



# State of Alaska

## Fiscal and Credit Update

February 23, 2016



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# 1. Introduction

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# Presentation Team

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- 11<sup>th</sup> Governor – State of Alaska

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- Commissioner – Alaska Department of Revenue

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- Deputy Commissioner – Alaska Department of Revenue

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# Key Updates and Purpose of Meeting

*Today's meeting is intended to provide an update on the State's progress on key budget and fiscal issues and to request a rating.*

- **The Governor introduced the FY17 Budget and the New Sustainable Alaska Plan**
  - Restructures Alaska's fiscal framework to provide for long-term sustainability and financial strength
    - Includes the Alaska Permanent Fund Protection Act; the Governor's proposed FY2017 budget and future spending reductions; and future revenue increases
  - Pension obligation bonds have been considered as a component of the Governor's fiscal plan
- **Release of Fall 2015 Revenue Sources Book on December 30, 2015**
  - 28% reduction in projected FY2016 General Fund Unrestricted Revenue ("GFUR") versus the Spring 2015 Forecast
  - Oil prices have continued to be volatile and decline
- **Legislative session began on January 19**
  - Governor has introduced 12 bills related to the budget and fiscal plan
- **The State is requesting a rating for its upcoming issuance of Series 2016 Bond Anticipation Notes**
  - Refinancing 2015 BANs, which mature on March 18, 2016
  - Rating requested by March 1

## January – June 30, 2016 Key Dates

January 19, 2016	• Start of regular legislative session
March 16, 2016	• Refinancing of 2015 BAN
April 2016	• Release of Spring 2016 Revenue Sources Book • Release of FY2015 Actuarial Valuation
April 17, 2016	• End of regular legislative session
June 30, 2016	• Fiscal year end





## **2. Review of Financial Position**

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# Summary

*The State's financial position is strong, but requires realignment to ensure long-term sustainability.*

## Key Long-term Fiscal Objectives

### Ensure the Long-term Fiscal Strength of the State

- Diversify revenues and reduce revenue volatility
- Proactively manage spending
- Develop new revenue sources
- Proactively manage liquidity and investment income

## New Sustainable Alaska Plan

### Restructures Alaska's Fiscal Framework to Provide for Long-term Sustainability

- *Permanent Fund Protection Act* – replaces volatile petroleum revenues with a sustainable and consistent endowment draw from the Permanent Fund Earnings Reserve as the primary funding source for General Fund expenditures
- *Proposed FY2017 Budget and future spending reductions* – multi-year approach builds on existing spending reductions and includes all areas of government
- *Revenue increases* – modest and broad based package of tax increases

## Key Legislative Considerations

### The Legislature Continues Alaska's Long History of Fiscal Prudence

- Continued strong stewardship of Alaska's vast physical and financial resources
- Maintenance of essential government services
- Maintenance of Permanent Fund Dividend
- Deliberate and transparent approach to formulating the fiscal plan



# Principal Budget Drivers

*The State's current financial position is a function of oil revenue volatility, along with prudent budgeting and a strong commitment to savings.*

## Principal Expenditures

### Agency Operations

- Represents 69% of proposed FY2017 Unrestricted General Fund Operating budget

### Statewide Operations

- Represents 31% of proposed FY2017 Unrestricted General Fund Operating budget

### Capital Investment and Debt

- Limited debt with significant investment in pay-go capital historically
- Prudent long-term debt structure, including 76% retired in 10 years

### Savings

- Fiscal structure with commitment to savings in good and bad years

### Dividend

- Important source of income for Alaskans

## Principal Revenues

### Oil and Gas

- FY2015, oil revenue represented 28% of total State revenue
- Represents smaller share of overall revenue with oil price declines and growth of investment revenue

### Non-oil Revenue

- FY2015, non-oil revenue represented 12% of total State revenue
- Continues to grow and diversify with State economy

### Investment Revenue

- FY2015, investment revenue represented 31% of total State revenue
- Has become largest source of State revenue

### Restricted vs Unrestricted Revenue

- A significant share of Restricted Revenue is restricted by custom only and available for appropriation

## Investment Balances

### Statutory Budget Reserve

- Requires simple majority to appropriate
- *No current balance*

### Constitutional Budget Reserve

- Requires 75% majority to appropriate
- *1/1/2016 Balance: \$8.7 billion (balance is net of \$1.4 billion in withdrawals for FY16)*

### Permanent Fund Earnings Reserve

- Requires simple majority to appropriate
- *1/1/2016 Balance: \$6.8 billion*

### Permanent Fund

- Requires Constitutional amendment to withdraw
- *1/1/2016 Balance: \$45 billion*





### **3. Fall 2015 Revenue Forecast**

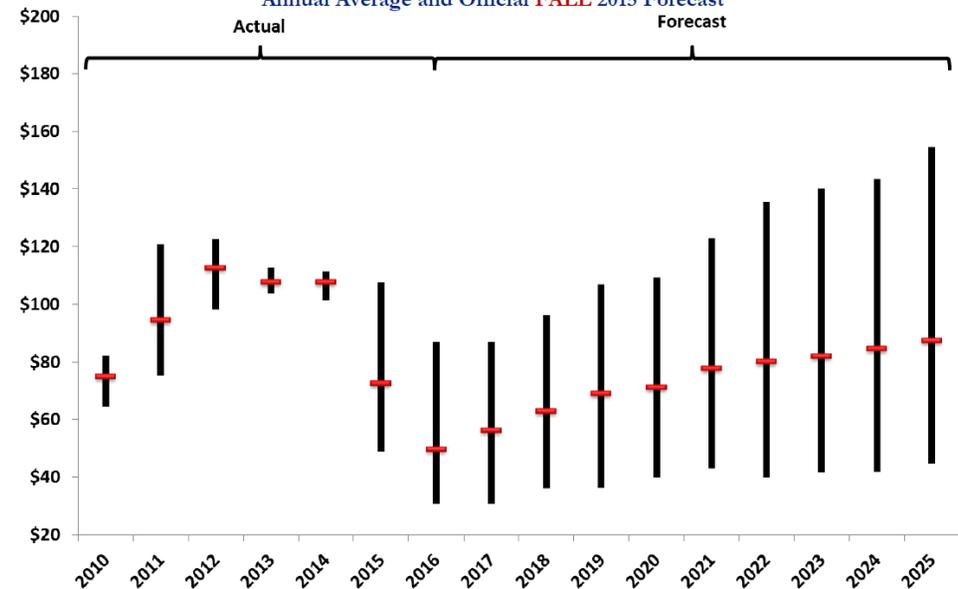
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# Fall 2015 Forecast

*The ANS price forecast has been reduced significantly versus the Spring 2015 forecast.*

