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

House Finance Committee
January 27, 2022
Legislative Finance Division

Outline

- Review of LFD Modeling Baseline Assumptions
- Comparison of Governor's 10-Year Plan to Baseline
- Fiscal Model Results for Governor's 10-Year Plan
- Additional Items to Consider
- Probabilistic Modeling

Review of Modeling Baseline

- 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. Policy changes are then applied against that baseline.

- Our default is to assume that statutory formulas will be followed.

Review of Modeling Baseline (cont.)

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Fall Revenue Forecast.
  - This assumes $71 oil in FY23, following futures market thereafter.
  - DNR oil production forecast projects that Alaska North Slope production will increase from 500.2 thousand barrels per day in FY23 to 586.2 thousand barrels per day in FY31.
- For the Permanent Fund, we use Callan's return assumption of 5.86% total return in FY22 and 6.20% thereafter.

Review of Modeling Baseline (cont.)

Spending Assumptions

- For **agency operations**, these scenarios assume the Governor's FY23 budget grows with inflation (2.0%).

- For **statewide items**, the baseline assumes that all items are funded to their statutory levels beyond FY23.
  - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.

- For the **capital budget**, we assume the Governor's FY23 capital budget grows with inflation (2.0%)

- 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 Modeling Baseline

Surplus/(Deficit) ($millions)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	279	-1,482	-1,320	-1,377	-1,392	-986	-973	-1,095	-1,079	-1,027
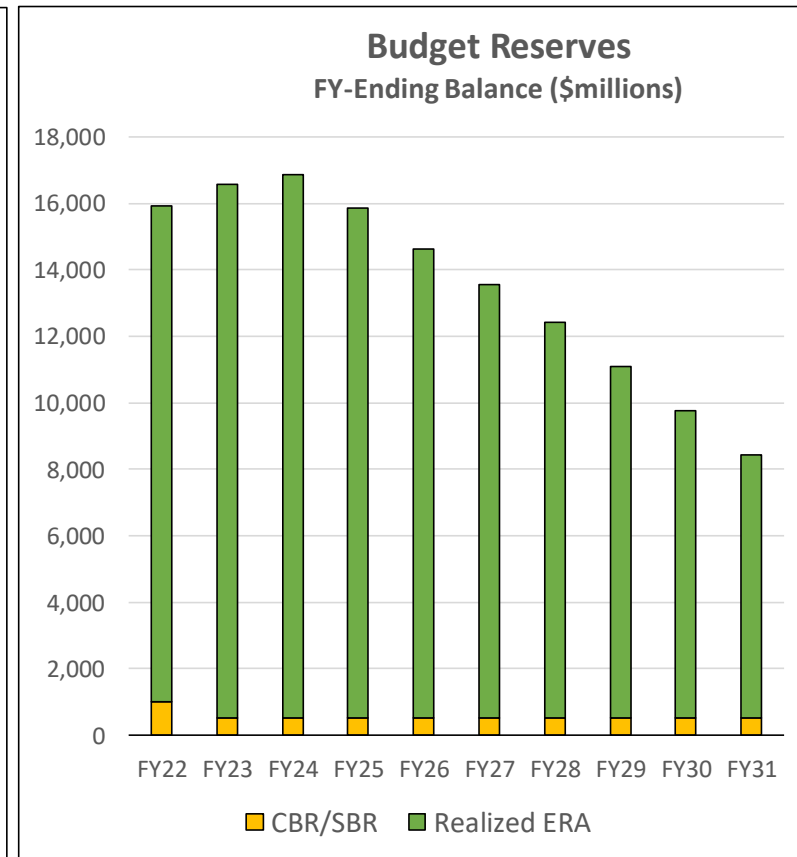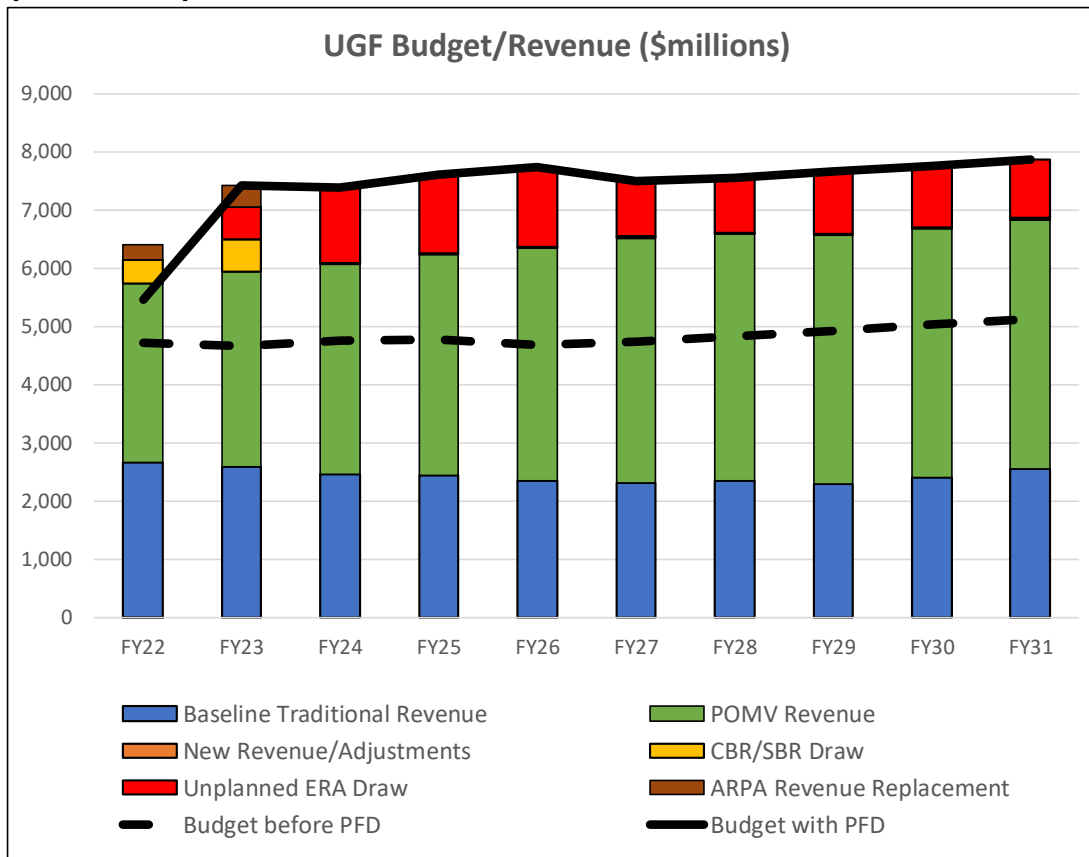
Effective POMV Draw Rate	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	5.00%	5.84%	6.79%	6.78%	6.71%	6.14%	6.12%	6.26%	6.23%	6.17%

