



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

ALASKA'S ECONOMY

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

Mike Navarre, Commissioner (former)
Department of Commerce, Community and
Economic Development



Our future is bright...





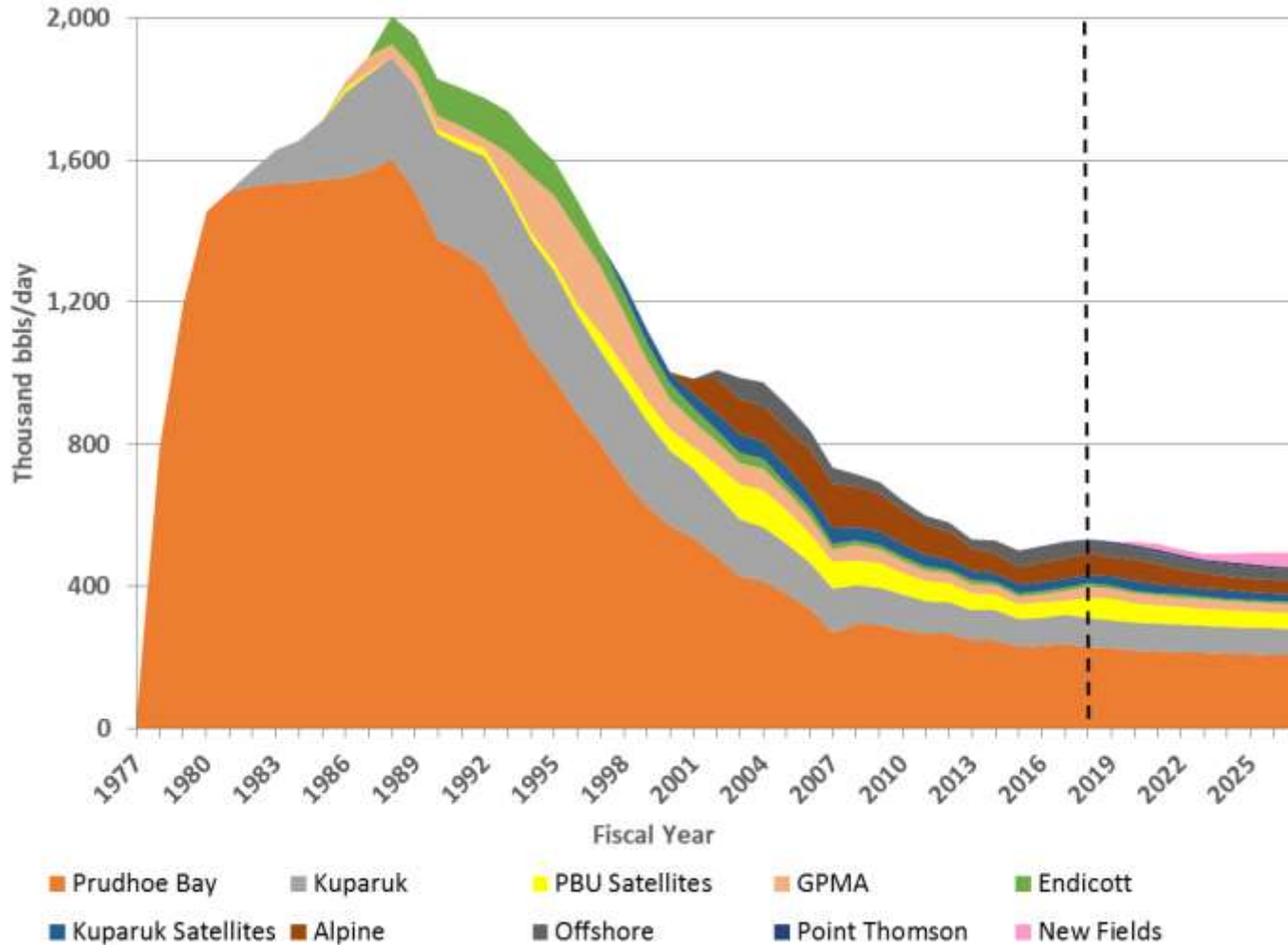
What's happening in our economy?

Does Alaska ^{*still*} need a fiscal plan?



Can we rely solely on oil and gas?

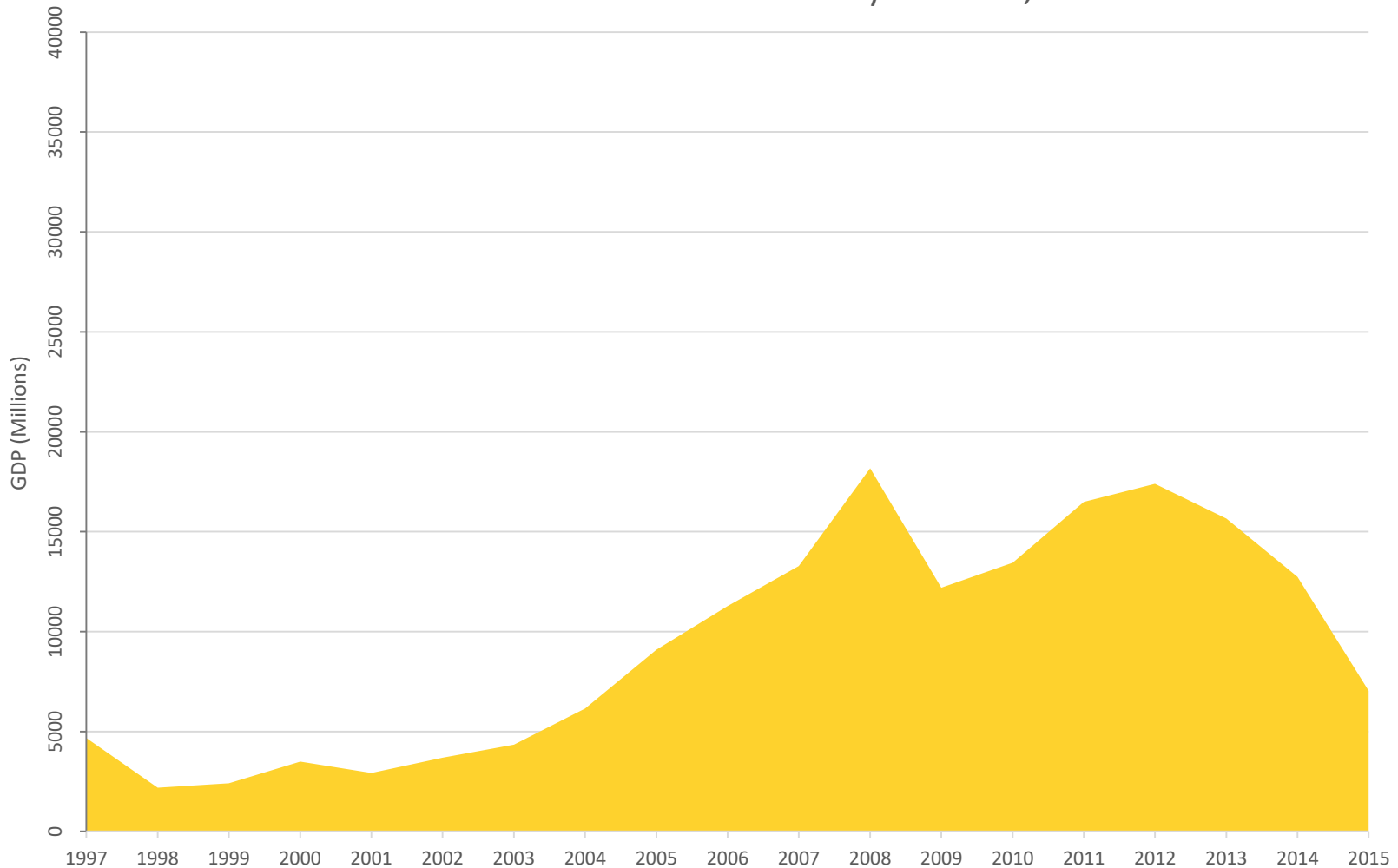
Production Forecast: ANS History and Forecast by Pool





