

Fiscal Plan Review

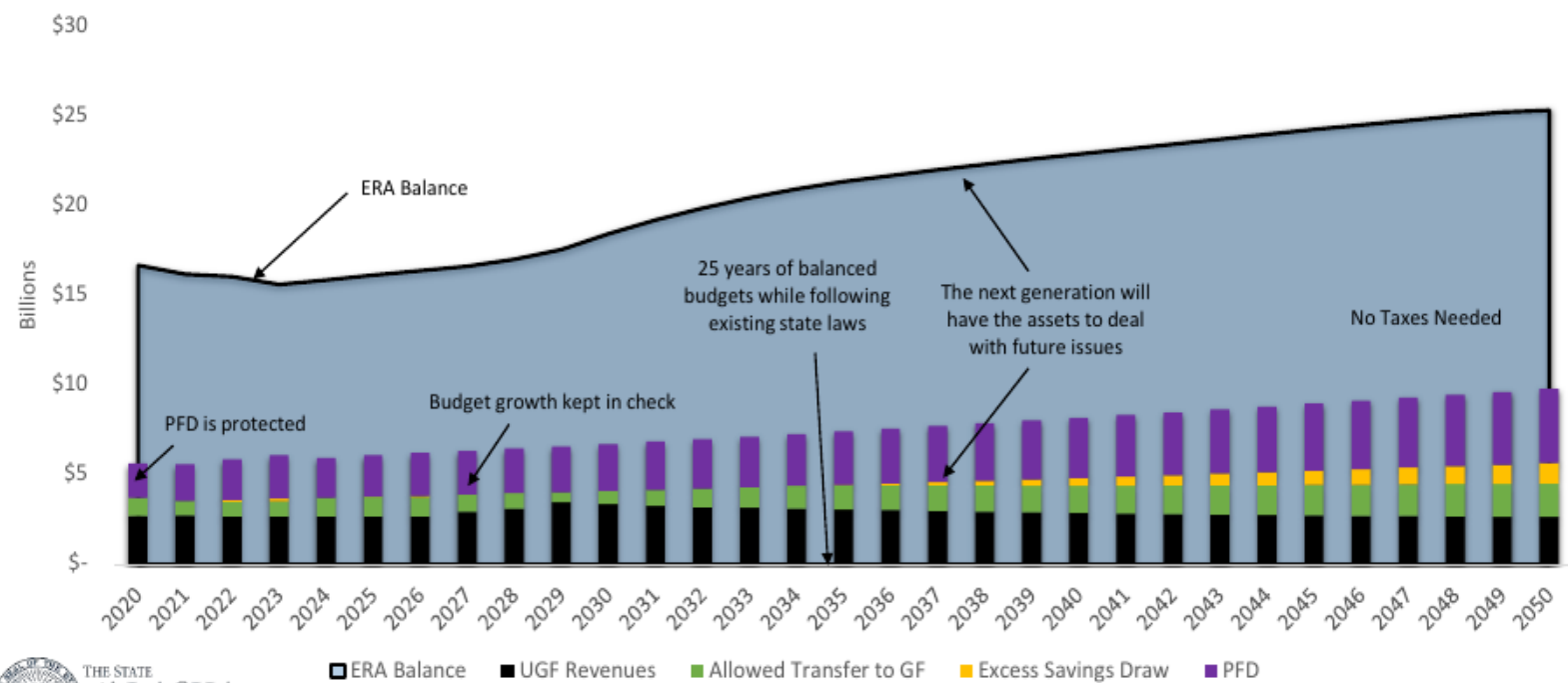
Senate Finance Committee

April 23 and 25, 2019

David Teal and Alexei Painter, Legislative Finance Division

Where does Governor Dunleavy's plan lead?

