

# STATE OF ALASKA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the State of Alaska, we offer readers of the State's financial statements this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the preceding pages of this report, and the financial statements that follow.

### **Financial Highlights**

#### **Government-wide**

- The assets of the State exceeded its liabilities at the close of FY 11 by \$66.3 billion (net assets). Of this amount, \$6.4 billion is invested in capital assets, \$39.5 billion is restricted for various purposes, and unrestricted net assets are \$20.4 billion. Unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors.
- The State's total net assets increased by \$9.8 billion as a result of this year's operations. This increase is primarily attributable to petroleum related income and interest and investment gains compared to the previous year.

#### **Fund level**

- Beginning in FY 10 the State implemented GASB Statement 54, which provides new fund balance classifications for governmental funds. The previous reserved and unreserved classifications have been replaced with nonspendable, restricted, and unrestricted balances. Additional information on the State's fund balances can be found in Note 1 in the notes to the basic financial statements.
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$59.6 billion, with \$20.7 billion unrestricted (includes committed, assigned, and unassigned), \$38.4 billion nonspendable, and \$540 million restricted to specific purposes such as development, debt, and education. The nonspendable fund balance includes \$37.8 billion of the Alaska Permanent Fund principal with the remaining related to nonspendable assets such as inventory, compensating balances, advances and prepaid items, and the principal of other nonmajor permanent funds.
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was a surplus of \$17.5 billion. This is an increase of \$2.2 billion from FY 10. The increase is mainly attributable to petroleum related income.

#### **Long-term debt**

- As a result of this year's activity, the State's total long-term debt increased by \$241 million (10 percent). The increase in debt is primarily due to the sale of general obligation bonds. Pollution Remediation long term liability also increased based on new sites and the valuation of existing sites.

### **Overview of the Financial Statements**

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements (reporting on the State as a whole)**

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business. It includes all of the State's funds and component units except for fiduciary funds. However, the primary focus of the statements is clearly on the State and the presentation allows the user to address the relative relationship with the discretely presented component units.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets should serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three activities:

- **Governmental Activities** – Most of the State's basic services are reported in this category. Governmental activities are principally supported by interest and investment income, taxes, rents and royalties, and intergovernmental revenues. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- **Business-type Activities** – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's International Airports Fund, the various loan funds, and the Unemployment Compensation fund are examples of business-type activities.
- **Discretely Presented Component Units** – Component units are legally separate organizations for which the State is financially accountable. The State has one university and ten corporations and authorities that are reported as discretely presented component units of the State.

The government-wide financial statements are statement numbers 1.01 and 1.02.

This report includes two statements (statement numbers 1.12 and 1.14) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting.

- Capital assets (land, buildings, equipment, infrastructure, intangibles, and construction in progress) used in governmental activities are not reported in governmental fund statements.
- Internal service funds are reported as governmental activities in the government-wide financial statements, but are reported as proprietary funds in the fund financial statements.
- Certain revenues, unavailable to pay for current period expenditures, are not reported in the governmental fund statements.
- Unless due and payable in the current period, certain long-term liabilities such as capital lease obligations, compensated absences, litigation, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets in the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities in the government-wide statements, but are recorded as other financing sources in the governmental fund statements.

### **Fund Financial Statements (reporting on the State's major funds)**

The fund financial statements are statement numbers 1.11 through 1.42 and provide detailed information about the major individual funds. The State has three major funds, the General Fund, the Alaska Permanent Fund, which are included in the governmental fund statements, and the International Airports Fund, which is included in the proprietary fund statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Alaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. We have also included the discretely presented component units in the fund financial statements and include detailed information on the three major component units, the University of Alaska, Alaska Housing Finance Corporation, and Alaska Industrial Development and Export Authority.

**Governmental funds** – Most of the State's basic services are reported in the governmental funds. Governmental funds include the General Fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. Governmental fund financial statement focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund financial statements are statement numbers 1.11 through 1.14.

As mentioned earlier, the State has only two major governmental funds, the Alaska Permanent Fund and the General Fund. Together these two funds represent 96.8 percent of total government-wide cash and investments and 87.4 percent of total government-wide net assets (excluding component units). The governmental funds financial statements present detail on each of these funds, with summarized information on all other governmental funds. In addition, detail for each of the nonmajor governmental funds is available in combining statements elsewhere in this report.