Oil and Gas GDP has grown, but is volatile

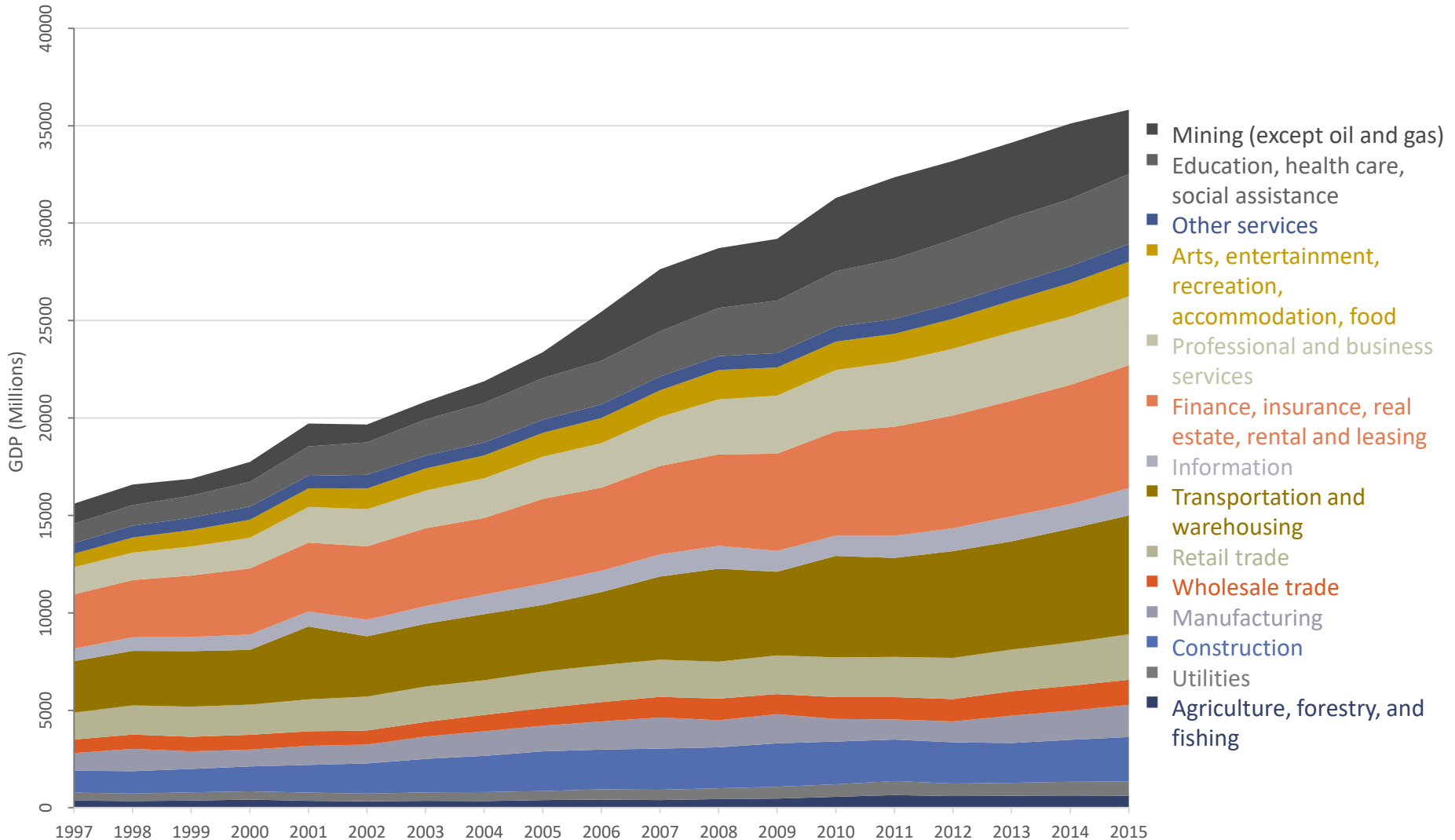
Nominal GDP of Oil and Gas industry in Alaska, 1997-2015





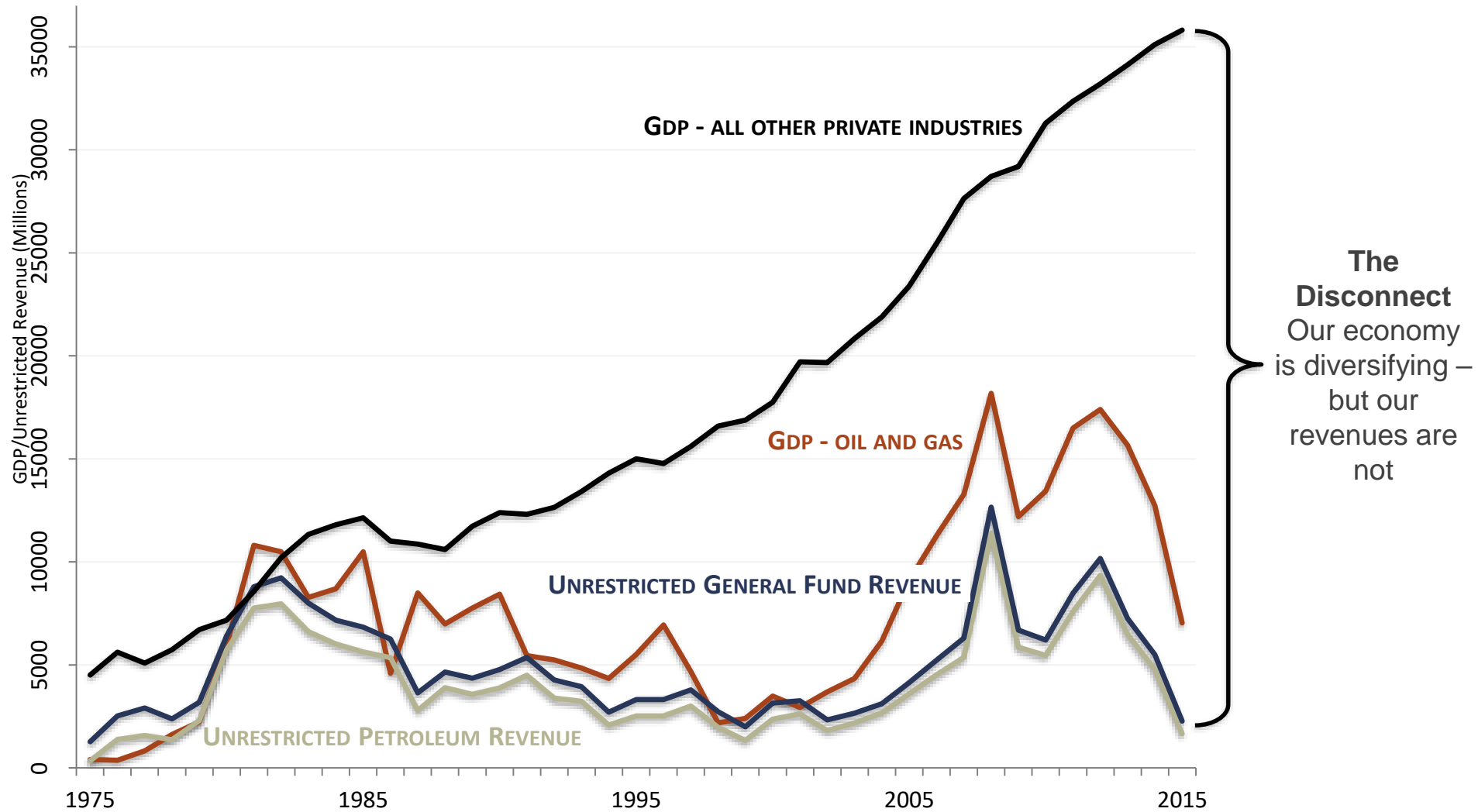
Other private sector industries growing steadily

Nominal GDP of All Other (non-petroleum) Private Industries, 1997-2015





The Disconnect





Misconceptions

“We don’t need a fiscal plan because....”

