b>	<b>(\$1,018.7)</b>	<b>(\$1,039.0)</b>	<b>(\$1,128.4)</b>	<b>(\$1,304.7)</b>
<b>Reserve Balances (\$millions)</b>											
CBRF Main Account Balance End of Year	\$2,622.3	\$3,101.4	\$2,600.4	\$2,079.3	\$3,381.3	\$2,763.4	\$1,899.7	\$942.7	\$0.0	\$0.0	\$0.0
CBRF Subaccount Balance End of Year	\$6,967.6	\$3,545.7	\$2,426.0	\$1,883.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>CBRF Total</b>	<b>\$9,590.0</b>	<b>\$6,647.1</b>	<b>\$5,026.4</b>	<b>\$3,962.8</b>	<b>\$3,381.3</b>	<b>\$2,763.4</b>	<b>\$1,899.7</b>	<b>\$942.7</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
Statutory Budget Reserve Balance yr. end	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL RESERVES</b>	<b>\$9,590.0</b>	<b>\$6,647.1</b>	<b>\$5,026.4</b>	<b>\$3,962.8</b>	<b>\$3,381.3</b>	<b>\$2,763.4</b>	<b>\$1,899.7</b>	<b>\$942.7</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

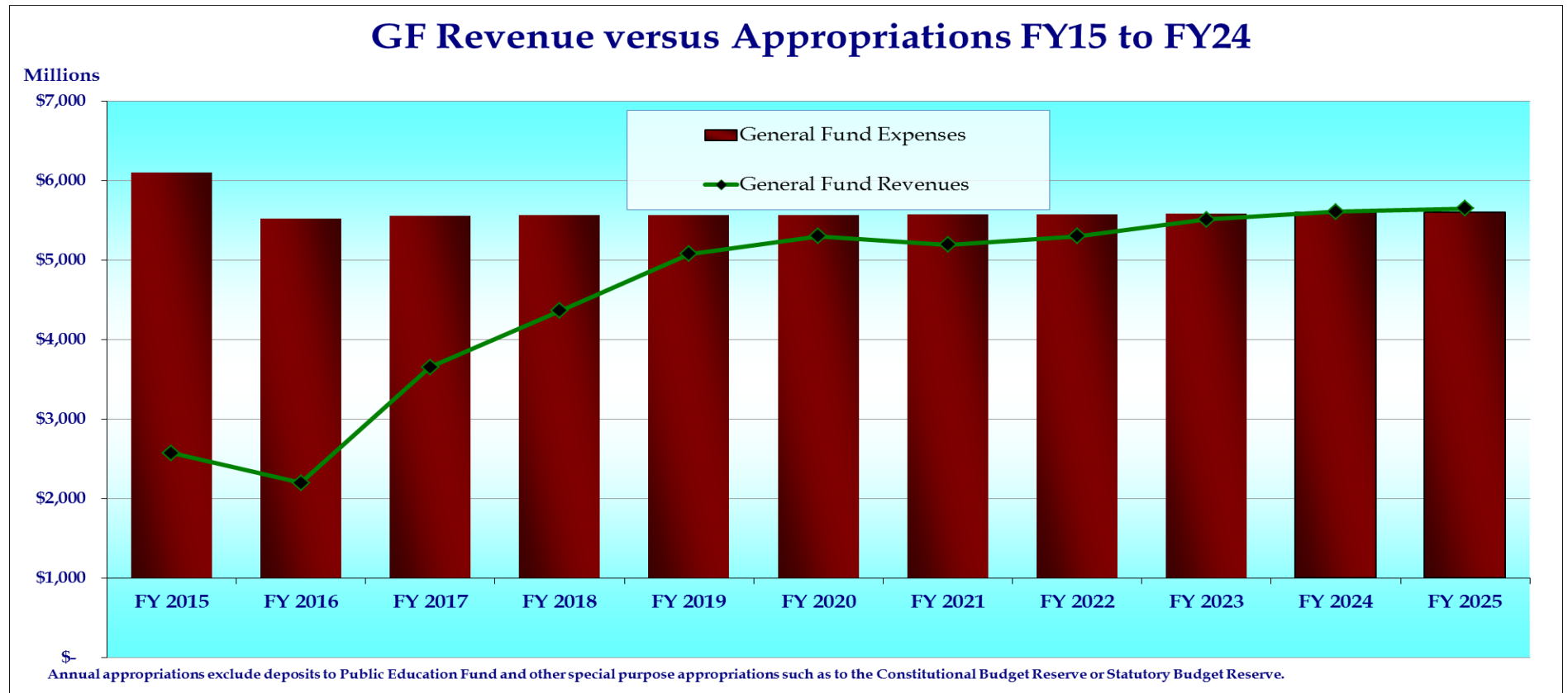
Appropriations projections in the plan do not represent a commitment by the Walker administration to propose spending or generate revenue at a particular level in FY2015, FY2016 or any future year. The 10-year projection shows that budget shortfalls during the 10-year period could exhaust primary cash reserves; however, it is the intention of the administration to employ additional fiscal tools including spending reductions, or in lieu of, reserve funds.