Governor's 10-Year Plan

Policy changes in Governor's 10-Year Plan:

- PFD is 50% of POMV, including an FY22 supplemental;
- Agency operations are held flat in FY24, then grow at 1.5% for all items except Medicaid, which grows at 1.0%;
- Beginning in FY24, School Debt Reimbursement is funded at 50%, and the REAA Fund Cap is reduced to a flat $17.5 million;
- PERS and TRS health care contributions are not funded;
- The capital budget is held flat with no inflationary growth, but a General Obligation Bond issued in FY23 increases debt service by $22.8 million in FY24 and beyond;
- Supplementals and lapse are assumed to cancel out; and
- Governor uses $375.4 million of ARPA revenue replacement in FY23.

Comparison of LFD Model to Governor's Model

- Other than policy choices, there is only one substantive difference in assumptions:
  - LFD adopted an assumption from the Fiscal Plan Working Group that School Bond Debt Reimbursement will begin to add new debt after the current moratorium expires. This slightly increases the baseline for both School Debt and the REAA Fund.

- Other differences are due to rounding and presentation differences (for example, OMB includes fund transfers with statewide items, LFD separates them).

- We also have slightly different CBR starting balances – LFD will not update last year's estimates until audited numbers are available, OMB has slightly higher estimates based on pre-audit actuals.

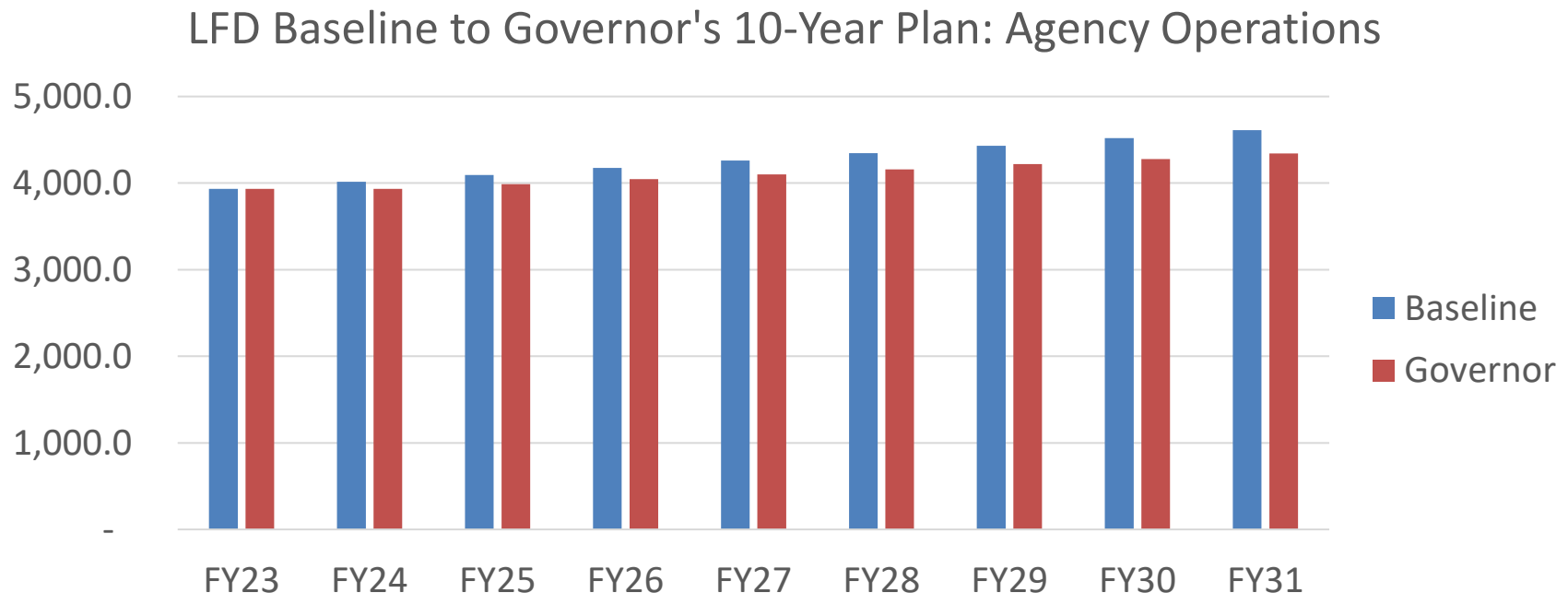# Comparison of Governor's 10-Year Plan to LFD Baseline

Comparison of LFD Baseline to the Governor's 10-Year Plan ($ millions)								
	FY23	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
Baseline	4,655.9	4,747.5	4,774.5	4,672.3	4,735.3	4,833.6	4,926.5	5,025.1	5,127.8
Governor	4,606.2	4,540.0	4,554.7	4,440.0	4,473.2	4,535.0	4,594.3	4,656.8	4,711.9
Difference	(49.7)	(207.5)	(219.8)	(232.3)	(262.1)	(298.6)	(332.2)	(368.3)	(415.9)