- Fall 2015 Forecast assumes FY2016 prices equal to \$49.52/bbl, which is estimated to generate GFUR of \$1.6 billion
  - GFUR would average \$1.1 billion at \$30 per barrel and \$1.2 billion at \$40 per barrel over the next ten years**
- Oil prices are expected to remain volatile – official forecast is one value within a range of possible outcomes
  - Fiscal year to-date ANS West Coast prices have averaged \$44.71/bbl (as of Feb 3, 2016)
- Lease expenditure (or investment) in the oil fields is expected to decline
  - The State has reduced its production forecast 4% in FY2016 and 6% in FY2017 versus the Spring 2015 forecast

**Historical ANS West Coast FY Oil Price Bands:**  
Annual Average and Official FALL 2015 Forecast



	FY2016									
	Q1	Q2	Q3	Q4	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
<b>90%</b>		64.99	65.00	70.00	62.77	86.89	96.17	106.88	109.30	122.92
<b>80%</b>		58.85	60.05	63.68	58.42	76.61	84.80	94.28	96.37	107.34
<b>70%</b>		54.42	56.17	58.69	55.09	68.89	76.37	84.75	86.73	95.93
<b>60%</b>		50.76	52.74	54.24	52.21	62.28	69.22	76.53	78.53	86.33
<b>50%</b>	51.09	47.50	49.50	50.00	49.52	56.24	62.73	68.95	71.05	77.68
<b>40%</b>		44.45	46.27	45.76	46.89	50.40	56.52	61.59	63.86	69.47
<b>30%</b>		41.47	42.91	41.30	44.19	44.50	50.31	54.11	56.63	61.34
<b>20%</b>		38.42	39.18	36.31	41.25	38.18	43.74	46.04	48.95	52.83
<b>10%</b>		34.99	34.49	29.99	37.64	30.67	36.06	36.33	39.88	43.02



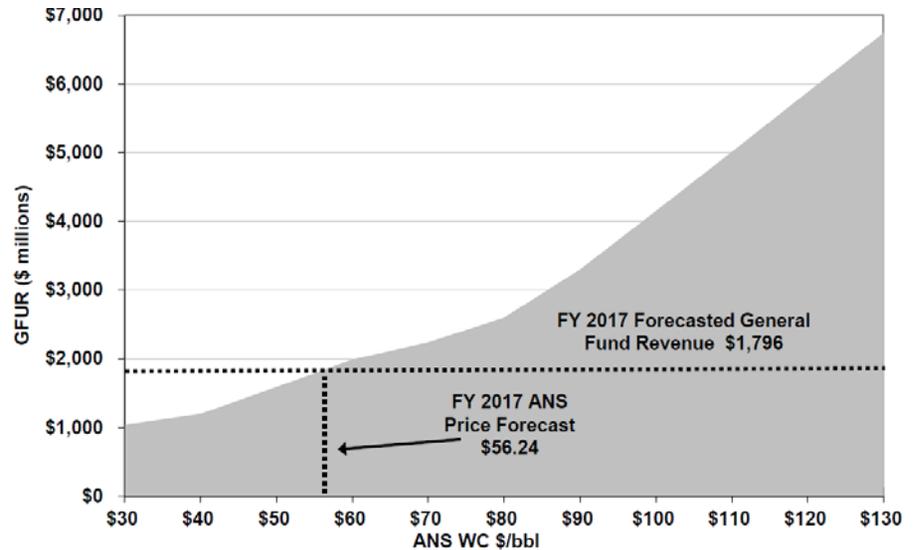
# Review of Revenue Outlook

*The current oil and gas tax regime was designed to protect the State's financial strength by limiting the marginal reduction in General Fund Unrestricted Revenue at ANS West Coast oil prices below \$80/bbl.*

**Spot Price ANS West Coast  
January 2004 – February 2016**



**FY 2017 GFUR with Price Sensitivity  
(Based on Fall 2015 Forecast)**



Source: Historical data posted by DOR – Tax Division, <http://www.tax.alaska.gov/programs/oil/prevaling/ans.aspx>



# Revenues and Expenses: The Status Quo

*Absent other action, the State will continue to draw down existing short-term reserves.*

## Fall 2015 Revenue Forecast<sup>1</sup>:

FY (\$ millions)	2015 (Actual)	2016 (Management Plan)	2017	2018	2019	2020
<b>Oil Price and Production</b>						
Forecast ANS West Coast Price (\$/barrel)	\$72.58	\$49.58	\$56.24	\$62.73	\$68.95	\$71.05
Forecast ANS Production (000's Barrels per Day)	501.5	500.2	504.9	497.7	487.6	460.5
<b>Revenue Versus Spending<sup>(1)</sup></b>						
Existing Unrestricted Revenues	\$2,257.3	\$1,592.9	\$1,796.4	\$2,021.0	\$2,130.0	\$2,111.3
General Fund Expense	6,105.6	4,970.5	4,816.4	4,717.5	4,722.9	4,820.1
<b>Surplus / (Deficit)</b>	<b>(3,848.3)</b>	<b>(3,377.5)</b>	<b>(3,020.0)</b>	<b>(2,696.5)</b>	<b>(2,592.9)</b>	<b>(2,708.8)</b>
<b>Short-term Reserve Balances</b>	<b>17,551.4</b>	<b>15,080.8</b>	<b>12,339.6</b>	<b>10,021.0</b>	<b>7,944.1</b>	<b>5,949.3</b>

- However, under the “do-nothing” scenario the State would still have access to substantial incremental revenue that is currently restricted by custom only and is not included in the analysis above
  - Includes (i) additional royalties beyond 25% Permanent Fund dedication; (ii) Designated General Fund Revenue; and (iii) annual investment income currently used to inflation proof the Permanent Fund, pay the Dividend and fund the Earnings Reserve Account

## Total Revenues Subject to Appropriation

FY (\$ millions)	2015 (Actual)	2016 (Management Plan)	2017	2018	2019	2020
<b>Total Revenue Subject to Appropriation</b>	<b>\$5,977.9</b>	<b>\$5,437.5</b>	<b>\$5,747.3</b>	<b>\$5,935.3</b>	<b>\$6,006.4</b>	<b>\$5,978.1</b>
Unrestricted General Fund Revenue	2,257.3	1,592.9	1,796.4	2,021.0	2,130.0	2,111.3
<b>Additional Rev. Available/Subject to Approp.</b>	<b>3,720.6</b>	<b>3,844.6</b>	<b>3,950.9</b>	<b>3,914.3</b>	<b>3,876.3</b>	<b>3,866.8</b>

<sup>1</sup>: Oil price, production, and unrestricted revenue forecast as of the Fall 2015 Revenue Sources Book. General fund expense projections use budget summary in FY2017 10-year plan. FY2015 deficit includes amounts expended from public education fund due to previous forward funding. Short-term reserve balances use projected constitutional budget reserve end of year balances, and earnings reserve forecasts from the APFC. Projections in the table do not represent a commitment by the Administration to propose spending or generate revenue, and use best estimates available at this time.