Full PFDs, Balanced Budgets, and a Bright Future



Scenario 1: The Governor's Plan

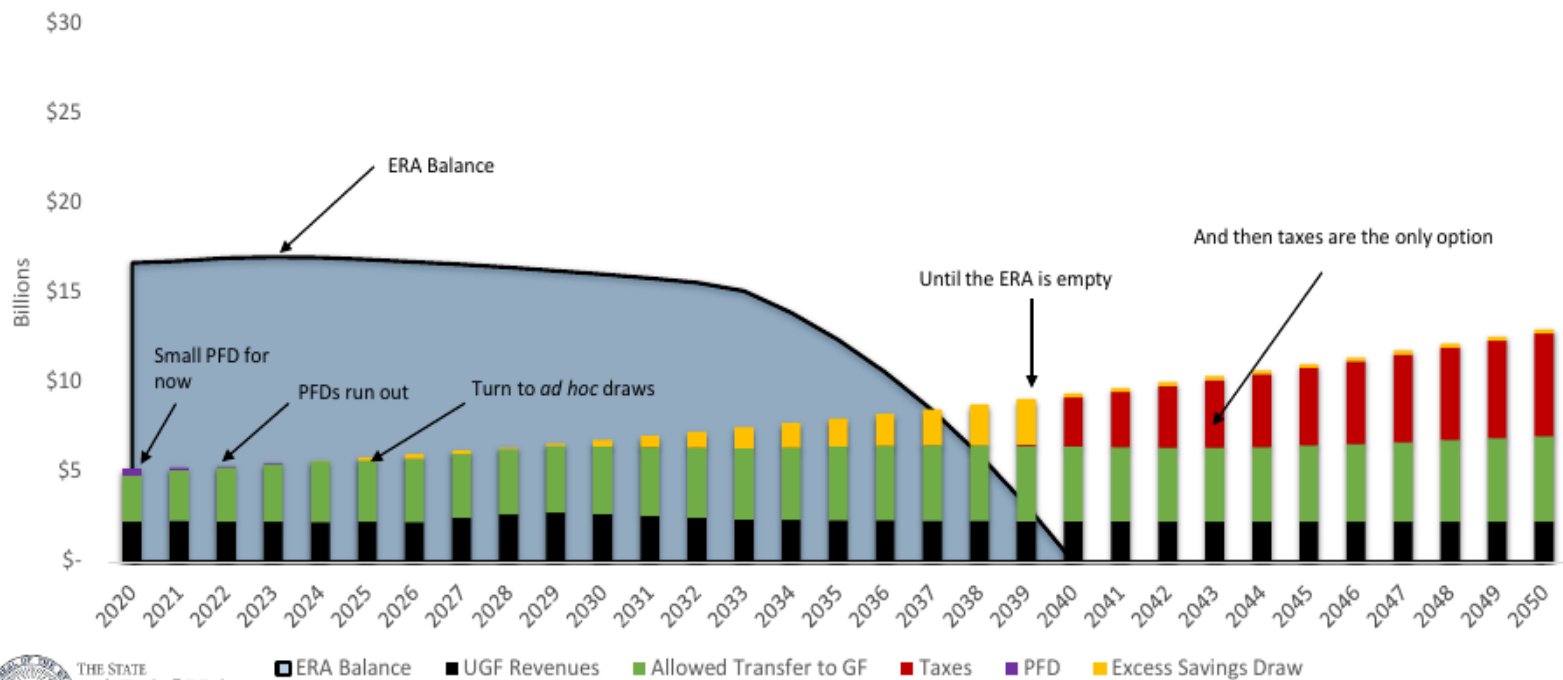
Slide Prepared by OMB

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
Total Available General Funds	4,644.2	4,810.0	4,919.3	4,918.7	4,994.8	5,041.5	5,068.6	5,116.8	5,155.4	5,189.2
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
Total General Fund Appropriations	4,644.2	4,810.0	4,919.3	4,918.7	4,994.8	5,041.5	5,068.6	5,116.8	5,155.4	5,189.2
Appropriation Limit*	10,565.4	10,911.1	5,339.0	4,918.7	4,994.8	5,041.5	5,068.6	5,116.8	5,155.4	5,189.2
Total Dividend Funds (\$ millions)	2,506.6	2,743.1	2,990.5	2,347.7	2,122.9	2,164.3	2,200.5	2,241.4	2,287.4	2,334.8
Per Person Dividend Base	\$2,998	\$3,148	\$3,416	\$3,522	\$3,150	\$3,180	\$3,202	\$3,230	\$3,264	\$3,300
Per Person Dividend Repayment	\$1,061	\$1,289	\$1,388	-	-	-	-	-	-	-
Per Person Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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
Permanent Fund Total	67,121.1	67,874.7	68,613.5	70,021.2	71,424.8	72,877.0	74,398.8	75,987.9	77,644.5	79,356.0
Savings Reserve Fund	4,342.1	4,555.1	4,427.0	4,353.3	4,497.2	4,627.0	4,896.2	5,191.1	5,500.6	5,825.6

*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.

