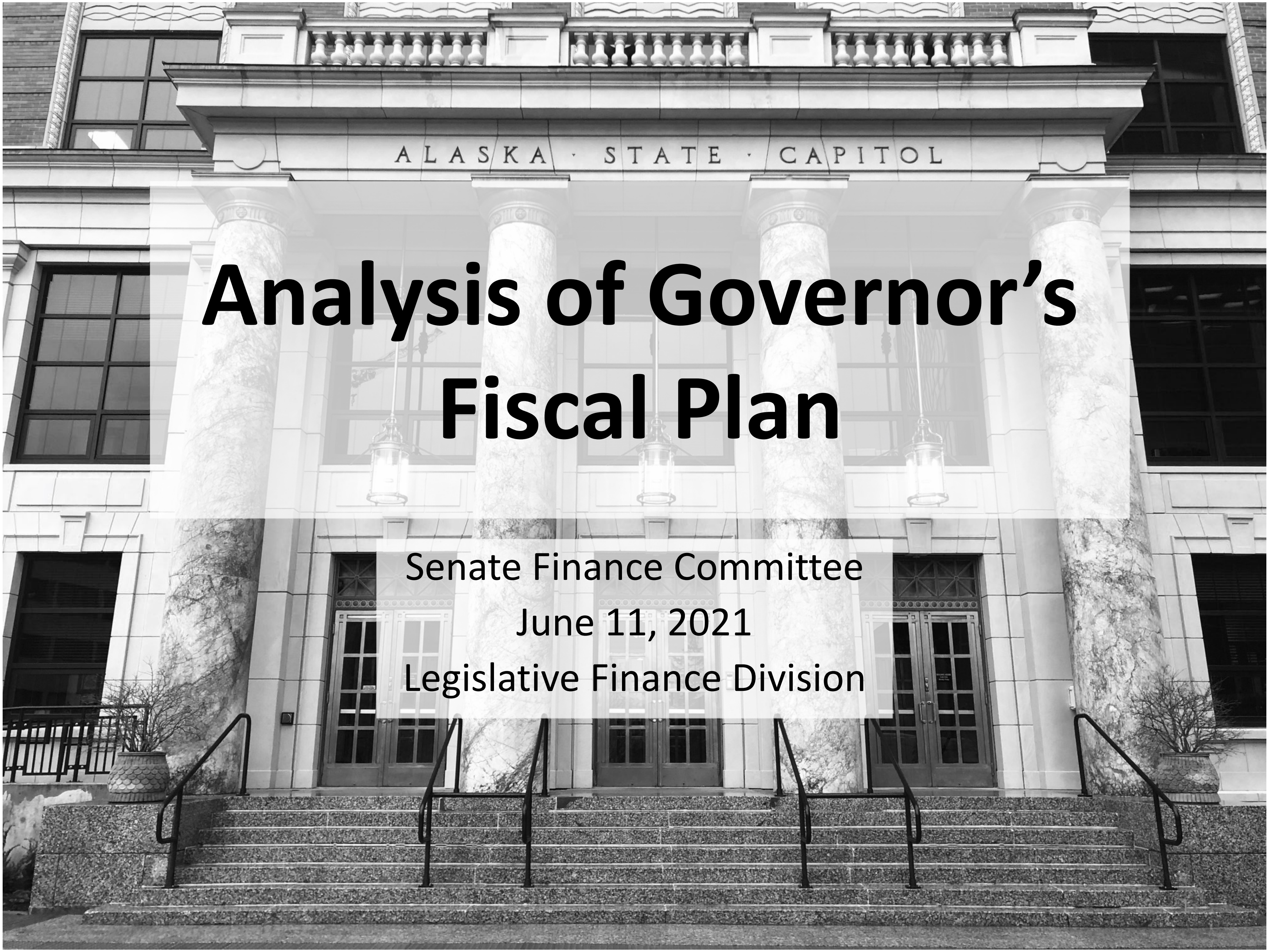


Analysis of Governor's Fiscal Plan

Senate Finance Committee

June 11, 2021

Legislative Finance Division

Review of LFD Baselines

- In LFD's Overview of the Governor's Budget back in January, we presented two budget baselines: current law and current policy. These are designed to provide a neutral starting point for the year's budget discussions, separate from any policy choices made in the Governor's budget request.
- Our fiscal modeling is currently based on versions of the FY22 budget that are very similar to those baselines.
- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current budget levels are maintained, adjusted for inflation.

