

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, 2014. 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 and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the close of FY 14 by \$82.1 billion (net position). Of this amount, \$7.1 billion is invested in capital assets, \$46.7 billion is restricted for various purposes, and unrestricted net position is \$28.3 billion. Unrestricted net position may be used to meet the State's ongoing obligations to citizens and creditors.
- The State's total net position increased by \$6.1 billion as a result of this year's operations. This increase is primarily attributable to interest and investment gains.

Fund level

- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$74.6 billion, with \$28.6 billion unrestricted (includes committed, assigned, and unassigned), \$45.8 billion nonspendable, and \$231 million restricted to specific purposes such as development, debt, and education. The nonspendable fund balance includes \$45.0 billion of the Alaska Permanent Fund principal with the remaining related to nonspendable assets such as inventory, 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 \$22.3 billion. This is a decrease of \$0.1 billion from FY 13. The decrease is mainly attributable to a decrease in taxes collected by the State.

Long-term debt

- As a result of this year's activity, after taking into account the effect of a prior period adjustment, the State's total long-term debt decreased by \$177 million (6.21 percent). The decrease in debt is primarily due to a decrease in unearned revenue, a decrease in outstanding revenue bonds, as well as a decrease in general obligation bonds. Additional information regarding long-term debt can be found in Note 6. Additional information regarding prior period adjustments can be found in Note 3.

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 position presents information on all of the State's assets, liabilities and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 97.5 percent of total government-wide cash and investments and 89.8 percent of total government-wide net position (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 9.2 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 Position and Statement of Changes in Fiduciary Net Position. 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 (RSI)

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 position should serve over time as a useful indicator of a government's financial position. State assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$82.1 billion at the close of the most recent fiscal year (see table below). By far the largest portion of the State's net position (62.4 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 (\$45.0 billion) may not be spent.

The remainder of the State's net position (37.6 percent) represents net investment in capital assets (\$7.1 billion), resources that are subject to external restrictions of how they may be used (\$1.6 billion), and the remaining unrestricted net position of \$22.2 billion, which excludes \$6.2 billion that is in the Alaska Permanent Fund.

Net Position
(Stated in millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---------------------------------------|-------------------------------------|------------------|-----------------------------|-----------------|-----------------------------|------------------|
| | FY 14 | FY 13 | FY 14 | FY 13 | FY 14 | FY 13 |
| | Current and Other Noncurrent Assets | \$ 78,597 | \$ 75,016 | \$ 1,313 | \$ 1,237 | \$ 79,910 |
| Capital Assets | 6,951 | 6,717 | 1,312 | 1,335 | 8,263 | 8,052 |
| Total Assets | 85,548 | 81,733 | 2,625 | 2,572 | 88,173 | 84,305 |
| Deferred Outflows of Resources | 6 | - | - | - | 6 | - |
| Long-term Liabilities | 2,151 | 2,428 | 521 | 572 | 2,672 | 3,000 |
| Other Liabilities | 3,385 | 5,282 | 19 | 18 | 3,404 | 5,300 |
| Total Liabilities | 5,536 | 7,710 | 540 | 590 | 6,076 | 8,300 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 6,205 | 5,940 | 868 | 847 | 7,073 | 6,787 |
| Restricted | 45,797 | 41,812 | 866 | 778 | 46,663 | 42,590 |
| Unrestricted | 28,016 | 26,271 | 351 | 357 | 28,367 | 26,628 |
| Total Net Position | \$ 80,018 | \$ 74,023 | \$ 2,085 | \$ 1,982 | \$ 82,103 | \$ 76,005 |

The net position of governmental activities increased \$5,995 million and business-type activities increased \$103 million as a result of this year's operations. The increase in governmental activities is primarily due to an increase in the Alaska Permanent Fund investment gains. The increase in business-type activities is primarily due to a decrease in unemployment compensation expenditures.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net position changed during FY 14.