- 1. “The status quo is ok, oil and gas will save us”**
- 2. “Economic development will save us”**
- 3. “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..

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





Maybe even better than good..

4. ANWR Potential

First ANWR lease sale could occur by 2021-2022

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

5. No

With
discov
has de

6. LNG Project

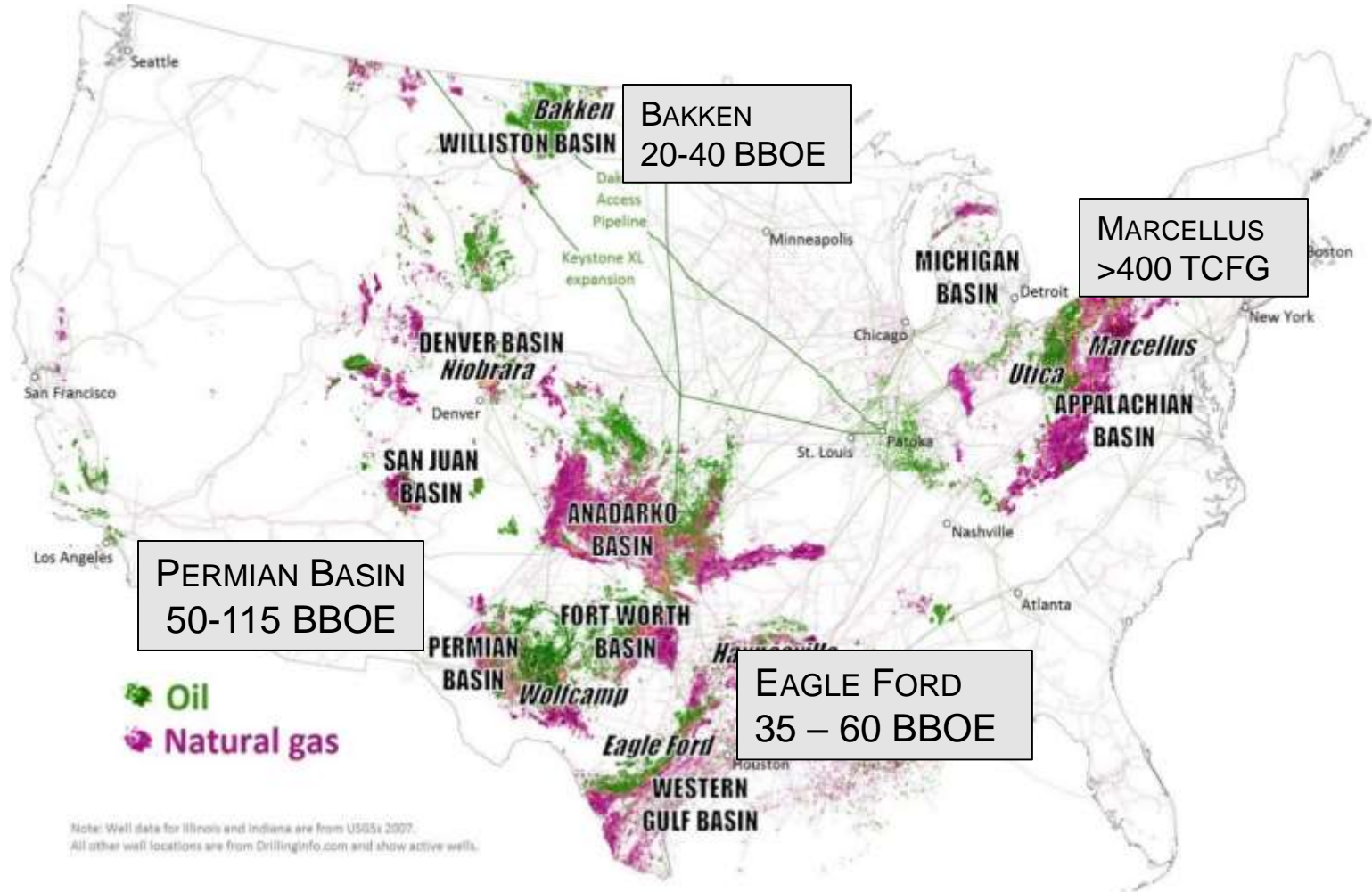
The long-awaited North Slope gas line project could add to Alaska's success stories in the 2020s