## **4. New Sustainable Alaska Plan & Legislative Update**

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# New Sustainable Alaska Plan

*The New Sustainable Alaska Plan includes new revenues, continued expenditure reductions, and a re-plumbing of existing revenues to protect the General Fund and provide for long-term fiscal strength.*

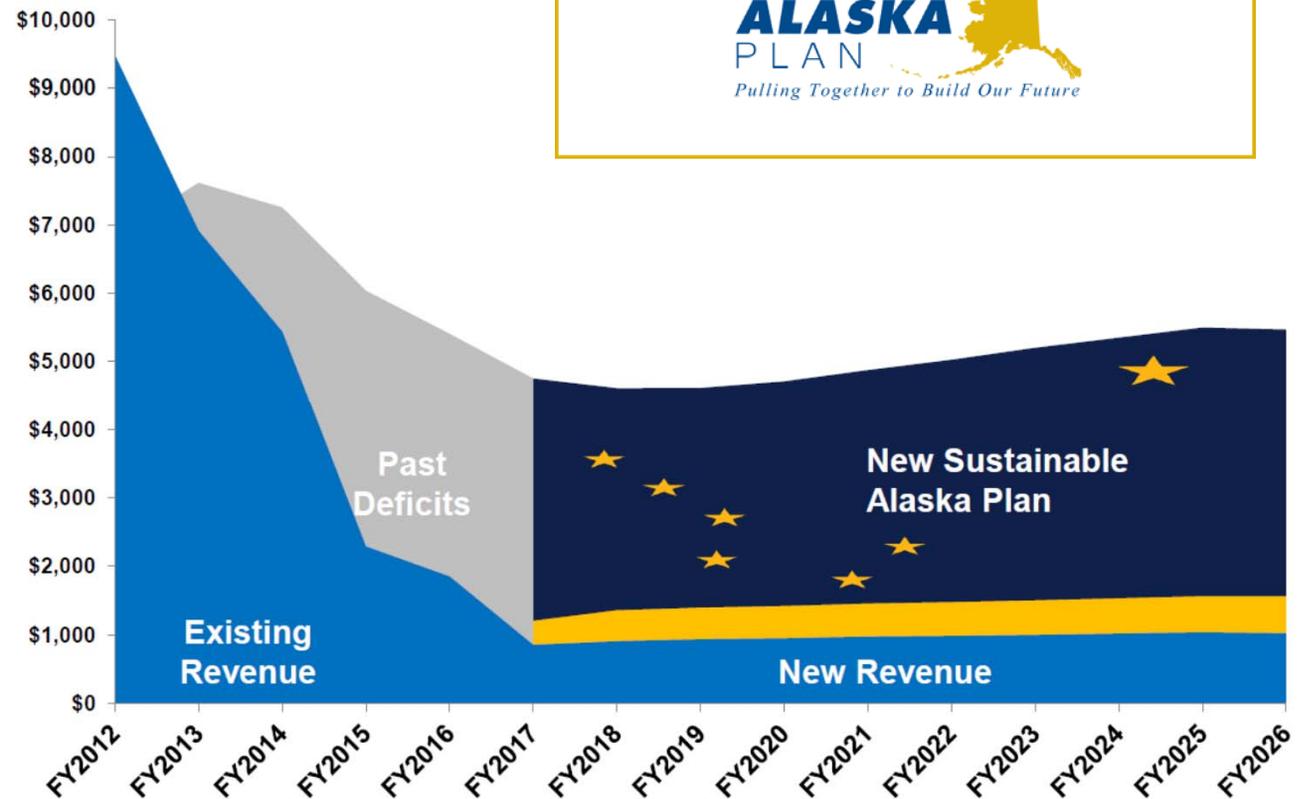
## The New Sustainable Alaska Plan includes:

- Alaska Permanent Fund Protection Act
- Proposed FY2017 Budget and Future Spending Reductions
- Revenue Increases

## Key Components

- Sustainably Utilize the Earnings Reserve
- Provide Dividends
- Reduce Spending
- Prioritize Investments
- Broad Based Taxes and Credit Reform

## The Result: Revenue Stability



# Alaska Permanent Fund Protection Act (“APFPA”)

*The Permanent Fund Protection Act restructures the State’s fiscal framework away from oil price volatility.*