LFD Baseline to Governor's 10-Year Plan
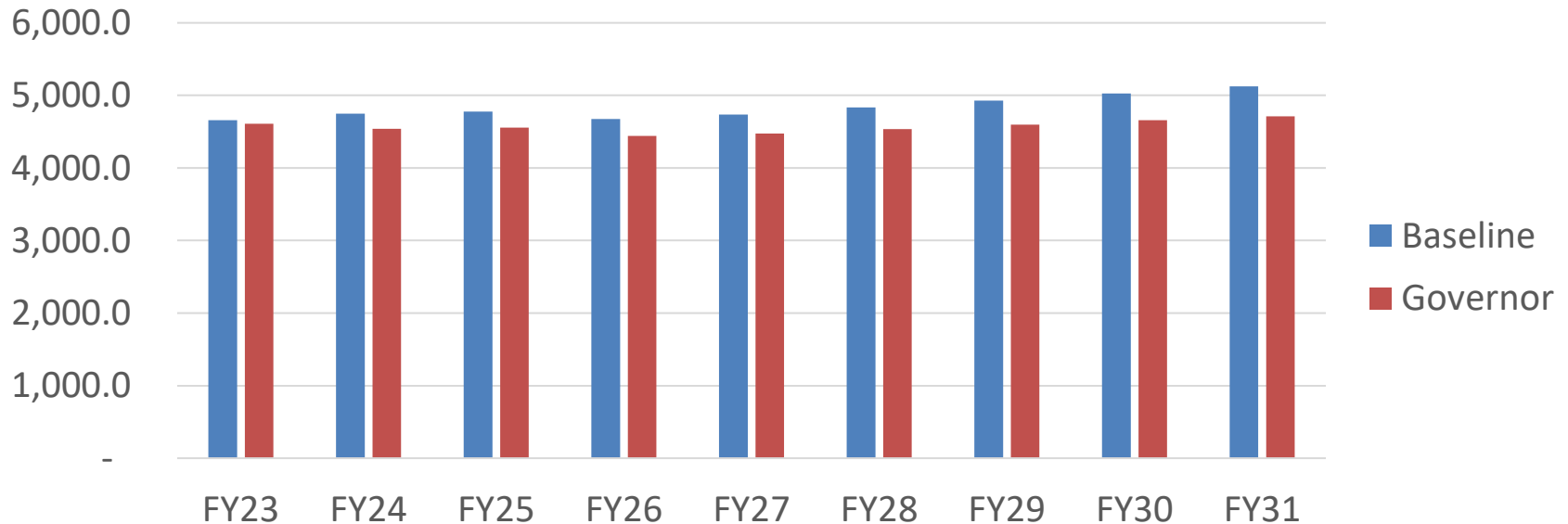
# Comparison of Governor's 10-Year Plan to LFD Baseline: Agency Operations

Comparison of LFD Baseline to the Governor's 10-Year Plan – Agency Operations ($ millions)								
	FY23	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
Baseline	3,933.6	4,012.3	4,092.5	4,174.4	4,257.9	4,343.0	4,429.9	4,518.5	4,608.8
Governor	3,933.6	3,932.1	3,987.8	4,043.3	4,100.6	4,157.8	4,217.7	4,277.6	4,339.3
Difference	-	(80.2)	(104.7)	(131.1)	(157.3)	(185.2)	(212.2)	(240.9)	(269.5)

LFD Baseline to Governor's 10-Year Plan: Agency Operations

Comparison of Governor's 10-Year Plan to LFD Baseline: Statewide Items

Comparison of LFD Baseline to the Governor's 10-Year Plan – Statewide Items ($ millions)								
	FY23	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
Baseline	517.6	527.5	471.1	283.8	260.0	269.8	272.4	278.9	287.7
Governor	517.9	453.2	412.2	242.0	217.9	222.5	221.9	224.5	217.9
Difference	0.3	(74.3)	(58.9)	(41.8)	(42.1)	(47.3)	(50.5)	(54.4)	(69.8)

LFD Baseline to Governor's 10-Year Plan: Statewide Items
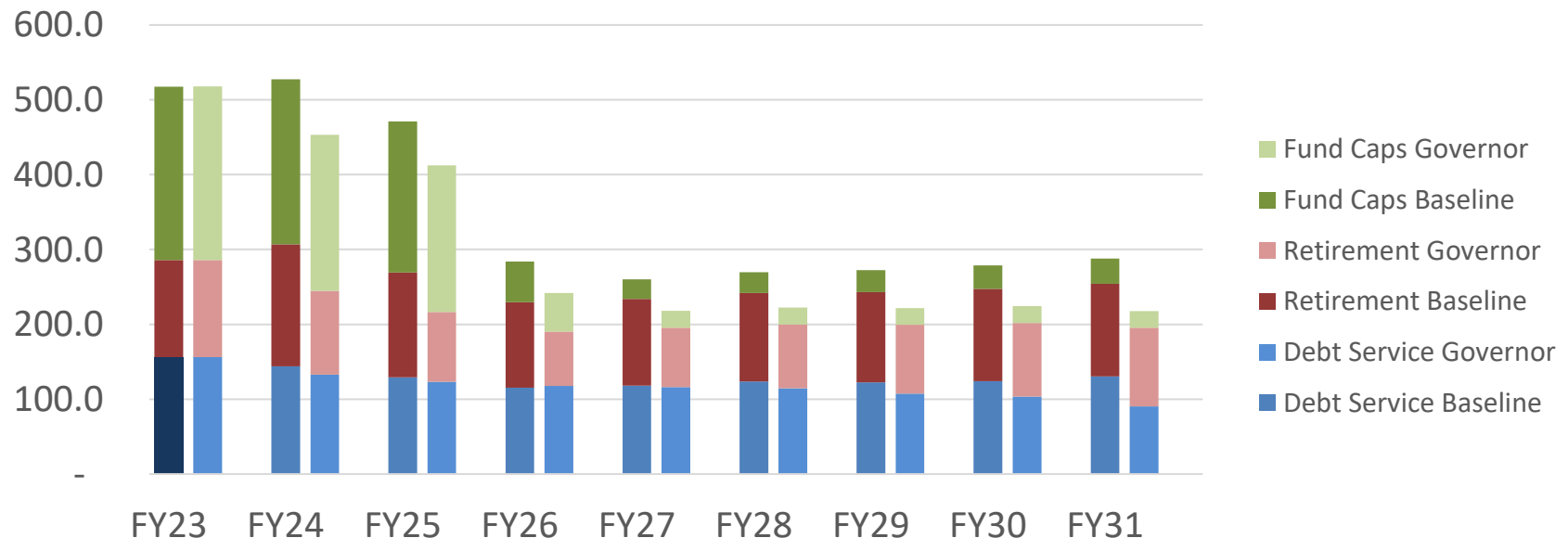
LFD Modeling Baseline with 50/50 Plan