Alaska's competition

Active oil and gas wells February 2017

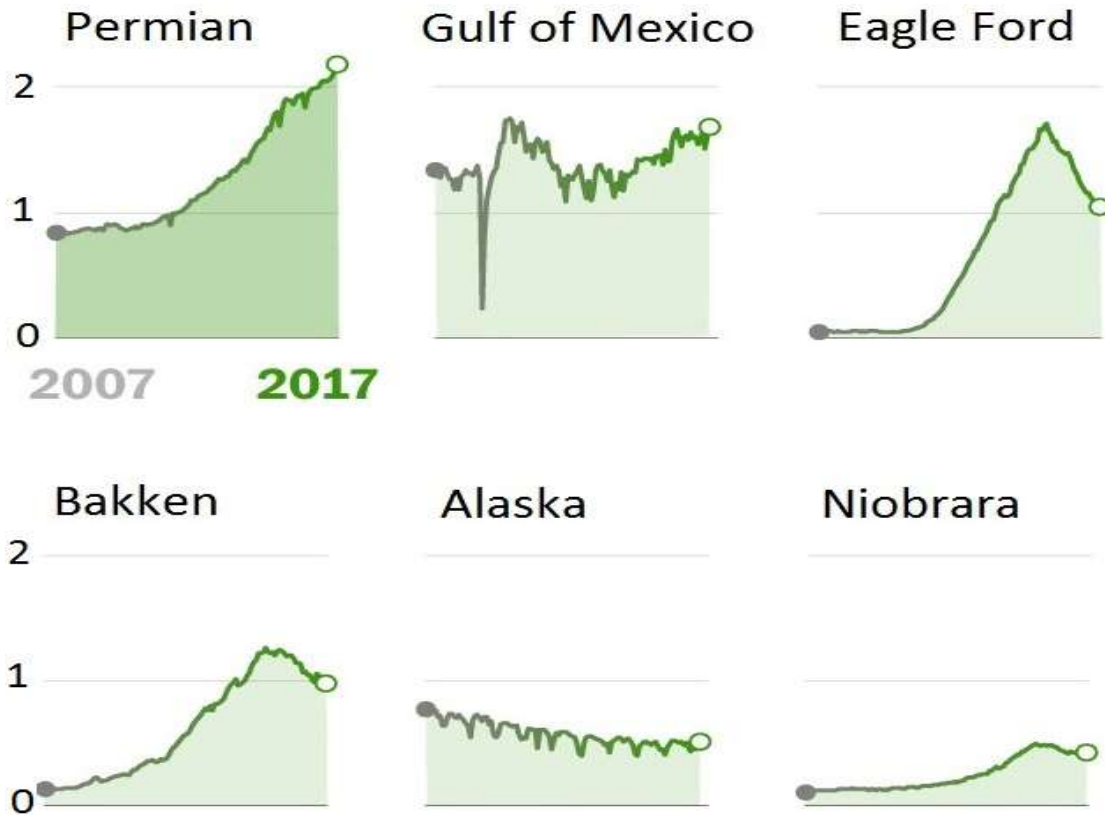




Alaska's competition

Oil Production by Geologic Region

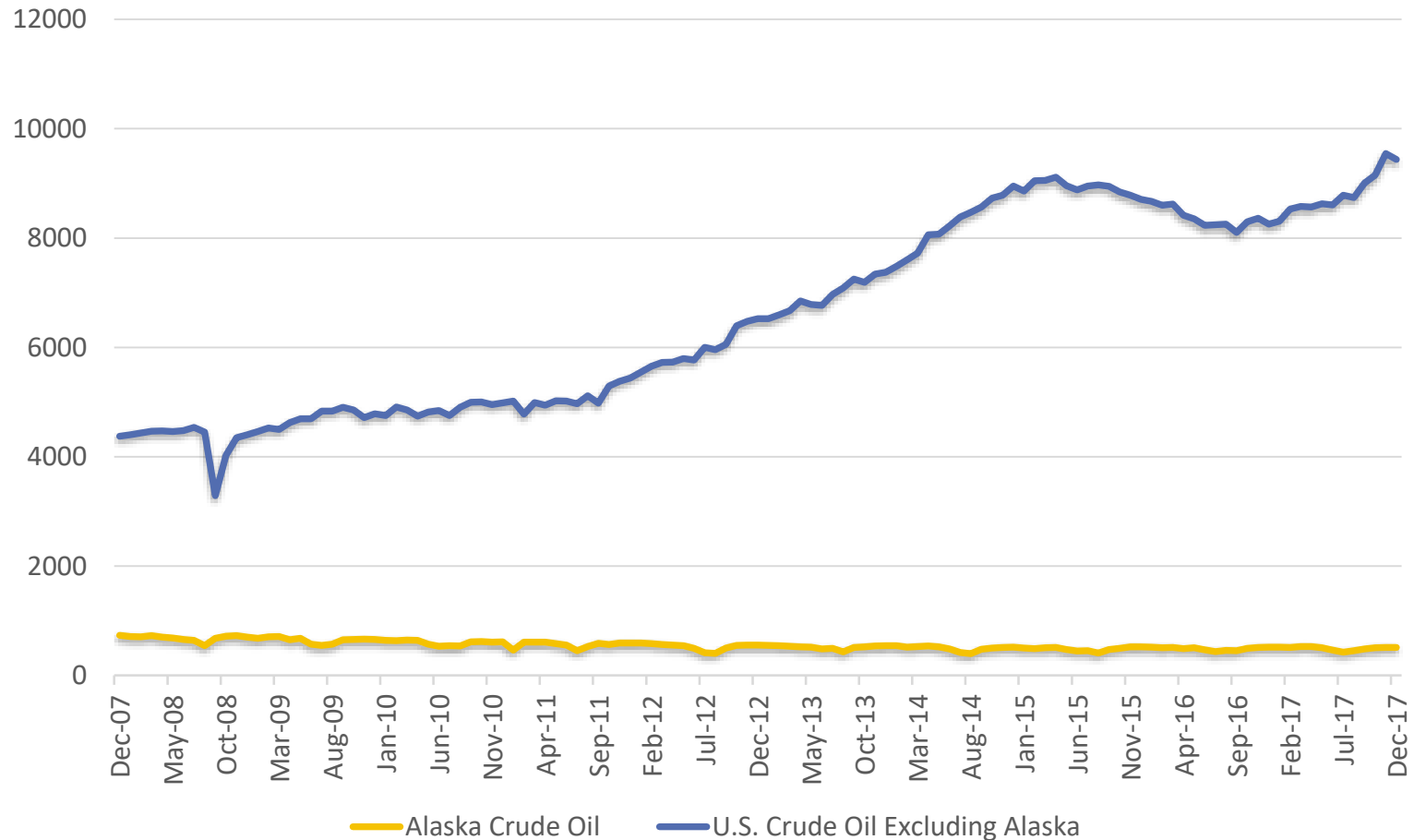
Millions of barrels of oil production per day, 2007-2017





Alaska's competition

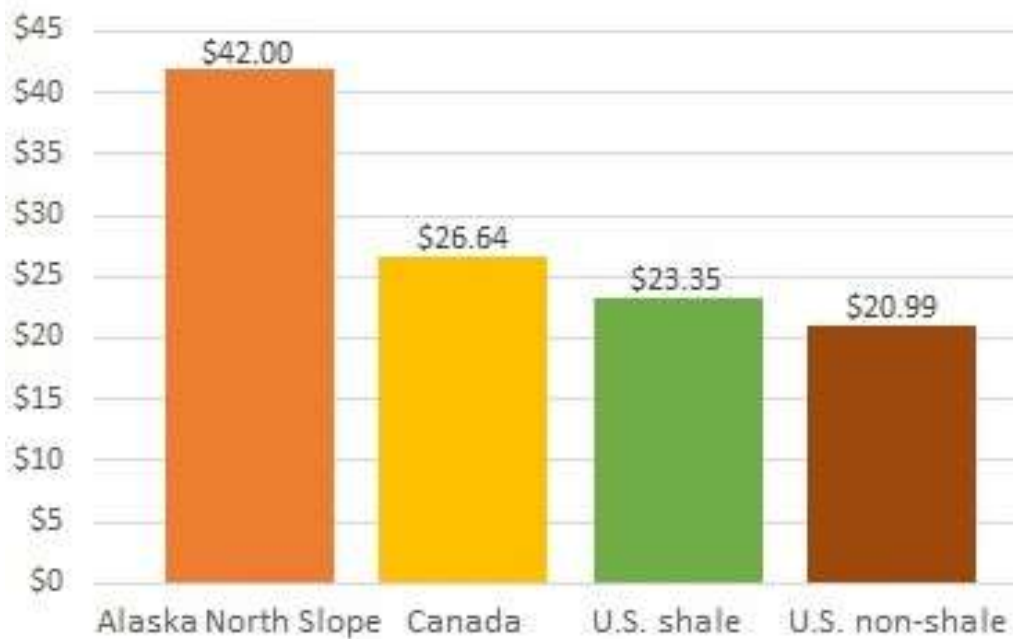
U.S. Crude Oil Production Thousand barrels of oil per day, 2007-2017





Are we competitive?

