# Analysis of Governor’s Fiscal Plan

House Judiciary Committee

June 2, 2021

Legislative Finance Division

# Overview of LFD Fiscal Modeling

- Legislative Finance’s fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions
- The baseline assumptions are that current budget levels are maintained, adjusted for inflation. This allows legislators to see the impact of their policy choices
- All long-term models are extremely sensitive to assumptions and inputs

# Overview of LFD Fiscal Model (cont.)

**Revenue Assumptions**

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast
  – This assumes $61 oil in FY22, growing with inflation in future years
  – DNR oil production forecast projects that Alaska North Slope production will increase from 459.7 thousand barrels per day in FY22 to 565.5 thousand barrels per day in FY30
- For the Permanent Fund, we assume actual FY21 returns through the April 30 APFC statement and Callan's 6.20% assumption for FY22 and beyond

# Overview of LFD Fiscal Model (cont.)

## Spending Assumptions

- For **agency operations**, we are currently using the Senate's first committee substitute as our baseline ($3,872.7 million UGF), growing with inflation of 2.0%
  - This budget is used because it did not include any one-time fund sources present in other versions of the budget, so it represents a reasonable starting point.
- For **statewide items**, our baseline is to assume that all items are funded to their statutory levels
  - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, and the PFD
  - We also include a baseline Fund Transfers amount that represents the ongoing cost of DEC's Spill Prevention and Response program
- For the **capital budget**, we assume the Senate's first committee substitute ($176.7 million UGF) growing with inflation of 2.0%
  - This budget is used because it represents the Governor's original amended request without one-time fund sources
- For **supplementals** we assume $50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year