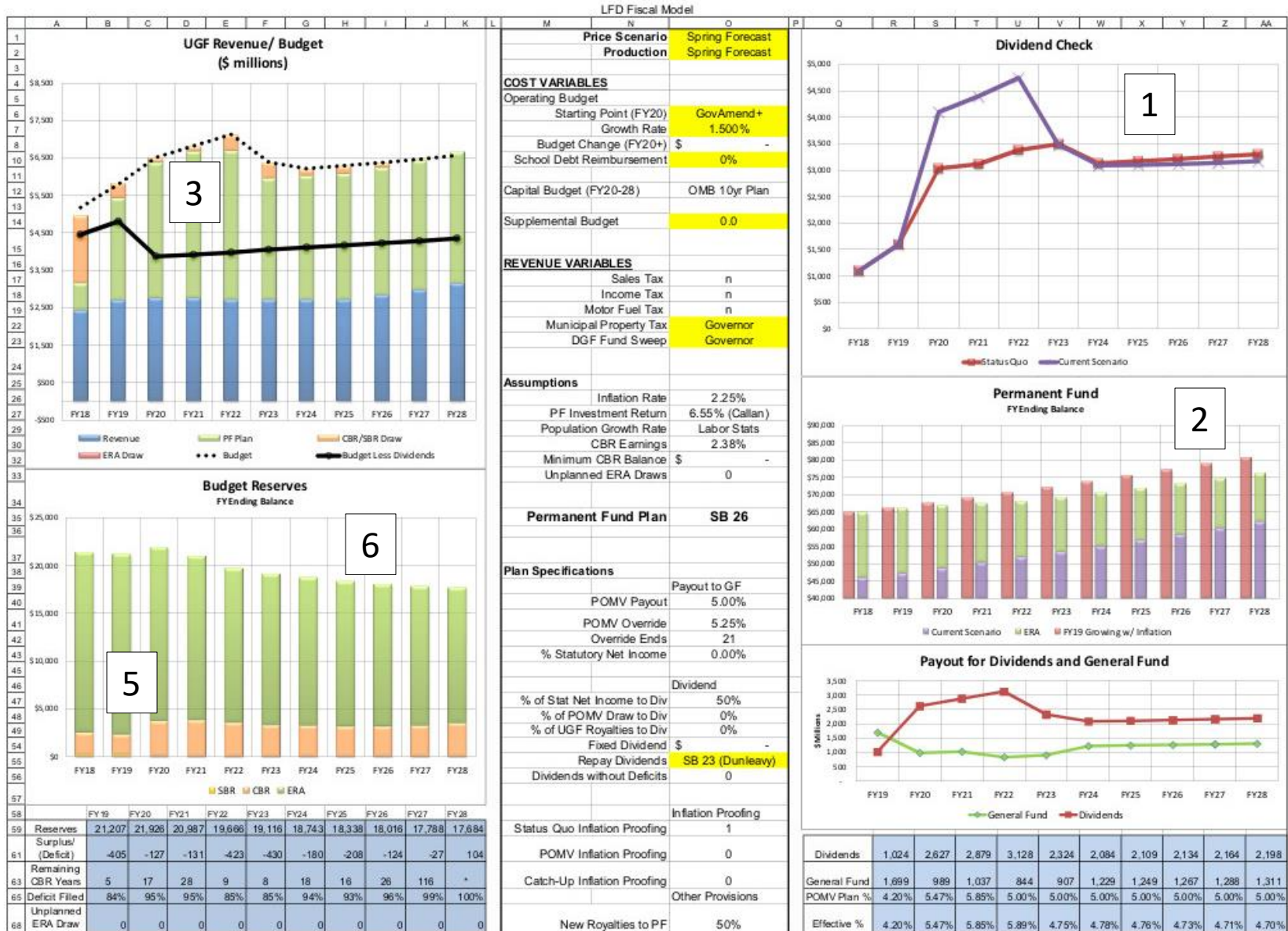
Status Quo Budgeting

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



THE STATE
of ALASKA