The State's main operating fund is the General Fund. However, the State maintains many accounts and subfunds within the General Fund, including the Constitutional Budget Reserve Fund, the Statutory Budget Reserve Fund, the Permanent Fund Dividend Fund, and the Public Education Fund. Because of materiality and public interest in these funds, individual fund data for each of these subfunds is provided in the combining statement for the General Fund elsewhere in this report.

**Proprietary funds** – When the State charges customers for the services it provides, whether to outside customers or to other State agencies, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private-sector businesses. Enterprise funds are used to report activities that provide supplies and services to the general public. The State uses enterprise funds to account for activities such as international airports operations, various loan funds, and the unemployment compensation fund. These activities are reported within business-type activities on the government-wide financial statements.

Internal service funds account for activities that provide supplies and services for other State programs. These include, among others, the State's equipment fleet and data processing/telecommunications. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements are statement numbers 1.21 through 1.23. The International Airports Fund is a major enterprise fund of the State of Alaska. The International Airports Fund is 8 percent of total government-wide liabilities (excluding component units). The proprietary funds financial statements present detail on this fund with summarized information on all other proprietary funds. In addition, detail for each of the nonmajor proprietary funds is provided in the combining statements elsewhere in this report.

**Fiduciary funds** – The State acts as a trustee or fiduciary for its employee pension plans. In addition, it is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These funds, which include pension (and other employee benefit) and agency funds, are reported using accrual accounting. Since fiduciary assets are restricted in purpose and are not available to support the State's own programs, these fiduciary assets are not presented as part of the government-wide financial statements.

The fiduciary fund financial statements are statement numbers 1.31 and 1.32.

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the component unit statement of activities (statement number 1.42).

### **Additional Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents a budgetary comparison schedule for the General Fund reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end (statement number 2.01).

### **Other Supplementary Information**

Other supplementary information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds, as well as nonmajor discretely presented component units. These nonmajor funds are added together by fund type and presented in single columns in the basic financial statements, but are not reported individually on the fund financial statements. Only the major funds, the General Fund, the Alaska Permanent Fund, and the International Airports Fund are presented individually on the primary government fund financial statements. Schedules of revenues, expenditures, and changes in fund balances – budget and actual are also presented for all governmental funds with annually adopted budgets.

### **Government-wide Financial Analysis**

As noted earlier, net assets should serve over time as a useful indicator of a government's financial position. State assets exceeded liabilities by \$66.3 billion at the close of the most recent fiscal year (see table below). By far the largest portion of

the State's net assets (61 percent) reflects its investments held in the Alaska Permanent Fund. However, the majority of these assets are not available for future spending since the principal of the fund (\$37.8 billion) may not be spent.

The remainder of the State's net assets (39 percent) represents amounts invested in capital assets net of related debt (\$6.4 billion), resources that are subject to external restrictions of how they may be used (\$1.7 billion), and unrestricted net assets of \$20.4 billion, of which \$2.3 billion is within the Alaska Permanent Fund.

<b>Net Assets</b>						
(Stated in millions)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Current and Other Noncurrent Assets	\$ 65,939	\$ 54,280	\$ 1,105	\$ 1,109	\$ 67,044	\$ 55,389
Capital Assets	6,403	6,237	1,266	1,244	7,669	7,481
<b>Total Assets</b>	<b>72,342</b>	<b>60,517</b>	<b>2,371</b>	<b>2,353</b>	<b>74,713</b>	<b>62,870</b>
Long-term Liabilities	2,168	1,958	604	573	2,772	2,531
Other Liabilities	5,648	3,887	20	18	5,668	3,905
<b>Total Liabilities</b>	<b>7,816</b>	<b>5,845</b>	<b>624</b>	<b>591</b>	<b>8,440</b>	<b>6,436</b>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	5,619	5,430	783	766	6,402	6,196
Restricted	38,808	32,819	671	679	39,479	33,498
Unrestricted	20,099	16,423	293	317	20,392	16,740
<b>Total Net Assets</b>	<b>\$ 64,526</b>	<b>\$ 54,672</b>	<b>\$ 1,747</b>	<b>\$ 1,762</b>	<b>\$ 66,273</b>	<b>\$ 56,434</b>

The net assets of governmental activities increased \$9,854 million and business-type activities decreased \$15 million as a result of this year's operations. The increase for governmental activities is primarily due to petroleum related income and interest and investment gains compared to the previous year. The decreases in business-type activities is primarily due to interest and investment losses.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during FY 11.