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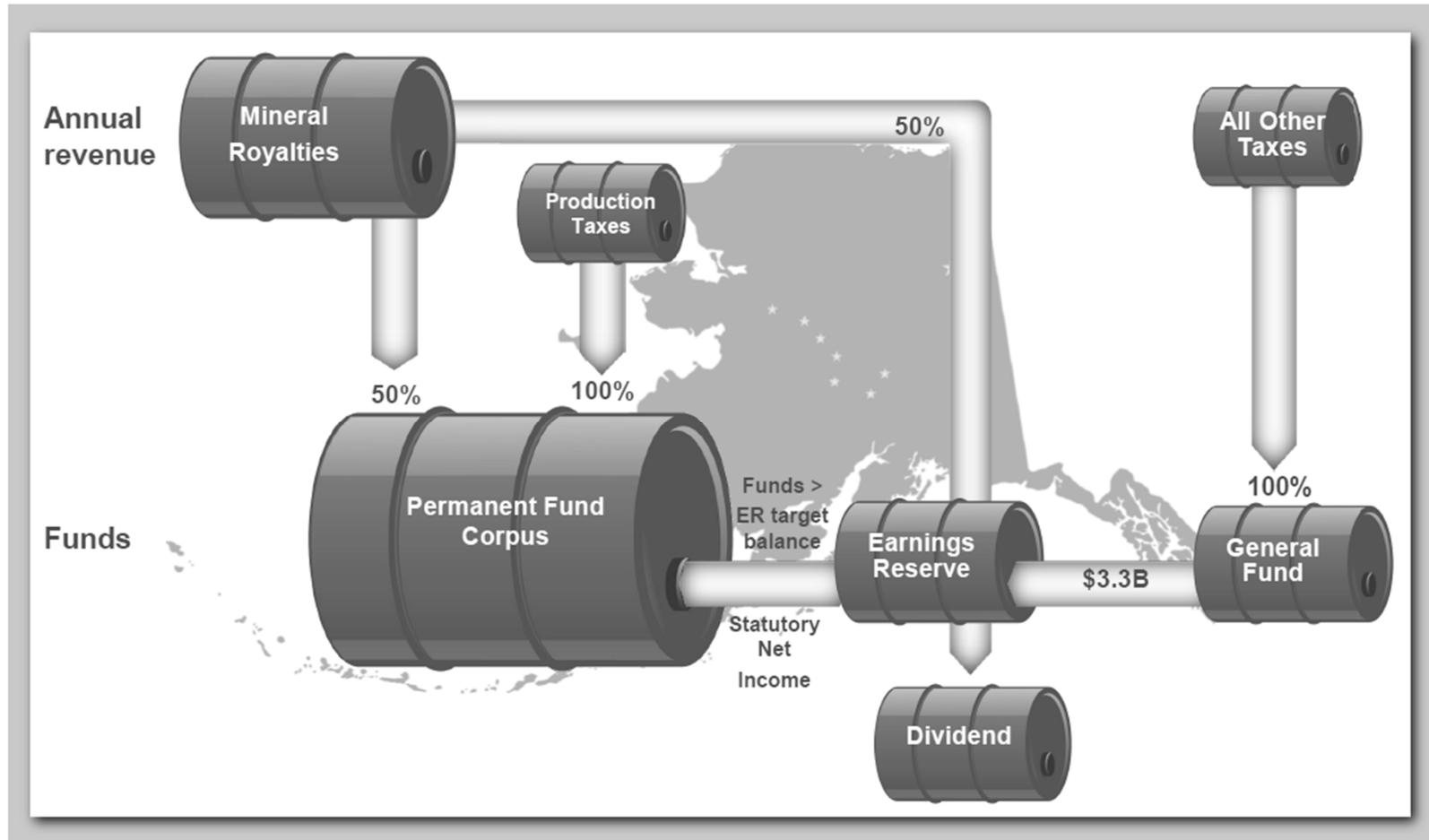
- **The APFPA fiscal structure distributes annual revenue between the Permanent Fund and dividends:**
  - Mineral Royalties: 50% to the dividend; 49.5% to the Permanent Fund<sup>(1)</sup>
  - Production Taxes: 100% to the Permanent Fund
  - Investment Income: 100% to the Permanent Fund
- **Within the Permanent Fund, the incoming revenue is allocated between the corpus and the Earnings Reserve Account according to two rules:**
  - First, the Constitution requires that 25% of royalties go to the corpus
  - Second, the remaining revenue is allocated to maintain the Earnings Reserve at a target balance of four times the prior year’s draw
- **Investment income is the first revenue to maintain the Earnings Reserve balance**
  - All additional revenue – royalties, taxes, and investment income – beyond the amount required to maintain the target balance goes to the corpus where it is constitutionally protected

(1) AS 37.14.150 directs one-half of one percent of mineral royalties to the Public School Trust Fund.



# Alaska Permanent Fund Protection Act (“APFPA”)

*The Permanent Fund Protection Act replaces volatile petroleum revenues with a sustainable and consistent endowment draw from the Permanent Fund Earnings Reserve as the primary funding source for General Fund expenditures.*



# Alaska Permanent Fund Protection Act (“APFPA”)

*To be sustainable over the long-term, the Permanent Fund Earnings draw must be calibrated to ensure that it does not degrade the value of the financial assets and to allow opportunity for growth in the fund.*

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- Reasoned assumptions, paired with the best available data, underlie the probabilistic financial model used to determine the amount that may be sustainably withdrawn on an annual basis
- The significant modeling constraints, assumptions, and data inputs include:
  - Sustainability Metrics: (1) maintain the real value of starting assets and (2) ensure the durability of the Earnings Reserve to avoid pressure to spend from the corpus
  - Starting Fund Value: \$55 billion (APFC forecast for end of FY16 and a \$3 billion transfer from the Constitutional Budget Reserve)
  - Oil Price: modeled probabilistic using DOR Fall 2015 forecasting session data
  - Oil Production: DOR Fall 2015 Revenue Sources Book (deterministic modeling)
  - Investment Returns: 6.90% total return, 6.01% statutory return (Callan Associates)
  - Inflation: 2.25% (Callan Associates)
- Using these assumptions, if the draw is not adjusted for inflation until 2020, the system can sustainably produce an annual draw of \$3.3 billion
- APFPA requires a periodic review to ensure the draw remains sustainable and may be adjusted, if necessary
  - Requires that in 2017, 2020, and every four years thereafter the Commissioner of Revenue issue a Sufficiency of Assets Report



# The Result: New Sustainable Alaska Plan

*APFPA, together with existing revenue, continued expenditure reductions, and new revenue measures provides for a balanced budget.*

- The vast majority of the funding for the New Sustainable Alaska Plan is generated through existing sources, which are currently available for appropriation
- Continued expense management and modest new revenues will be important to balancing the budget over time
- The plan is not dependent on a nonrecurring revenue or expense (rifle shot) or concentrated in a single tax measure
- The critical component is diversifying the general fund budget away from oil volatility and sizing the endowment draw for long-term sustainability

<b>Starting Point: FY2016 Budget</b>	<b>\$5.2 billion</b>
<b>Plus: Existing Revenue</b>	
Alaska Permanent Fund Protection Act	\$3.300
Revenue From Existing Taxes and Fees	\$0.850
<u>Earnings on Savings</u>	<u>\$0.135</u>
	<b>\$4.285</b>
<b>Less: Spending Reductions</b>	
Net Cuts FY2017 (additional cuts of \$0.1bn through FY2019)	(\$0.100)
<u>Reform Oil and Gas Tax Credits</u>	<u>(\$0.400)</u>
	<b>(\$0.500)</b>
<b>Plus: New Revenue Components</b>	
Mining	\$0.006
Fishing	\$0.018
Tourism	\$0.015
Motor Fuel	\$0.049
Alcohol	\$0.040
Tobacco	\$0.029
Oil and Gas	\$0.100
<u>Income Tax</u>	<u>\$0.200</u>
	<b>\$0.457</b>
<b>Resulting Net Position</b>	<b>+0.042</b>



# Legislative Update

*The Second Regular Session of the 29th Alaska State Legislature began on January 19, 2016.*

## Summary of Certain Proposed Legislation

Bill	Definition	Description / Fiscal Impact
SB 128/HB 245	Alaska Permanent Fund Protection Act	Amends Alaska Permanent Fund and funding structure for State Government
SB 130/HB 247	Oil & Gas Tax Credit Reform	Amends Alaska's tax credit structure
SB 131/HB 248	Alcohol Tax	Increases tax rates on alcoholic beverages
SB 132/HB 249	Motor Fuel Tax	Increases motor fuel taxes (Highway from \$0.08 to \$0.16, Aviation from \$0.047 to \$0.10, Marine from \$0.05 to \$0.10, Jet Fuel from \$0.032 to \$0.10, Gasohol from \$0.08 to \$0.16)
SB 133/HB 249	Tobacco Tax	Increases tobacco taxes from \$0.062 to \$0.112 per cigarette
SB 134/HB 250	Personal Income Tax	Establishes a personal income tax based on 6% of the taxpayer's federal tax liability
SB 135/HB 251	Commercial Passenger Vehicle Tax	Increases tax rates of the fisheries business tax and fishery resource landing tax
SB 136/HB 252	Mining License Tax	Adjusts taxes on tour ships and other commercial passenger vessels
SB 137/HB 253	Public School Trust Fund (POMV)	Increases the mining license tax rate from 7% to 9%
HB 155	Fees; Waivers; Credits; Deductions; Taxes	Repeals a number of State tax credits

