

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

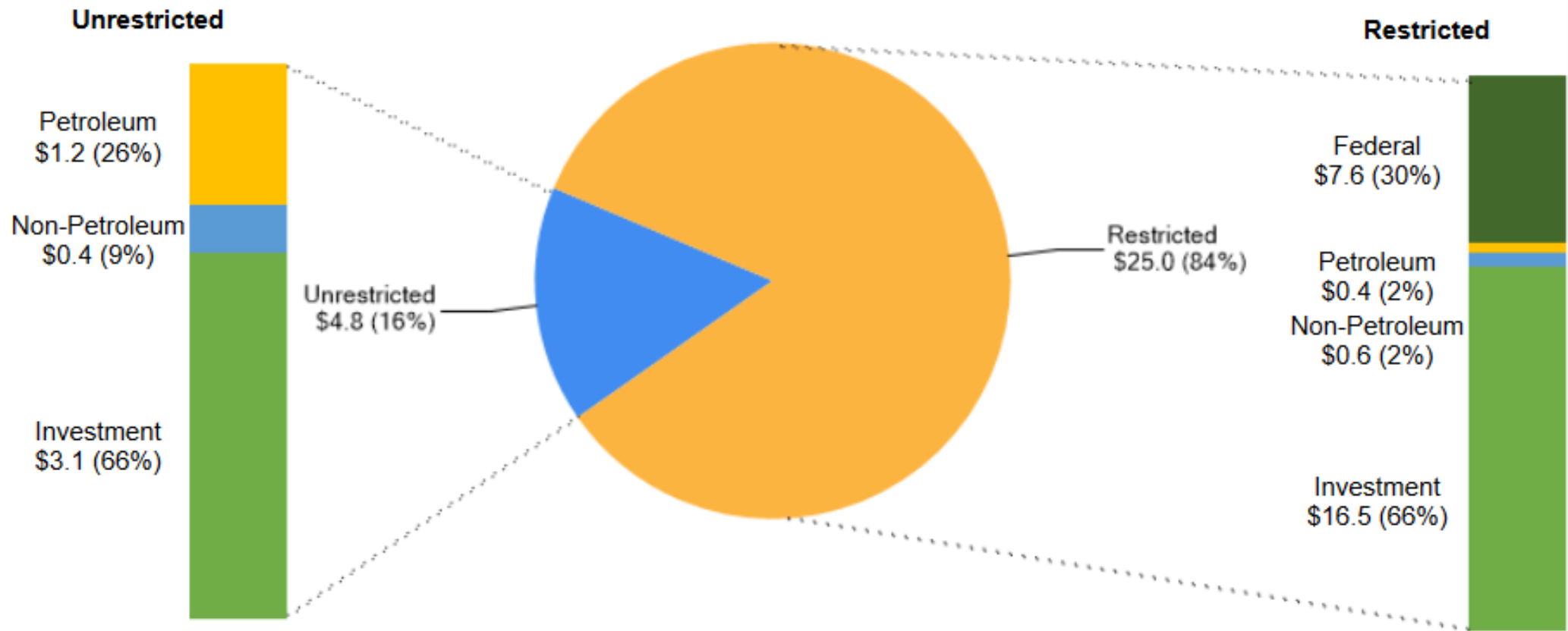
SUSTAINABLE GOVERNMENT