| | Changes in Net Position | | | | | |
|---|--------------------------------|------------------|-----------------------------|-----------------|-----------------------------|------------------|
| | (Stated in millions) | | | | | |
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | FY 14 | FY 13 | FY 14 | FY 13 | FY 14 | FY 13 |
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 2,928 | \$ 3,190 | \$ 372 | \$ 359 | \$ 3,300 | \$ 3,549 |
| Operating Grants | 1,810 | 1,867 | 26 | 81 | 1,836 | 1,948 |
| Capital Grants | 681 | 651 | 80 | 109 | 761 | 760 |
| General Revenues | | | | | | |
| Taxes | 2,974 | 4,787 | - | - | 2,974 | 4,787 |
| Interest and Investment Income/(Loss) | 8,236 | 5,208 | (14) | (17) | 8,222 | 5,191 |
| Payments In from Component Units | 23 | 32 | - | 16 | 23 | 48 |
| Other Revenues | 60 | 99 | 5 | 4 | 65 | 103 |
| Total Revenues | <u>16,712</u> | <u>15,834</u> | <u>469</u> | <u>552</u> | <u>17,181</u> | <u>16,386</u> |
| Expenses | | | | | | |
| General Government | 554 | 573 | - | - | 554 | 573 |
| Alaska Permanent Fund Dividend | 571 | 563 | - | - | 571 | 563 |
| Education and University | 2,676 | 2,645 | - | - | 2,676 | 2,645 |
| Health and Human Services | 2,587 | 2,717 | - | - | 2,587 | 2,717 |
| Law and Justice | 270 | 267 | - | - | 270 | 267 |
| Public Protection | 805 | 730 | - | - | 805 | 730 |
| Natural Resources | 383 | 376 | - | - | 383 | 376 |
| Development | 1,123 | 701 | 5 | 5 | 1,128 | 706 |
| Transportation | 1,404 | 1,157 | - | - | 1,404 | 1,157 |
| Intergovernmental | 262 | 287 | - | - | 262 | 287 |
| Debt Service | 65 | 64 | - | - | 65 | 64 |
| Loans | - | - | 10 | 8 | 10 | 8 |
| Unemployment Compensation | - | - | 196 | 259 | 196 | 259 |
| Airports | - | - | 158 | 151 | 158 | 151 |
| Total Expenses | <u>10,700</u> | <u>10,080</u> | <u>369</u> | <u>423</u> | <u>11,069</u> | <u>10,503</u> |
| Excess (Deficiency) of Revenues | | | | | | |
| Over Expenditures | 6,012 | 5,754 | 100 | 129 | 6,112 | 5,883 |
| Transfers | (1) | (23) | 1 | 23 | - | - |
| Change in Net Position | <u>6,011</u> | <u>5,731</u> | <u>101</u> | <u>152</u> | <u>6,112</u> | <u>5,883</u> |
| Net Position - Beginning of Year (restated) | 74,018 | 68,292 | 1,984 | 1,830 | 76,002 | 70,122 |
| Prior Period Adjustment | (11) | - | - | - | (11) | - |
| Net Position - End of Year | <u>\$ 80,018</u> | <u>\$ 74,023</u> | <u>\$ 2,085</u> | <u>\$ 1,982</u> | <u>\$ 82,103</u> | <u>\$ 76,005</u> |

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 \$74.6 billion, an increase of \$5.6 billion in comparison with the prior year. This increase is primarily from 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 \$15.7 billion, and \$6.6 billion, respectively. The Alaska Permanent Fund (earnings reserve account) had an assigned fund balance of \$6.2 billion, and the remaining nonmajor governmental funds had committed fund balances of \$129 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 (\$45.0 billion), and other items that are nonspendable, such as inventory, advances and prepaid items, and principal (\$781 million), and amounts restricted for a variety of other purposes (\$231 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 \$22.3 billion, while total fund balance reached \$22.5 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 220 percent of total General Fund expenditures, while total fund balance represents 223 percent of that same amount.

The fund balance of the State's General Fund decreased by \$0.1 billion during the current fiscal year. Even with the decrease in petroleum related revenue, taxes remain the most significant form of revenue for the State.