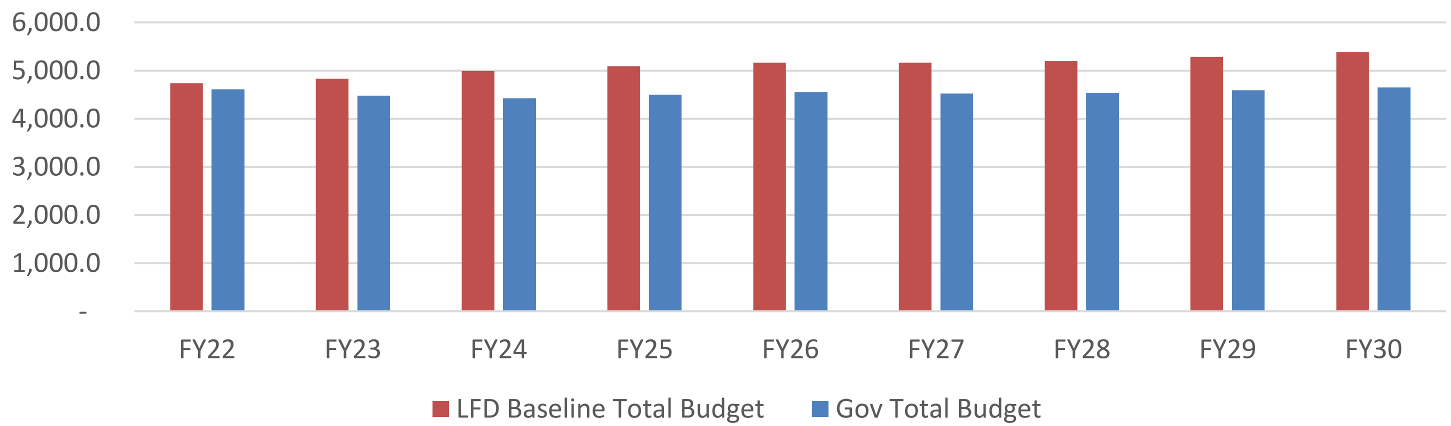
# LFD Baseline Spending Assumptions

| LFD Baseline (as of 6/2) | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|---|---|---|---|---|---|---|---|---|---|
| Agency Ops (SCS1) | 3,872.7 | 3,950.1 | 4,029.2 | 4,109.7 | 4,191.9 | 4,275.8 | 4,361.3 | 4,448.5 | 4,537.5 |
| Statewide (Full Funding) | 653.1 | 661.5 | 740.5 | 757.4 | 742.4 | 655.1 | 596.9 | 596.5 | 599.9 |
| SB55 Reduction* | (25.7) | (25.7) | (25.7) | (25.7) | (25.7) | (25.7) | (25.7) | (25.7) | (25.7) |
| Capital (SCS1) | 176.7 | 180.2 | 183.8 | 187.5 | 191.3 | 195.1 | 199.0 | 203.0 | 207.0 |
| Fund Transfers (SCS1) | 14.6 | 14.6 | 14.6 | 14.6 | 14.6 | 14.6 | 14.6 | 14.6 | 14.6 |
| Supps (Assumption) | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 |
| **Total Budget** | **4,741.4** | **4,830.8** | **4,992.4** | **5,093.6** | **5,164.5** | **5,164.9** | **5,196.1** | **5,286.9** | **5,383.3** |

* Senate Bill 55 (Employer Contributions to PERS) passed the legislature this session but has not yet been incorporated into budget numbers

# Comparison of Governor's 10-Year Plan to LFD Baselines

| Governor Minus LFD Baseline | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Agency Ops Difference | (65.7) | (182.2) | (328.2) | (353.6) | (379.9) | (406.9) | (434.8) | (463.5) | (493.1) | **(3,107.9)** |
| Statewide Difference | (74.9) | (78.2) | (141.4) | (142.3) | (133.0) | (130.7) | (130.7) | (129.8) | (136.4) | **(1,097.4)** |
| Capital Difference | 56.5 | (27.9) | (29.3) | (30.6) | (32.0) | (33.4) | (34.9) | (36.4) | (38.0) | **(206.1)** |
| Fund Transfers Difference | 5.3 | (14.6) | (14.6) | (14.6) | (14.6) | (14.6) | (14.6) | (14.6) | (14.6) | **(111.5)** |
| Supp Difference | (50.0) | (50.0) | (50.0) | (50.0) | (50.0) | (50.0) | (50.0) | (50.0) | (50.0) | **(450.0)** |
| **Total Difference** | **(128.8)** | **(352.9)** | **(563.5)** | **(591.2)** | **(609.5)** | **(635.7)** | **(665.1)** | **(694.3)** | **(732.1)** | **(4,972.9)** |