Review of LFD Baselines (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.

Review of LFD Baselines (cont.)

Spending Assumptions

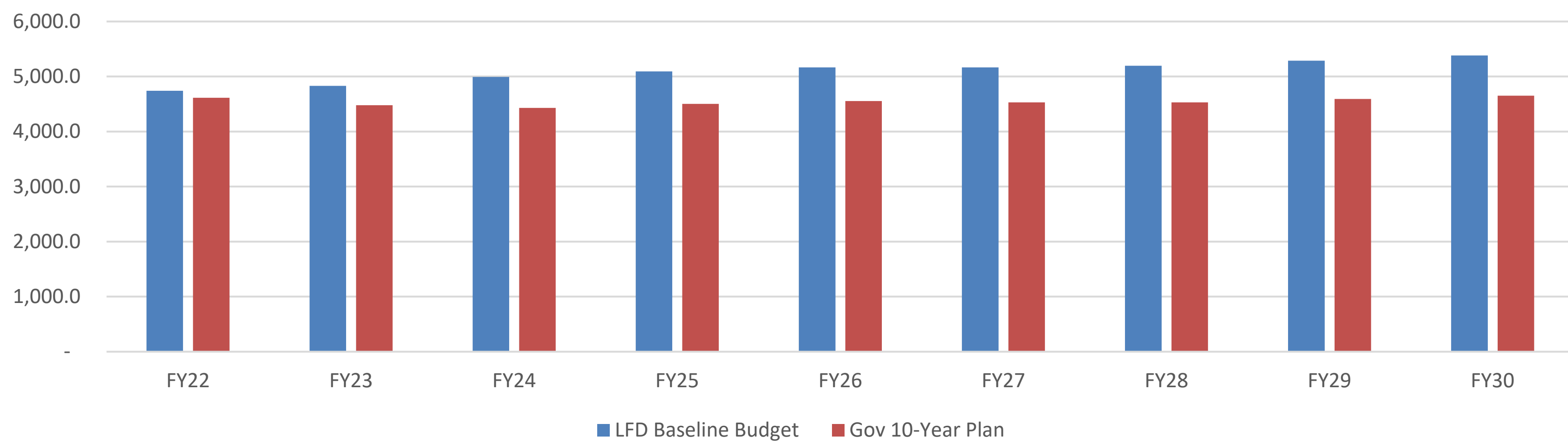
- For **agency operations**, we are currently using the Senate's first committee substitute as our baseline ($3,872.7 million UGF), growing with inflation of 2.0%.
  - This budget is used because it did not include any one-time fund sources present in other versions of the budget, so it represents a reasonable starting point.
  - This number is very close to our Current Law and Current Policy baselines from January.
- 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, oil and gas tax credits, 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.

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

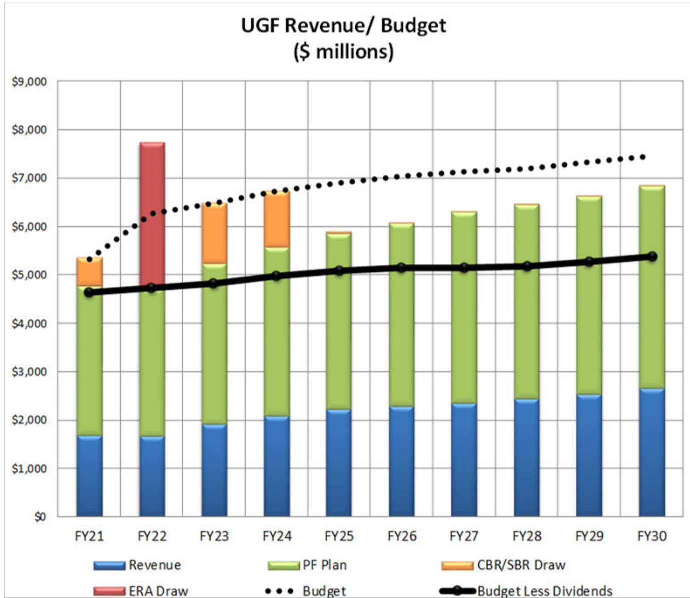
- The Governor's 10-Year Plan for the budget makes several policy choices to reduce spending:
  - 50% funding of school debt reimbursement and REAA Fund capitalization;
  - $65.7 million less UGF agency operations in FY22 than original Senate budget;
  - $100 million of additional reductions in each of FY23 and FY24;
  - Grows agency operations in FY24+ at 1.5% rather than with inflation; and
  - Supplementals and lapse are assumed to balance out.
- See handout entitled "OMB and LFD Fiscal Model Assumption Comparison."
- This level of budget reductions is not unattainable, but these are significant policy choices.