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

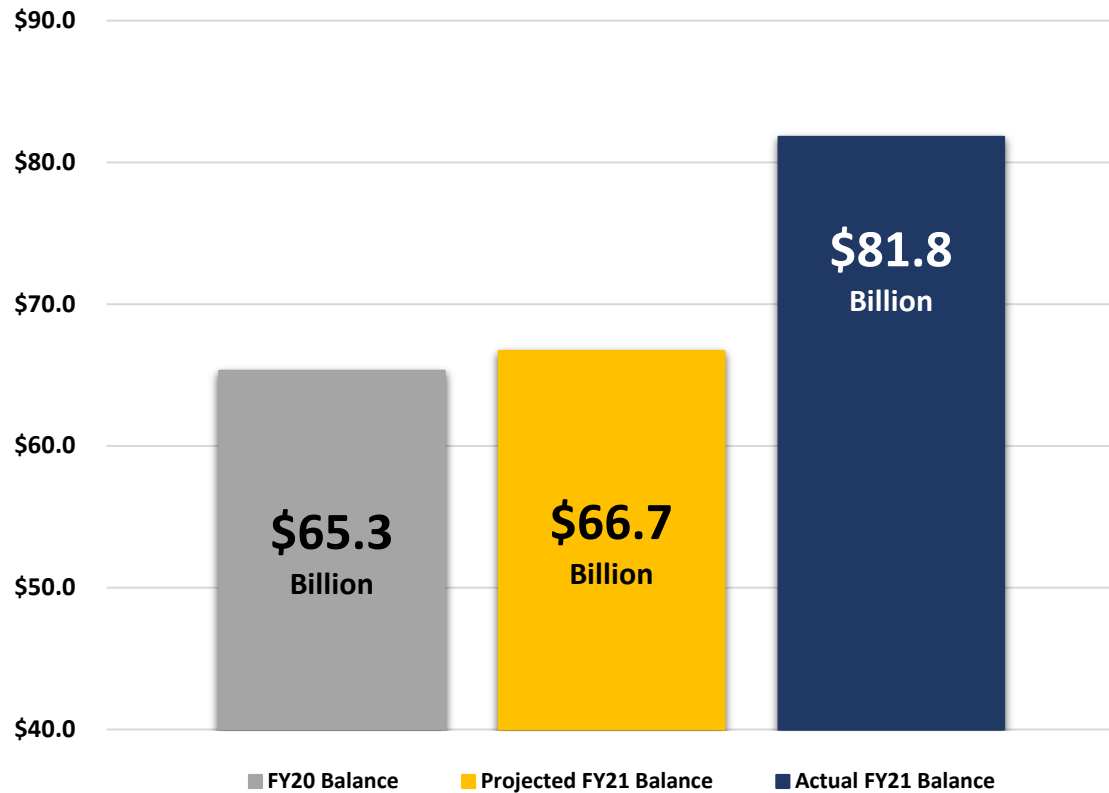
Fiscal Year 2021 – Historic State Revenues