# Comparison of LFD Baseline to Governor’s 10-Year Plan (cont.)

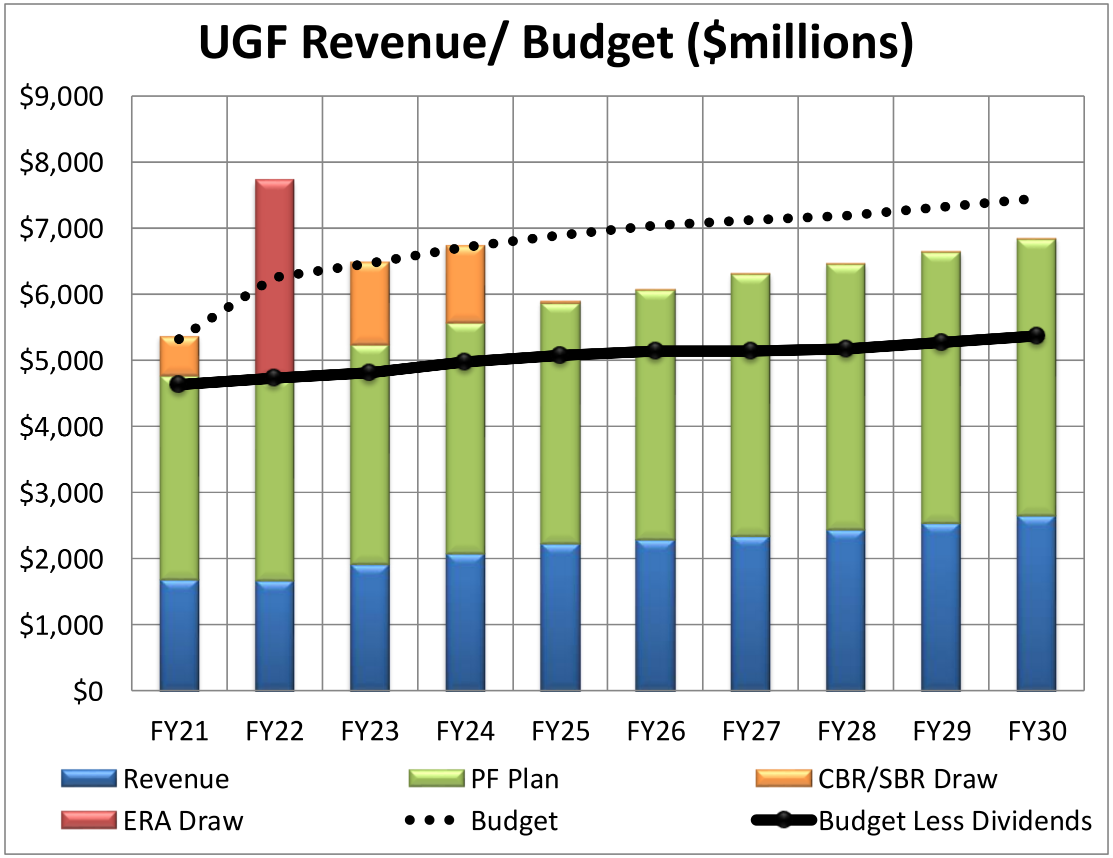
- Governor’s plan calls for permanently funding School Debt Reimbursement and REAA Fund capitalization at 50% of statutory levels
- Calls for $65.7 million less UGF agency operations spending in FY22 than original Senate budget, plus $100 million of additional reductions in each of FY23 and FY24
- Uses 1.5% growth in agency operations versus 2.0% inflation beyond FY24
- No assumed supplementals or fund transfers
- This level of budget reductions is not unattainable, but would require significant policy choices to realize

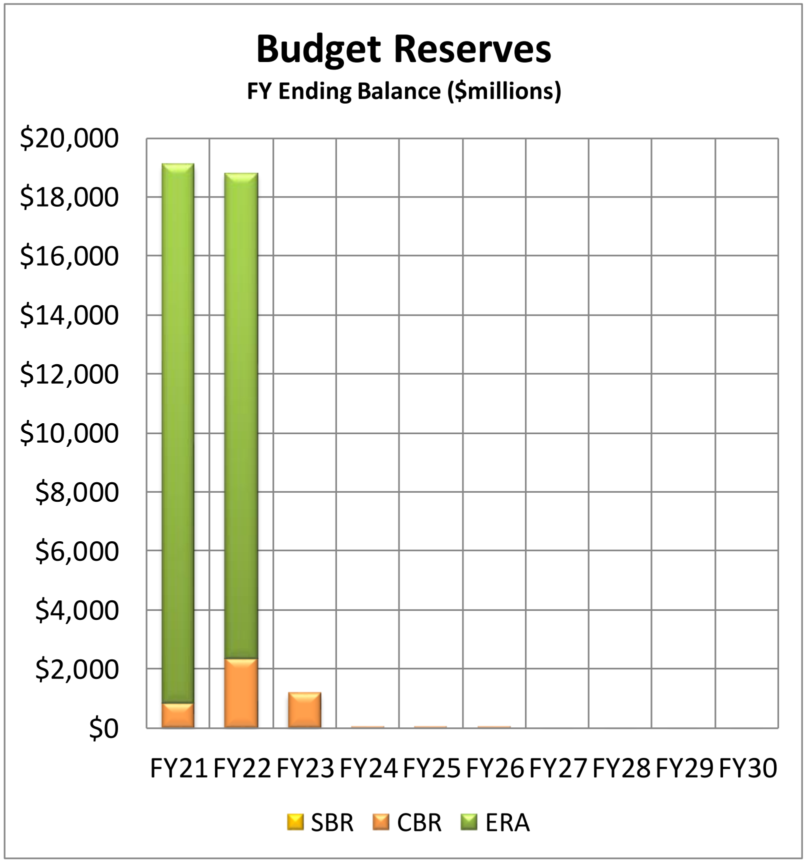
# Analysis of Governor's Comprehensive Fiscal Plan