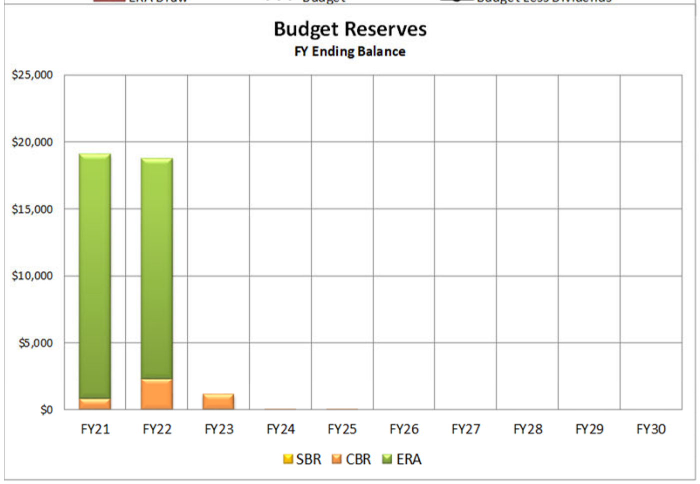
Comparison of Governor's 10-Year Plan to LFD Baselines (cont.)

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	-	-	-	-	-	-	-	-	**5.3**
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)**	**(4,856.1)**



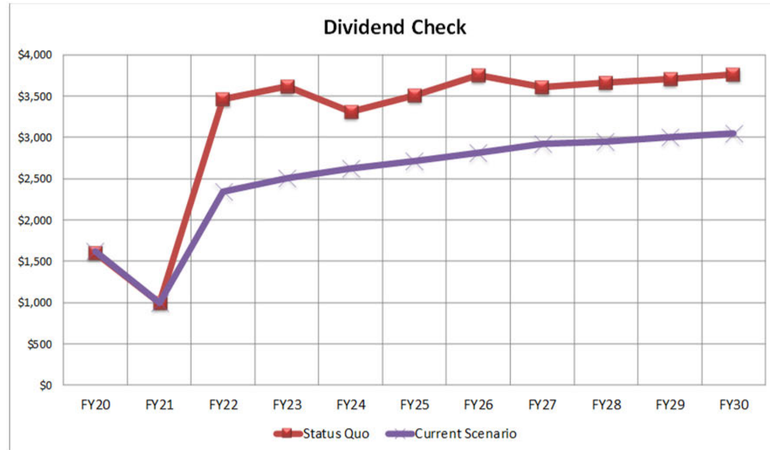
Fiscal Model: Governor's PF Plan with LFD's Baseline Spending Assumptions