The projection will be revisited as conditions warrant.

1/ FY2015 number includes \$2,551.5 GF Unrestricted Revenue forecast plus \$21.5 of funds reappropriated and/or carried forward from fiscal year 2014 for total of \$2573.0.

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Scenario 2: Expected Investment Case<sup>1/</sup>Oil Production, Fall 2014 Price, \$5.6B GF Spend. Parnell Work In Progress (WIP)



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**The projection will be revisited as conditions warrant**

1/ The expected investment case production scenario assumes the independent unrisked technical assessment that was provided to the Department of Revenue for Fall 2014 forecast.

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Scenario 2: Expected Investment Case<sup>1/</sup> Oil Production, Fall 2014 Price, \$5.6B GF Spend. Parnell Work In Progress (WIP)

<b>Oil Price &amp; Production</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
Fall 2014 forecast ANS West Coast (\$/bbl.)	\$76.31	\$66.03	\$93.18	\$102.81	\$112.00	\$117.36	\$121.14	\$123.87	\$129.04	\$134.39	\$137.41
<b>EXPECTED INVESTMENT CASE<sup>1/</sup></b> Fall 2014 forecast (Total ANS production State + Federal ths. bbl./day)	509.5	524.1	539.0	523.3	513.7	493.7	474.3	459.1	461.8	455.3	425.3
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>2/</sup>	\$2,573.0	\$2,196.7	\$3,653.2	\$4,363.3	\$5,074.4	\$5,296.7	\$5,193.8	\$5,298.8	\$5,509.8	\$5,608.6	\$5,648.0
General Fund Expenses	\$6,105.7	\$5,518.4	\$5,558.3	\$5,567.0	\$5,566.9	\$5,563.2	\$5,573.1	\$5,574.3	\$5,586.8	\$5,601.6	\$5,601.5
<b>Budget Surplus/Shortfall</b>	<b>(\$3,532.7)</b>	<b>(\$3,321.7)</b>	<b>(\$1,905.1)</b>	<b>(\$1,203.7)</b>	<b>(\$492.5)</b>	<b>(\$266.5)</b>	<b>(\$379.4)</b>	<b>(\$275.5)</b>	<b>(\$77.0)</b>	<b>\$7.0</b>	<b>\$46.5</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$2,622.3	\$3,101.4	\$2,596.2	\$2,146.9	\$3,719.7	\$3,559.5	\$3,292.0	\$3,133.0	\$3,181.1	\$3,319.7	\$3,474.4
CBRF Subaccount Balance End of Year	\$6,967.6	\$3,545.7	\$2,426.0	\$1,883.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>CBRF Total</b>	<b>\$9,590.0</b>	<b>\$6,647.1</b>	<b>\$5,022.2</b>	<b>\$4,030.5</b>	<b>\$3,719.7</b>	<b>\$3,559.5</b>	<b>\$3,292.0</b>	<b>\$3,133.0</b>	<b>\$3,181.1</b>	<b>\$3,319.7</b>	<b>\$3,474.4</b>
Statutory Budget Reserve Balance yr. end	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL RESERVES</b>	<b>\$9,590.0</b>	<b>\$6,647.1</b>	<b>\$5,022.2</b>	<b>\$4,030.5</b>	<b>\$3,719.7</b>	<b>\$3,559.5</b>	<b>\$3,292.0</b>	<b>\$3,133.0</b>	<b>\$3,181.1</b>	<b>\$3,319.7</b>	<b>\$3,474.4</b>