CONSERVATION MICHAEL I. DENHEARY

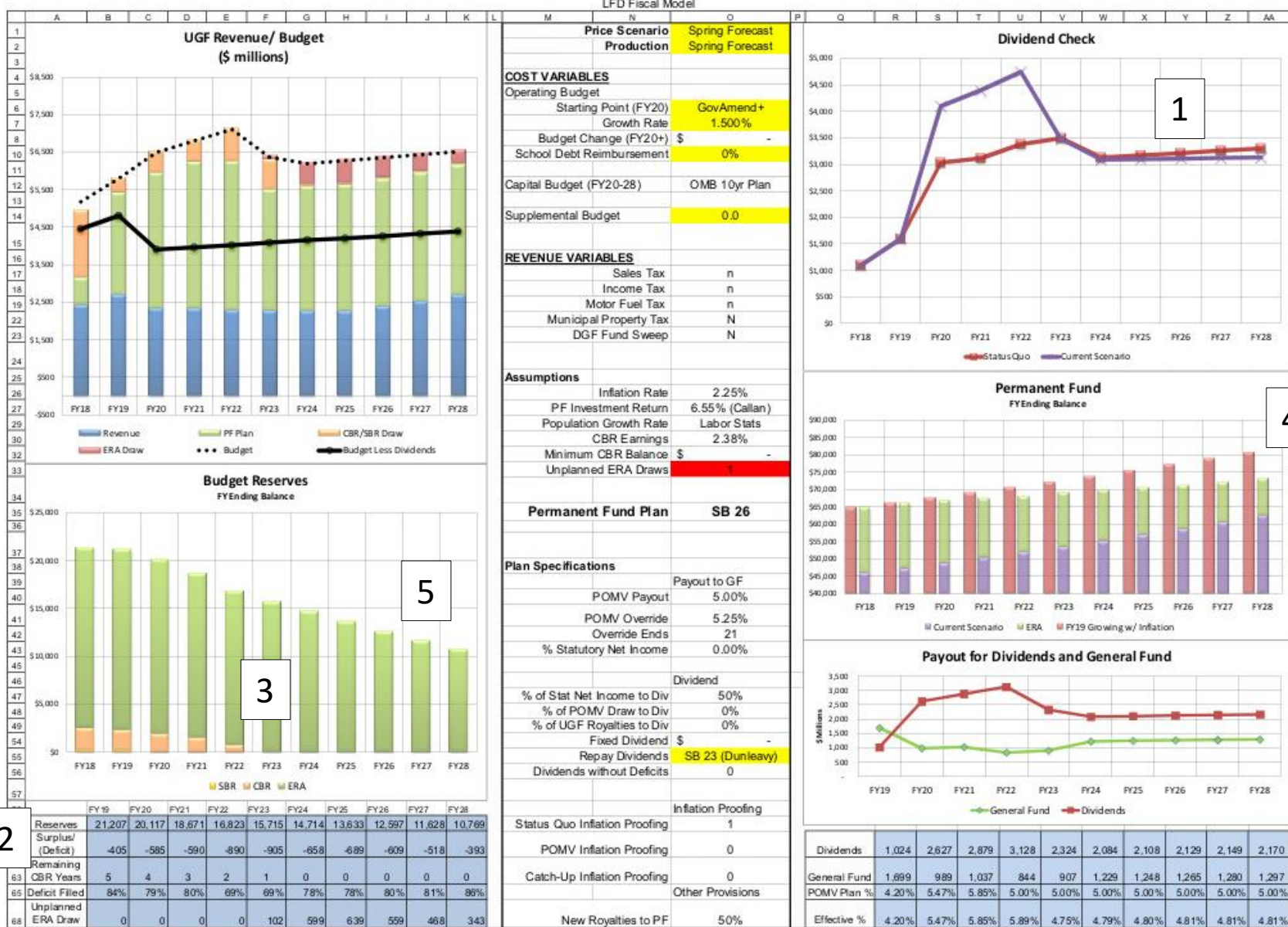
The Governor's Plan



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.

