

# Fiscal Plan Review

Senate Finance Committee

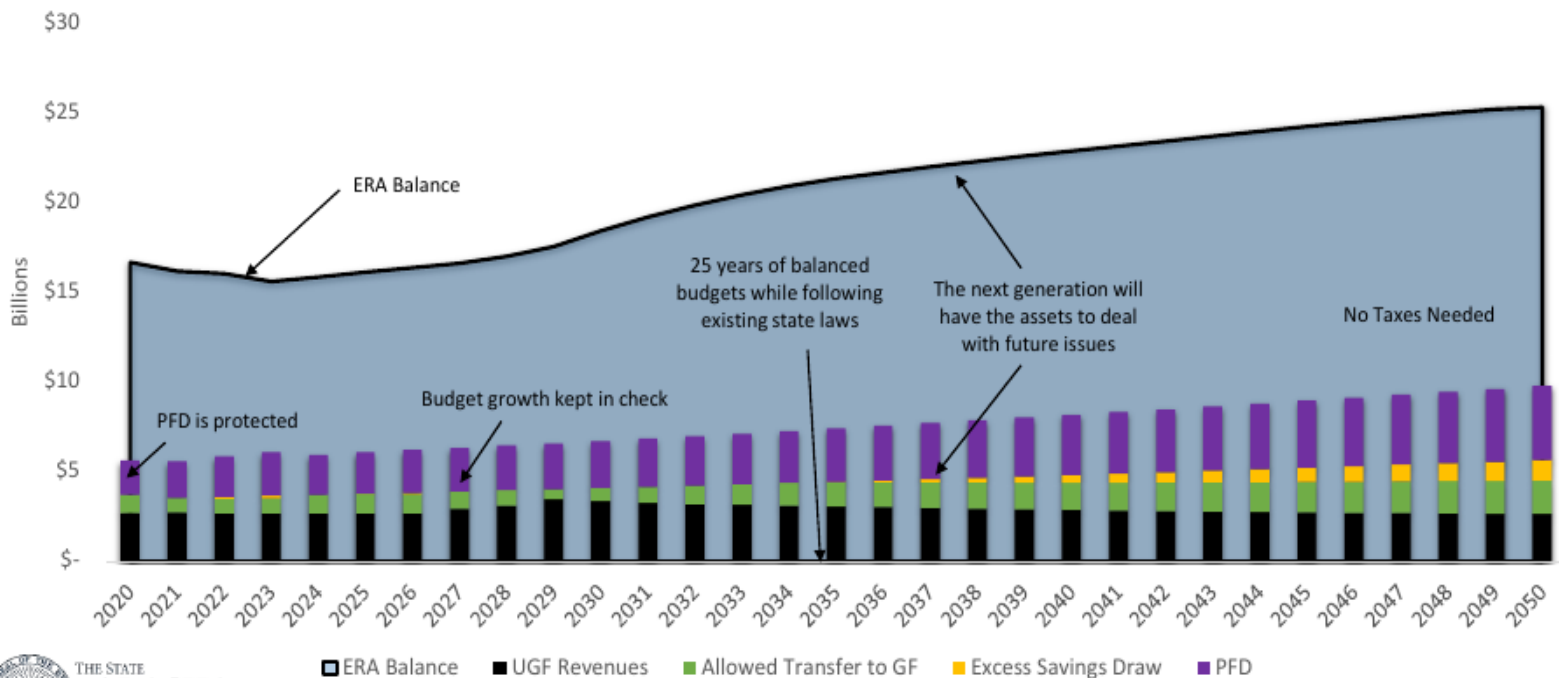
April 23, 2019

David Teal, Director, Legislative Finance Division

# Where does Governor Dunleavy's plan lead?

Full PFDs, Balanced Budgets, and a Bright Future

Slide Prepared by OMB



ERA Balance UGF Revenues Allowed Transfer to GF Excess Savings Draw PFD

## Scenario 1: The Governor's Plan

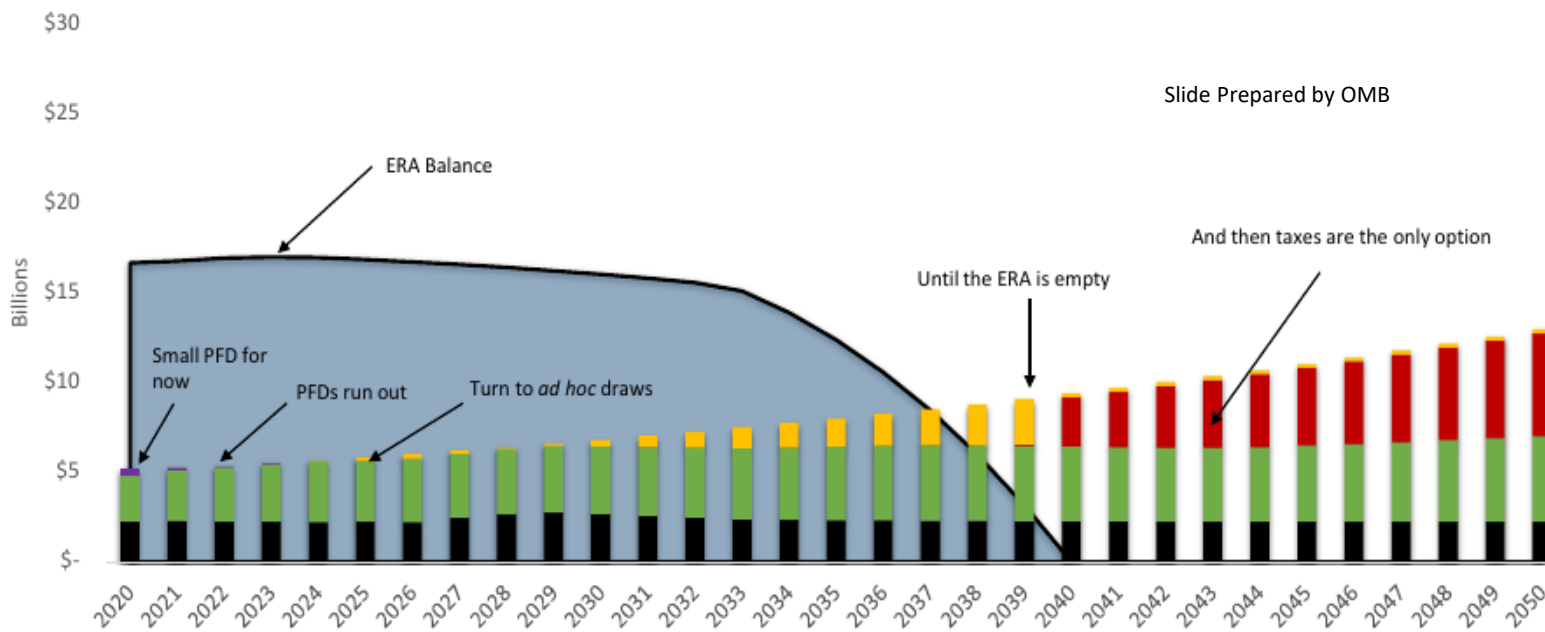
Slide Prepared by OMB

FY2020-FY2029 Projected Source and Uses of State General Funds (\$ millions)										
Sources of Funds	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Unrestricted GF Revenue per RSB	2,303.6	2,242.0	2,197.2	2,197.0	2,182.9	2,176.5	2,303.4	2,401.7	2,581.4	2,710.5
Restricted GF Revenue per RSB	472.9	455.7	456.9	458.5	459.7	460.8	462.2	463.7	465.2	465.7
Program Receipts not in RSB	508.2	519.6	531.3	543.2	555.5	568.0	580.7	593.8	607.2	620.8
Remaining POMV after PFD Payments	989.1	1,034.2	839.4	901.8	1,219.2	1,233.3	1,250.0	1,266.7	1,285.9	1,312.3
Transfers (to) Principal under new Savings Rule	-	-	-	-	-	-	-	(71.0)	(246.1)	(380.3)
Transfers from/(to) CBR	(50.0)	129.1	455.9	370.0	123.8	145.1	12.1	\$ -	-	-
Net Revenues From Fiscal Notes	420.4	429.5	438.6	448.1	453.9	457.8	460.1	461.9	461.8	460.1
<b>Total Available General Funds</b>	<b>4,644.2</b>	<b>4,810.0</b>	<b>4,919.3</b>	<b>4,918.7</b>	<b>4,994.8</b>	<b>5,041.5</b>	<b>5,068.6</b>	<b>5,116.8</b>	<b>5,155.4</b>	<b>5,189.2</b>
Uses of Funds	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Agency Operations	4,019.0	4,089.2	4,181.2	4,144.7	4,209.7	4,242.7	4,261.2	4,299.4	4,326.4	4,353.6
Debt Service Payments	129.7	133.0	161.7	192.9	197.5	203.3	203.2	204.1	203.6	198.9
PERS/TRS Contributions	307.9	423.1	409.1	410.9	414.4	419.0	424.5	430.4	439.1	447.1
Capital Expenditures	143.4	144.8	148.1	151.4	154.8	158.3	161.9	165.5	169.2	173.1
Net Appropriations from Fiscal Notes	44.2	19.9	19.2	18.8	18.5	18.1	17.8	17.4	17.0	16.6