Surplus/(Deficit) ($millions)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	279	-398	-483	-441	-323	-294	-325	-425	-385	-312

UGF Budget/Revenue ($millions)

Legend:
- Baseline Traditional Revenue
- New Revenue/Adjustments
- Unplanned ERA Draw
- Budget before PFD
- POMV Revenue
- CBR/SBR Draw
- ARPA Revenue Replacement
- Budget with PFD

Budget Reserves
FY-Ending Balance ($millions)

Legend:
- CBR/SBR
- Realized ERA
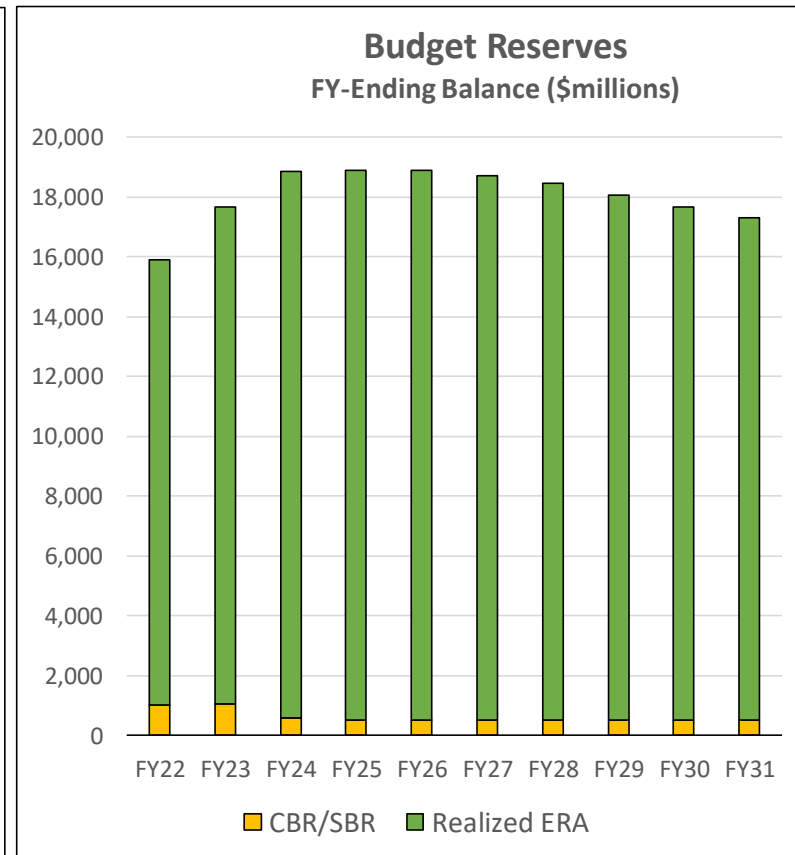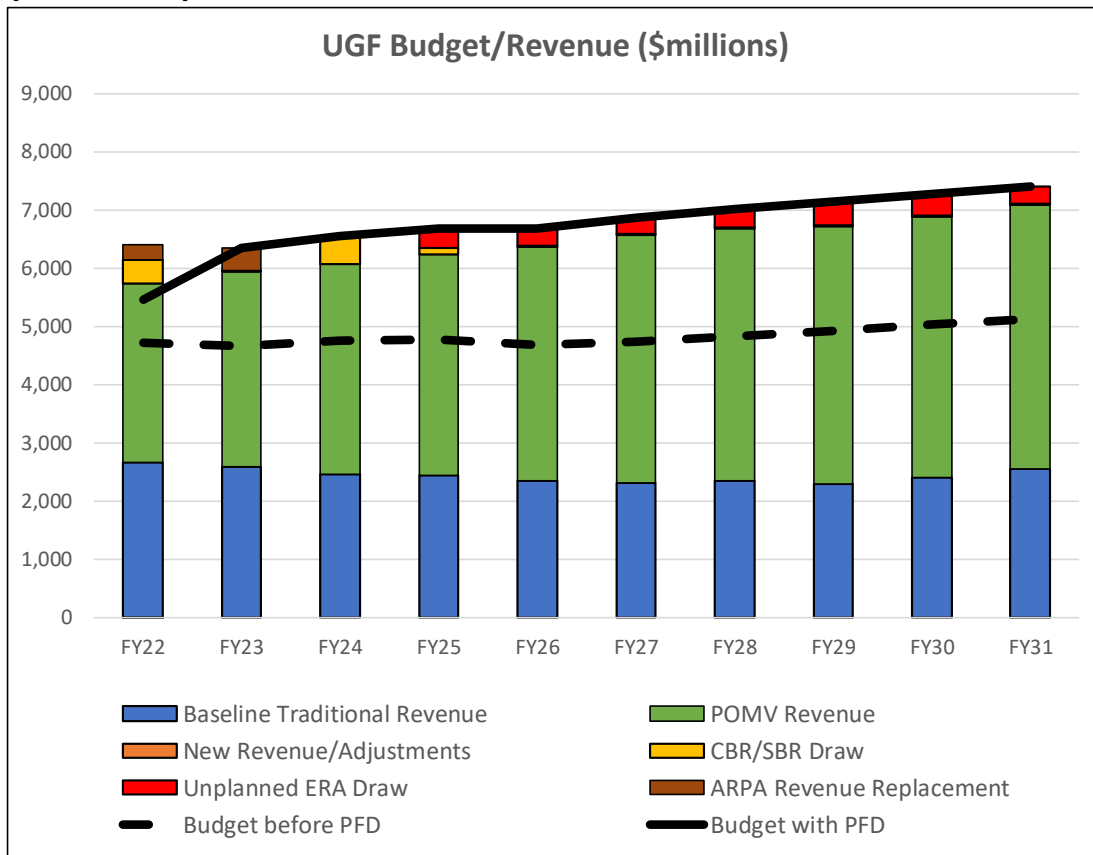
Effective POMV Draw Rate	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	5.00%	5.00%	5.00%	5.45%	5.37%	5.32%	5.35%	5.45%	5.40%	5.32%