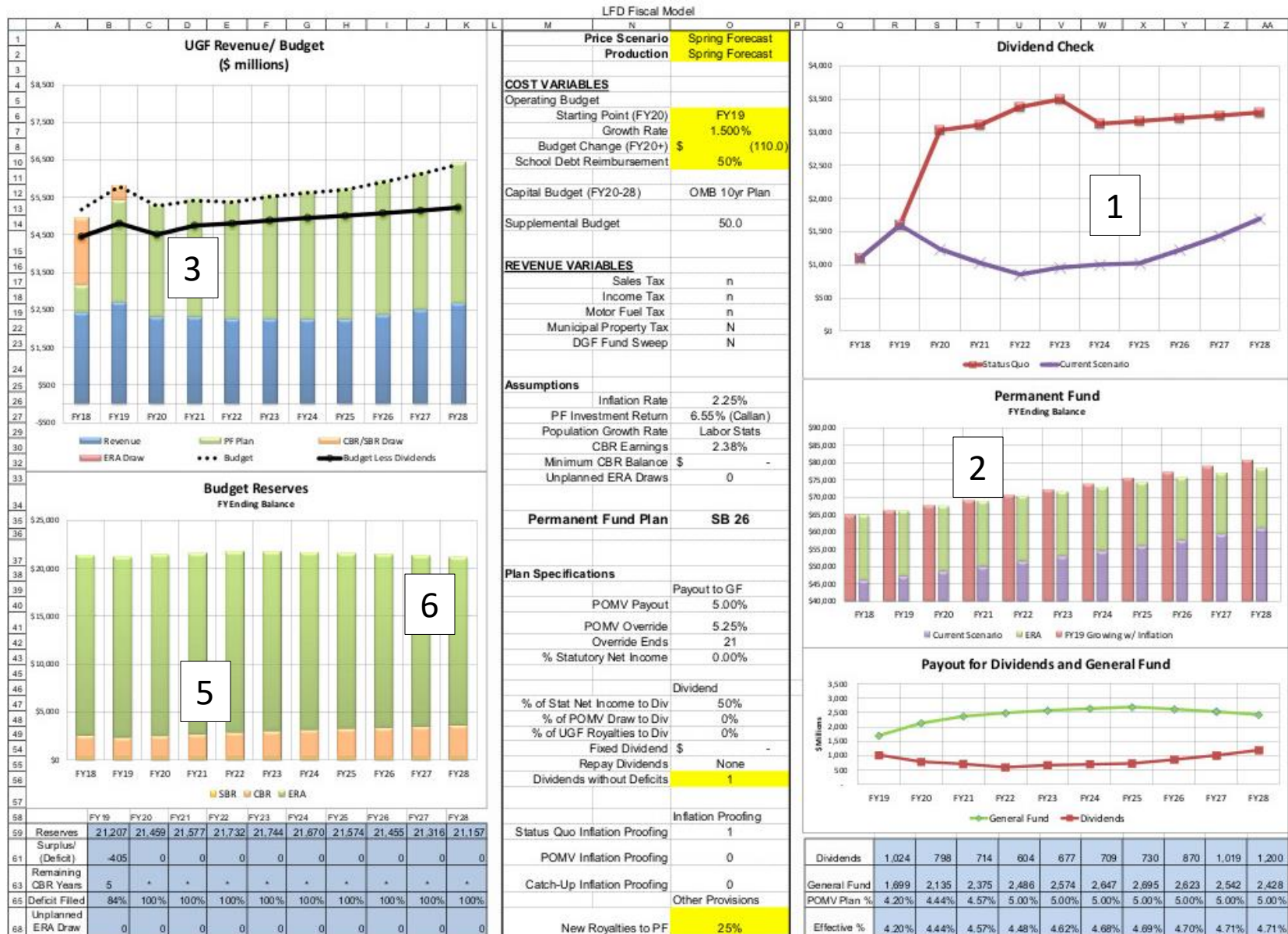
The Governor's Plan without Legislation



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.**

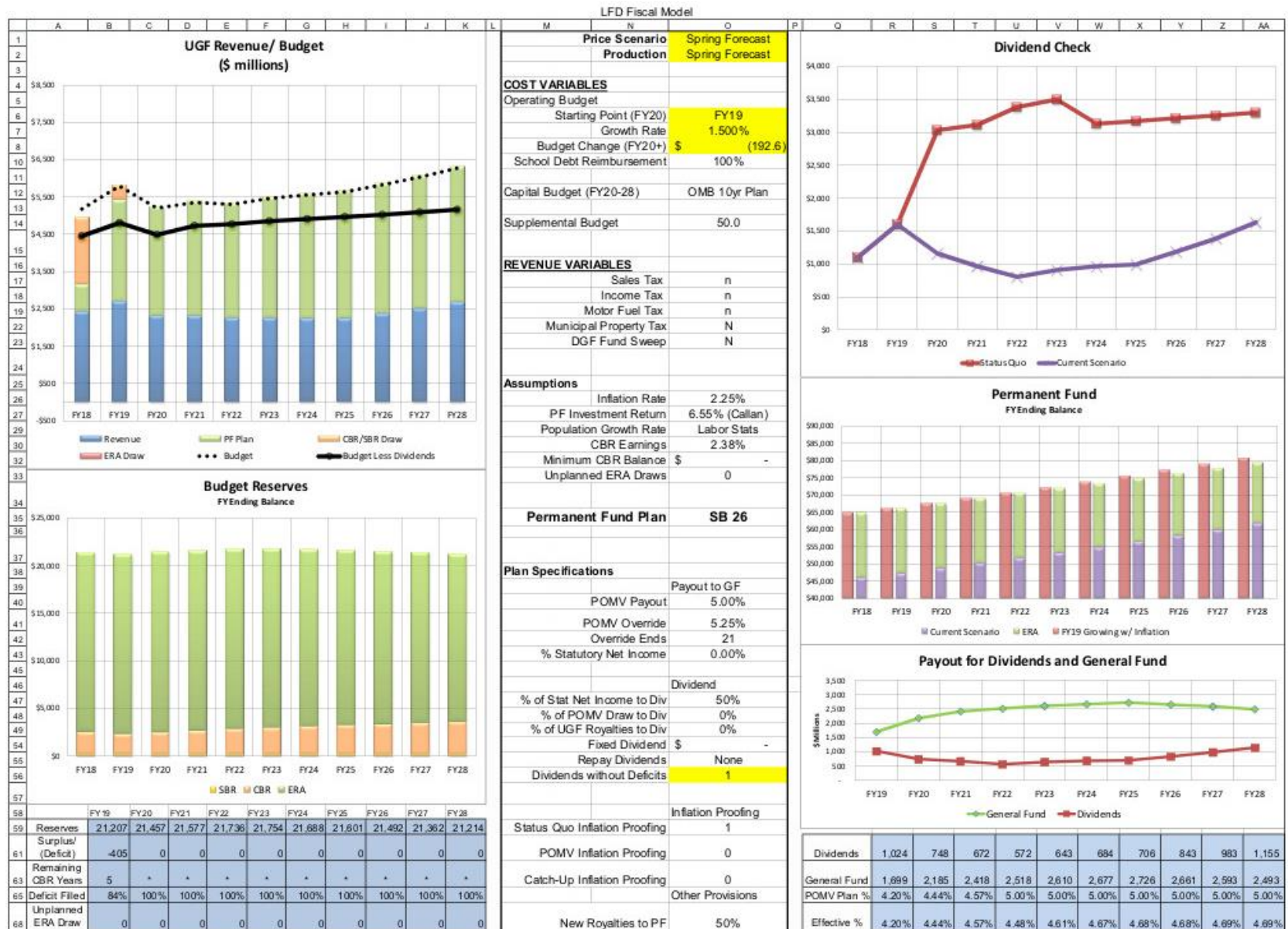
How Well Does the House Budget Meet Governor Dunleavy's Guiding Principles?

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.