- Governor uses OMB 10-year plan for spending, which has nearly $5 billion less spending over FY22-30 than current policies reflected in LFD baseline
- Adds $300 million in new revenue (or additional budget reductions) beginning midway through FY24
- Constitutionalizes PFD at 50% of POMV draw

# Fiscal Model: Governor's PF Plan with LFD's Baseline Spending Assumptions

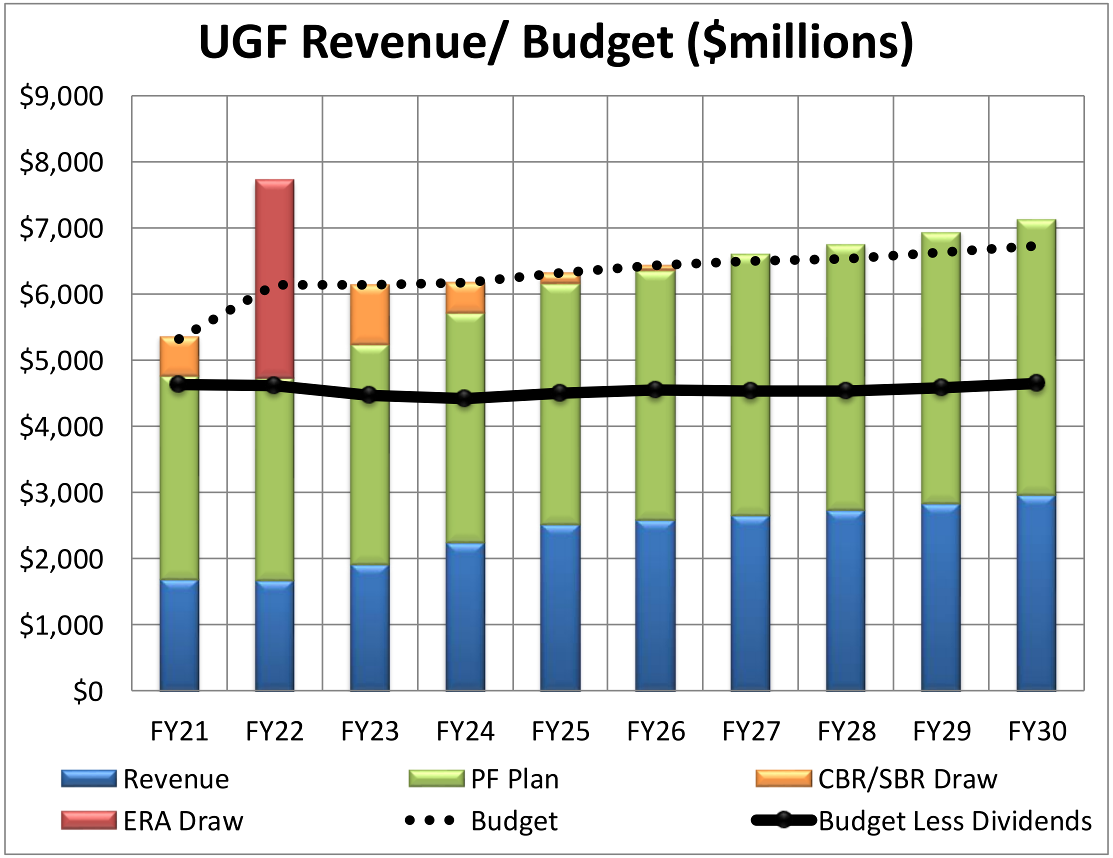
| Surplus/(Deficit) ($millions) | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | -585 | -1,545 | -1,250 | -1,162 | -1,052 | -991 | -842 | -753 | -705 | -637 |