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

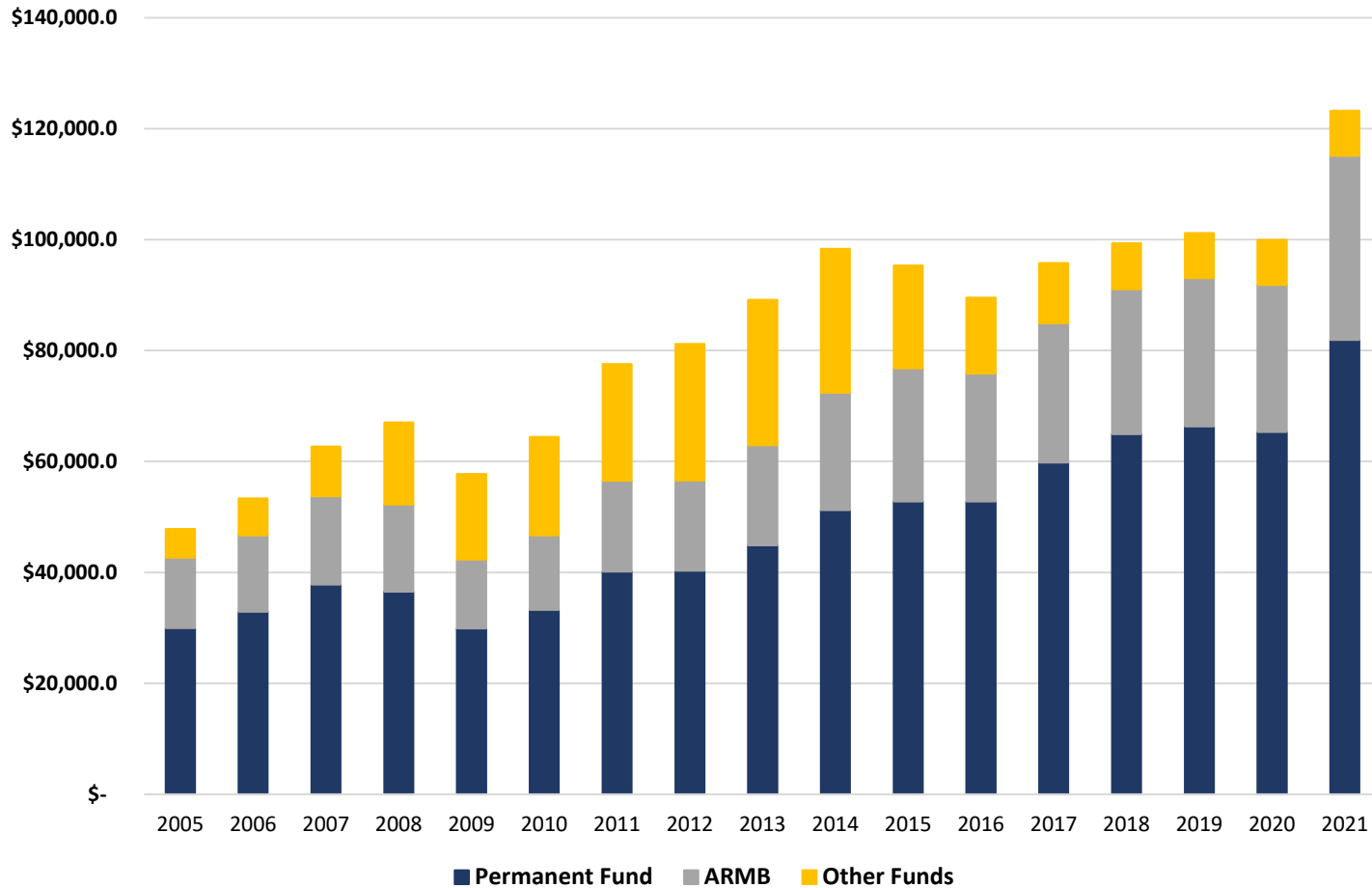
Annualized Return Since Inception
9.12%

FY21 Investment Earnings
\$19.6 Billion

FY21 Total Return
29.73%

Fiscal Year 2021 – Historic Combined Investment Assets