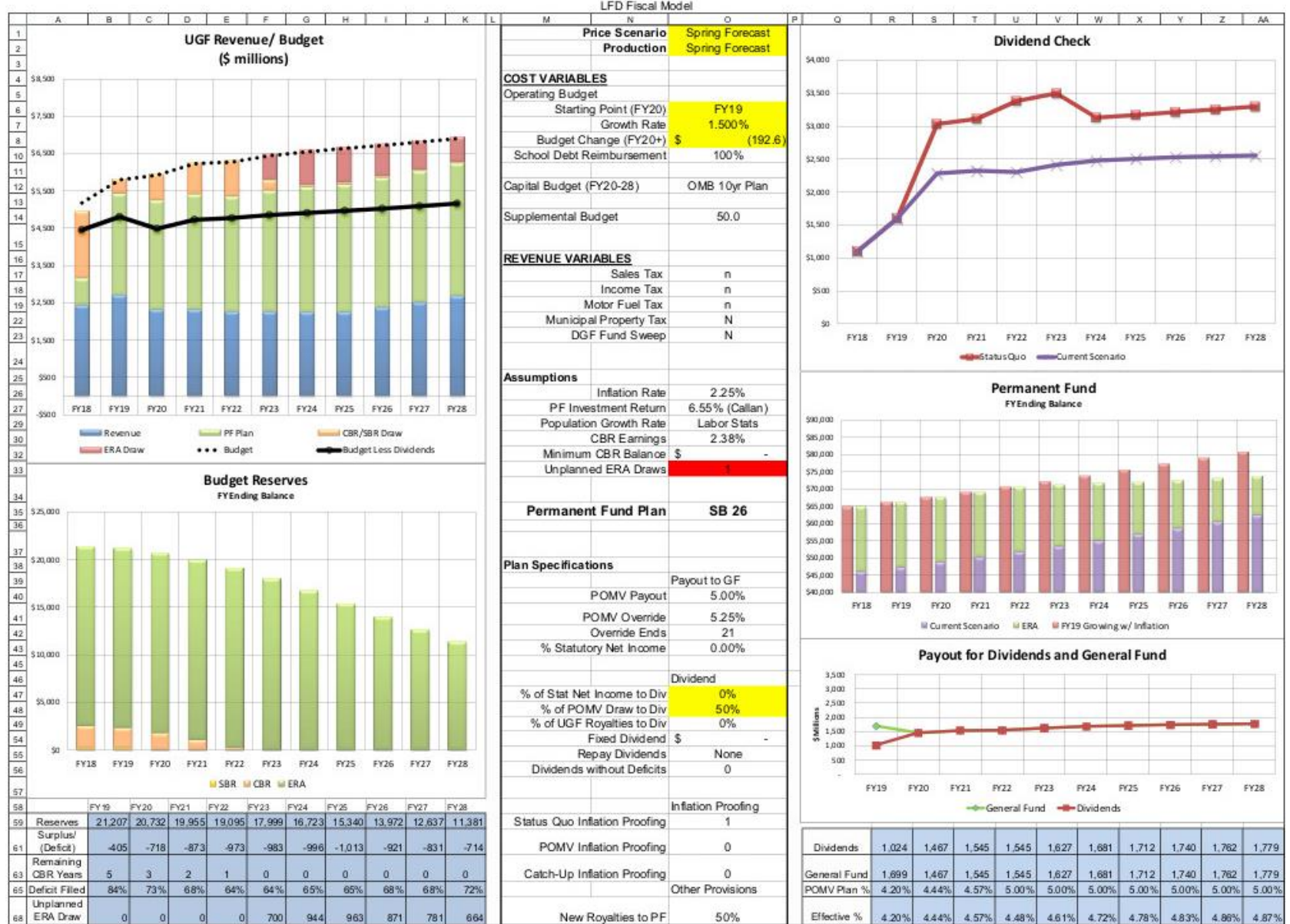
An Honest Budget: Fiscal Year 2020

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

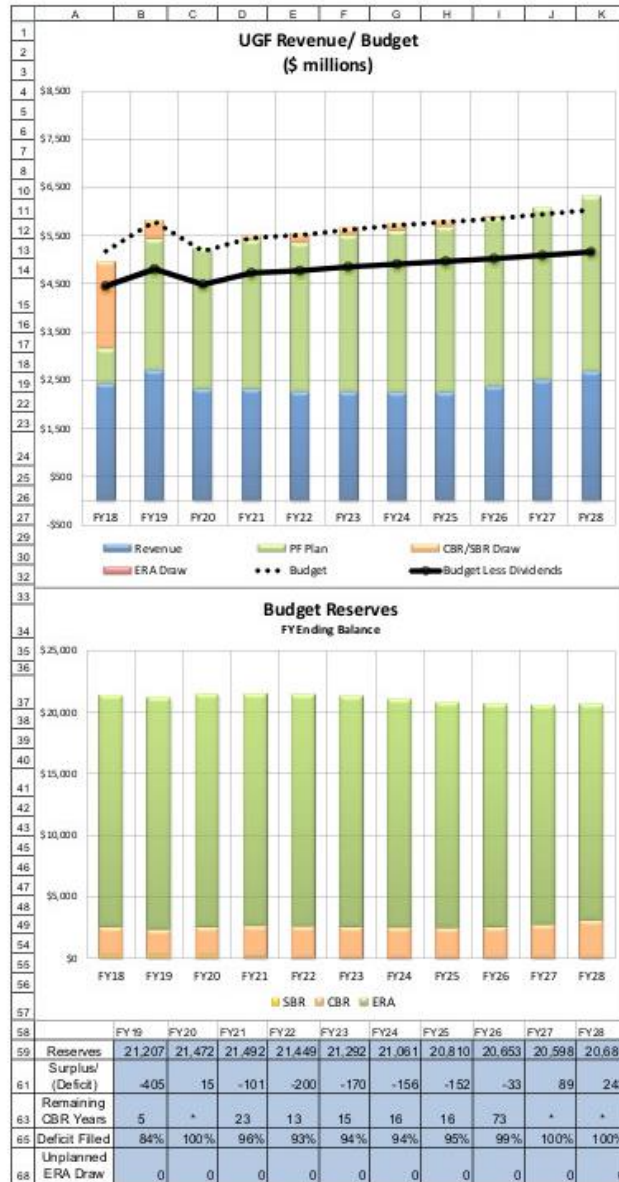
Senate Budget (if Surplus is Used for Dividends)



