



ALASKA · STATE · CAPITOL

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

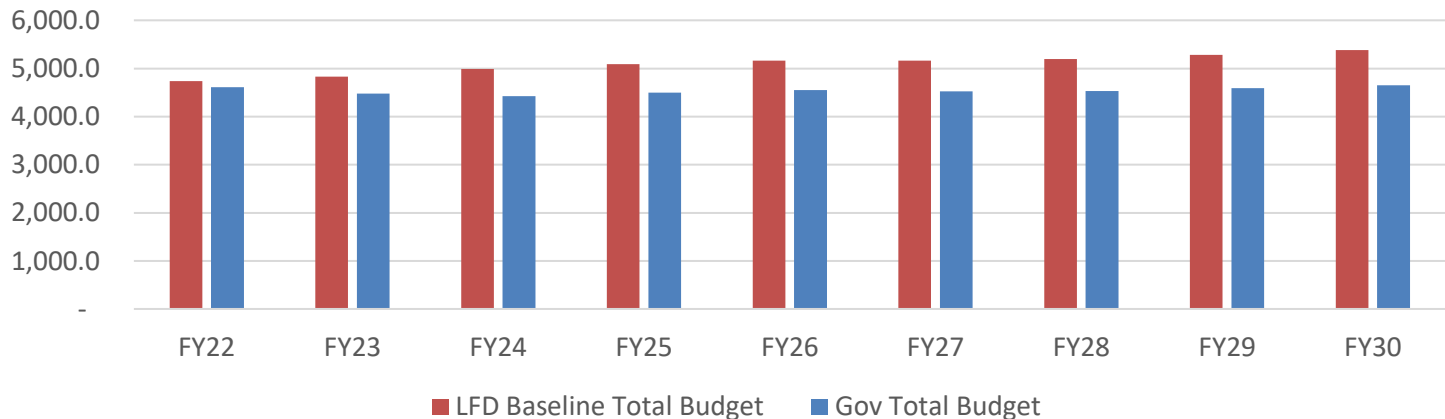
LFD Baseline Spending Assumptions

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)



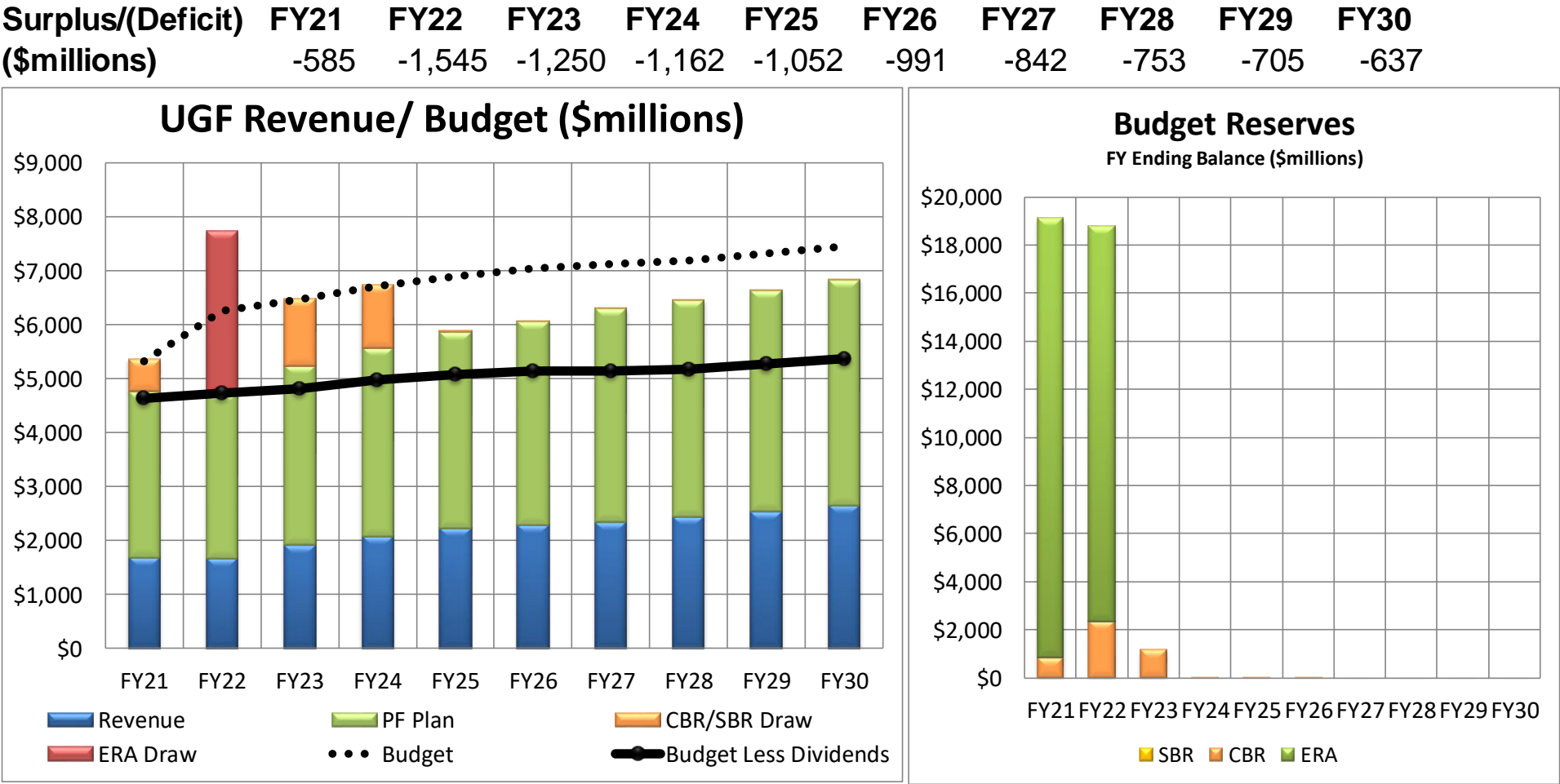
Comparison of LFD Baseline to Governor's 10-Year Plan (cont.)