Governor's 10-Year Plan in LFD Model

Surplus/(Deficit) ($millions)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	-517	-348	-281	-225	-92	-33	-29	-93	-12	105
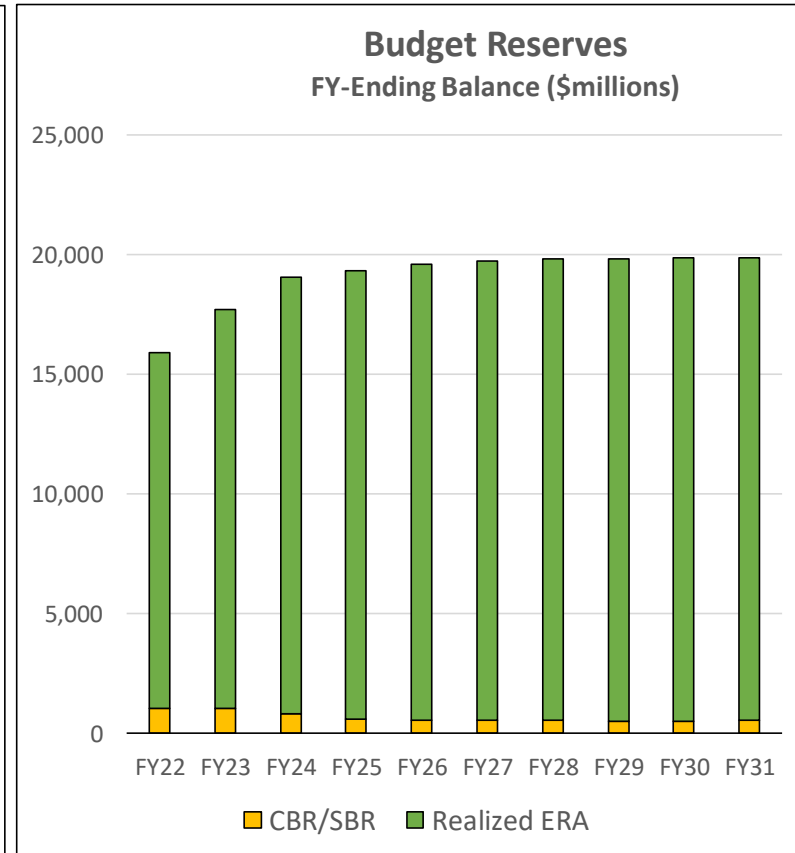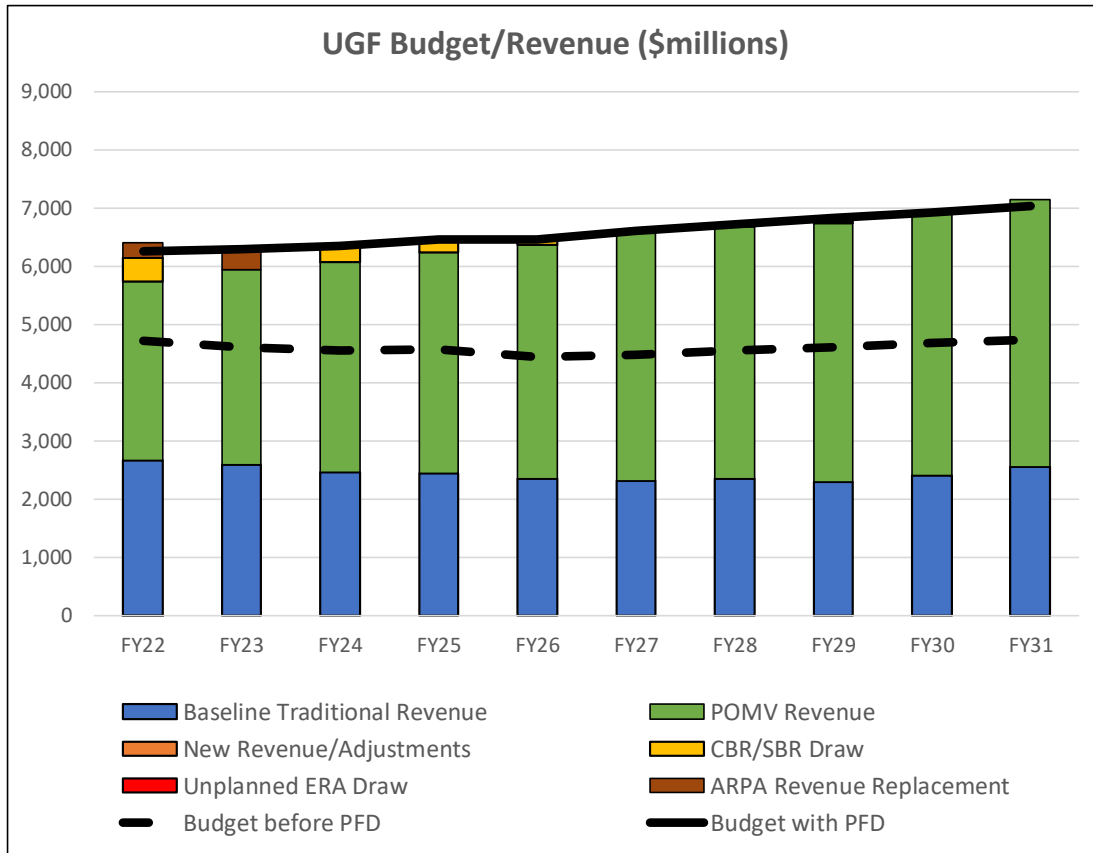
Effective POMV Draw Rate	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.05%	5.00%	5.00%