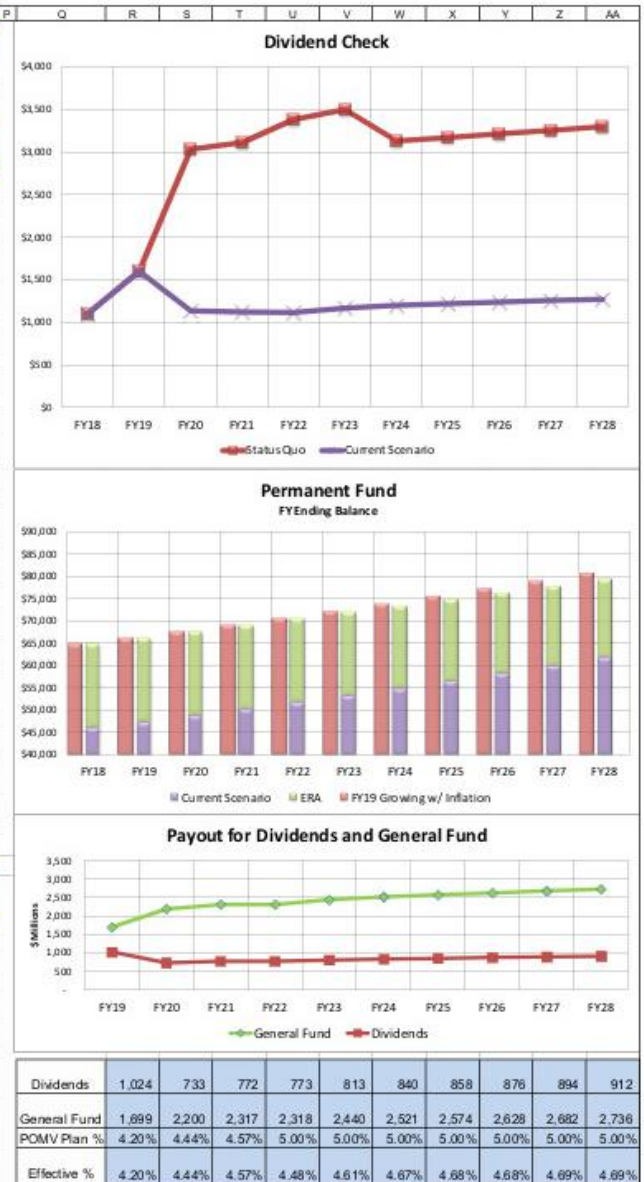
Senate Budget (with a 50/50 dividend split)



Senate Budget (with a 75/25 dividend split)