<b>Total General Fund Appropriations</b>	<b>4,644.2</b>	<b>4,810.0</b>	<b>4,919.3</b>	<b>4,918.7</b>	<b>4,994.8</b>	<b>5,041.5</b>	<b>5,068.6</b>	<b>5,116.8</b>	<b>5,155.4</b>	<b>5,189.2</b>
<b>Appropriation Limit*</b>	<b>10,565.4</b>	<b>10,911.1</b>	<b>5,339.0</b>	<b>4,918.7</b>	<b>4,994.8</b>	<b>5,041.5</b>	<b>5,068.6</b>	<b>5,116.8</b>	<b>5,155.4</b>	<b>5,189.2</b>
<b>Total Dividend Funds (\$ millions)</b>	<b>2,506.6</b>	<b>2,743.1</b>	<b>2,990.5</b>	<b>2,347.7</b>	<b>2,122.9</b>	<b>2,164.3</b>	<b>2,200.5</b>	<b>2,241.4</b>	<b>2,287.4</b>	<b>2,334.8</b>
<b>Per Person Dividend Base</b>	<b>\$2,998</b>	<b>\$3,148</b>	<b>\$3,416</b>	<b>\$3,522</b>	<b>\$3,150</b>	<b>\$3,180</b>	<b>\$3,202</b>	<b>\$3,230</b>	<b>\$3,264</b>	<b>\$3,300</b>
<b>Per Person Dividend Repayment</b>	<b>\$1,061</b>	<b>\$1,289</b>	<b>\$1,388</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Per Person Taxes</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
FY2020-FY2029 Projected Savings Account Balances (\$ millions, end of year)										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Permanent Fund Principal Account (non-spendable)	48,529.0	49,948.1	51,391.4	52,870.7	54,386.2	55,952.5	57,586.2	59,287.0	61,060.4	62,899.8
Permanent Fund Earnings Reserve Account	18,592.2	17,926.6	17,222.1	17,150.5	17,038.6	16,924.5	16,812.6	16,700.9	16,584.2	16,456.2
<b>Permanent Fund Total</b>	<b>67,121.1</b>	<b>67,874.7</b>	<b>68,613.5</b>	<b>70,021.2</b>	<b>71,424.8</b>	<b>72,877.0</b>	<b>74,398.8</b>	<b>75,987.9</b>	<b>77,644.5</b>	<b>79,356.0</b>
<b>Savings Reserve Fund</b>	<b>4,342.1</b>	<b>4,555.1</b>	<b>4,427.0</b>	<b>4,353.3</b>	<b>4,497.2</b>	<b>4,627.0</b>	<b>4,896.2</b>	<b>5,191.1</b>	<b>5,500.6</b>	<b>5,825.6</b>

\*The proposed constitutional amendment would take effect in FY22, but would use a 3-year average. So, the FY22 limit would be higher than expected spending.