Legislative Finance Division

13

Additional Items to Consider: Should the Baseline Be Higher?

- Several ongoing items in the Governor's budget are funded with short-term federal funds:
  - DOC's DNA Tracking program: $1.1 million CSLFRF (need to be replaced in FY24)
  - AMHS: ~$82.0 million in place of UGF from federal infrastructure bill (need to be replaced in FY27)
  - DOTPF: $22.4 million of FHWA and FAA funds (need to be replaced in FY24/25)
- In addition, the ARM Board decision not to fund retiree health care is backed out in LFD's baseline only for the statewide item. It would also have about a $15.9 million UGF impact on agency budgets.

Additional Items to Consider: Should the Baseline Be Higher? (Cont.)

|	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
LFD Baseline	**4,655.9**	**4,747.5**	**4,774.5**	**4,672.3**	**4,735.3**	**4,833.6**	**4,926.5**	**5,025.1**	**5,127.8**
DOC DNA post CSLFRF	-	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*
AMHS post IIJA	-	-	-	-	*82.0*	*82.0*	*82.0*	*82.0*	*82.0*
Expiring FAA and FHWA	-	*22.4*	*22.4*	*22.4*	*22.4*	*22.4*	*22.4*	*22.4*	*22.4*
PERS healthcare	-	*15.9*	*15.9*	*15.9*	*15.9*	*15.9*	*15.9*	*15.9*	*15.9*
Total Increases	-	39.4	39.4	39.4	121.4	121.4	121.4	121.4	121.4
Baseline Plus Increases	**4,655.9**	**4,786.9**	**4,813.9**	**4,711.7**	**4,856.7**	**4,955.0**	**5,047.9**	**5,146.5**	**5,249.2**
Gov 10-Year Plan	4,606.2	4,540.0	4,554.7	4,440.0	4,473.2	4,535.0	4,594.3	4,656.8	4,711.9
Difference	**(49.7)**	**(246.9)**	**(259.2)**	**(271.7)**	**(383.5)**	**(420.0)**	**(453.6)**	**(489.7)**	**(537.3)**
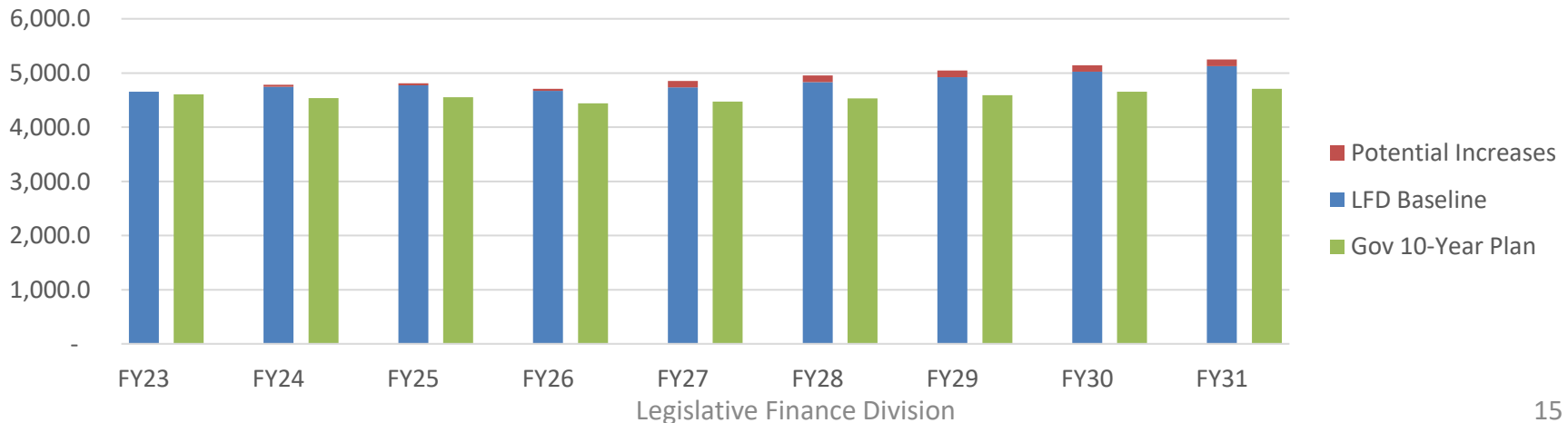
Probabilistic Modeling