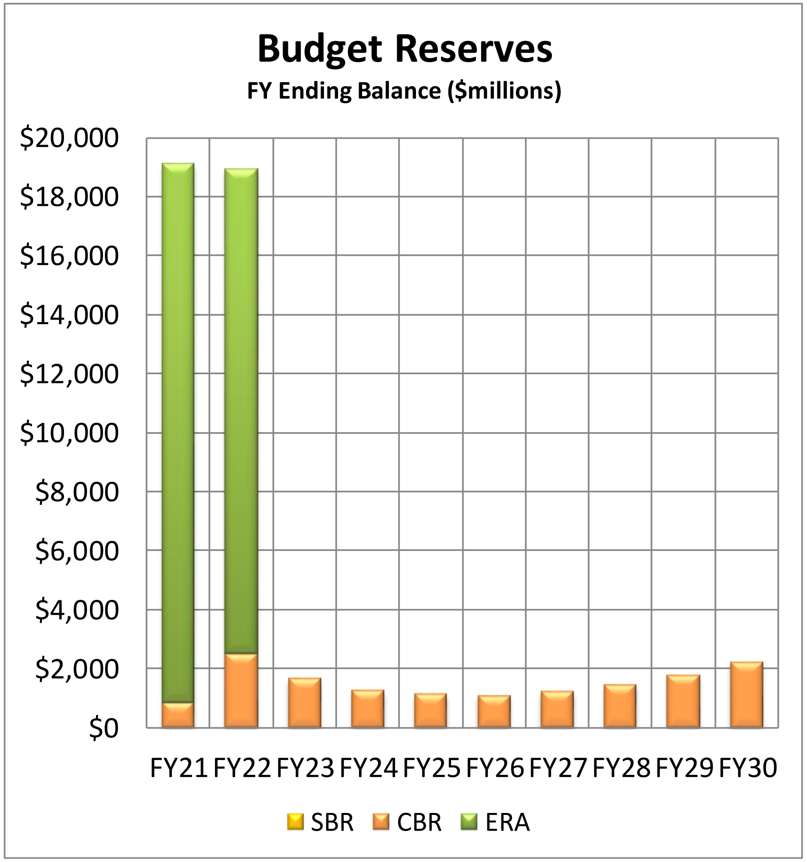


# Fiscal Model: Governor's PF Plan with Governor's Spending Plan

| Surplus/(Deficit) ($millions) | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 |
|---|---|---|---|---|---|---|---|---|---|---|
| | -585 | -1,416 | -897 | -449 | -161 | -82 | 94 | 212 | 289 | 395 |



# Analysis of Governor’s Comprehensive Fiscal Plan (cont.)

- The Governor’s plan works if budget reductions and new revenue are agreed to, and the current revenue forecast is realized.
- If oil revenue is lower than the Spring DOR forecast, more budget reductions or new revenue would be needed to balance the budget than are included in the Governor’s plan.
- Currently, the legislature has four main levers to use to balance the budget: drawing from savings accounts (including the ERA), reducing the PFD, reducing the budget, or increasing revenue. The Governor’s plan removes the first two options, leaving only the last two.
- Without ERA access or significant savings balances, the legislature would be forced to act swiftly to resolve any fiscal imbalance in the future.

# Questions?

**Contact Information**

Alexei Painter
Legislative Fiscal Analyst
(907) 465-5413
Alexei.Painter@akleg.gov

Conor Bell
Fiscal Analyst/Economist
(907) 465-3002
Conor.Bell@akleg.gov

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