Production costs per barrel



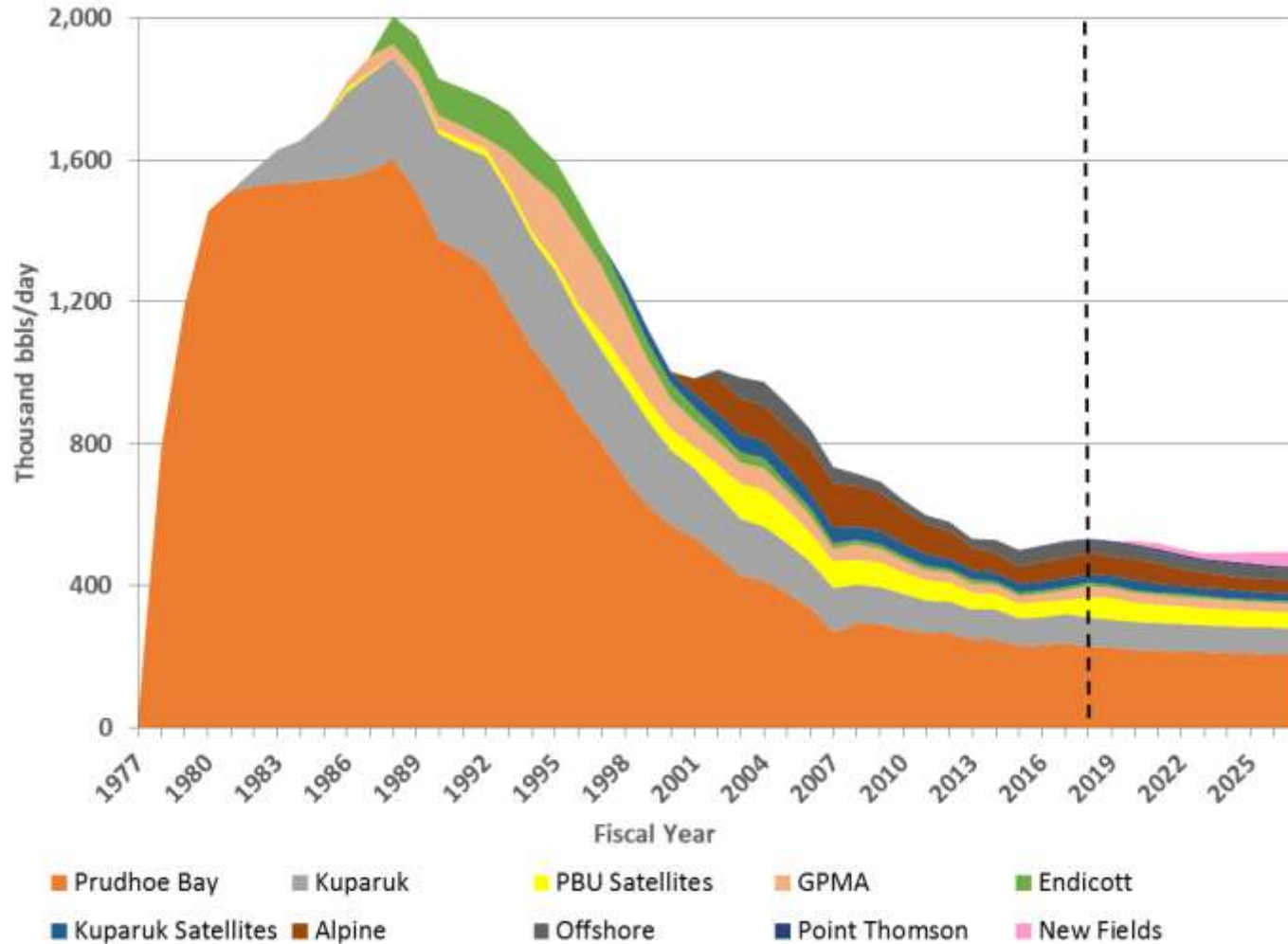
All numbers 2016. Cost is average of all barrels produced, including operating and capital expenses, transportation, royalty expenses, production and property taxes.

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





“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.



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2. “Economic development will save us”



Is economic development alone the solution?



It's about supporting development!

Economic development is of vital importance to Alaska

The purpose of this scenario is to illustrate a fundamental flaw in our revenue structure – the disconnect between development and our ability to fund the services that support it. Talking about the disconnect is not anti-development, doing nothing to fix it is.



Economic development scenario

1. Hypothesis: A company proposes a major investment in the Kenai Peninsula Borough
2. Evaluation: It must be economically viable for both the state and Kenai Peninsula Borough
3. Criteria: The project must pay its own way — no subsidies



Hypothetical new factory in the KPB



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



4,000 new residents, some with families



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



Kenai Peninsula Borough - 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



\$14 million a year in
increased school funding



\$2 million a year in
borough sales taxes



\$8 million a year in
borough areawide
property taxes on homes



\$10 million a year in
borough areawide property
taxes on factory investment



Kenai Peninsula Borough - 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



\$14 million a year in increased school funding

\$6 million available for other expenses



\$10 million a year in borough areawide property taxes on factory investment

times



Kenai Peninsula Borough - the math



5,000 new jobs



\$14 million a year in increased school funding



4,000 new families



2,500 new students



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



\$1 billion capital investment

**Decision:
Yes! The borough tax base covers the costs of the services that result from the development.**



\$10 million a year in borough areawide property taxes on factory investment



State - 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





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

\$4 million a year in higher expenses for troopers, highways, courts, prisons, agency operations, etc.

\$22.5 million a year in increased school funding costs (25% gain in enrollment)



State – 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

\$26.5 million in additional expenses
\$0 in new revenue

\$4 million a year in higher

operators,

prisons,

s, etc.

year in

funding costs

(10% gain in enrollment)



State- the math



5,000 new jobs



4,000 new families



2,500 new students



4,000 new housing units
\$200,000 per unit



\$1 billion capital investment

\$4 million a year in higher

operators,

prisons,

s, etc.

year in











funding costs

(ment)

Decision:
The state budget would increase without any new revenues to support those services



Across communities, it's the same

| Alaska Community | Local Impact | State Impact |
|------------------------------|---|--|
| Kenai Peninsula Borough | + 6M  | -26.5M  |
| Fairbanks North Star Borough | +12M  | -30.M  |
| Mat-Su Borough | +20M  | -27M  |
| City and Borough of Juneau | +13M  | -25M  |
| Municipality of Anchorage | +9M  | -20M  |