General Fund revenues for FY 14 were \$8.8 billion, a decrease of \$1.5 billion compared to revenues of \$10.3 billion for FY 13. Revenues by source for FY 14 are compared to FY 13 in the following schedule (in millions):

| Revenue Source | FY 14 | Percent | FY 13 | Percent |
|---------------------------------------|------------|---------|-------------|---------|
| Taxes | \$ 2,954.3 | 33.5% | \$ 4,765.8 | 46.1% |
| Rents and Royalties | 1,764.5 | 20.0% | 1,949.6 | 18.8% |
| Interest and Investment Income/(Loss) | 1,279.6 | 14.5% | 766.7 | 7.4% |
| Federal | 2,410.5 | 27.4% | 2,392.4 | 23.1% |
| Miscellaneous | 402.1 | 4.6% | 471.4 | 4.6% |
| Total Revenue | \$ 8,811.0 | 100.0% | \$ 10,345.9 | 100.0% |

The primary component of this revenue decrease is petroleum related income compared to the previous year. The State received \$1.9 billion less in taxes and royalties due to a decrease in wellhead value and changes in tax laws with the passage of the More Alaska Production Act (MAPA) allowing for an increase in tax credits.

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, 2014, this amounted to \$37.9 billion. The sources of contributions and appropriations of the fund, since inception, were as follows: \$15.3 billion in dedicated mineral revenues; \$15.6 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 \$7.1 billion.

- **Assigned Fund Balances:** The assigned fund balances, which are available for legislative appropriation per AS 37.13.145, consist of the realized earnings of the fund and a portion of accumulated unrealized appreciation. From inception through June 30, 2014, realized earnings (both gains and losses) have amounted to \$47.6 billion. Of this amount \$21.7 billion has been paid out for dividends, \$15.6 billion has been transferred to principal for inflation proofing, \$4.3 billion has been added to principal by special appropriation, \$512 million has been paid out to the General Fund, and \$5.4 billion remains in the fund at June 30, 2014 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 \$975 million.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was a \$2.0 billion increase in appropriations (or 11 percent) and can be briefly summarized as follows:

- \$1,182.9 million increase allocated to education
- \$456.5 million increase allocated to transportation
- \$260.0 million increase allocated to public protection
- The balance is allocated across several expenditure functions

Of this overall increase in appropriated expenditures, \$351.3 million was funded out of an increase in interagency receipts, which represent purchases between departments. The remaining increase was funded with money transferred from the Statutory Budget Reserve Fund (SBR) of \$1,920.4 million. Please see note 2 for additional information on the SBR.

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.

The difference between the final amended budget and actual expenditures was a \$6.7 billion decrease (or 34 percent) and can be briefly summarized as follows:

- \$1,495.9 million decrease from the final budget in tax revenue was realized
- \$5,099.0 million decrease from the final budget in federal grants in aid restricted revenue was realized
- \$4,375.8 million decrease in transportation expenditures due to the decrease in federal grants in aid

Capital Assets and Debt Administration

Capital assets. The State's net investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$7.1 billion. The table below displays total capital assets, net of accumulated depreciation. Depreciation charges for FY 14 totaled \$425 million for governmental activities and \$66 million for business-type activities.

Capital Assets

(net of depreciation, in millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-----------------------------|----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-----------------|
| | FY 14 | FY 13 | FY 14 | FY 13 | FY 14 | FY 13 |
| Land | \$ 936 | \$ 912 | \$ 31 | \$ 31 | \$ 967 | \$ 943 |
| Buildings | 1,331 | 1,334 | 739 | 771 | 2,070 | 2,105 |
| Equipment | 461 | 453 | 33 | 36 | 494 | 489 |
| Infrastructure | 2,675 | 2,712 | 413 | 415 | 3,088 | 3,127 |
| Construction in Progress | 1,548 | 1,306 | 96 | 82 | 1,644 | 1,388 |
| Total Capital Assets | \$ 6,951 | \$ 6,717 | \$ 1,312 | \$ 1,335 | \$ 8,263 | \$ 8,052 |