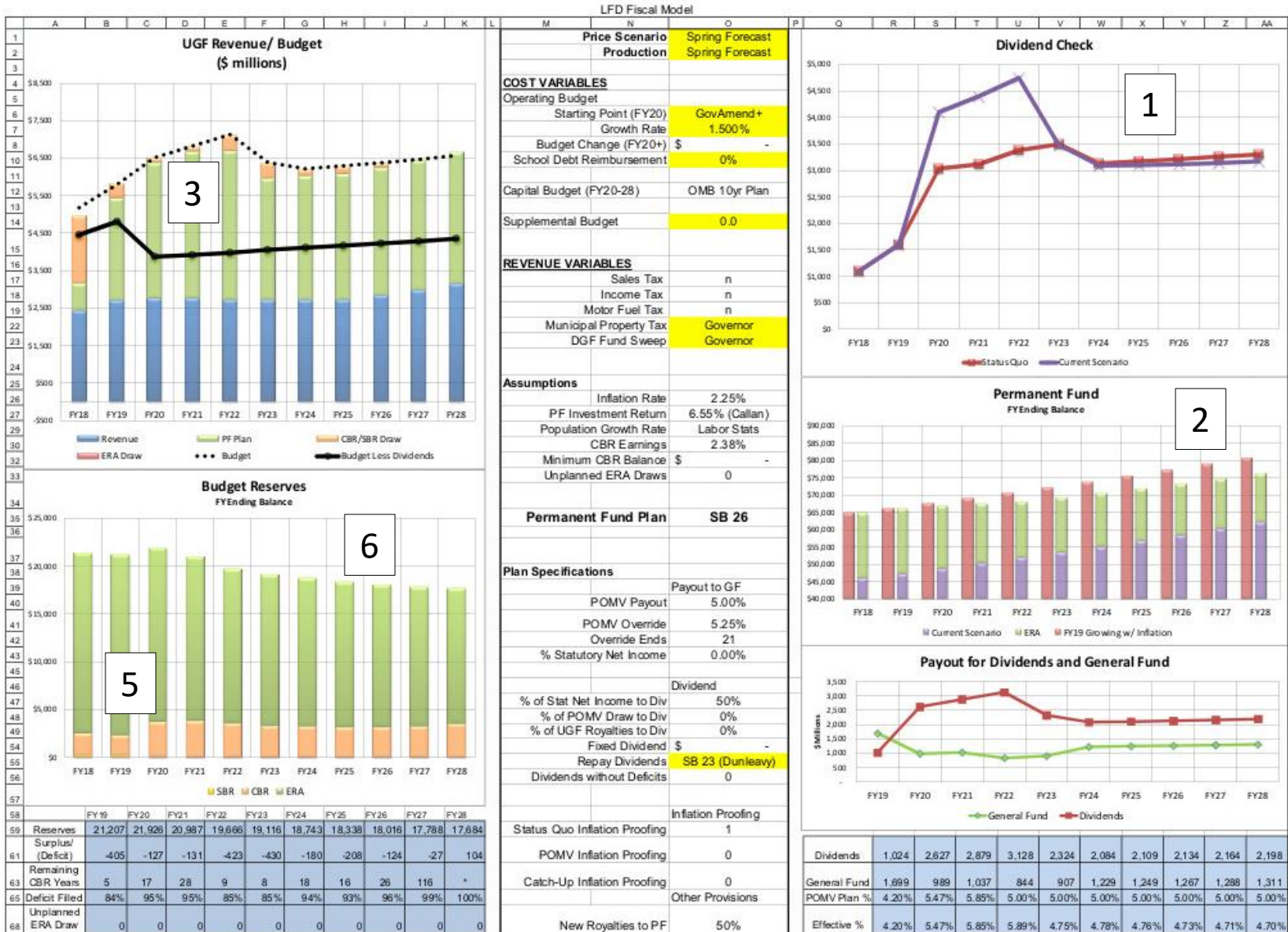
# Status Quo Budgeting

No PFD, No Savings, and No good options for future Alaskans



ERA Balance
  UGF Revenues
  Allowed Transfer to GF
  Taxes
  PFD
  Excess Savings Draw

# The Governor's Plan

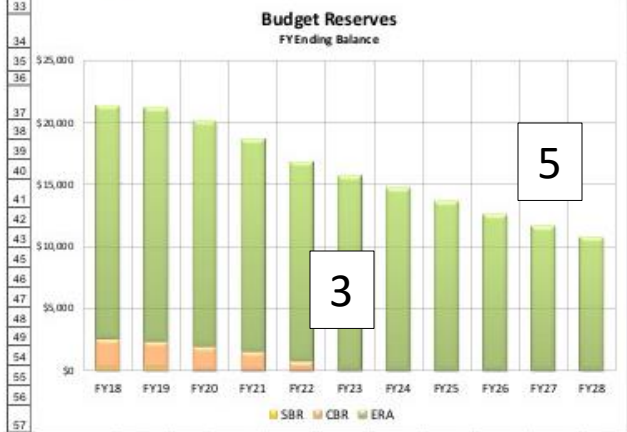
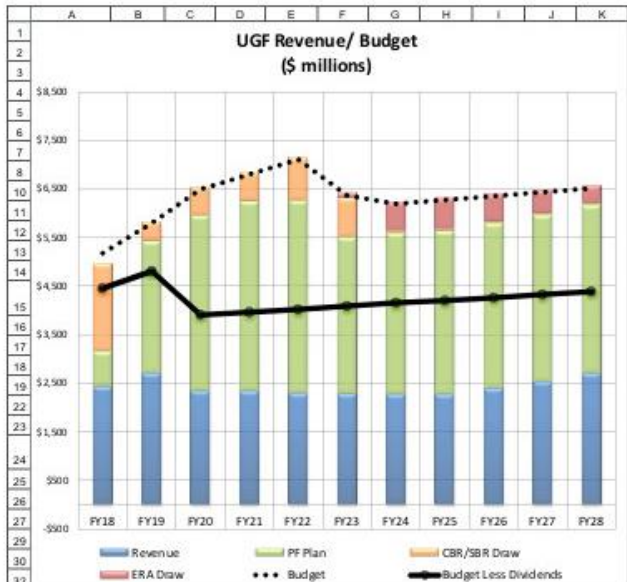