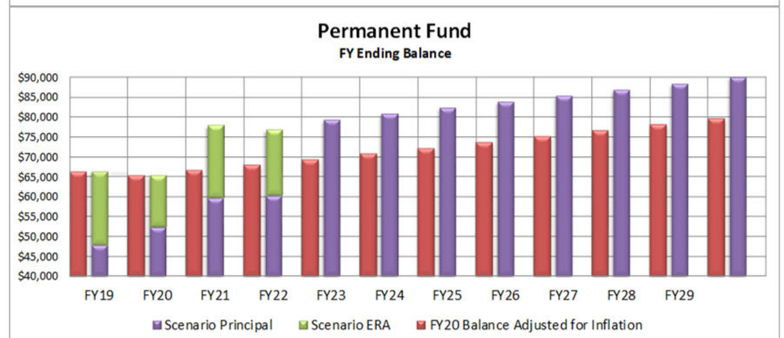


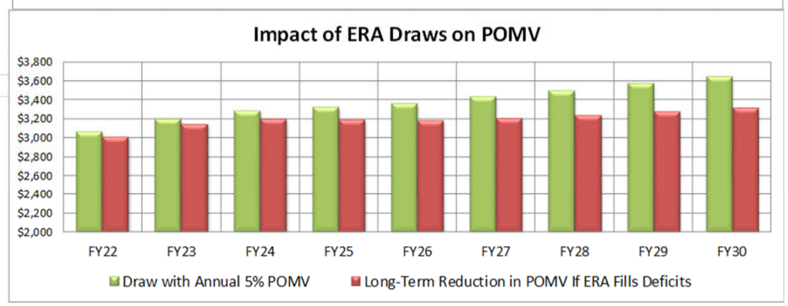


	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
ERA Bal.	18,262	16,433	17,769	19,137	20,426	21,636	22,734	23,853	24,966	26,087
Surplus/ (Deficit)	-585	-1,545	-1,250	-1,162	-1,052	-991	-842	-753	-705	-637
CBR/SBR Bal.	856	2,368	1,168	33	0	0	0	0	0	0
%Budget fr. Savings	11%	25%	19%	17%	15%	14%	12%	10%	10%	9%
ERA Draw Beyond POMV	0	3,000	0	0	0	0	0	0	0	0

Price Scenario	Spring Forecast
Production	Spring Forecast
COST VARIABLES	
Operating Budget	
Starting Point (FY22)	22 SCS1
Growth Rate	2.00%
Budget Change (FY22+)	$ -
Tax Credit Payments	Statutory
School Debt Reimbursement	100%
Capital Budget (FY22-30)	$176.7m FY22, Infl Adj
FY22 Capital Bond ($350m)	N
Supp Budget (FY22+)	50.0
REVENUE VARIABLES	
New Revenue Begins (FYXX)	N
Sales Tax Type	N
Sales Tax Rate	0%
Income Tax	N
Motor Fuel Tax	N
Undefined New Tax ($m/yr)	$0.0
Assumptions	
Inflation Rate	2.00%
PF Investment Return	24.3% FY21, 6.2% FY22+
% Realized	6.20%
Population Growth Rate	Labor Stats
CBR Earnings	2.00%
Reserve Priority	CBR
Minimum CBR Balance	$ 500
Unplanned ERA Draws	N
Permanent Fund Plan	**SB 26**
	Reset Plan
PLAN SPECIFICATIONS	
	Payout to GF
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
	Dividend
FY22 Override	N
% of Stat Net Income to Div	0%
% of POMV Draw to Div	50%
Dividend Floor	0%
Floor Ends	0%
% of Royalties to Div	0%
Fixed Dividend	$ -
Repay Dividends	None
Balanced Budget Dividends	N
POMV Deduction Before Div	None
FY22 Transfer ERA to CBR	$3,000
PCE to Corpus FY-End 23	Y
New Royalties to PF	50%
All Royalties to PF	N