### Other Measures Introduced

HB 224	Representative Hawker	Amends Alaska Permanent Fund and funding structure for State
SB 114	Senator Mcguire	Amends Alaska Permanent Fund and funding structure for State

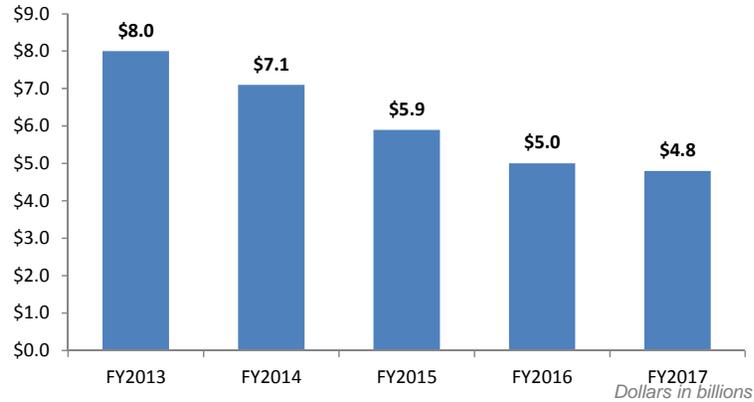
- More details can be found by visiting <http://www.legis.state.ak.us/basis/start.asp> and entering corresponding Bill number



# FY2017 Budget Overview

*Spending has been significantly reduced over the last five years from \$8 billion to less than \$5 billion while maintaining essential services.*

## FY2017 Unrestricted General Fund

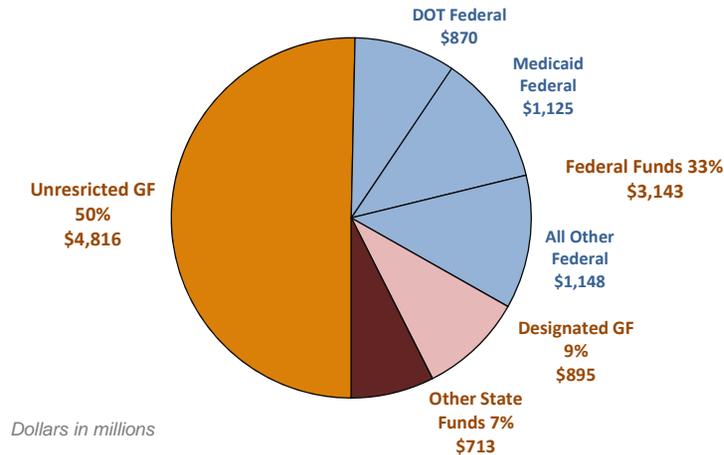


## FY2017 Capital Budget

Priority Area	All Funds	UGF
Federal match/Leverage	\$1,079.9	\$82.9
Energy and Energy Efficiency	\$52.9	\$21.3
Maintenance	\$92.1	\$53.0
Legal Obligations	\$11.0	\$10.5
Initiatives and School Replacement	\$27.8	\$27.7
<b>TOTAL</b>	<b>\$1,263.7</b>	<b>\$195.3</b>