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# The Governor's Plan

1. PFDs are \$3,000 or more every year.
2. Past-year dividends remove money from the ERA, and reduced earnings on the reduced balances mean we never quite recover (PF value falls behind inflation).
3. High dividends come at a price of large FY20 reductions in government services.
4. Deficits closely match numbers in the Governor's 10-year plan, reaching a maximum of 15%. A balanced budget is achieved by FY27.
5. The CBR remains healthy: the DGF infusion in FY20 covers deficits in later years.
6. The ERA stabilizes after paying past-year dividends. This is a strong sign of a viable scenario.

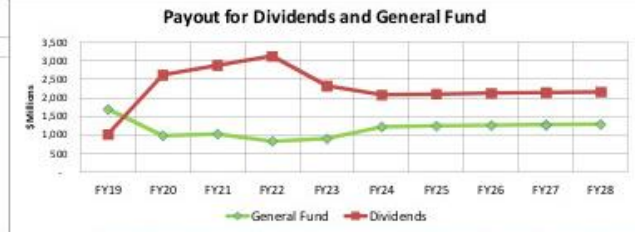
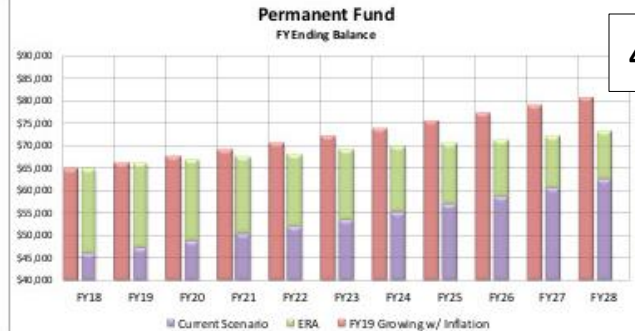
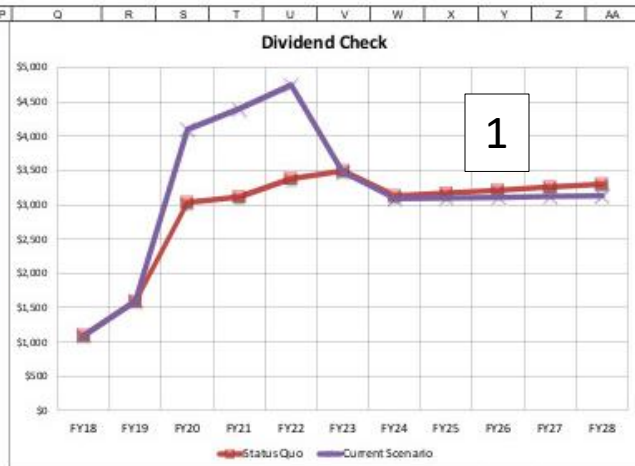
# The Governor's Plan without Legislation



	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Reserves Surplus/ (Deficit)	21,207	20,117	18,671	16,823	15,715	14,714	13,633	12,597	11,628	10,769
Remaining CBR Years	5	4	3	2	1	0	0	0	0	0
Deficit Filled	84%	79%	80%	89%	89%	78%	78%	80%	81%	86%
Unplanned ERA Draw	0	0	0	0	102	599	639	559	468	343

LFD Fiscal Model

Price Scenario	Spring Forecast
Production	Spring Forecast
<b>COST VARIABLES</b>	
Operating Budget	
Starting Point (FY20)	GovAmend+
Growth Rate	1.500%
Budget Change (FY20+)	\$ -
School Debt Reimbursement	0%
Capital Budget (FY20-28)	OMB 10yr Plan
Supplemental Budget	0.0
<b>REVENUE VARIABLES</b>	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Municipal Property Tax	N
DGF Fund Sweep	N
<b>Assumptions</b>	
Inflation Rate	2.25%
PF Investment Return	6.55% (Callan)
Population Growth Rate	Labor Stats
CBR Earnings	2.38%
Minimum CBR Balance	\$ -
Unplanned ERA Draws	1
<b>Permanent Fund Plan</b>	<b>SB 26</b>
<b>Plan Specifications</b>	
Payout to GF	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
% Statutory Net Income	0.00%
<b>Dividend</b>	
% of Stat Net Income to Div	50%
% of POMV Draw to Div	0%
% of UGF Royalties to Div	0%
Fixed Dividend	\$ -
Repay Dividends	SB 23 (Dunleavy)
Dividends without Deficits	0
<b>Inflation Proofing</b>	
Status Quo Inflation Proofing	1
POMV Inflation Proofing	0
Catch-Up Inflation Proofing	0
<b>Other Provisions</b>	
New Royalties to PF	50%