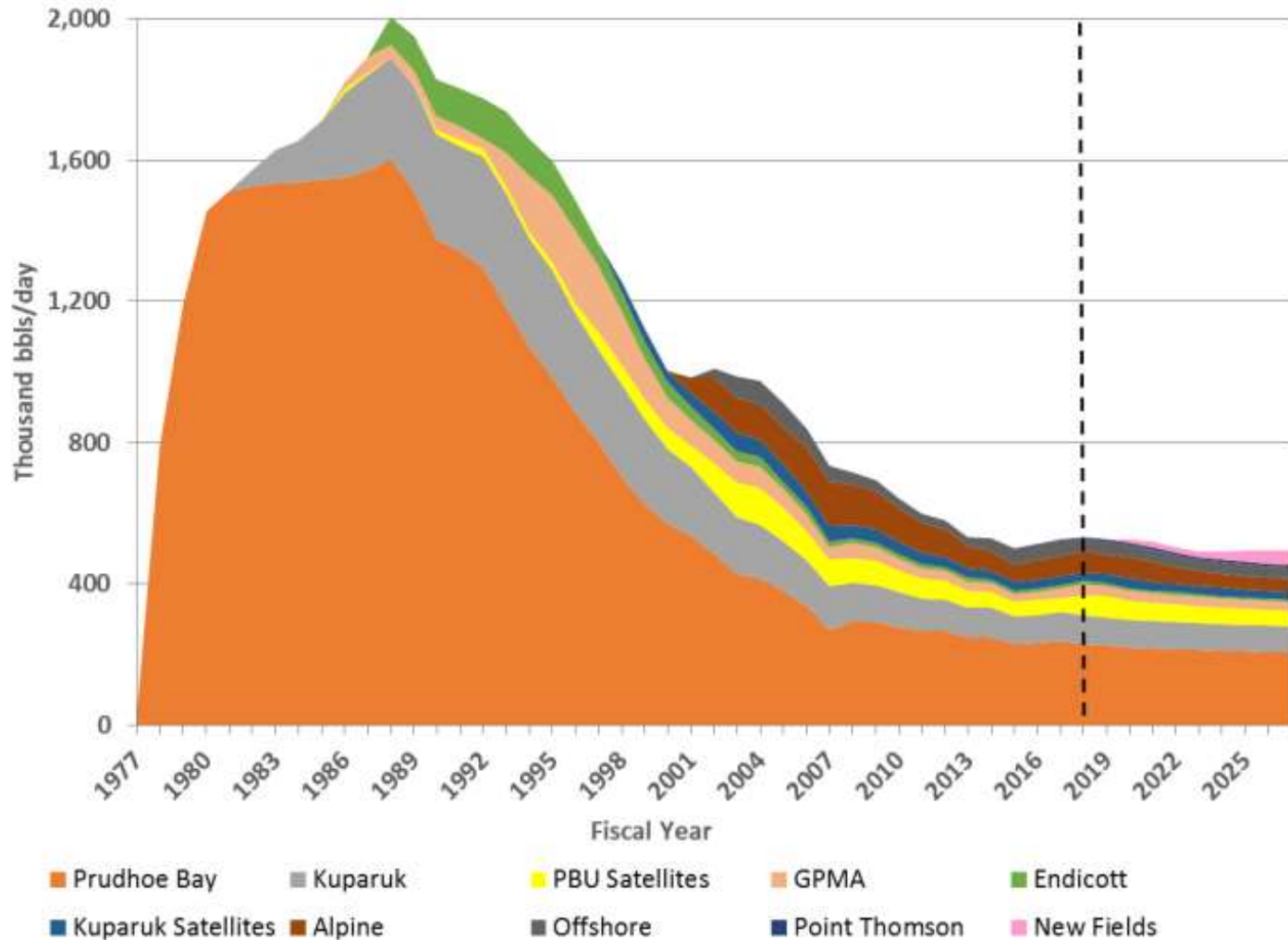
That was a hypothetical scenario

**...but diversifying Alaska's economy is
not hypothetical...**



Can we rely solely on oil and gas?

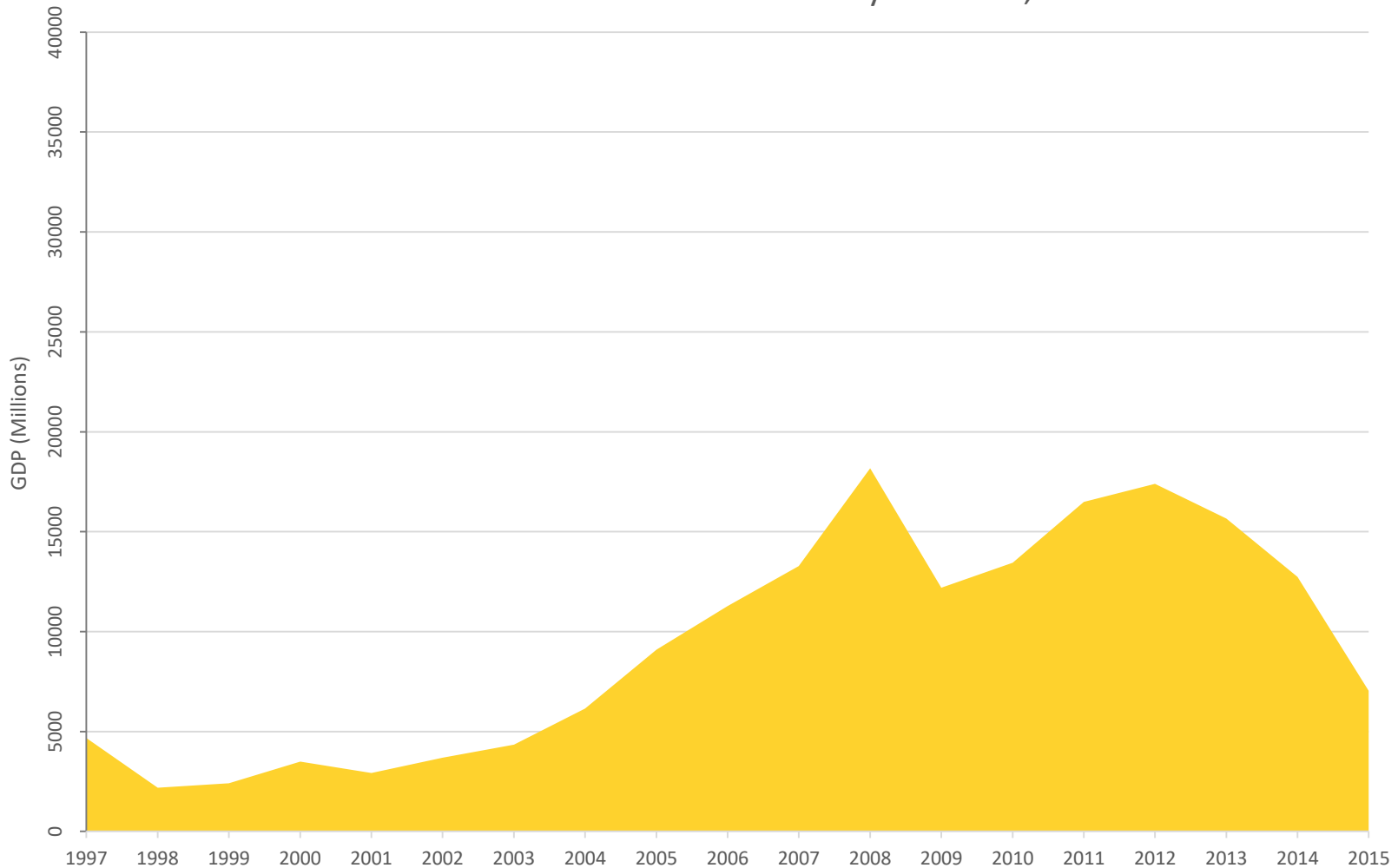