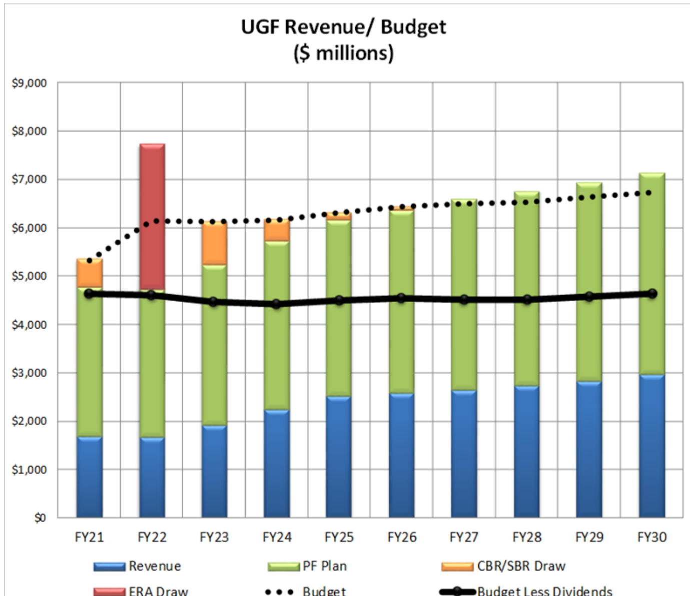


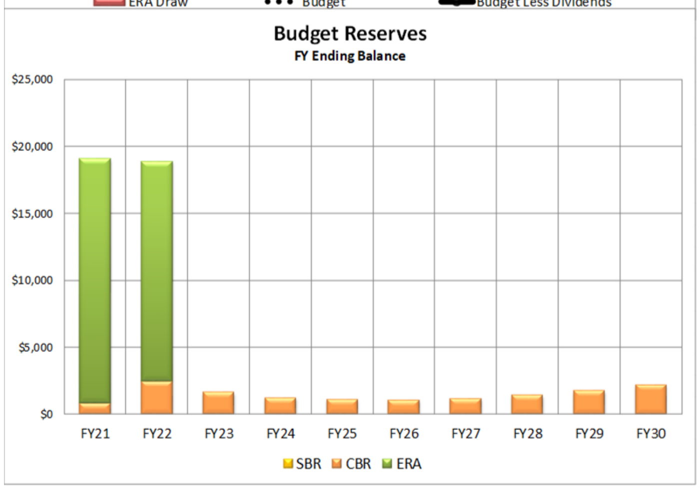




	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
POMV Draw	2,933	3,091	3,069	3,321	3,490	3,635	3,781	3,952	4,013	4,100	4,176
Inflation Proofing	4,758	-	-	-	-	-	-	-	-	-	-
Plan %	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.4%	4.7%	7.8%	4.3%	4.4%	4.5%	4.6%	4.7%	4.7%	4.7%	4.7%

Fiscal Model: Governor's PF Plan with Governor's Spending Plan and New Revenues





	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
ERA Bal.	18,262	16,433	17,769	19,137	20,426	21,636	22,734	23,853	24,966	26,087
Surplus/ (Deficit)	-585	-1,416	-897	-449	-161	-82	94	212	289	395
CBR/SBR Bal.	856	2,498	1,657	1,252	1,125	1,075	1,201	1,450	1,781	2,226
%Budget fr. Savings	11%	23%	15%	7%	3%	1%	-1%	-3%	-4%	-6%
ERA Draw Beyond POMV	0	3,000	0	0	0	0	0	0	0	0

Price Scenario	Spring Forecast
Production	Spring Forecast
COST VARIABLES	
Operating Budget	
Starting Point (FY22)	FY22OMB10yrPlan
Growth Rate	1.50%
Budget Change (FY22+)	$ -
Tax Credit Payments	Statutory
School Debt Reimbursement	50%
Capital Budget (FY22-30)	FY22OMB10yrPlan
FY22 Capital Bond ($350m)	N
Supp Budget (FY22+)	0.0
REVENUE VARIABLES	
New Revenue Begins (FYXX)	Q3 FY24
Sales Tax Type	N
Sales Tax Rate	0%
Income Tax	N
Motor Fuel Tax	N
Undefined New Tax ($m/yr)	$300.0
Assumptions	
Inflation Rate	2.00%
PF Investment Return	24.3% FY21, 6.2% FY22+
% Realized	6.20%
Population Growth Rate	Labor Stats
CBR Earnings	2.00%
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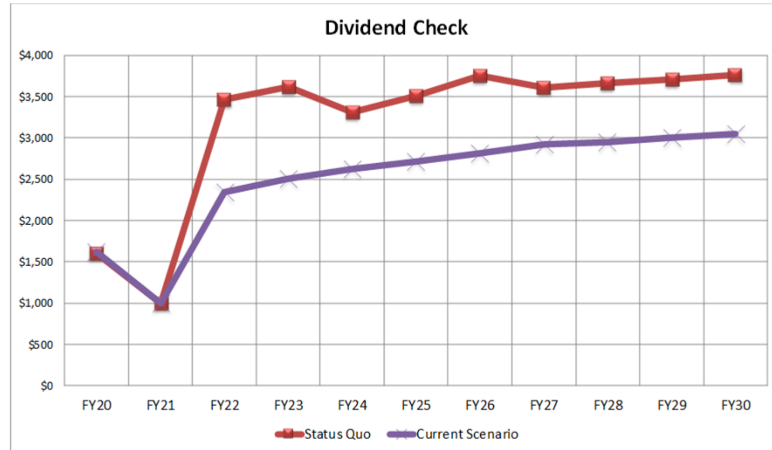