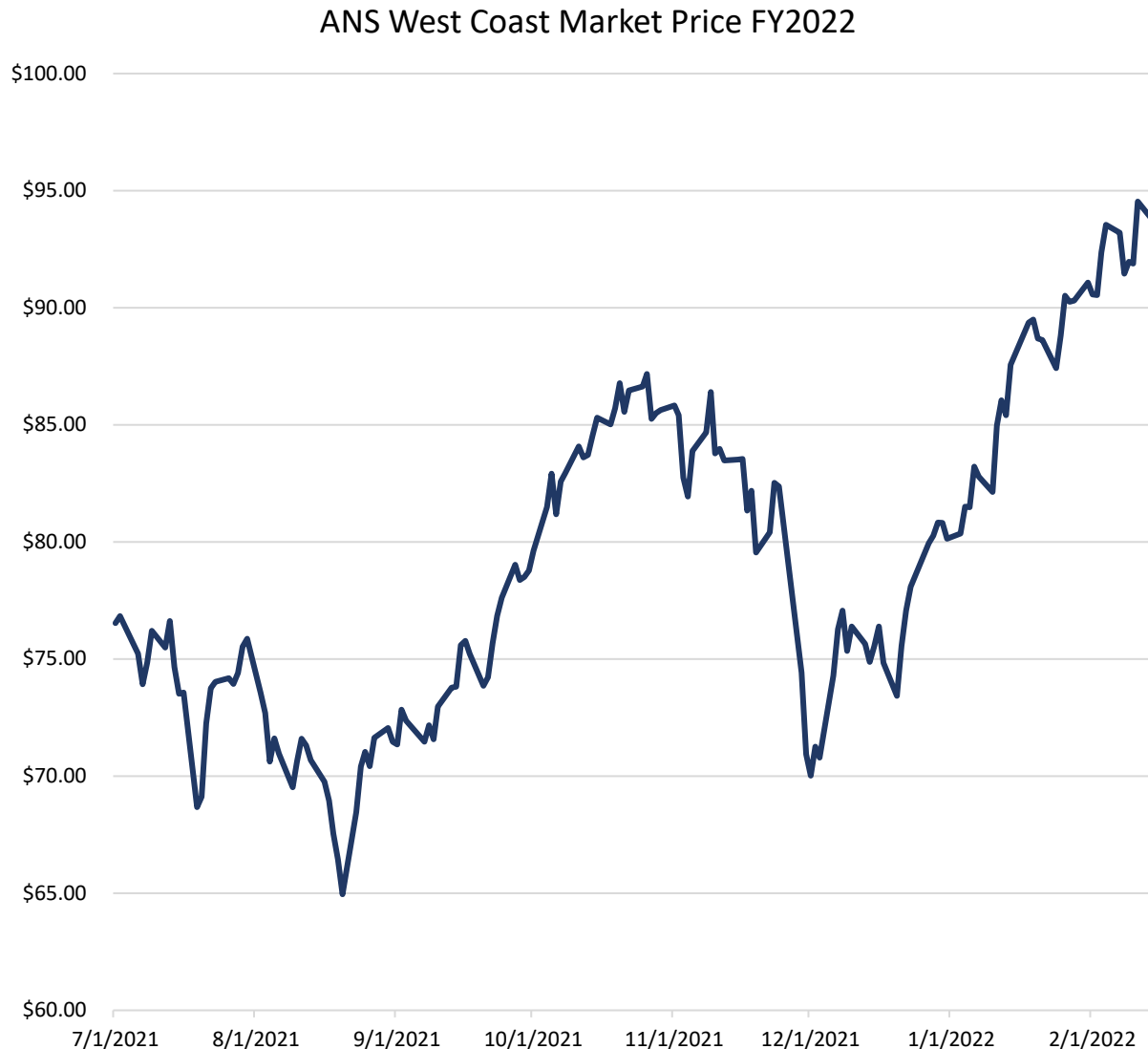
Invested Assets of the State of Alaska



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



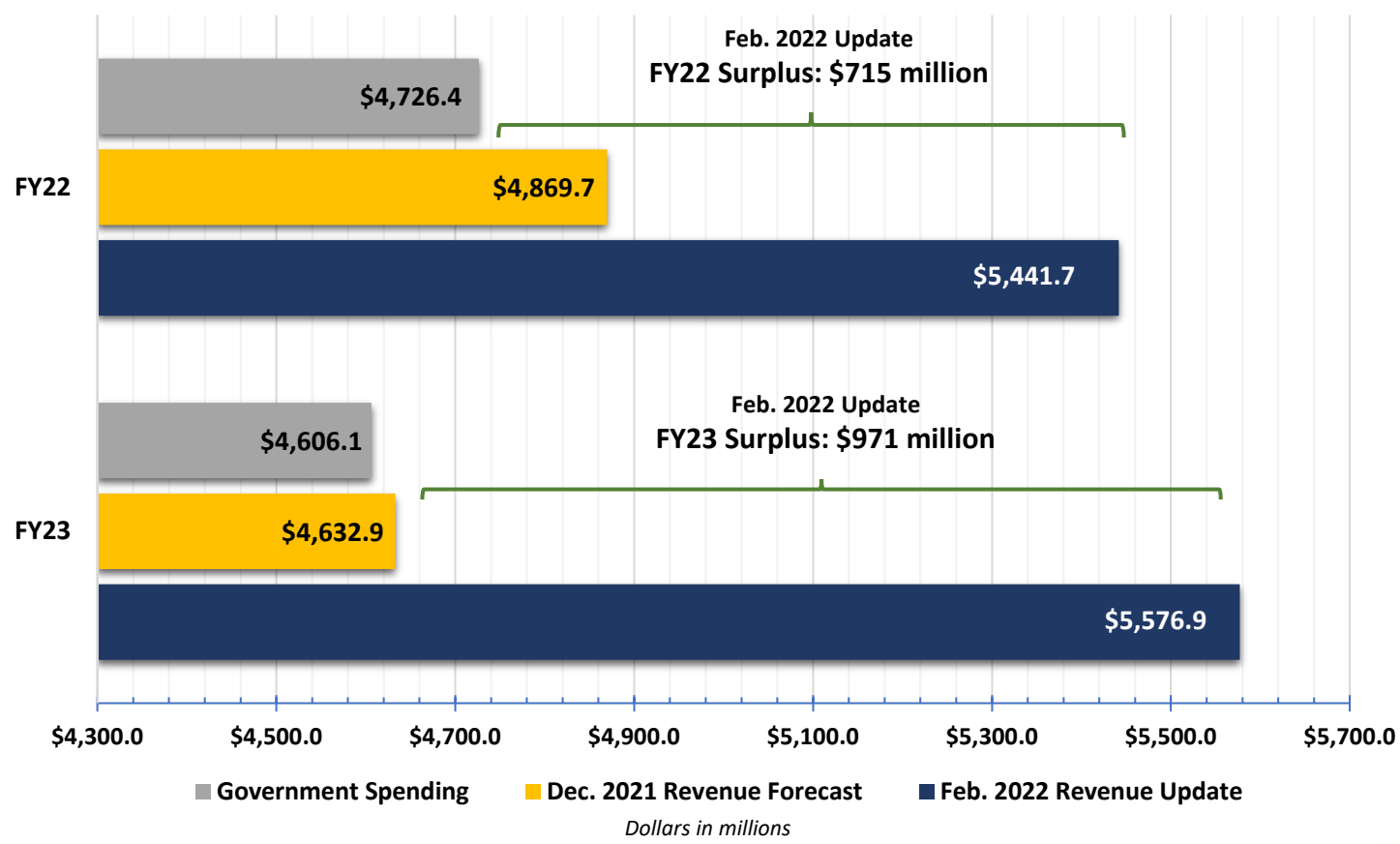
- **February 2022 revenue update**
 - ✓ FY22 oil estimate: \$84.34/bbl
 - ✓ FY23 oil estimate: \$85.44/bbl
 - ✓ Highest oil price since 2014
- **Positive oil sentiment (near term)**
 - ✓ Goldman Sachs' base case expects Brent crude to hit **\$100 per barrel** in 2022 & 2023
 - ✓ Bank of America predicts 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