	<b>Changes in Net Assets</b>					
	(Stated in millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 3,091	\$ 2,563	\$ 311	\$ 291	\$ 3,402	\$ 2,854
Operating Grants	2,029	1,913	107	100	2,136	2,013
Capital Grants	659	591	48	84	707	675
<b>General Revenues</b>						
Taxes	5,382	3,601	-	-	5,382	3,601
Interest and Investment Income/(Loss)	8,075	4,529	(16)	(13)	8,059	4,516
Payments In from Component Units	43	40	-	-	43	40
Other Revenues	78	70	-	11	78	81
<b>Total Revenues</b>	<b>19,357</b>	<b>13,307</b>	<b>450</b>	<b>473</b>	<b>19,807</b>	<b>13,780</b>
<b>Expenses</b>						
General Government	466	423	-	-	466	423
Alaska Permanent Fund Dividend	818	817	-	-	818	817
Education and University	2,315	2,093	-	-	2,315	2,093
Health and Human Services	2,420	2,262	-	-	2,420	2,262
Law and Justice	188	241	-	-	188	241
Public Protection	740	697	-	-	740	697
Natural Resources	394	343	-	-	394	343
Development	893	319	3	2	896	321
Transportation	1,027	1,135	-	-	1,027	1,135
Intergovernmental	190	178	-	-	190	178
Debt Service	51	48	-	-	51	48
Loans	-	-	5	5	5	5
Unemployment Compensation	-	-	325	340	325	340
Airports	-	-	134	115	134	115
<b>Total Expenses</b>	<b>9,502</b>	<b>8,556</b>	<b>467</b>	<b>462</b>	<b>9,969</b>	<b>9,018</b>
<b>Excess (Deficiency) of Revenues</b>						
Over Expenditures	9,855	4,751	(17)	11	9,838	4,762
Transfers	(1)	(5)	1	5	-	-
<b>Change in Net Assets</b>	<b>9,854</b>	<b>4,746</b>	<b>(16)</b>	<b>16</b>	<b>9,838</b>	<b>4,762</b>
Net Assets - Beginning of Year	54,672	49,926	1,762	1,746	56,434	51,672
<b>Net Assets - End of Year</b>	<b>\$ 64,526</b>	<b>\$ 54,672</b>	<b>\$ 1,746</b>	<b>\$ 1,762</b>	<b>\$ 66,272</b>	<b>\$ 56,434</b>

**Financial Analysis of the State's Funds**

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unassigned, assigned, and committed fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$59.6 billion, an increase of \$9.8 billion in comparison with the prior year. This increase is from petroleum related income and the Alaska Permanent Fund investment gains.

The General Fund unassigned and committed fund balances, which are available for spending at the government's discretion, had balances of \$13.1 billion, and \$4.4 billion, respectively. The Alaska Permanent Fund (earnings reserve account) had an assigned fund balance of \$2.3 billion, and the remaining nonmajor governmental funds had committed fund balances of \$817 million. The remainder of fund balance is restricted or nonspendable to indicate that it is not available for new spending such as the principal of the Alaska Permanent Fund (\$37.8 billion), and other items that are nonspendable, such as inventory, compensating balances, advances and prepaid items, and principal (\$576 million), and amounts restricted for a variety of other purposes (\$540 million).

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unrestricted fund balance (includes committed, assigned, and unassigned) of the General Fund was \$17.5 billion, while total fund balance reached \$17.8 billion. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. Unrestricted fund balance represents 188 percent of total General Fund expenditures, while total fund balance represents 191 percent of that same amount.

The fund balance of the State's General Fund increased by \$2.2 billion during the current fiscal year. The key factor in this increase is petroleum related income.

There was no appropriated borrowing from the Constitutional Budget Reserve Fund during the fiscal year and the fund remains paid in full.

General Fund revenues for FY 11 were \$11.2 billion, an increase of \$2.4 billion compared to revenues of \$8.8 billion for FY 10. Revenues by source for FY 11 are compared to FY 10 in the following schedule (in millions):

Revenue Source	FY 11	Percent	FY 10	Percent
Taxes	\$ 5,358.3	47.9%	\$ 3,578.9	40.7%
Rents and Royalties	1,875.8	16.8%	1,548.0	17.6%
Interest and Investment Income/(Loss)	1,159.0	10.3%	925.1	10.5%
Federal	2,407.9	21.5%	2,394.1	27.2%
Miscellaneous	385.6	3.5%	356.6	4.0%
Total Revenue	\$ 11,186.6	100.0%	\$ 8,802.7	100.0%

The primary component of this revenue increase is petroleum related income compared to the previous year. These petroleum revenues include corporate income tax, severance tax, and rents and royalties.

