Ten Year Budget Forecast Relative to Preliminary Fall 2017 Revenue Projections

The Office of Management and Budget has developed a ten year budget scenario to complement the Department of Revenue's preliminary revenue forecast. While the Governor's budget will be released December, this budget scenario is intended to aid the legislature as it considers the Governor's proposed revenue measure. This budget scenario merely reflects the cost of the current level of services. It does not represent the Governor's FY2019 budget but provides a forecast of the cost if the current legislatively approved state funded services are extended for the next ten years.

This budget forecast does not account for supplemental budgets, new programs, deferred maintenance backlog, new infrastructure, potential revenue risks or any agency growth above inflation. Accounting for known increases on oil tax credits and retirement payments with other items growing only at the rate of inflation, the base budget will grow by almost $1 billion by FY2027.

Continuing deficits of between $2.5 and $3.0 billion per year will persist even with the expectation of additional oil production included in the Department of Revenue forecast. This represents the largest long-term budget deficit in the nation which has depleted $14 billion in savings over five years.

With structured use of Permanent Fund earnings for existing government services anticipated between $1.9 billion and $2.1 billion (contingent on the size of the dividend) the near-term deficit will remain between $600 to $800 million. Conservative budget projections show shrinking deficits, but revenue fails to catch up before the state's primary savings accounts are depleted.

Several possible scenarios could widen the budget gap by hundreds of millions of dollars: if health care costs including Medicaid grow at historic rates rather than simply tracking inflation; if K-12 spending grows at historic rates rather than inflation; if the federal government shifts health care costs onto states; if there is a major disaster; or, if a market crash hinders the Permanent Fund's ability to generate returns. Just one of these items changes the picture significantly.

Preserving a minimum savings balance of at least $2 billion in the Constitutional or Statutory Budget Reserves is essential given our state's size and revenue volatility; $5 billion would be more prudent. Annually, the state has large cash expenditures early in the fiscal year prior to revenues being collected that require reserves above $1 billion. Without reserves, the state would be forced to borrow at more expensive rates. In addition, outside of normal budget items, potential natural disasters such as earthquakes, fires, and floods require the state to maintain reserves.

While the Governor's proposed revenue measure will not balance the budget, it will substantially narrow the gap through new revenues and prudent use of savings. Without these measures the legislature will be faced with making ad hoc draws from the Permanent Fund earnings which reduces the real value of the fund for future generations.

Fortunately, the state has the tools to address its fiscal imbalance without placing undue burden on Alaskans. By implementing a more modest revenue solution today, we can avoid more draconian measures in the coming years. House and Senate Bills 4001, which the Governor introduced at the beginning of this special session, are intended to bridge the gap between savings and spending until revenues grow to meet the state's budget needs. The $300 million from the proposed tax when coupled with continued budget constraint and structured use of Permanent Fund earnings provides Alaska with the fiscal certainty and business confidence to break out of the current recession.