Dividends	1,024	2,627	2,879	3,128	2,324	2,084	2,108	2,129	2,149	2,170
General Fund	1,699	989	1,037	844	907	1,229	1,248	1,265	1,280	1,297
POMV Plan %	4.20%	5.47%	5.85%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.20%	5.47%	5.85%	5.89%	4.75%	4.79%	4.80%	4.81%	4.81%	4.81%

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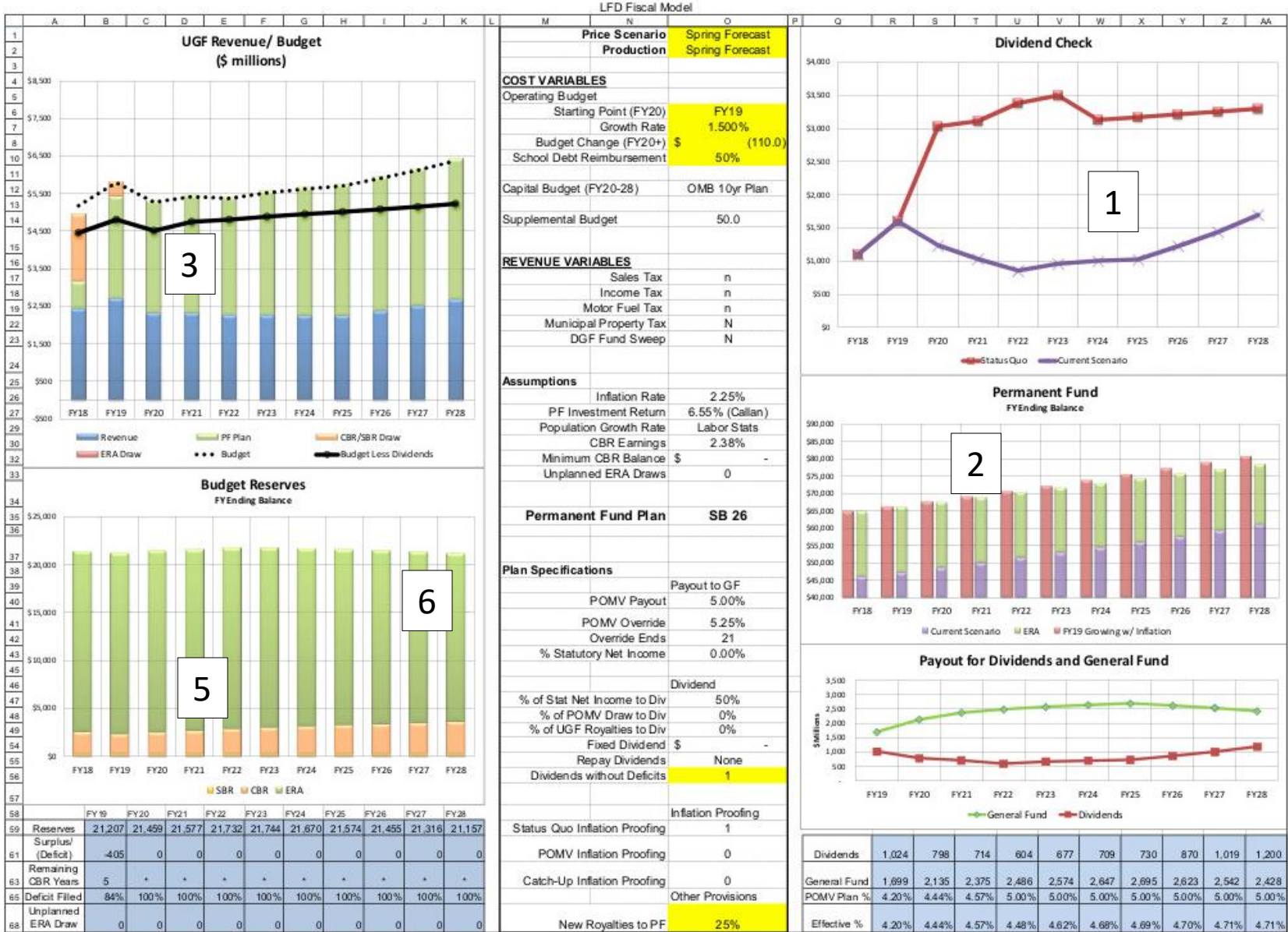
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## **The Governor's Plan without:**

- 1. Legislation that allows the State to retain oil & gas property tax revenue and**
  - 2. Transfers of the Power Cost Equalization Fund, Community Assistance Fund and Higher Education Endowment to the general fund**
- 
1. PFDs remain at \$3,000 or more every year.
  2. Expenditures are the same, but lower revenue means bigger deficits.
  3. Those deficits consume the CBR in just a few years and then begin eroding the ERA.
  4. That further reduces the balance (and future earnings) of the PF, so the PF loses value to inflation.
  5. The ERA is on a downward trajectory, which is not a good sign of a viable scenario.



# House Budget (if Surplus is Used for Dividends)



## The House Budget

1. PFDs are substantially lower than under the Governor's plan—dipping below \$1,000 until oil tax credits are paid off, then climbing to \$1,500 or more.
2. Although there are no ad hoc draws from the ERA, the payout rate is a little too high to allow the PF balance to keep pace with inflation.
3. Lower dividends mean smaller reductions in government services.
4. Deficits vanish immediately and do not reappear.
5. The CBR balance grows—there are no draws from the CBR.
6. The ERA is stable. **This is not a doomsday scenario.**