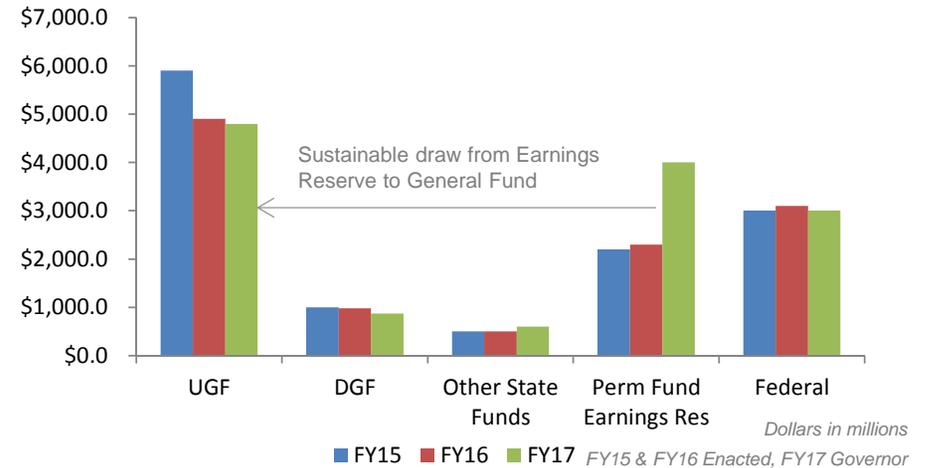
*Dollars in millions*

## FY2017 Budget by All Fund Sources



*Dollars in millions*

## FY2015-2017 Funding by Type



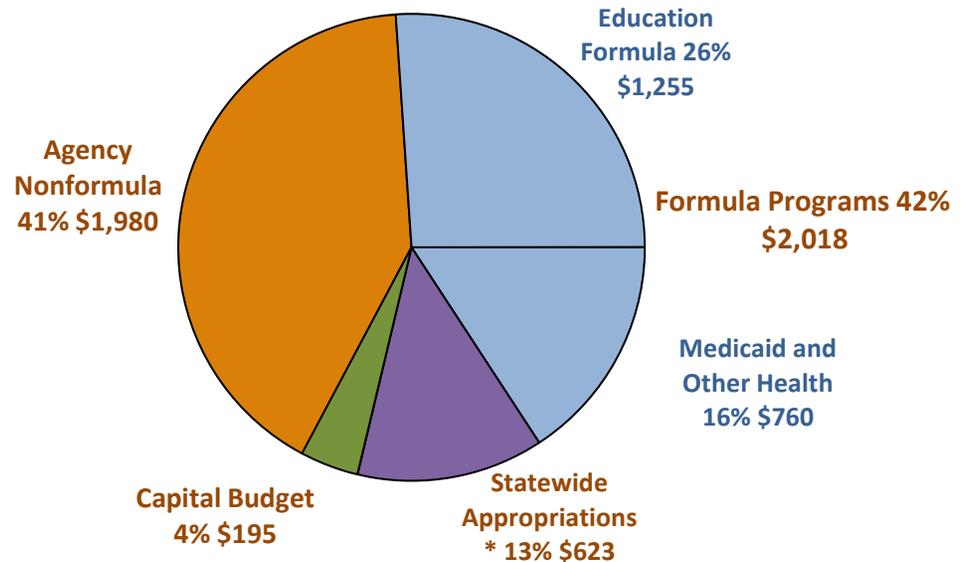
# FY2017 Budget Overview

*The State continues to reduce expenses across all areas of government.*

## Statewide Obligations Included in Proposed Budget

- \$73 million for oil and gas tax credits; plan estimated at \$100 million annually assuming credits are reformed as proposed
- Annual debt service of \$208 million
  - State general obligation, lease and tax supported debt service
  - Local school debt reimbursement
- State's plans will fully provide for annual actuarially determined contributions
- State and Local Government revenue sharing plan is \$35 million (effective 6/30/16) allowing for \$50 million payout. Plan increases to \$60 million annually
- If oil and gas tax credits are reformed: \$1,200 million to capitalize oil and gas tax credits

## Unrestricted General Fund Budget by Category



\* Statewide Appropriations do not include proposed \$1,200 million for oil and gas tax credit reform funding from CBR/SBR



# Balancing the Budget

*The New Sustainable Alaska Plan projects three years of continued spending reductions then inflation-only growth through 2025.*

- As the State developed the New Sustainable Alaska Plan, it has been in recognition of the current oil price environment
  - Designed to manage oil price volatility within the Permanent Fund and provide stable revenues to support the State budget

## Fall 2015 Revenue Forecast:

FY (\$ millions)	2015	2016 (Management Plan)	2017	2018	2019	2020
<b>Oil Price and Production</b>						
Forecast ANS West Coast Price (\$/barrel)	\$72.58	\$49.58	\$56.24	\$62.73	\$68.95	\$71.05
Forecast ANS Production (000's Barrels per Day)	501.5	500.2	504.9	497.7	487.6	460.5
<b>Revenue Versus Spending<sup>(1)</sup></b>						
Unrestricted Revenues						
Existing Revenue	\$2,257.3	\$1,593.0	\$839.5	\$904.3	\$932.6	\$946.5
New Revenue	-	-	350.0	450.0	460.1	478.5
Earnings Reserve Draw	-	-	3,300.0	3,300.0	3,300.0	3,372.0
Annual Earnings Draw*	-	-	-	135.0	130.2	123.1
Draw on Savings	3,848.3	3,377.5	426.9	28.2	-	-
<b>Total Unrestricted Revenue</b>	<b>\$6,105.6</b>	<b>\$4,970.5</b>	<b>\$4,916.4</b>	<b>\$4,817.5</b>	<b>\$4,822.9</b>	<b>\$4,920.1</b>
<b>General Fund Expense</b>	<b>\$6,105.6</b>	<b>\$4,970.5</b>	<b>\$4,816.4</b>	<b>\$4,717.5</b>	<b>\$4,722.9</b>	<b>\$4,820.1</b>



# Revenue Redefined

*The New Sustainable Alaska Plan redirects existing revenue and provides for modest, broad-based, new sources of revenue. The result provides the General Fund with access to a pre-existing, sustainable revenue stream.*

## Existing Framework

Revenue Type	(\$ millions)		
	Actual FY 2015	Forecast FY 2016    FY 2017	
<b>Unrestricted General Fund</b>			
Oil Revenue	1,687.9	1,061.5	1,237.3
Non-Oil Revenue*	521.5	510.1	521.0
Investment Revenue	47.9	21.3	38.1
<b>Total Unrestricted Revenue</b>	<b>2,257.3</b>	<b>1,593.0</b>	<b>1,796.4</b>
<b>Designated General Fund</b>			
Non-Oil Revenue*	313.3	348.2	338.7
Investment Revenue	17.7	6.8	37.8
<b>Subtotal</b>	<b>331.0</b>	<b>355.0</b>	<b>376.5</b>
<b>Other Restricted Revenue</b>			
Oil Revenue	667.3	307.7	351.8
Non-Oil Revenue*	183.9	219.7	220.5
Investment Revenue	2,585.7	3,773.4	4,309.0
<b>Subtotal</b>	<b>3,436.9</b>	<b>4,300.8</b>	<b>4,881.3</b>
<b>Federal Revenue</b>			
Oil Revenue	3.2	4.3	4.3
Federal Receipts	2,512.7	3,290.2	3,290.2
<b>Subtotal</b>	<b>2,515.9</b>	<b>3,294.5</b>	<b>3,294.5</b>
<b>Total State Revenue</b>	<b>8,541.1</b>	<b>9,543.3</b>	<b>10,348.7</b>

**FY2016 Unrestricted Revenue of \$1.6 Billion.  
Petroleum revenue equal to 67% of  
Unrestricted Revenue.**

## A New View of Revenue

Revenue Type	(\$ millions)		
	Actual FY 2015	Forecast FY 2016    FY 2017	
<b>Petroleum Revenue</b>			
Unrestricted General Fund	1,687.9	1,061.5	1,237.3
Royalties to Alaska Permanent Fund beyond 25% dedication <sup>(2)</sup>	111.3	48.4	53.9
Tax and Royalty Settlements to CBRF	149.0	20.0	20.0
<b>Subtotal Petroleum Revenues</b>	<b>1,948.2</b>	<b>1,130.0</b>	<b>1,311.2</b>
<b>Non-Petroleum Revenue</b>			
Unrestricted General Fund	521.5	510.1	521.0
Designated General Fund	313.3	348.2	338.7
Royalties to Alaska Permanent Fund beyond 25% dedication <sup>(2)</sup>	0.2	1.1	1.1
Tax and Royalty Settlements to CBRF	0.1	0.1	0.1
<b>Subtotal Non-Petroleum Revenues</b>	<b>835.1</b>	<b>859.5</b>	<b>860.9</b>
<b>Investment Revenue</b>			
Unrestricted General Fund	47.9	21.3	38.1
Designated General Fund	17.7	6.8	37.8
Constitutional Budget Reserve Fund	197.7	65.5	95.8
Alaska Permanent Fund - Realized Earnings	2,931.4	3,354.4	3,403.5
<b>Subtotal Investment Revenues</b>	<b>3,194.7</b>	<b>3,448.0</b>	<b>3,575.2</b>
<b>Total Revenue Subject to Appropriation</b>	<b>5,977.9</b>	<b>5,437.5</b>	<b>5,747.3</b>

(1) This figure presents only the largest known categories of current year funds subject to appropriation. A comprehensive review of all accounts in the state accounting system would likely reveal additional revenues subject to appropriation beyond those identified here.

(2) Estimated based on deposit to Permanent Fund minus 25% of total royalties.