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

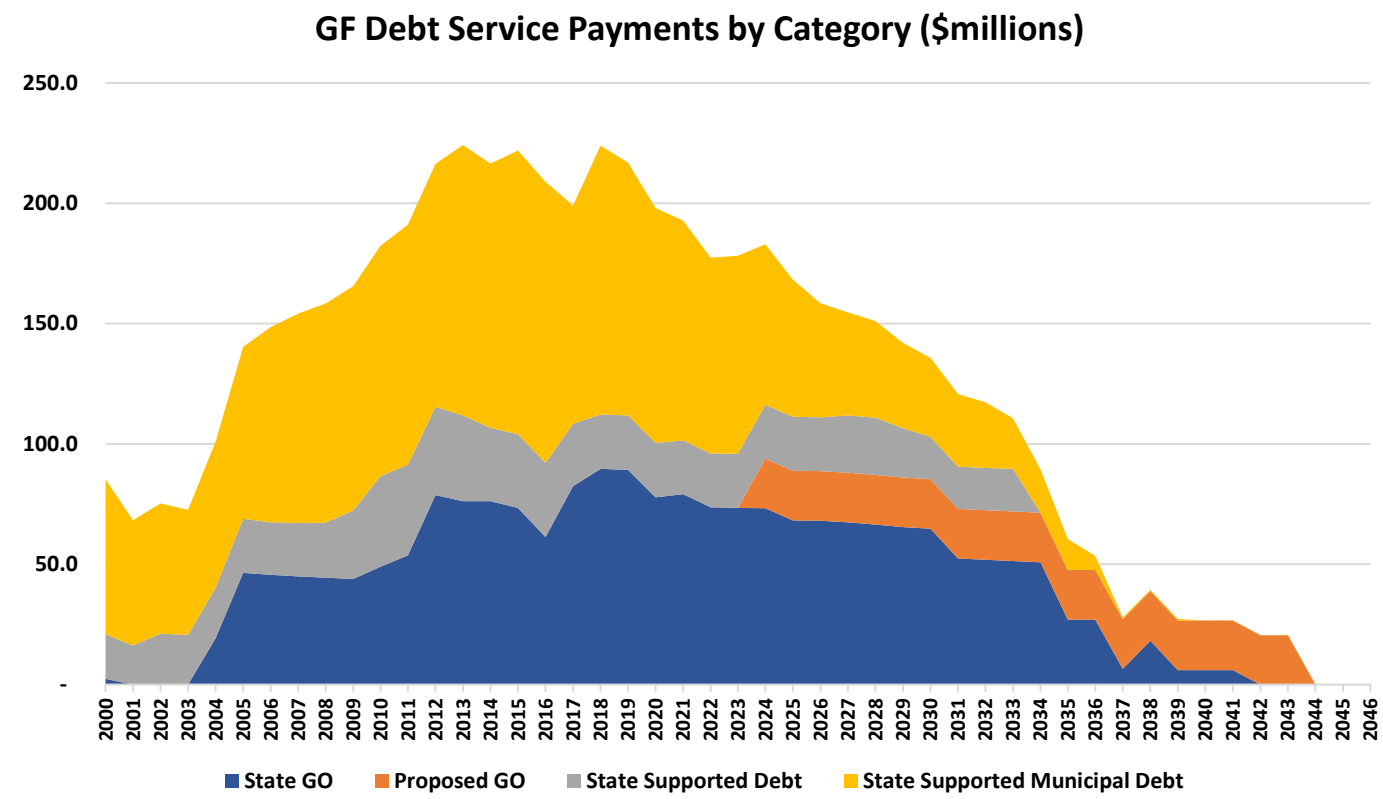
- **Enhancing State Investment Opportunities**
 - ✓ Low-interest rate borrowing allows the State to invest surplus revenue for better returns
 - ↑ *FY21 Permanent Fund & Dept. of Revenue returns: ~30%*
 - ✓ Many projects are eligible for significant federal match, further maximizing state capital dollars

- **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

- ✓ No budget deficit
- ✓ Multi-billion-dollar 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 small debt
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State of Alaska

Infrastructure Investment & Jobs Act (IIJA) Overview

Alaska Municipal League *Winter Meeting*

Feb 17, 2022

Miles Baker, Infrastructure Investment Coordinator, OOG
Paloma Harbour, Fiscal Management Analyst, OMB



Office of Governor
MIKE DUNLEAVY

Preliminary Observations

- Not a “stimulus” bill: long-term assets and core infrastructure
- Much less discretionary than recent stimulus: *CARES, CRRSA, ARP*
 - Shovel worthy vs shovel ready
- Spending 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 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