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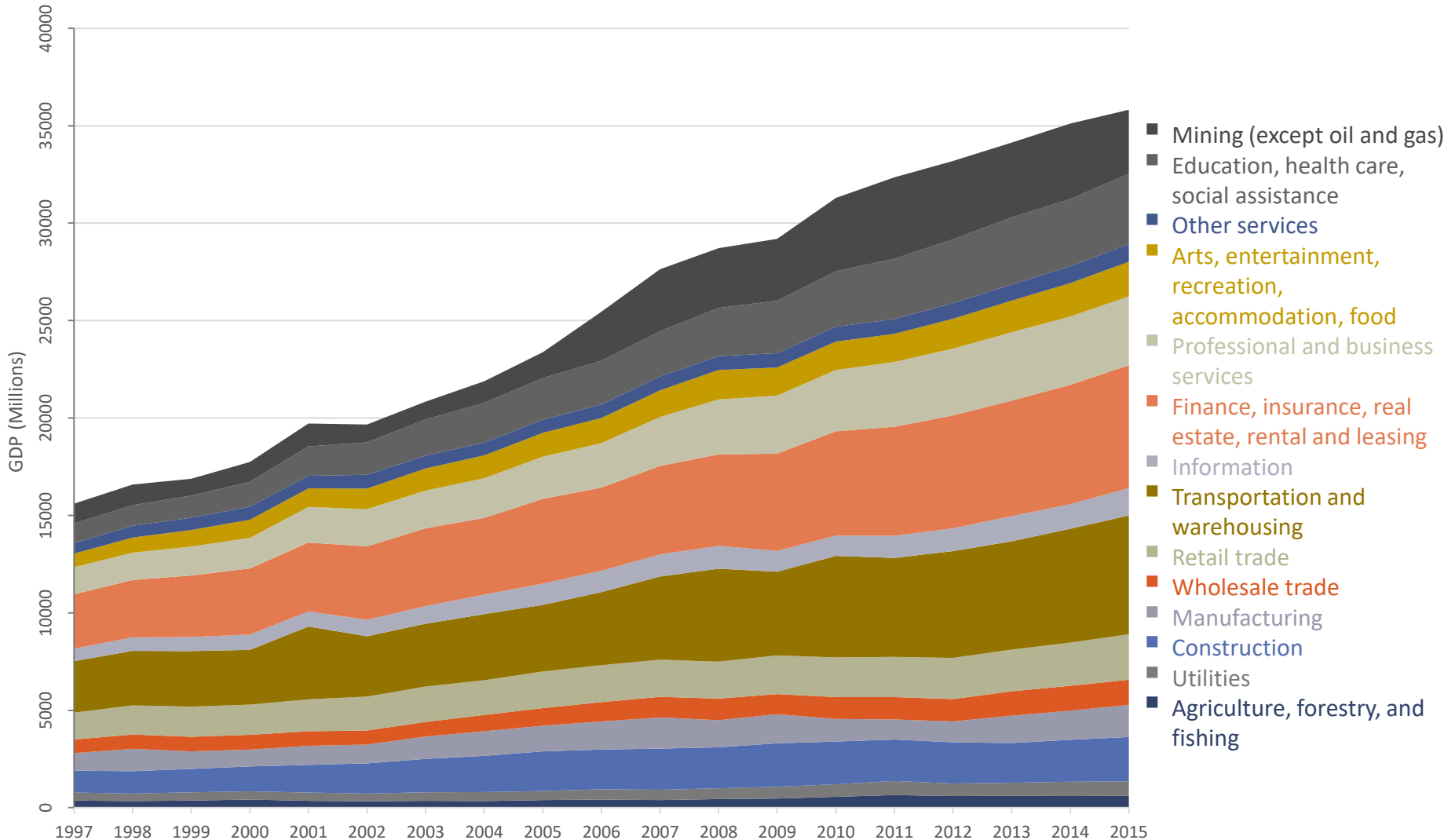
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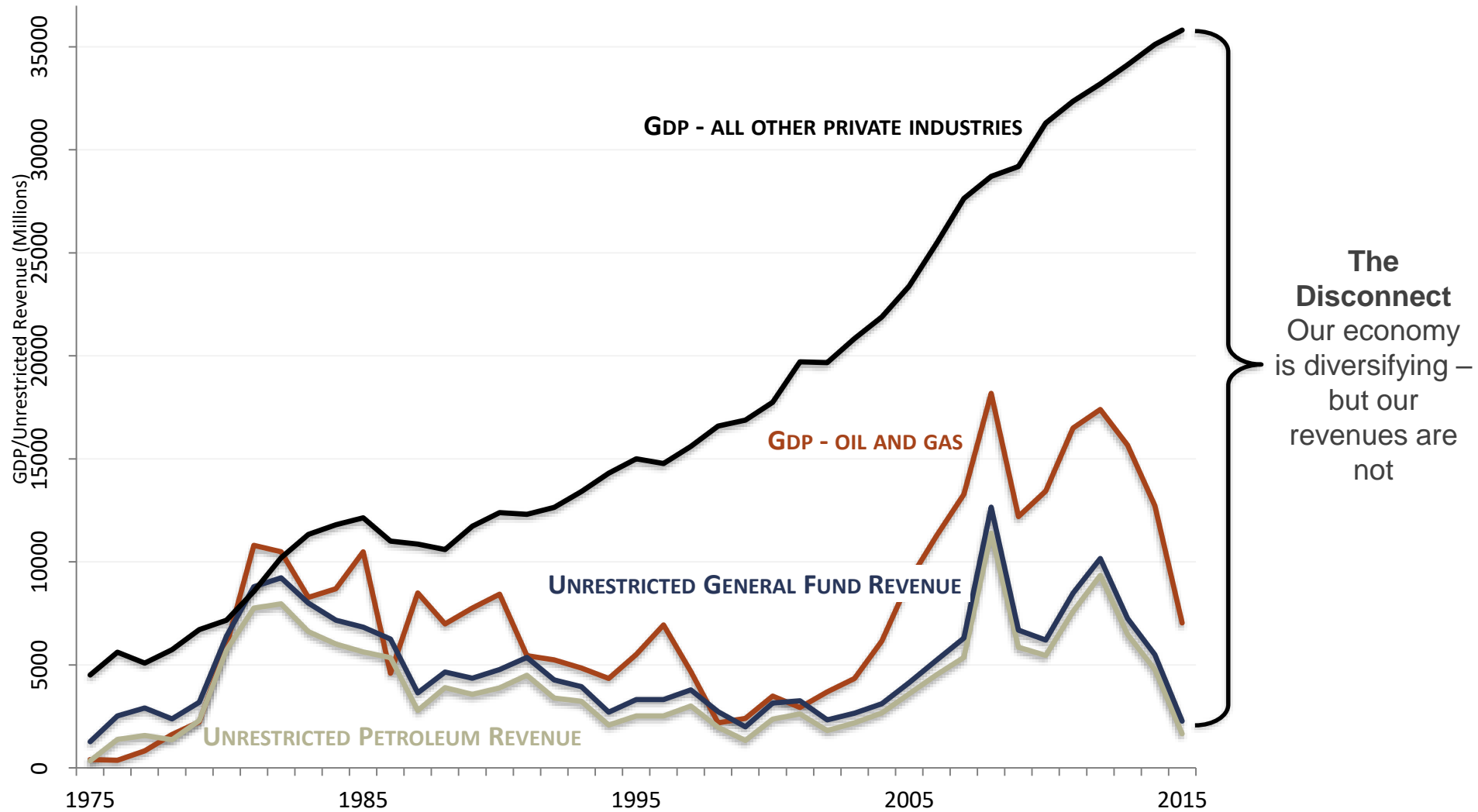
Other private sector industries growing steadily