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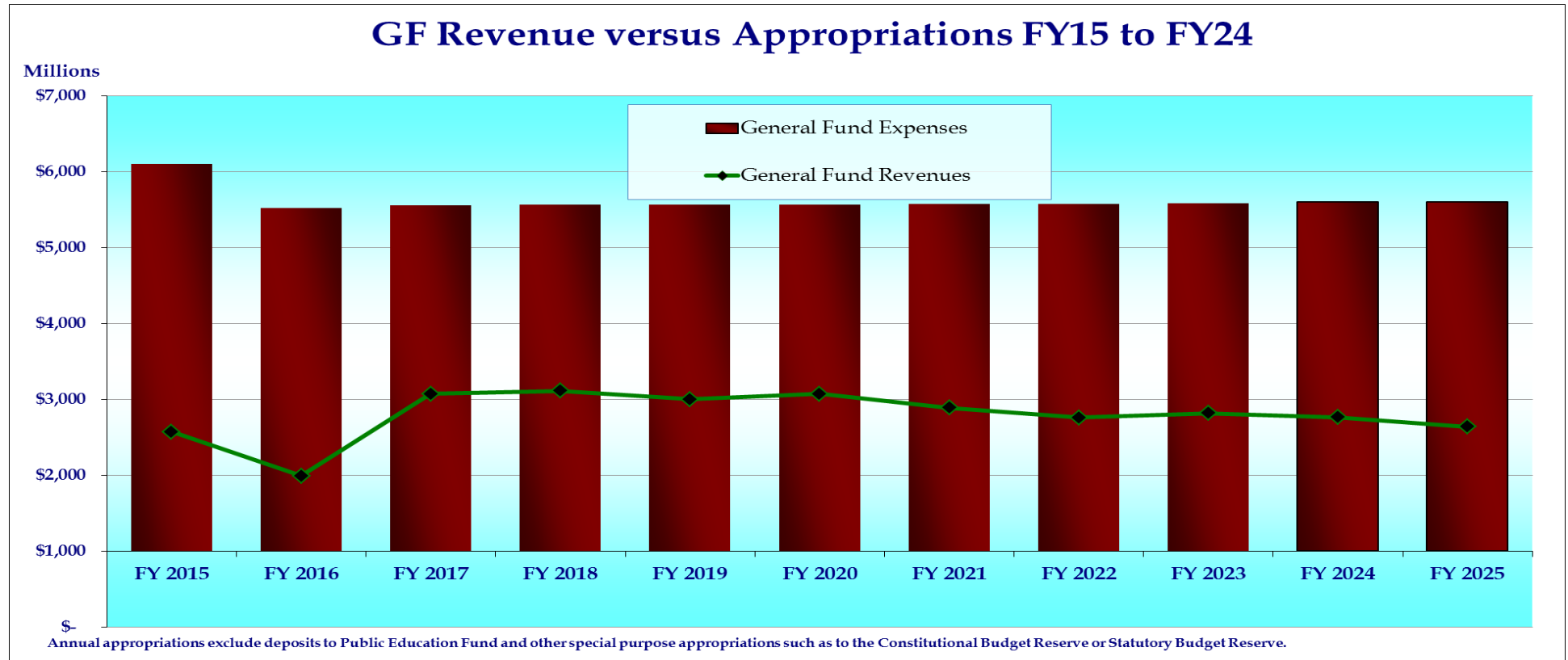
The projection will be revisited as conditions warrant.