- 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

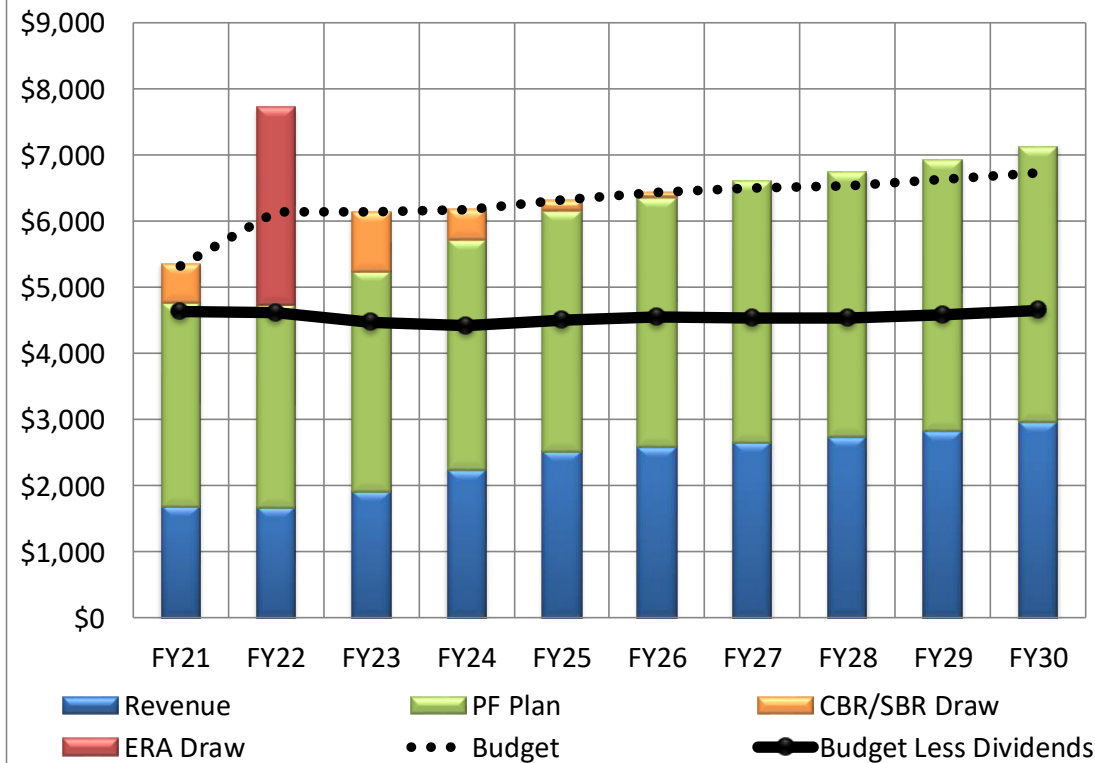
Fiscal Model: Governor's PF Plan with LFD's Baseline Spending Assumptions



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

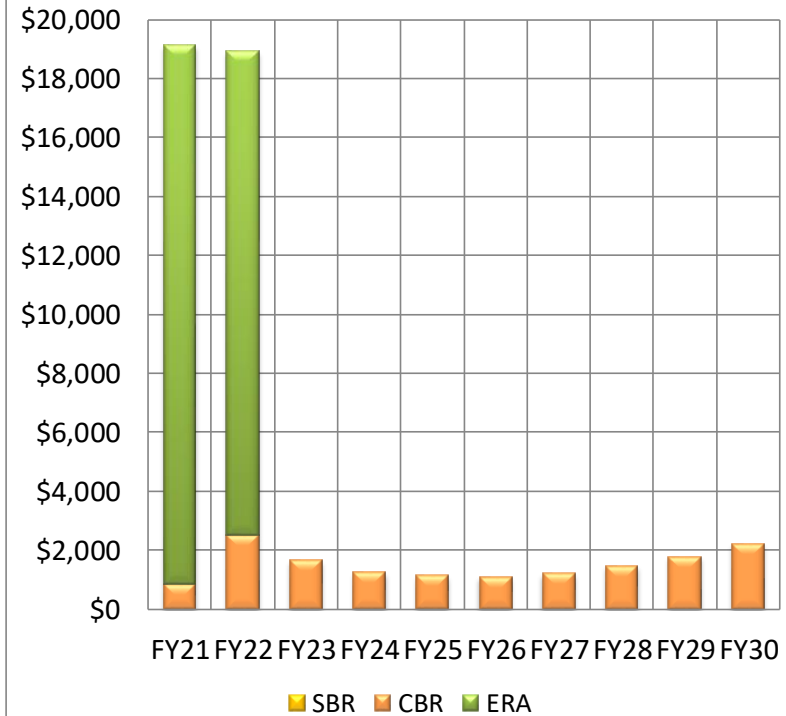
Surplus/(Deficit) (\$millions)	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
	-585	-1,416	-897	-449	-161	-82	94	212	289	395

UGF Revenue/ Budget (\$millions)



Budget Reserves

FY Ending Balance (\$millions)



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

Subscribe to email notifications from LFD:
<https://www.legfin.akleg.gov/EmailNotifications/subscribe.php>