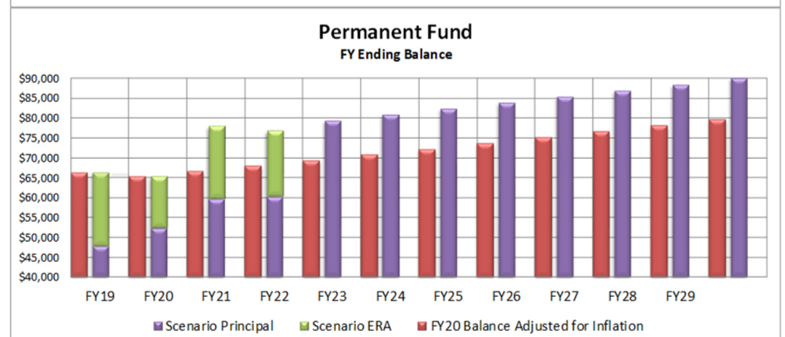

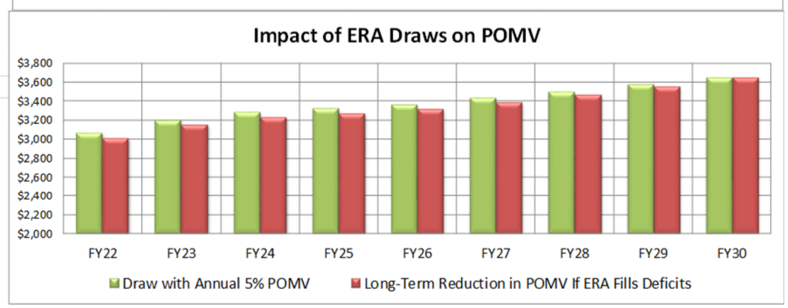

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Plan %	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.4%	4.7%	7.8%	4.3%	4.4%	4.5%	4.6%	4.7%	4.7%	4.7%	4.7%

Analysis of Governor's Comprehensive Fiscal Plan

- OMB 10-year plan for spending, which has $4.86 billion less spending over FY22-30 than current policies reflected in the LFD baseline.
- Adds $300 million in new revenue (or additional budget reductions) beginning midway through FY24.
- Constitutionalizes PFD at 50% of POMV draw (about $2,350 per recipient in FY22).
- Transfers PCE Fund to Permanent Fund and makes some funding for power cost equalization a constitutional mandate.
- One-time transfer of $3 billion from ERA to CBR as "bridge."

Analysis of Governor's Comprehensive Fiscal Plan (cont.)

- LFD's modeling and the Governor's modeling do not have significant differences – the numbers presented by the Governor are technically sound. The question for the legislature is whether you agree with the policy choices in the 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.
  - Over the past nine years of deficits, we used three of the four levers: budget reductions, PFD reductions, and savings draws. We are now essentially out of savings beyond the ERA.
  - If existing revenue sources do not meet DOR's projections, the Governor's plan would require additional budget reductions or new revenue.
- The $3 billion "bridge" allows time for increases to existing revenue sources, the $300 million in new revenue, and the spending reductions to balance the budget while paying a 50/50 PFD. Without it, the CBR would not have sufficient funds to avoid an ERA overdraw during the transition period under this plan.

Analysis of Governor's Comprehensive Fiscal Plan (cont.)

- Evaluating a fiscal plan requires clear goals and metrics: what problems are we trying to solve?
  - We can imagine a wide variety of goals or metrics the Legislature may have in designing a fiscal plan. Making those explicit may make evaluating fiscal plans easier.
  - For example, is the goal to balance the budget at current prices, or are current oil prices high enough that we should be trying to generate surpluses to rebuild the CBR? Is it more important to avoid taxes or to have distributional equity? Is it important to maintain downward pressure on spending, or have we cut too far already?

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

Some questions to consider:

- Which elements of a plan should be constitutional, and which should be statutory?
- If the Legislature does not agree with the Governor’s spending reduction plan, should the difference be made up with more revenue or with lower PFDs?
  - This question could be flipped around in any direction.
- If (when?) oil revenue declines substantially in the future, will this system still be sustainable?
- Would voters approve this constitutional amendment (HJR 7, Permanent Fund)? What about HJR 6 (spending limit) and HJR 8 (voter approval of taxes)? Are all necessary for the Governor’s plan to work?

Questions?

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