ALASKA’S ECONOMY

A bright future

...but are we prepared?

Mike Navarre, Commissioner
Department of Commerce, Community, and Economic Development

Pat Pitney, Director
Office of Management and Budget
DCCED’s mission is to promote a healthy economy, support strong communities, and protect consumers in Alaska.
What’s happening in our economy?

still

Does Alaska need a fiscal plan?
The Alaska Economy

Alaska GDP: 10-Year Trend (Millions of dollars)

Nominal GDP
Real GDP (2009 Dollars)

Source: U.S. Bureau of Economic Analysis - 2017 data is preliminary and may change.
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
Nominal GDP of All Other (non-petroleum) Private Industries, 1997-2015

- Mining (except oil and gas)
- Education, health care, social assistance
- Other services
- Arts, entertainment, recreation, accommodation, food
- Professional and business services
- Finance, insurance, real estate, rental and leasing
- Information
- Transportation and warehousing
- Retail trade
- Wholesale trade
- Manufacturing
- Construction
- Utilities
- Agriculture, forestry, and fishing

Source - US. Bureau of Economic Analysis
The Disconnect

Our economy is diversifying – but our revenues are not

Source - US. Bureau of Economic Analysis, Legislative Finance
We don’t need a fiscal plan because....

“The status quo is okay, oil and gas will save us”

“Cutting government will save us”

Let’s review these statements
Can’t we just wait on oil and gas development?

or

Oil price increases?
Good news in oil and gas

Modest increases in production
North Slope oil production forecast in 2018 at 533,000 barrels/day — up for the third year in a row

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

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

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

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

LNG Project
The long-awaited North Slope gas line project could add to Alaska’s success stories in the 2020s
Maybe even better than good

4. ANWR Potential
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6. LNG Project
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All of this will require **billions** in private investment. When making a decision, investors look closely at profit potential and **fiscal stability**
Alaska’s Competition

Active oil and gas wells February 2017


PERMIAN BASIN
50-115 BBOE

BAKKEN
20-40 BBOE

MARCELLUS
>400 TCFG

EAGLE FORD
35 – 60 BBOE
Alaska’s Competition

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

Source: Washington Post, February 2017
Alaska’s Competition

U.S. Crude Oil Production
Thousand barrels of oil per day, 2007-2017

Source: U.S. Energy Information Administration
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

Fiscal Year


Thousand bbls/day

0 400 800 1200 1600 2000

Prudhoe Bay  Kuparuk  PBU Satellites  GPMA  Endicott  Kuparuk Satellites  Alpine  Offshore  Point Thomson  New Fields
How does Alaska stack up?

From an investors perspective

- A growing and diversifying economy
- Promising investment opportunities

- Uncertainty
- Annual political battles over deficit and taxes
- Multiple years of drawing down savings
- $2.3 billion annual deficit*
- Overreliance on oil and gas revenues
Private Construction spending in 2017 is supposed to be around 4 billion dollars. Using the 5 to 15% estimated by Jens (2013), we would conclude that the direct effects of policy uncertainty is costing the state somewhere between 200 and 600 million in private capital spending. The decline in spending due to policy uncertainty would indicate that waiting is not a costless option.

– Mouchine Guettabi, PhD, ISER (February 2018) What do we know to date about the Alaska recession and the fiscal crunch?
There are many opportunities to invest our communities
The Disconnect

Our economy is diversifying – but our revenues are not.
“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real and significant disincentive to investment, both within the oil and gas industry and across Alaska as a whole.
“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”

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2. “Cutting government will save us”
Can’t we just cut expenses more?
$1.801 billion
Unrestricted petroleum revenue

$536 million
Non-petroleum unrestricted revenue (e.g. fishing, mining, motor fuel, alcohol, tobacco and marijuana taxes, corporate income taxes)

Source – AK Department of Revenue
Cuts have real impacts on services

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

 Millions

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Formula</td>
<td>$1,300</td>
</tr>
<tr>
<td>Medicaid and Other Formula</td>
<td>$800</td>
</tr>
<tr>
<td>H &amp; S Non-Formula</td>
<td>$800</td>
</tr>
</tbody>
</table>

Source – AK OMB
Unrestricted General Fund Spending: $5.8 billion in FY2019

- PFD, $1,023
- K12 + University, $1,649
- Capital, $189
- Statewide items, $638
- Health and Social Services, $1,141
- Other Agencies, $217
- Transportation, $180
- Public Safety Agencies, $609
- Natural Resource Agencies, $142
- Other Agencies, $217
- Capital, $189
- FY 19 UGF Spending

ALASKA DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
- There are 3,000 fewer state jobs (including University) in July of 2018 compared to July of 2014
- State government employment has been reduced to 2001 levels

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section 8/21/18
Closed State Facilities
State of Alaska closures and reductions from 2015 to 2018

Legend
- DOT Maintenance Facilities
- Job Centers
- Public Health Centers
- Trooper Posts
- Other State Services
- Employee Reductions

Employee Reductions by Region
Northern - 0
Interior - 900
Anchorage/Mat-Su - 900
Gulf Coast - 150
Southwest - 50
Southeast - 750

Anchorage
- Anchorage DMV
- Anchorage AVTEC Office
- UAA Engineering Greenhouse

Seward Closures
- Seward Job Center
- Seward Public Health Center
- Seward DOT Maintenance Facility

Fairbanks Closures
- Fairbanks Vital Statistics Center
- Northern Regional Fire Training Office
- UAF - Stevens Residence Hall

Juneau Closures
- Juneau Ellsworth House
- Juneau Surplus Shop
- Juneau Child Support Office

Updated 8/3/2018
State Spending – capital budget

Capital Spending – FY11 to FY19
Dollars in millions, UGF
FY2011 – FY2018 State Revenues and Expenditures
(Excluding PFD payments)
FY2011 – FY2018 State Revenues and Expenditures (Excluding PFD payments)
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>
</tbody>
</table>

Total | $983 million
“We don’t need a fiscal plan because....”

1. “The status quo is ok, oil and gas will save us”
   We have to compete with larger more accessible plays throughout the country and world. Our fiscal situation is a real disincentive to investment.

2. “Cutting government will save us”
   Cuts have real impacts that must be weighed. Cutting government means cutting services, cutting local funding, and real economic impacts.
The perfect solution?
Legislature passed SB 26 Alaska Permanent Fund Protection Act

SB 26 reduces this year’s deficit from $2.4 billion to $700 million

S&P upgraded Alaska’s debt outlook from Negative to Stable on June 13

S&P stated that the upgrade reflects recent fiscal reforms utilizing the Permanent Fund Earnings Reserve
We have made progress
Consumer confidence is looking up

Alaska Confidence Index by Quarter

Blue Skies

Mixed Reviews

Lack of Hope

Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4  Q1  Q2  Q3  Q4
2014 2015 2016 2017 2018
But the disconnect still exists

While the state has reformed its finances, we recognize the uniqueness of the state’s revenue profile that makes it subject to economic volatility more than its peers, either from the price of oil or investment returns of its Permanent Fund. . . .

. . . The reliance on such economically sensitive revenue will likely make it more prone to future fiscal pressure.

– S&P Release 18-077 Global Alaska Credit Outlook
The Disconnect

Our economy is diversifying – but our revenues are not.

Source - US. Bureau of Economic Analysis, Legislative Finance
We have made progress

Consumer confidence is up

There is still a gap remaining...

We need to start investing in Alaska...

☐ Communities
☐ Schools
☐ Transportation
☐ Public Safety
Our future is bright...

...if we fix our flawed economic foundation.
For more information …

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