Nominal GDP of All Other (non-petroleum) Private Industries, 1997-2015





The Disconnect



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.

2. “Economic development will save us”

The state needs to recognize the costs associated with economic development and determine how we’re going to pay for them. Our economy is developing and diversifying, our revenues are not.



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3. “Cutting government will save us”



**Can't we just cut expenses
more?**



FY18 state revenues

\$1.801 billion

Unrestricted petroleum revenue

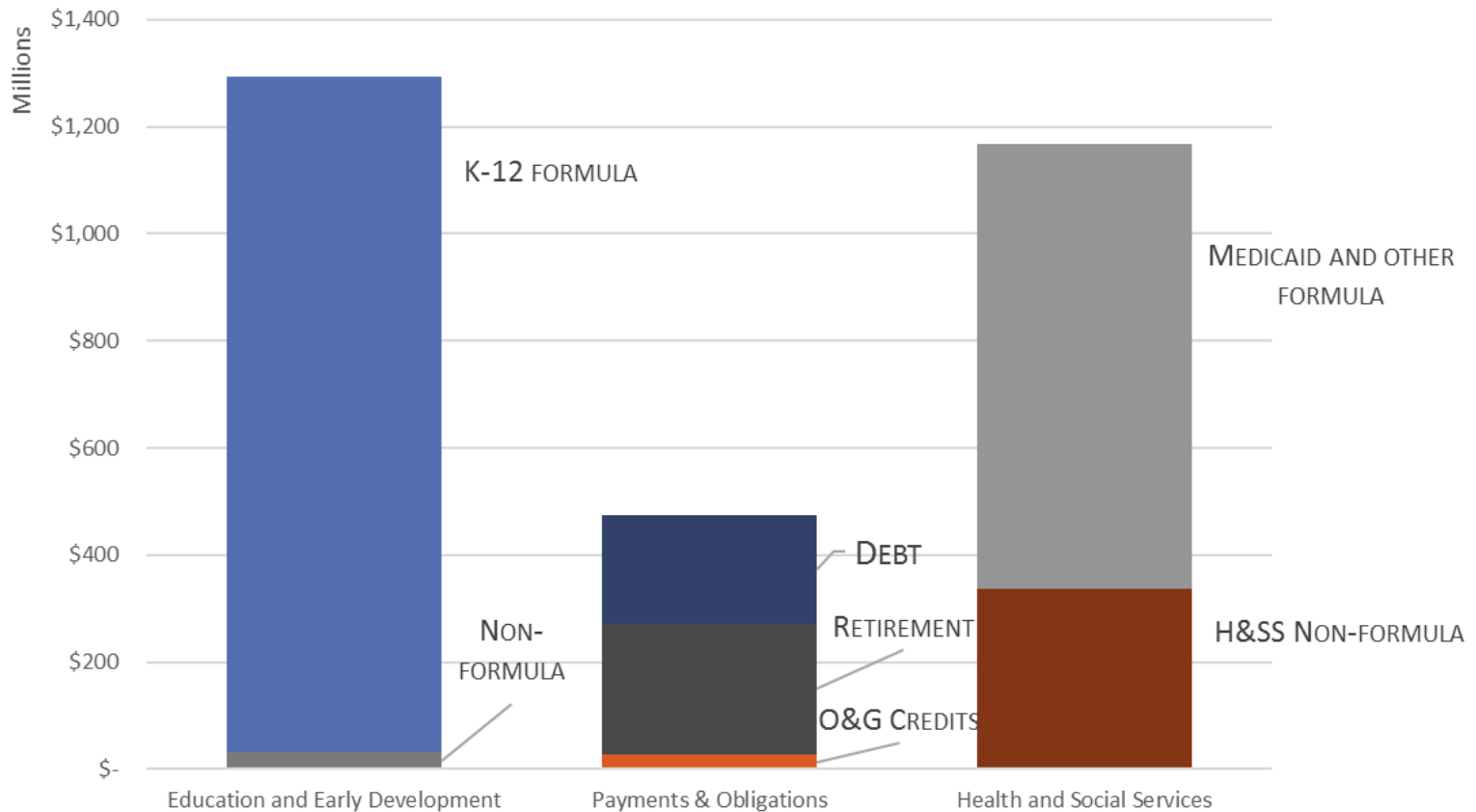
\$536 million

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



Cuts have real impacts on services..

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





State funds matter locally

Municipalities and schools depend on state help

| <u>Kenai Peninsula Borough and School District</u> | <u>Fiscal Year 2017</u> |
|--|-------------------------|
| Municipal community assistance | \$1.9 million |
| State reimbursement of school bond debt | \$2.3 million |
| State assistance for retirement liability | \$9.1 million |
| Foundation formula funding K-12 schools | \$81.6 million |
| Pupil transportation reimbursement | \$8.1 million |

\$103 million state funds for Kenai Peninsula Borough



State funds matter locally

Municipalities and schools depend on state help

| <u>Local Governments</u> | <u>Fiscal Year 2017</u> |
|------------------------------|------------------------------|
| Kenai Peninsula Borough | \$103 million |
| Fairbanks North Star Borough | \$155 million |
| Mat Su Borough | \$223 million |
| City and Borough of Juneau | \$59 million |
| Municipality of Anchorage | \$443 million |
| Total | <u>\$ 983 million</u> |



“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. “Economic development will save us”

The state needs to be able to cover the costs associated with development. Our economy is developing and diversifying, our revenues are not.

3. “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?





The options...



Budget Cuts?

- Easier said than done
- Priorities
- Philosophical differences
- Rhetoric
- Negative economic impacts

Taxes?

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



Permanent Fund Earnings?

- Public Perceptions
- Political consequences
- Impacts to Permanent Fund growth
- Impacts to PFD
- Negative economic impacts

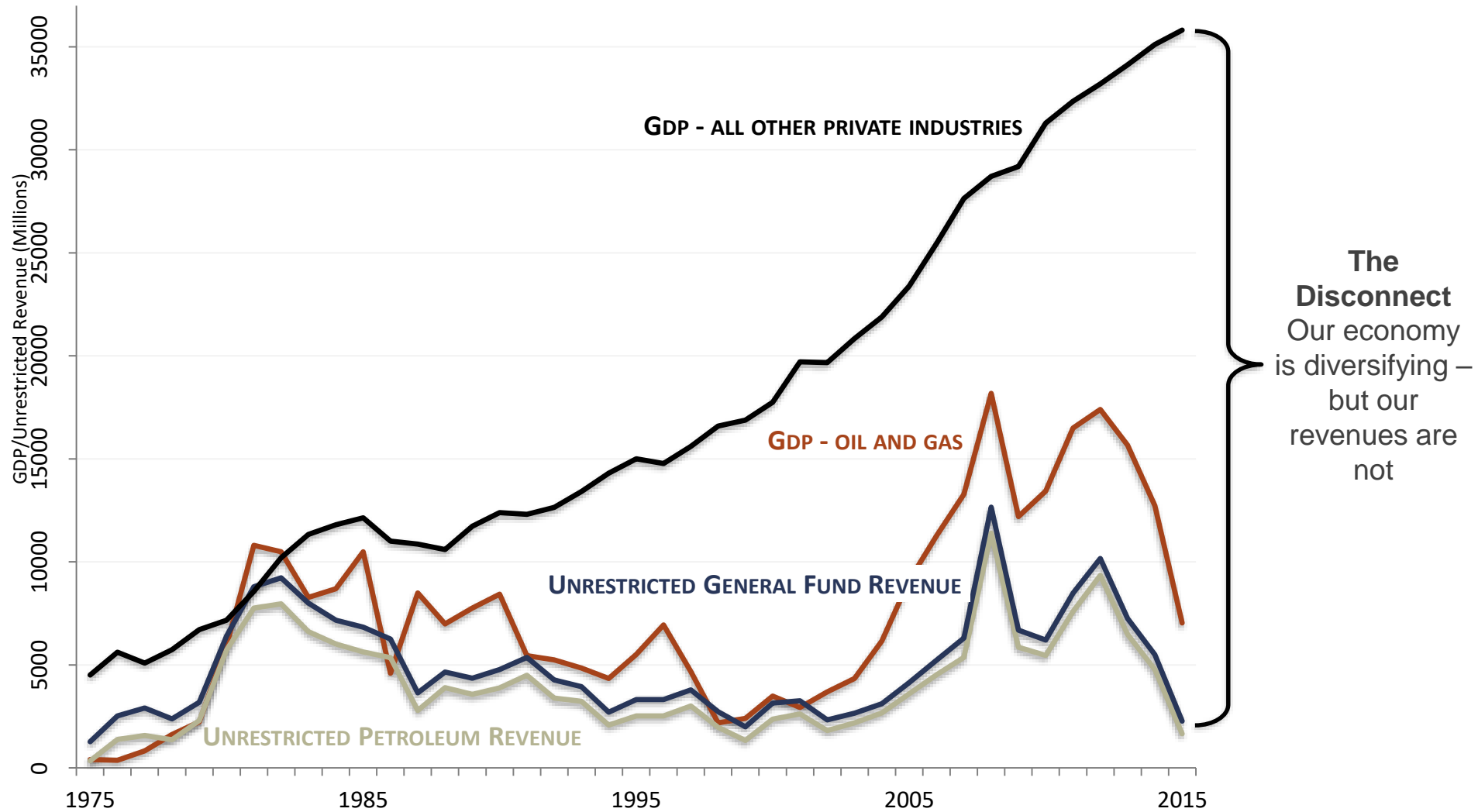


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The Disconnect
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For more information ...

Contact our office:

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and Economic Development**

Commissioner Mike Navarre (former)

**Angela Ramponi, Policy Analyst (former)
Office of the Commissioner**