1/ The mid-high oil production scenario assumes that oil production falls halfway between the Department of Revenue's Fall 2013 fully risked forecast and an unrisked, independent technical assessment provided to the Department.

2/ FY2015 number includes \$2,551.5 GF Unrestricted Revenue forecast plus \$21.5 of funds reappropriated and/or carried forward from fiscal year 2014 for total of \$2573.0.

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Scenario 3: Revenue@ P20<sup>1/</sup> price path beginning FY16, \$5.6B GF Spend. Parnell Work In Progress (WIP)



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The projection will be revisited as conditions warrant.

<sup>1/</sup> The p20 price a case assumes a price path that would have a 20% probability of occurring in any one year observation. It could be considered a low price path for the Fall 2014 forecast.



**EXECUTIVE SUMMARY FY2016 10-YEAR PLAN**

Scenario 3: Revenue@ P20<sup>1/</sup> price path beginning FY16, \$5.6B GF Spend. Parnell Work In Progress (WIP)

<b>Oil Price &amp; Production</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
P20 Fall 2014 forecast ANS West Coast (\$/bbl.)	\$76.31	\$57.72	\$86.66	\$89.06	\$89.20	\$91.25	\$93.25	\$94.33	\$98.25	\$101.37	\$102.69
Fall 2014 forecast (Total ANS production State + Federal ths. bbl./day)	509.5	524.1	534.1	503.5	473.2	435.8	400.4	368.5	342.9	314.7	282.2
<b>Revenue vs. Spending</b> (\$millions)											
General Fund Revenues <sup>2/</sup>	\$2,573.0	\$1,992.2	\$3,070.2	\$3,113.6	\$2,998.3	\$3,072.8	\$2,887.6	\$2,758.3	\$2,815.5	\$2,763.4	\$2,636.7
General Fund Expenses	\$6,105.7	\$5,518.4	\$5,558.3	\$5,567.0	\$5,566.9	\$5,563.2	\$5,573.1	\$5,574.3	\$5,586.8	\$5,601.6	\$5,601.5
<b>Budget Surplus/Shortfall</b>	<b>(\$3,532.7)</b>	<b>(\$3,526.2)</b>	<b>(\$2,488.1)</b>	<b>(\$2,453.4)</b>	<b>(\$2,568.6)</b>	<b>(\$2,490.4)</b>	<b>(\$2,685.5)</b>	<b>(\$2,816.0)</b>	<b>(\$2,771.3)</b>	<b>(\$2,838.2)</b>	<b>(\$2,964.8)</b>
<b>Reserve Balances</b> (\$millions)											
CBRF Main Account Balance End of Year	\$2,622.3	\$2,895.7	\$1,800.0	\$685.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
CBRF Subaccount Balance End of Year	\$6,967.6	\$3,545.7	\$2,426.0	\$1,254.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>CBRF Total</b>	<b>\$9,590.0</b>	<b>\$6,441.4</b>	<b>\$4,226.1</b>	<b>\$1,939.5</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
Statutory Budget Reserve Balance yr. end	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL RESERVES</b>	<b>\$9,590.0</b>	<b>\$6,441.4</b>	<b>\$4,226.1</b>	<b>\$1,939.5</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

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/ The p20 price a case assumes a price path that would have a 20% probability of occurring in any one year observation. It could be considered a low price path for the Fall 2014 forecast.

2/ FY2014 number includes \$2,551.5 GF Unrestricted Revenue forecast plus \$21.5 of funds reappropriated and/or carried forward from fiscal year 2014 for total of \$2573.0