**Alaska Permanent Fund**

The Alaska Permanent Fund (fund) is an asset of the State of Alaska that is managed by the Alaska Permanent Fund Corporation, an instrumentality of the State of Alaska.

In 1976 the Alaska constitution was amended to provide that: *At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the General Fund unless otherwise provided by law.*

The fund is made up of two parts.

- **Nonspendable Fund Balances:** The nonspendable fund balances, or principal, include all historical contributions and appropriations, which are the main body of the fund. At June 30, 2011, this amounted to \$33.0 billion. The sources of contributions and appropriations of the fund, since inception, were as follows: \$12.8 billion in dedicated mineral revenues; \$13.2 billion of fund realized earnings transferred to principal for inflation proofing; \$6.9 billion in additional deposits approved by special legislative appropriation, and \$153 million in settlement earnings (*State v. Amerada Hess, et al.*).

A portion of accumulated unrealized appreciation on invested assets is also part of the nonspendable fund balances. The unrealized amounts allocated to contributions and appropriations are nonspendable, unless and until they become realized, at which point they will be transferred to the assigned fund balance. The portion of the unrealized appreciation at the end of the fiscal year allocated to principal amounted to \$4.8 billion.

- **Assigned Fund Balances:** The assigned fund balances, which are available for legislative appropriation, consist of the realized earnings of the fund and a portion of accumulated unrealized appreciation. From inception through June 30, 2011, realized earnings (both gains and losses) have amounted to \$39.2 billion. Of this amount \$19.2 billion has been paid out for dividends, \$13.3 billion has been transferred to principal for inflation proofing, \$4.3 billion has been added to principal by special appropriation, \$400 million has been paid out to the General Fund, and \$2.0 billion remains in the fund at June 30, 2011 in the realized earnings account. The portion of the unrealized appreciation at the end of the fiscal year allocated to the assigned fund balance amounted to \$292.1 million.

### General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was a \$1.9 billion increase in appropriations (or 12 percent) and can be briefly summarized as follows:

- \$1,150.8 million allocated to education
- \$210.8 million allocated to transportation
- \$210.6 million allocated to development
- The balance is allocated across several expenditure functions.

Of this overall increase in appropriated expenditures, \$295.5 million was funded out of an increase in interagency receipts, which represent purchases between departments, and \$111.1 million was funded out of an increase in federal grants in aid, which is predominantly related to revenues received under the American Recovery and Reinvestment Act of 2009. The remaining increase was funded with money available within the General Fund.

Budgets for these program areas are difficult to predict. It is not unusual for additional budget authority to be granted when new funding sources become available. However, the increase in the final budget for education is easily identifiable. The increase in budgetary authority for the education function is mainly attributable to additional funding necessary to support the education formula-driven programs within the Public Education Fund, a subfund of the General Fund. Expenditures for public education and pupil transportation are not included in the original budget.

**Capital Assets and Debt Administration**

**Capital assets.** The State's investment (net of related debt) in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$6.4 billion. The table below displays total capital assets, net of accumulated depreciation. Depreciation charges for FY 11 totaled \$357 million for governmental activities and \$59 million for business-type activities.

**Capital Assets**

(net of depreciation, in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Land	\$ 844	\$ 823	\$ 30	\$ 30	\$ 874	\$ 853
Buildings	1,128	1,115	738	746	1,866	1,861
Equipment	439	440	31	29	470	469
Infrastructure	2,476	2,499	407	362	2,883	2,861
Construction in Progress	1,516	1,359	60	77	1,576	1,436
<b>Total Capital Assets</b>	<b>\$ 6,403</b>	<b>\$ 6,236</b>	<b>\$ 1,266</b>	<b>\$ 1,244</b>	<b>\$ 7,669</b>	<b>\$ 7,480</b>

In FY 11, increases were primarily in construction in progress with an increase of \$140 million. This increase is attributable to large capital budgets in recent years. Additional information on the State's capital assets can be found in Note 5 in the notes to the basic financial statements.