**FY2016 Revenue Available for Appropriation  
\$5.4 Billion. Petroleum revenue equal to  
21% of Revenue Available for Appropriation.**



# AKLNG Update

*The Project is currently in the Pre-FEED stage (Pre-Front End Engineering and Design)*

## Sponsor Group



- Integrated team includes experienced personnel from the State, ExxonMobil, BP, and ConocoPhillips
- Seamless transfer of TransCanada interest to State of Alaska; continued access to key TransCanada personnel
- Approved 2016 Work Plan and Budget
- Advancing engineering of AKLNG Project facilities
- Conducting field studies to progress design basis
- Drafting Project execution plans
- Refining overall cost and schedules
- Developing environmental permitting applications
- Working toward timely completion of key commercial and fiscal contracts followed by legislative approval consistent with SB138
  - In-state gas supply structures
  - LNG marketing structures
  - Royalty decisions





## 5. Pension/OPEB Update

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# Alaska Pension System Overview

*The State administers various retirement programs with the Public Employee's Retirement System ("PERS") and the Teachers' Retirement System ("TRS") being the two largest.*

## Legal Basis for Pension Benefits

### **The State's and Other Public Employers' Payment of Pension/OPEB Benefits are Constitutionally Protected**

- Alaska's retirement benefits incorporate both Pensions and OPEB
- SB125 commits the State to funding the difference between specified employer contributions (22% for PERS and 12.56% for TRS) and the actuarially required payment to pay down the UAAL over 25 years
- Legislation has also been passed to address UAAL amortization; spiking and other cost provisions

## System Administration

### **System Administration is Well Established**

- The Alaska Retirement Management ("ARM") Board serves as fiduciary for PERS and TRS
- DOA serves as the administrator for both PERS and TRS
- DOR provides investment and cash management services

## Proactive Management

### **The State has a Long History of Proactively Managing its Pension/OPEB Liabilities**

- TRS and PERS closed their defined benefit plans in 2006 to new members
- Over the last 10-years, the State has made several additional contributions (totaling \$3.7 billion) to the retirement systems to reduce unfunded liabilities
- In FY2015, the State transferred \$3 billion from the CBRF to PERS and TRS



# Funding Status

*The funding status of PERS and TRS improved significantly in FY2015.*

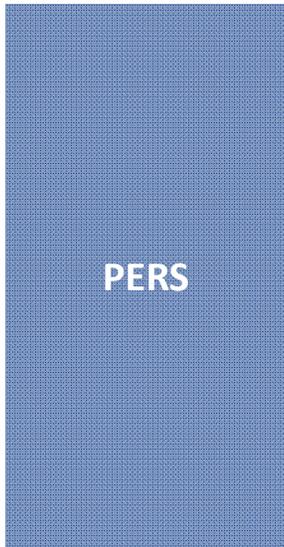
- Preliminary FY2015 valuations illustrate the State's improving funding status across all areas of its PERS and TRS programs<sup>(1)</sup>
- FY2015 figures reflect the impact of the State's \$3 billion transfer from the CBRF
  - \$1 billion PERS
  - \$2 billion TRS
- Defined Benefit OPEB funding is near or above 100% for both PERS and TRS
- Defined Contribution funding has also improved and is near or above 100%

Funded Status as of June 30 (\$'s in 000's)	PERS		TRS	
	2014	2015	2014	2015
<b>DB - Pension</b>				
a. Actuarial Accrued Liability	\$ 12,947,759	\$ 13,337,929	\$ 6,921,362	\$ 7,051,984
b. Valuation Assets	7,731,438	8,931,160	3,771,139	5,422,651
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	59.7%	67.0%	54.5%	76.9%
<b>DB - Healthcare</b>				
a. Actuarial Accrued Liability	\$ 7,949,613	\$ 7,350,183	\$ 2,919,670	\$ 2,677,381
b. Valuation Assets	6,913,160	7,242,299	2,248,135	2,686,272
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	87.0%	98.5%	77.0%	100.3%
<b>DB - Total</b>				
a. Actuarial Accrued Liability	\$ 20,897,372	\$ 20,688,112	\$ 9,841,032	\$ 9,729,365
b. Valuation Assets	14,644,598	16,173,459	6,019,274	8,108,923
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	70.1%	78.2%	61.2%	83.3%
<b>DCR - Pension</b>				
a. Actuarial Accrued Liability	\$ 3,627	\$ 5,309	\$ 23	\$ 29
b. Valuation Assets	14,995	19,014	2,820	3,114
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	413.4%	358.1%	12260.9%	10737.9%
<b>DCR - Healthcare</b>				
a. Actuarial Accrued Liability	\$ 50,217	\$ 58,683	\$ 16,273	\$ 19,768
b. Valuation Assets	26,466	44,188	10,791	17,733
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	52.7%	75.3%	66.3%	89.7%
<b>DCR - Total</b>				
a. Actuarial Accrued Liability	\$ 53,844	\$ 63,992	\$ 16,296	\$ 19,797
b. Valuation Assets	41,461	63,202	13,611	20,847
c. Funded Ratio based on Valuation Assets, (b) ÷ (a)	77.0%	98.8%	83.5%	105.3%

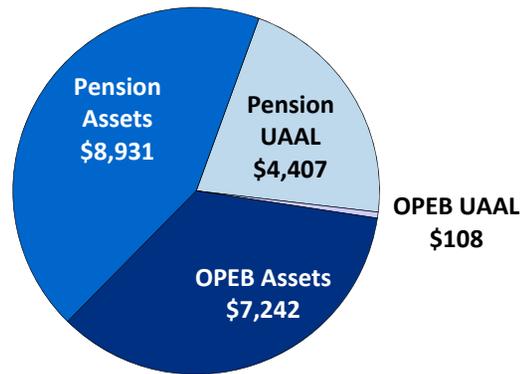
(1) June 30, 2015 figures are estimates and subject to change.