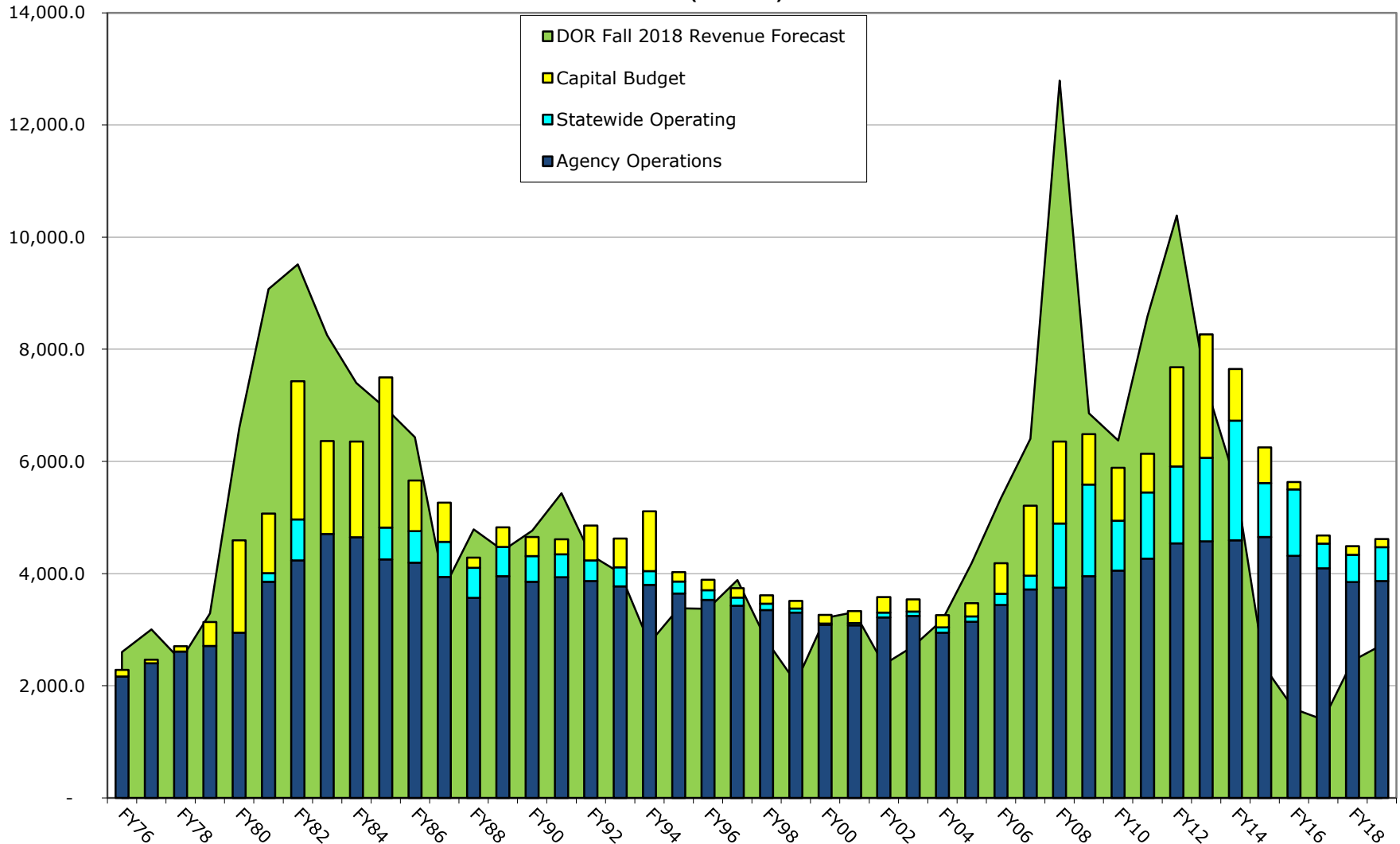


LFD Fiscal Model	
Price Scenario	Spring Forecast
Production	Spring Forecast
COST VARIABLES	
Operating Budget	
Starting Point (FY20)	FY19
Growth Rate	1.500%
Budget Change (FY20+)	\$ (192.6)
School Debt Reimbursement	100%
Capital Budget (FY20-28)	OMB 10yr Plan
Supplemental Budget	50.0
REVENUE VARIABLES	
Sales Tax	n
Income Tax	n
Motor Fuel Tax	n
Municipal Property Tax	N
DGF Fund Sweep	N
Assumptions	
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	0
Permanent Fund Plan SB 26	
Plan Specifications	
Payout to GF	
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
% Statutory Net Income	0.00%
Dividend	
% 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
Inflation Proofing	
Status Quo Inflation Proofing	1
POMV Inflation Proofing	0
Catch-Up Inflation Proofing	0
Other Provisions	
New Royalties to PF	50%



Real Unrestricted General Fund Revenue/ Budget History

Adjusted for Inflation (2017 dollars)
(millions)



Calculating a PFD that Maintains a Balanced Budget (in \$ millions except for PFDs)			Senate 4/22/19	
Traditional Revenue (Spring Forecast)	2,304		529,500 bbls/day @ \$66	
POMV Payout	2,933			Change
Royalties beyond 25% Constitutional Mandate	-	0%	FY19	From FY19
Total FY20 Revenue	5,237		5,406	(170)
Senate Subcom FY20 Agency Appropriations	3,815			
Additional K-12 Funding	30	100%		
Phase 1 Medicaid Reduction	(83)	91%		
Capital Project Debt Reimbursement	5	100%		
School Debt Reimbursement	83	100%		
Other Debt Service	89			
Retirement Assistance	308			
Fund Capitalization	41			
Oil & Gas Tax Credits	-	0%	100	
Pre-transfer UGF Appropriations	4,289		4,569	(280)
Capital (Governor: 95.77)	150		148	2
Transfers (Cap Income and Oil&Haz Funds)	43	Surplus /	31	12
Adjustments	-	(Deficit)		
Total Anticipated FY20				
Expenditures before PFDs	4,482	755	4,748	(266)
Assume a budget surplus goes to PFDs and that additional PFDs require the budget to be balanced with cuts, new revenue or reserves. Then cuts/revenue/reserves increase PFDs as follows:			PFD with a Balanced Budget	Recipients : 639,247
Amount of Cut / Revenue / Reserves	Appropriations	Surplus		
-	4,482	755	\$ 1,171	
100	4,382	855	\$ 1,328	
200	4,282	955	\$ 1,484	
300	4,182	1,055	\$ 1,641	
500	3,982	1,255	\$ 1,954	
800	3,682	1,555	\$ 2,423	
1,000	3,482	1,755	\$ 2,736	
1,200	3,282	1,955	\$ 3,049	
Percent of POMV to Dividends	to PFDs	to GF	Surplus	PFD
80%	2,346	587	(1,591)	\$ 3,661
70%	2,053	880	(1,298)	\$ 3,202
60%	1,760	1,173	(1,005)	\$ 2,743
50%	1,467	1,467	(711)	\$ 2,284
40%	1,173	1,760	(418)	\$ 1,826
35%	1,027	1,907	(272)	\$ 1,596
30%	880	2,053	(125)	\$ 1,367
25%	733	2,200	22	\$ 1,137
20%	587	2,346	168	\$ 908
10%	293	2,640	462	\$ 449
0%	-	2,933	755	\$ -

Projected Reserve Balances -- End of FY19

(\$ billions)

Constitutional Budget Reserve Fund	\$ 2.30
Permanent Fund ERA	\$ 18.99
Statutory Budget Reserve Fund	\$ 0.17
Alaska Higher Education Investment Fund	\$ 0.34
Power Cost Equalization Endowment	\$ 0.99