- LFD developed a probabilistic model to enhance our modeling capability. Unlike the Callan model, it is a complete fiscal model with the budget and revenue as well as the Permanent Fund.
  - Results for Permanent Fund scenarios are similar to what Callan's model produces.
- Runs 2,000 scenarios with varying assumptions for Permanent Fund earnings, oil prices, and oil production.
- Assumes LFD baseline budget, with only PFD amount changing by scenario.
- APFC 6.2% average return with 13.2% annualized standard deviation.
- Average oil price equals DOR's fall forecast. Applies standard deviation equal to 34% of a given year's average price.
- LFD can run additional scenarios as requested by legislators and staff.
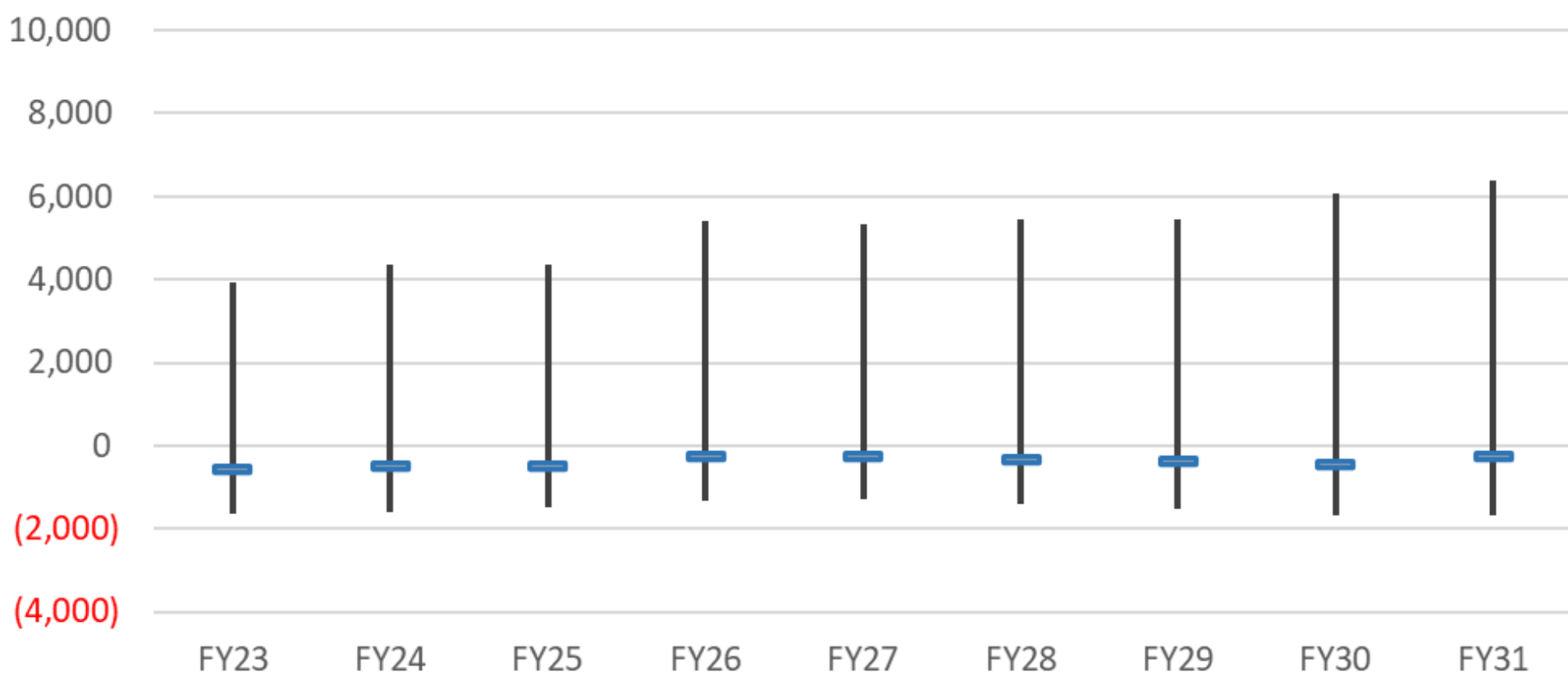
Stress Test: Statutory PFD

Surplus/(Deficit) by Fiscal Year ($millions)
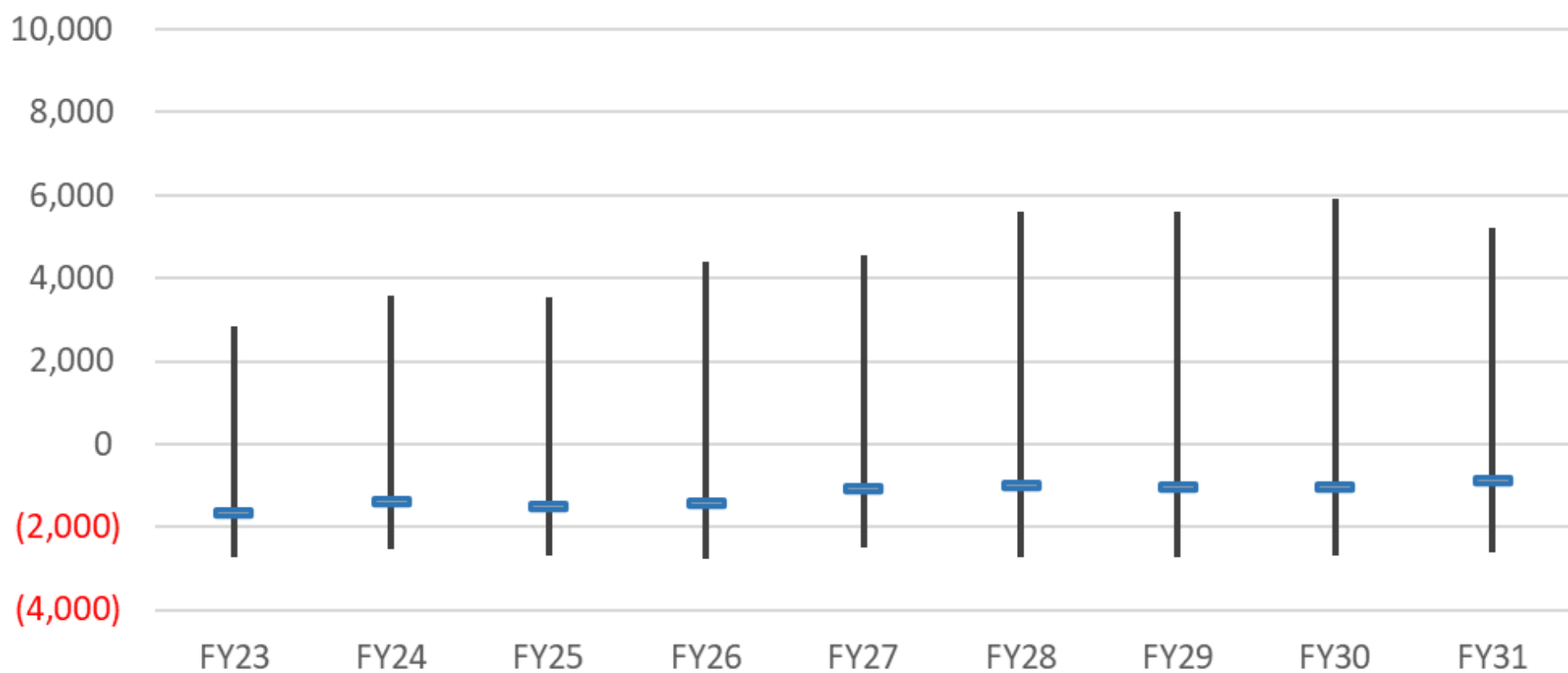
Bars represent the 10th to 90th percentiles of forecated outcomes for a given fiscal year.