# Retirement System Overview (TRS and PERS)



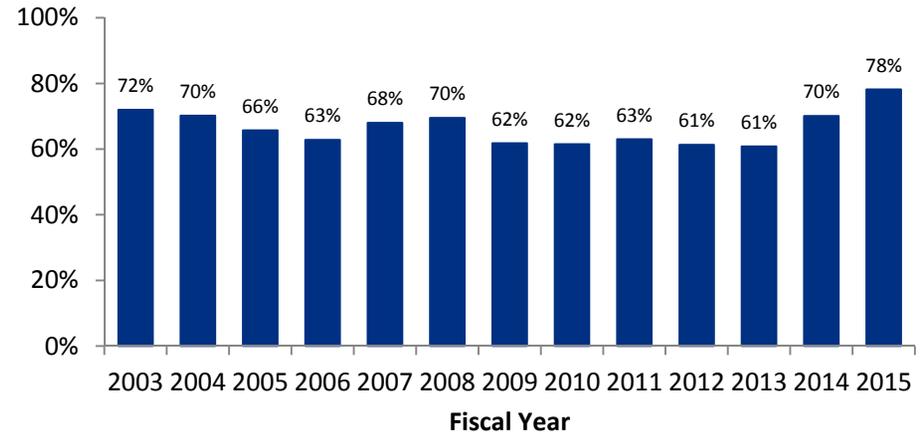
**PERS DB Pension and OPEB<sup>(1)</sup>**  
June 30, 2015



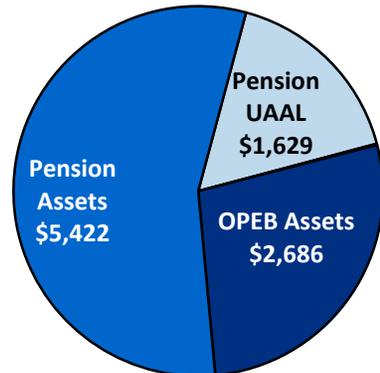
Total Accrued Liability: \$20.688 billion  
Aggregate Funded Ratio: 78.2%

**PERS Historical Funding Status (Pension and OPEB)**

FY 2003 – FY 2015



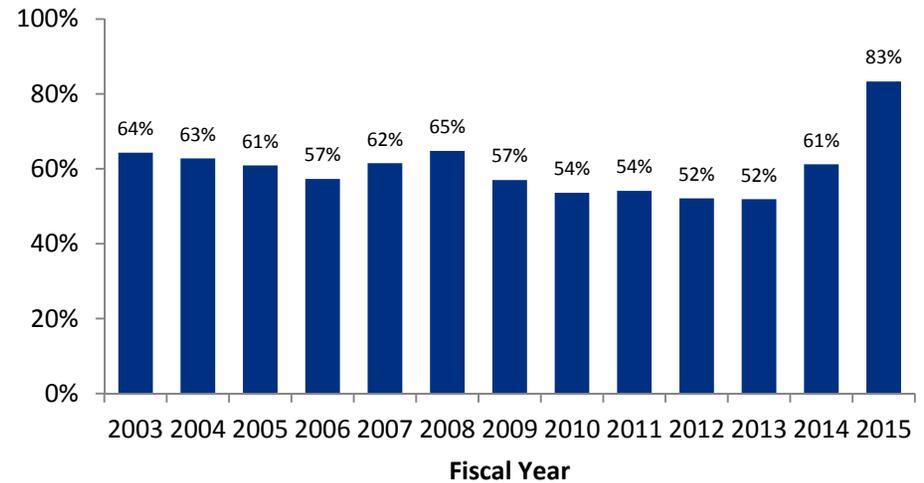
**TRS Pension and OPEB<sup>(1)</sup>**  
June 30, 2015



Total Accrued Liability: \$9.729 billion  
Aggregate Funded Ratio: 83.3%

**TRS Historical Funding Status (Pension and OPEB)**

FY 2003 – FY 2015



<sup>1</sup>Pie chart figures are estimates as of June 30, 2015. Draft figures are subject to change.

Other Pension Systems of the State include: National Guard and Naval Militia System, Elected Public Officers System, Supplemental Annuity Plan, Deferred Compensation Plan, Defined Contribution Plan



# Potential POB Transaction Summary and Rationale

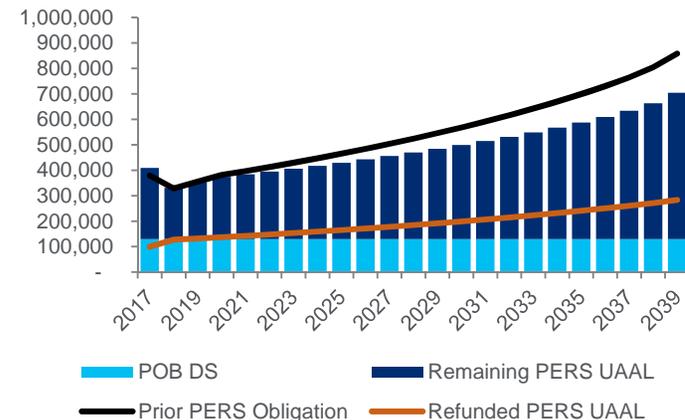
*The State has continued to explore a pension obligation bond transaction as authorized by the Legislature in 2008.*

- In 2008, the Legislature authorized the issuance of up to \$5.0 billion of Pension Obligation Bonds through the Alaska Pension Obligation Bond Corporation (“APOBC” or “Corporation”)
- The issuance of POBs would build upon the State’s prior pension reforms and lump-sum payment deposits as part of the State’s larger Fiscal Plan
- The Corporation’s POBs would be secured by a Funding Agreement between the State and the Corporation
  - The State’s obligation would be subject to annual appropriation by the State Legislature
- The State is considering a conservative structure that:
  - Takes advantage of favorable market conditions in the taxable municipal market
  - Maintains existing pension asset allocation and investment strategy
  - Stabilizes the State budget for pension funding
    - Increases annual appropriations near term/not done for budgetary relief
    - Conservative level debt service likely
    - May include variable rate debt component for asset/liability matching
- No POB will be pursued until reviewed through the legislative process and the State would revisit with the Rating Agencies

**Total TRS System**



**Total PERS System**





## 6. Conclusion

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# Conclusion

*State will continue to update the rating agencies on its budget and fiscal outlook.*

## Strong Focus on Long Term Fiscal Stability

- The State has prudently managed its reserves, annual expenditures, and investments in both high and low oil price environments
- The State's approach to capital investment and debt remains conservative
- Relatively small amount of outstanding State supported debt, which is conservatively structured
- Revising approach to use of strong asset and revenue base

## Robust Liquidity and Investment Income

- Despite draws on reserves, Alaska continues to have a substantial liquidity position
- Total reserve balance of over \$60.5 billion; Short-term reserve balance of \$15.5 billion (1/1/2016)
- Investment revenue now represents the largest component of total State revenue

## Significant Progress Restructuring Alaska's Fiscal Framework

- New Sustainable Alaska Plan restructures Alaska's General Fund Budget away from volatile oil prices
- Largest component of plan leverages existing revenue; new revenues remain modest
- Secures ability to pay dividends for Alaskans
- Significant spending reductions have been enacted and additional spending reductions are planned

## Credit Milestones: Next 90 Days

- Receipt of rating for Series 2016 Bond Anticipation Notes – **March 1**
- Spring 2016 Revenue Sources Book – **April 2016**
- End of Regular Legislative Session – **April 17, 2016**
- Credit update and discussion – **April/May 2016, and ongoing**