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Status Quo Service Level - Unrestricted General Fund Budget Forecast										
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Agency Operations (Non-Formula)	$ 1,615.0	$ 1,631.6	$ 1,668.3	$ 1,705.8	$ 1,744.2	$ 1,783.5	$ 1,823.6	$ 1,864.6	$ 1,906.6	$ 1,949.5
Agency Operations (Formula)	$ 1,967.4	$ 2,029.7	$ 2,075.3	$ 2,122.0	$ 2,169.8	$ 2,218.6	$ 2,268.5	$ 2,319.6	$ 2,371.8	$ 2,425.1
Legislature & Courts	$ 168.4	$ 168.7	$ 172.5	$ 176.4	$ 180.4	$ 184.4	$ 188.6	$ 192.8	$ 197.2	$ 201.6
Total Agency	**$ 3,750.8**	**$ 3,830.0**	**$ 3,916.2**	**$ 4,004.3**	**$ 4,094.4**	**$ 4,186.5**	**$ 4,280.7**	**$ 4,377.0**	**$ 4,475.5**	**$ 4,576.2**
Debt	$ 209.4	$ 205.4	$ 191.6	$ 188.9	$ 170.4	$ 177.5	$ 168.3	$ 159.5	$ 153.7	$ 155.7
Retirement	$ 163.5	$ 271.4	$ 353.7	$ 391.3	$ 400.4	$ 410.3	$ 421.7	$ 434.0	$ 447.9	$ 465.2
Fund Capitalizations	$ 34.8	$ 42.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6	$ 45.6
Community Assistance	$ 8.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Oil and Gas Credits	$ 57.0	$ 175.0	$ 163.0	$ 115.0	$ 129.0	$ 132.0	$ 135.0	$ 155.0	$ -	$ -
Other	$ 5.7	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Statewide Items	**$ 478.4**	**$ 694.5**	**$ 753.9**	**$ 740.8**	**$ 745.5**	**$ 765.5**	**$ 770.7**	**$ 794.2**	**$ 647.2**	**$ 666.6**
Capital	**$ 132.0**	**$ 225.0**	**$ 230.1**	**$ 235.2**	**$ 240.5**	**$ 245.9**	**$ 251.5**	**$ 257.1**	**$ 262.9**	**$ 268.8**
Total Budget	**$ 4,361.2**	**$ 4,749.5**	**$ 4,900.1**	**$ 4,980.3**	**$ 5,080.4**	**$ 5,197.9**	**$ 5,302.9**	**$ 5,428.3**	**$ 5,385.6**	**$ 5,511.6**
Current Revenue	**$ 1,834.0**	**$ 2,019.0**	**$ 2,070.0**	**$ 2,165.0**	**$ 2,215.0**	**$ 2,231.0**	**$ 2,252.0**	**$ 2,400.0**	**$ 2,631.0**	**$ 2,806.0**
Deficit	**$ (2,527.2)**	**$ (2,730.5)**	**$ (2,830.1)**	**$ (2,815.3)**	**$ (2,865.4)**	**$ (2,966.9)**	**$ (3,050.9)**	**$ (3,028.3)**	**$ (2,754.6)**	**$ (2,705.6)**
CBR/SBR balance above $2 billion	**$ 2,789.8**	**$ 262.6**	**$ 150.9**	**$ 145.0**	**$ 145.0**	**$ 145.0**	**$ 145.0**	**$ 145.0**	**$ 145.0**	**$ 145.0**
Permanent Fund Revenue (Senate SB26)	**$ -**	**$ 2,092.1**	**$ 2,250.5**	**$ 2,257.5**	**$ 2,363.1**	**$ 2,477.2**	**$ 2,563.1**	**$ 2,642.9**	**$ 2,721.6**	**$ 2,816.7**
Deficit (Senate SB26)	**$ (2,527.2)**	**$ (638.3)**	**$ (579.6)**	**$ (557.9)**	**$ (502.2)**	**$ (489.7)**	**$ (487.7)**	**$ (385.5)**	**$ (33.0)**	**$ 111.1**
Deficit after available CBR (Senate SB26)	**$ -**	**$ (375.7)**	**$ (428.7)**	**$ (412.9)**	**$ (357.2)**	**$ (344.7)**	**$ (342.7)**	**$ (240.5)**	**$ -**	**$ -**
Permanent Fund Revenue (House SB26)	**$ -**	**$ 1,866.9**	**$ 2,009.3**	**$ 2,016.4**	**$ 2,110.5**	**$ 2,211.9**	**$ 2,288.8**	**$ 2,360.7**	**$ 2,431.6**	**$ 2,516.5**
Deficit (House SB26)	**$ (2,527.2)**	**$ (863.5)**	**$ (820.8)**	**$ (798.9)**	**$ (754.9)**	**$ (755.1)**	**$ (762.1)**	**$ (667.6)**	**$ (323.0)**	**$ (189.1)**
Deficit after available CBR (House SB26)	**$ -**	**$ (600.9)**	**$ (669.9)**	**$ (653.9)**	**$ (609.9)**	**$ (610.1)**	**$ (617.1)**	**$ (522.6)**	**$ (178.0)**	**$ (44.1)**

Dollars in Millions

Possible Cost Increases	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Medicaid Grows at Historic Rates (5.7%)			$ 22.1	$ 45.0	$ 68.7	$ 93.3	$ 118.6	$ 144.9	$ 172.0	$ 200.1
K-12 Grows at Historic Rates (4.6%)			$ 29.6	$ 60.0	$ 91.0	$ 122.8	$ 155.3	$ 188.6	$ 222.7	$ 257.6
Price lower than expected (P60 vs. P 50; $5.70/bbl ave miss)		$ 92.0	$ 118.0	$ 130.0	$ 178.0	$ 164.0	$ 185.0	$ 261.0	$ 428.0	$ 525.0
Deferred Maintenance/Infrastructure Investment		$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0	$ 50.0
Retirement Experience Analysis				$ 25.0	$ 50.0	$ 75.0	$ 75.0	$ 75.0	$ 75.0	$ 75.0

Assumptions Used

Agencies will grow at a 2.25% inflation rate. Increases in areas that have historically grown in excess of inflation, such as healthcare, are not accommodated by this scenario

No new debt is issued - payments fall as outstanding obligations are paid off. Assumes debt management projection of interest payments.

Capital budget at FY2018 level without reappropriations growing with inflation. Future reappropriations are limited.

Retirement payments represent actuarially determined rates. If a the retirement system misses earnings targets or has other negative experiences, this figure may increase.

This scenario does not accommodate any supplemental items which typically amount to $50 to $100 million annually.

**Source: Office of Management and Budget, 10.25.2017*