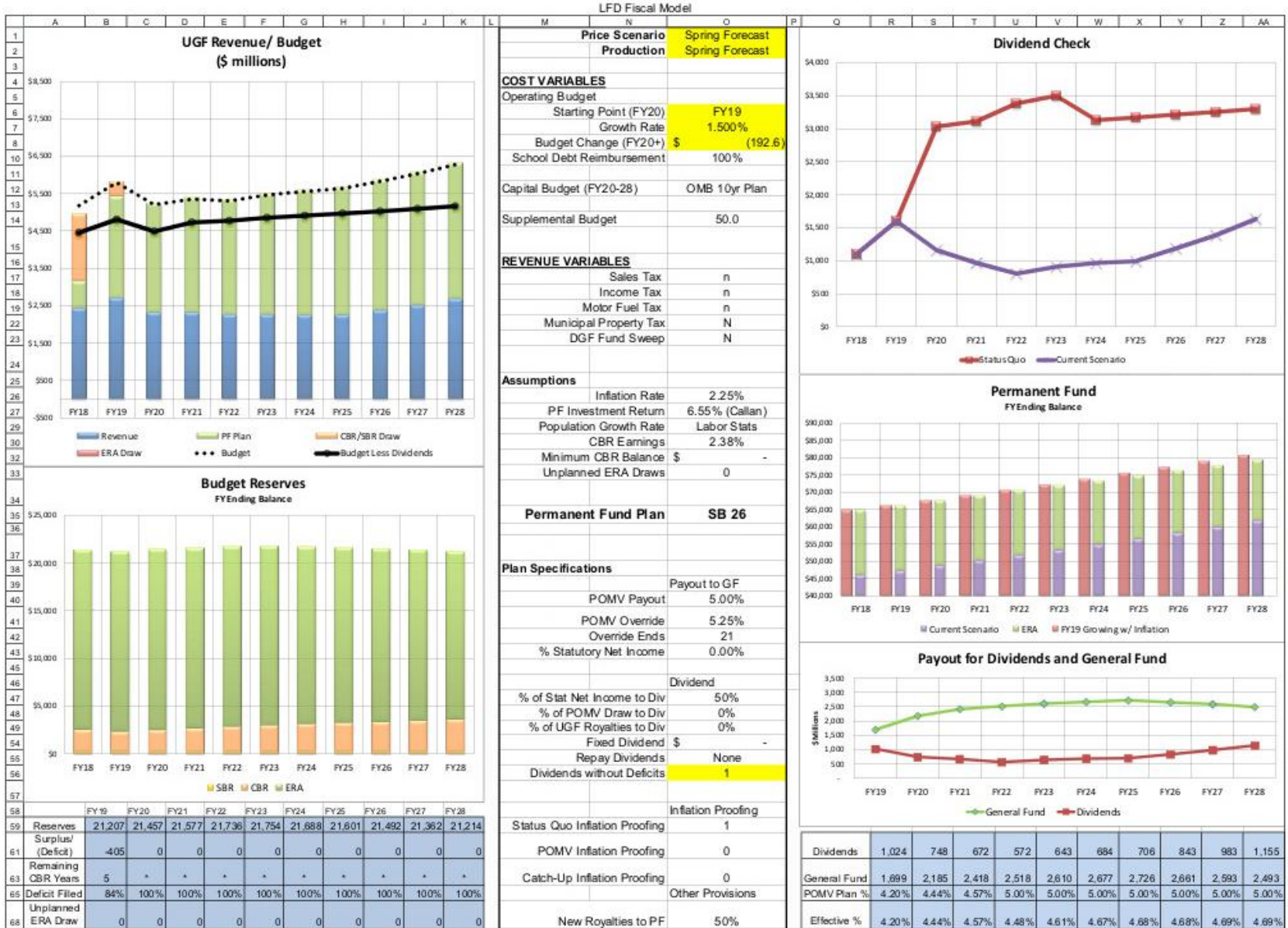
# How Well Does the House Budget Meet Governor Dunleavy's Guiding Principles?

1. expenditures cannot exceed existing revenue;
2. the budget is built on core functions that impact a majority of Alaskans;
3. maintaining and protecting our reserves;
4. the budget does not take additional funds from Alaskans through taxes **or the PFD**;
5. it must be sustainable, predictable and affordable.

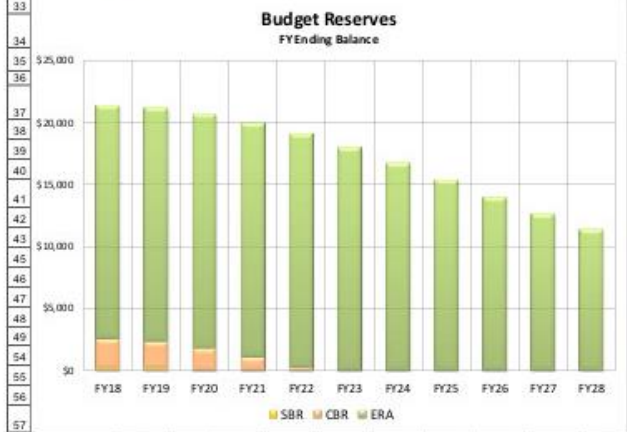
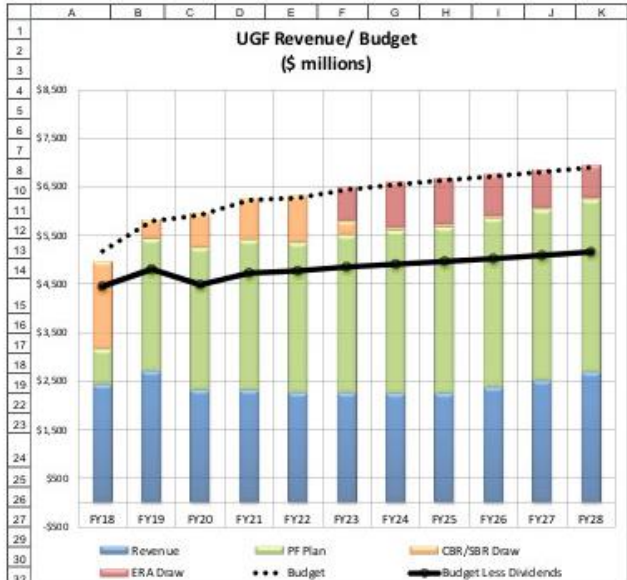
*An Honest Budget: Fiscal Year 2020*