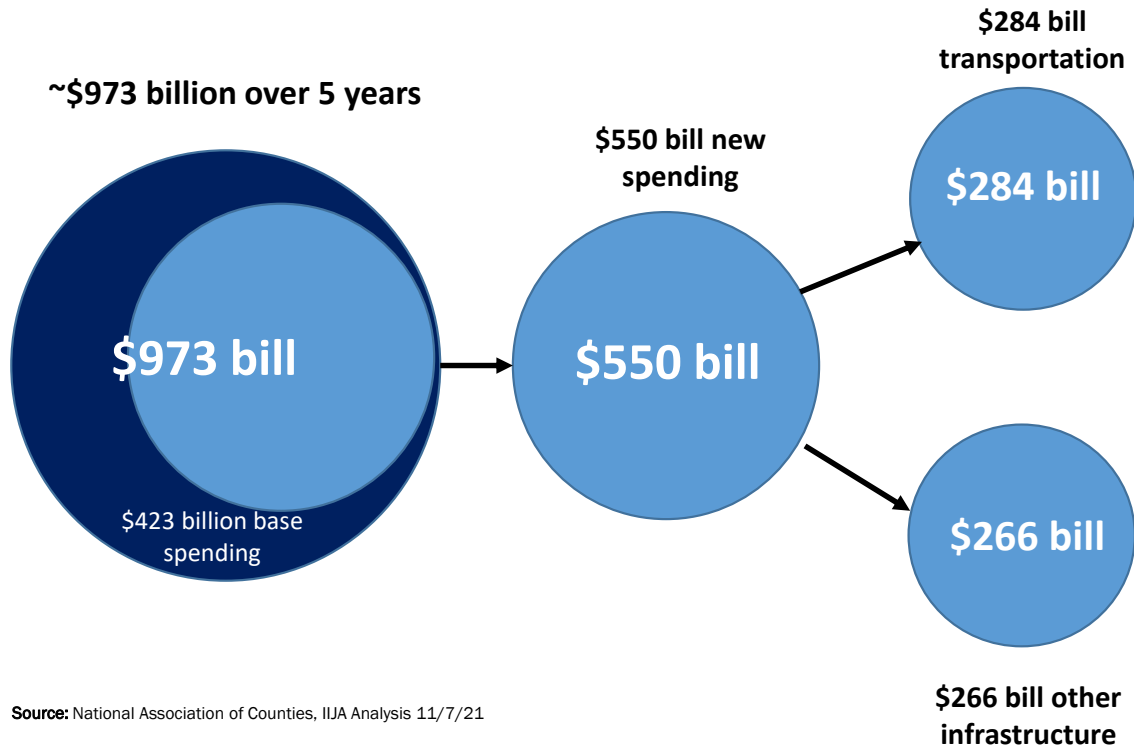
Overview

Infrastructure Investment & Jobs Act (IIJA) also referred to as Bipartisan Infrastructure Law (BIL)

- Enacted Nov 15, 2021
- ~\$973 billion over five years: FFY22-26 (*\$1.2 trill CBO 10-yr projection*)
 - \$423 billion baseline program reauthorizations (43%)
 - *Transportation (DOT/FAA) and public works (EPA)*
 - \$550 billion above the line “new spending” (57%)
 - *Broadband, Energy & Power, Electric Vehicles, Cybersecurity, etc.*
- Funds should begin arriving in 2022 and continue for 5 fiscal years

Overview

Bipartisan Infrastructure Law (BIL)



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

Transportation

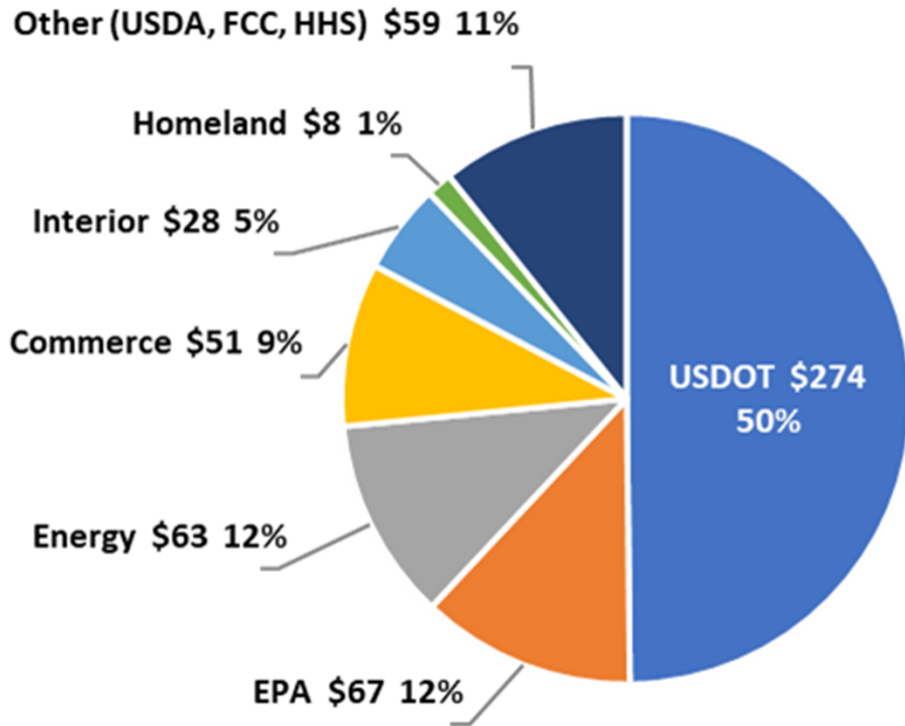
- Roads, bridges, airports, ports and waterways, rail, public transit, electric vehicles (EV), and safety programs