Stress Test: 50% POMV to PFD
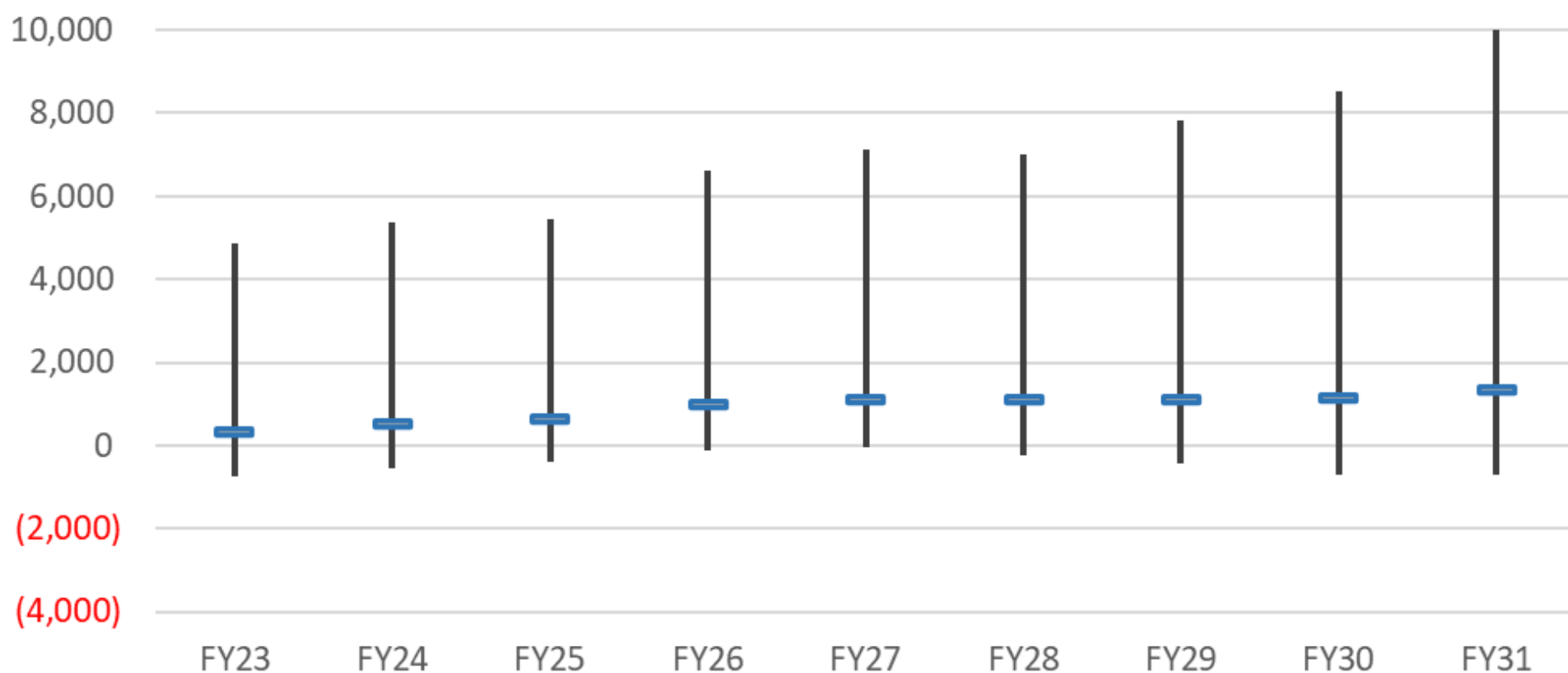

Surplus/(Deficit) by Fiscal Year ($millions)

Bars represent the 10th to 90th percentiles of forecated outcomes for a given fiscal year.

Stress Test: $1,100/person PFD

Surplus/(Deficit) by Fiscal Year ($millions)

Bars represent the 10th to 90th percentiles of forecated outcomes for a given fiscal year.

Probability of ERA Shortfall by PFD Scenario

Year	Statutory	50/50 POMV	$1,100/ person
FY23	0%	0%	0%
FY24	0%	0%	0%
FY25	0%	0%	0%
FY26	2%	1%	1%
FY27	8%	5%	3%
FY28	13%	10%	7%
FY29	19%	15%	11%
FY30	24%	19%	15%
FY31	29%	23%	18%

Questions?

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