*<https://gov.alaska.gov/an-honest-budget-2020/>*

# Senate Budget (if Surplus is Used for Dividends)

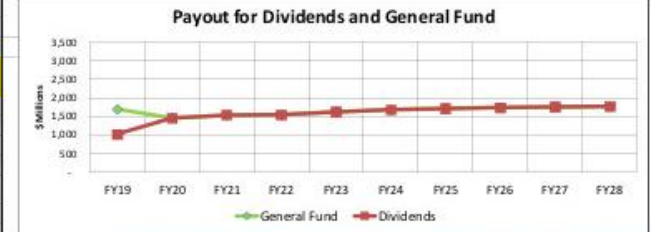
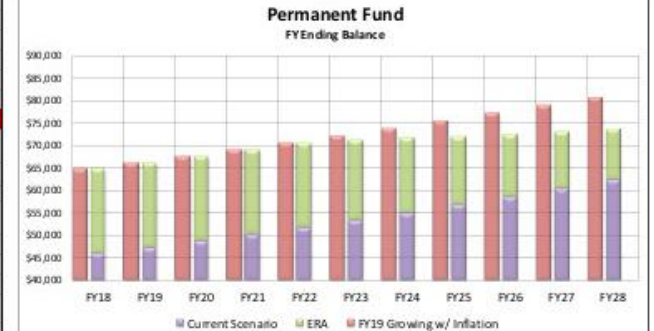
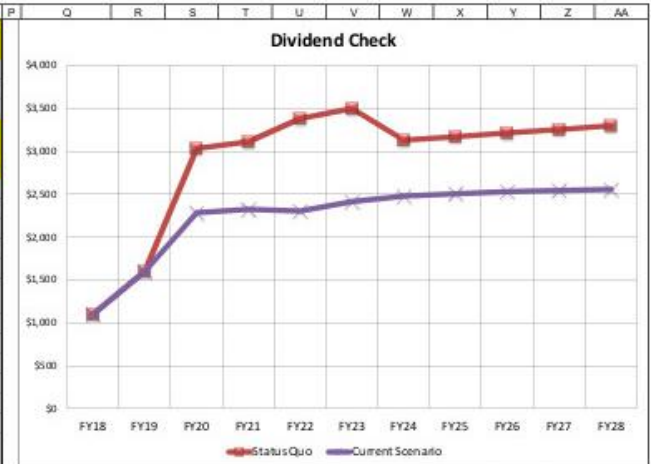


# Senate Budget (with a 50/50 dividend split)



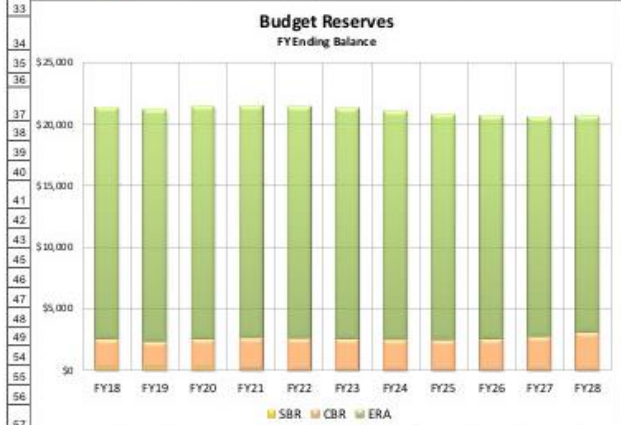
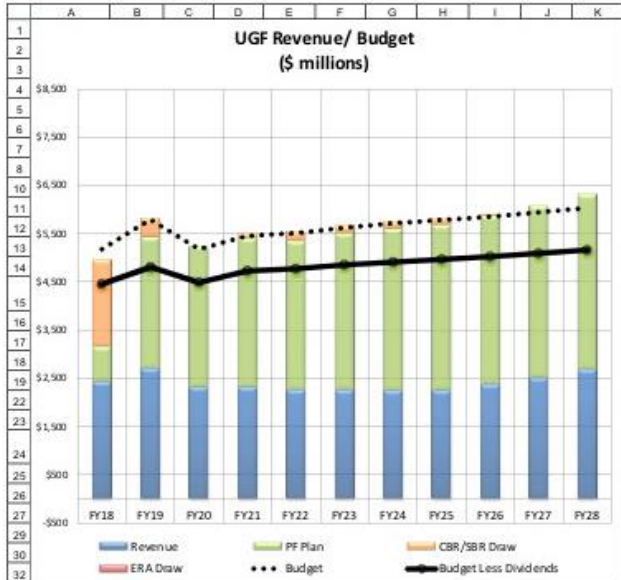
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Reserves	21,207	20,732	19,955	19,095	17,999	16,723	15,340	13,972	12,637	11,381
Surplus/ (Deficit)	-405	-718	-873	-973	-983	-996	-1,013	-921	-831	-714
Remaining CBR Years	5	3	2	1	0	0	0	0	0	0
Deficit Filled	84%	73%	68%	64%	64%	65%	65%	68%	68%	72%
Unplanned ERA Draw	0	0	0	0	700	944	963	871	781	664