Other Infrastructure

- Energy, power grid, broadband, water, resiliency, and environmental remediation

Overview

By Federal Agency



\$550 billion in BIL New Spending

USDOT:	\$274 bill
EPA:	\$ 67 bill
Energy:	\$ 63 bill
Commerce:	\$ 51 bill
Interior:	\$ 28 bill
Homeland:	\$ 8 bill
Other (USDA, FCC, HSS, etc.):	\$ 59 bill

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



Overview: Funding Type

Funding Type (*approximates*)

Formula: ~ 65%

Apportionment – distribution by statutory formula

Allocation – distribution by administrative determination

Grant: ~ 30%

Discretionary – awarded at discretion of program administrators

Competitive – awarded through a competitive process

Loan: ~ 5%

Many programs will require non-federal match – typically 10%-20%



Overview: Spending Categories

Other Infrastructure Spending

\$266 billion over 5-years

National 5-Yr Totals

Energy & Power

Efficiency, grid & transmission upgrades/resiliency, carbon mitigation projects

\$ 73 billion

Broadband

\$45 construction, \$20 affordability/equity; targets underserved areas

\$ 65 billion

Water:

3x increase to revolving loan funds; lead pipe; contaminants

\$ 55 billion

Resiliency:

Storm/flood mitigation, natural disaster assistance; cybersecurity

\$ 44 billion

Environmental Remediation:

Legacy wells; superfund sites; brownfield; abandoned mines; watersheds

\$ 21 billion

Public Lands

Wildfire risk mitigation; remediation; secure rule schools; USFS roads

\$ 8 billion

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



Infrastructure Bill Impact on GO Bond Project

Federal infrastructure bill does not negate the need for state GO Bond

- State funding allows more flexibility on project execution
- Federally eligible projects still require non-federal match: 10%-35%
- State match accelerates project timing and helps incentivize federal prioritization

Recently announced U.S. Army Corps of Engineering projects requiring non-federal match

USACE Projects in GO Bond Bill							
Project Titles	Total Project	Fed (USACE)	\$ Match	% Match	Total \$ Non-Fed	\$ GO Bond	% GO Assist
<u>FY22 Construction Financed through IJA/BIL</u>							
<i>Port of Nome Phase 1 - West Causeway Expansion*</i>	\$ 333.0	\$ 250.0	\$ 83.0	25%	\$ 147.0	\$ 10.0	7%
<i>Kenai River Bluff Erosion</i>	\$ 30.0	\$ 19.5	\$ 10.5	35%	\$ 10.5	\$ 6.5	62%
<u>Other USACE Assisted Projects</u>							
<i>Craig Harbor</i>	33.7	\$ 17.5	\$ 4.4	25%	\$ 16.2	\$ 8.3	51%

*Phase 1 Non-Federal match also includes \$64 mill for local facilities



Summary:

Congressional Priorities

Equity, resiliency, safety, climate mitigation, energy efficiency, deployment of technology and emphasis on multimodal projects

Statewide communication and coordination required

Alaska should be well positioned to be competitive:

- Tribal and Alaska Natives eligibility
- Historically underserved and hard-to-reach
- Multimodal transportation dependency
- High energy costs & microgrids
- Rural and disadvantaged communities
- Climate mitigation
- Fossil fuel industries
- Minority and low-income populations