In FY 14, increases were primarily in construction in progress with an increase of \$256 million with a decrease in infrastructure and buildings of \$39 million and \$35 million respectively. 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 \$1,597 million. Of this amount, \$692 million was general obligation bonds, and \$905 million of revenue bonds payable comprised of \$354 million issued by the Northern Tobacco Securitization Corporation (NTSC), \$37 million of sport fishing revenue bonds, and \$514 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 \$514 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 13 | | FY 13 | | FY 13 | |
| | FY 14 | Restated | FY 14 | FY 13 | FY 14 | Restated |
| Revenue Bonds Payable | \$ 391 | \$ 403 | \$ 514 | \$ 565 | \$ 905 | \$ 968 |
| General Obligation Debt | 692 | 743 | - | - | 692 | 743 |
| Notes Payable | 3 | - | - | - | 3 | - |
| Capital Leases Payable | 330 | 342 | - | - | 330 | 342 |
| Unearned Revenues | 333 | 397 | 1 | 1 | 334 | 398 |
| Certificates of Participation | 3 | 5 | - | - | 3 | 5 |
| Compensated Absences | 178 | 176 | 5 | 5 | 183 | 181 |
| Claims and Judgments | 142 | 111 | - | - | 142 | 111 |
| Pollution Remediation | 78 | 99 | 1 | 1 | 79 | 100 |
| Other Noncurrent Liabilities | 1 | 1 | - | - | 1 | 1 |
| Total | \$ 2,151 | \$ 2,277 | \$ 521 | \$ 572 | \$ 2,672 | \$ 2,849 |

The State's total debt decreased by \$177 million (6.21 percent) as a result of this year's operations. The decrease in debt is primarily due to a decrease in unearned revenue and advances as well as a decrease in outstanding revenue bonds and general obligation bonds.

Additional information regarding the restated balances for FY 13 and of the State's long-term debt can be found in Notes 3 and 6 respectively, in the notes to the basic financial statements.

Significant Facts

While the General Fund revenue decreased by \$1.5 billion over all, petroleum related tax and royalty revenue decreased by \$1.9 billion between FY 13 and FY14. The decrease is attributed to a decrease in the price per barrel and MAPA allowing for an increase in tax credits that oil companies are eligible to claim as well as to an increase in tax deductible lease expenditures. Changes to the tax law allowed credits to be used in FY 14 instead of FY 15 and a per barrel tax credit, based upon where the barrel originated, was created.

Another significant factor affecting revenues was an increase of \$3.0 billion in interest and investment income between FY 13 and FY 14. In FY 13 the Alaska Permanent Fund (APF) experienced investment income gain of \$4.4 billion, compared to a gain of \$7.0 billion in FY 14. The APF experienced a total fund return of 15.52 percent for FY 14. FY 2014's results are in the upper half of the range of returns since 1985, which have ranged from -17.96 percent to 25.58 percent. Please see Note 1 for further information regarding this blended component unit and how to obtain the separately issued financial statements.

Economic Factors and Next Year's Budgets and Rates

- The State's average unemployment rate for FY 14 was 6.5 percent, which is lower than the average unemployment rate for FY 13 of 6.7 percent. Alaska's five year average (2010 to 2014) was 7.2 percent. The United States unemployment rate for FY 14 was 6.8 percent.
- Total General Fund revenue for FY 14 was \$8.8 billion. Three sources of revenue accounted for 90 percent of total state revenue; petroleum, investment, and federal revenue. Petroleum accounted for about 48 percent, investment accounted for 15 percent and federal sources accounted for 27 percent of general fund revenue. The State's budget is primarily structured around petroleum and federal revenue. Federal funds are generally restricted for use for federal programs and therefore cannot be used to balance the State budget.
- FY 14 crude oil and natural gas liquids production in the State of Alaska for the North Slope and Cook Inlet areas averaged 547 thousand barrels per day. This is 3 thousand barrels per day more than in the prior year (a state wide effective increase of 1 percent) and can be attributed to an increase of production in the Cook Inlet area. FY 14 production, breaks the pattern of the last 25 years of overall decline and is the first increase in Alaska oil production since 2002 when two new fields, Alpine and Northstar, were added. Overall production decline started in 1988 when production peaked at 2.047 million barrels per day. The current level is now just 26.7 percent of the 1988 peak production.
- The State of Alaska FY 14 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 (\$900/resident) was paid to each qualifying Alaskan for a total of \$571 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.