LFD Fiscal Model	
Price Scenario	Spring Forecast
Production	Spring Forecast
<b>COST VARIABLES</b>	
Operating Budget	
Starting Point (FY20)	FY19
Growth Rate	1.500%
Budget Change (FY20+)	\$ (192.6)
School Debt Reimbursement	100%
Capital Budget (FY20-28)	OMB 10yr Plan
Supplemental Budget	50.0
<b>REVENUE VARIABLES</b>	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Municipal Property Tax	N
DGF Fund Sweep	N
<b>Assumptions</b>	
Inflation Rate	2.25%
PF Investment Return	6.55% (Callan)
Population Growth Rate	Labor Stats
CBR Earnings	2.38%
Minimum CBR Balance	\$ -
Unplanned ERA Draws	1
<b>Permanent Fund Plan</b>	<b>SB 26</b>
<b>Plan Specifications</b>	
Payout to GF	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
% Statutory Net Income	0.00%
<b>Dividend</b>	
% of Stat Net Income to Div	0%
% of POMV Draw to Div	50%
% of UGF Royalties to Div	0%
Fixed Dividend	\$ -
Repay Dividends	None
Dividends without Deficits	0
<b>Inflation Proofing</b>	
Status Quo Inflation Proofing	1
POMV Inflation Proofing	0
Catch-Up Inflation Proofing	0
<b>Other Provisions</b>	
New Royalties to PF	50%



	1,024	1,467	1,545	1,545	1,627	1,681	1,712	1,740	1,762	1,779
Dividends										
General Fund	1,699	1,467	1,545	1,545	1,627	1,681	1,712	1,740	1,762	1,779
POMV Plan %	4.20%	4.44%	4.57%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.20%	4.44%	4.57%	4.48%	4.61%	4.72%	4.78%	4.83%	4.86%	4.87%

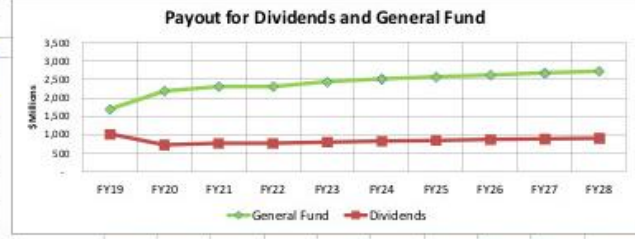
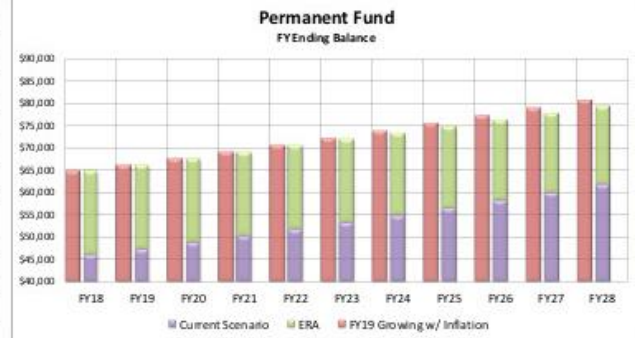
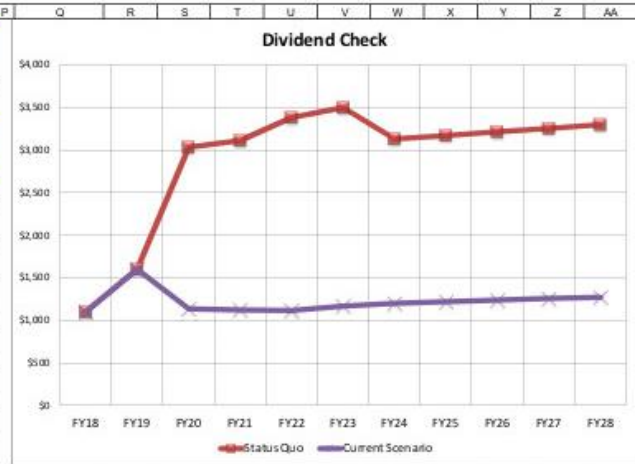
# Senate Budget (with a 75/25 dividend split)



	FY 19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Reserves Surplus/ (Deficit)	21,207	21,472	21,492	21,449	21,292	21,061	20,810	20,653	20,598	20,681
Remaining CBR Years	5	*	23	13	15	16	16	73	*	*
Deficit Filled	84%	100%	96%	93%	94%	94%	95%	99%	100%	100%
Unplanned ERA Draw	0	0	0	0	0	0	0	0	0	0

LFD Fiscal Model

Price Scenario	Spring Forecast
Production	Spring Forecast
<b>COST VARIABLES</b>	
Operating Budget	
Starting Point (FY20)	FY19
Growth Rate	1.500%
Budget Change (FY20+)	\$ (192.6)
School Debt Reimbursement	100%
Capital Budget (FY20-28)	OMB 10yr Plan
Supplemental Budget	50.0
<b>REVENUE VARIABLES</b>	
Sales Tax	n
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Motor Fuel Tax	n
Municipal Property Tax	N
DGF Fund Sweep	N
<b>Assumptions</b>	
Inflation Rate	2.25%
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Population Growth Rate	Labor Stats
CBR Earnings	2.38%
Minimum CBR Balance	\$ -
Unplanned ERA Draws	0
<b>Permanent Fund Plan SB 26</b>	
<b>Plan Specifications</b>	
Payout to GF	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
% Statutory Net Income	0.00%
<b>Dividend</b>	
% of Stat Net Income to Div	0%
% of POMV Draw to Div	25%
% of UGF Royalties to Div	0%
Fixed Dividend	\$ -
Repay Dividends	None
Dividends without Deficits	0
<b>Inflation Proofing</b>	
Status Quo Inflation Proofing	1
POMV Inflation Proofing	0
Catch-Up Inflation Proofing	0
<b>Other Provisions</b>	
New Royalties to PF	50%



	1,024	733	772	773	813	840	858	876	894	912
Dividends										
General Fund	1,699	2,200	2,317	2,318	2,440	2,521	2,574	2,628	2,682	2,736
POMV Plan %	4.20%	4.44%	4.57%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.20%	4.44%	4.57%	4.48%	4.61%	4.67%	4.68%	4.68%	4.69%	4.69%