**Long-term debt.** At the end of the current fiscal year, the State had total bonded debt outstanding of \$1,672 million. Of this amount, \$656 million was general obligation bonds, and \$1,016 million of revenue bonds payable comprised of \$370 million issued by the Northern Tobacco Securitization Corporation (NTSC), \$52 million of sport fishing revenue bonds, and \$594 million issued by the International Airport Fund. The general obligation bonds are secured by the full faith, credit, and resources of the State, whereas the NTSC bonds are secured by and payable solely from Tobacco Settlement Revenues (TSRs). Neither the State of Alaska, nor the Alaska Housing Finance Corporation (of which NTSC is a subsidiary) is liable for any debt issued by NTSC. The sport fishing revenue bonds are secured by the sport fishing facilities surcharge imposed under AS 16.05.340 and related federal revenues. The remaining \$594 million are International Airports revenue bonds secured solely by specified revenue sources. The general obligation, NTSC, and sport fishing bonds are reported as governmental activities debt, and the International Airports bonds are reported as business-type activities debt.

**Long-term Debt**

(Stated in millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 11	FY 10	FY 11	FY 10	FY 11	FY 10
Revenue Bonds Payable	\$ 422	\$ 426	\$ 594	\$ 562	\$ 1,016	\$ 988
General Obligation Debt	656	490	-	-	656	490
Capital Leases Payable	393	410	-	-	393	410
Deferred Revenues and Advances	344	302	4	4	348	306
Certificates of Participation	40	46	-	-	40	46
Compensated Absences	161	154	5	4	166	158
Claims and Judgments	75	75	-	1	75	76
Pollution Remediation	74	53	1	2	75	55
Other Noncurrent Liabilities	1	1	-	-	1	1
Net Pension Obligation	2	1	-	-	2	1
<b>Total</b>	<b>\$ 2,168</b>	<b>\$ 1,958</b>	<b>\$ 604</b>	<b>\$ 573</b>	<b>\$ 2,772</b>	<b>\$ 2,531</b>

The State's total debt increased by \$241 million (10 percent) as a result of this year's operations. The increase in debt is primarily due to the sale of general obligation bonds. Pollution Remediation long term liability also increased based on new sites and the valuation of existing sites.

Additional information of the State's long-term debt can be found in Note 6 in the notes to the basic financial statements.

### **Significant Facts**

State petroleum revenues increased materially from FY 10 to FY 11. The weighted average production tax rate was higher and was applied to a wellhead value of \$86.69 per barrel. In FY 10 \$68.89 per barrel average was realized. This resulted in an increase of General Fund tax revenue of \$2 billion from FY 10.

Another significant factor affecting revenues was an increase of \$3.5 billion in interest and investment income between FY 10 and FY 11. The majority of this amount is from investment gains in the Alaska Permanent Fund. The fund experienced a total fund return of 20.6% for FY 11. This was the third highest return in the history of the fund. The fund has recovered the losses of FY 08 and FY 09 and is again at its pre-2008 global financial crisis value of \$40 billion.

On December 7, 2010 the State sold \$200.0 million of general obligation bonds. The majority were structured under Build America bonds under ARRA.

### **Economic Factors and Next Year's Budgets and Rates**

- The State's average unemployment rate for FY 11 was 7.7 percent, which is lower than the average unemployment rate for FY 10 of 8.1 percent. Alaska's five year average (2007 to 2011) was 7 percent. The United States unemployment rate for FY 11 was 9.3 percent.
- The State's major source of unrestricted revenue for the General Fund is petroleum related, which accounted for 61 percent of total revenue, with federal revenue making up another 22 percent, and the balance coming from other sources. As a result, the State's budget is structured around these two revenue sources. During the fiscal year the price per barrel increased, resulting in higher tax rate and an increase of \$2 billion in petroleum revenues. Federal funds are generally restricted for use in federal programs and therefore do not provide resources for balancing the State budget.
- FY 11 crude oil and natural gas liquids production for the Alaska North Slope and Cook Inlet averaged 596 thousand barrels per day. This is 52 thousand barrels per day less than in the prior year. FY 11 production, compared to peak production of 2.049 million barrels per day in FY 88, has declined by 71 percent.
- The State of Alaska FY 11 budgeted expenditures include certain items that are unique to Alaska, such as the Alaska Permanent Fund Dividend and State-operated Pioneer Homes. The Alaska Permanent Fund Dividend (\$1,281/resident) was paid to each qualifying Alaskan for a total of \$818 million.

### **Requests for Information**

This financial report is designed to provide a general overview of the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Alaska, Division of Finance, P.O. Box 110204, Juneau, AK 99811-0204.