

FY2010 10-year Plan



House Finance Committee
Governor's Office of Management and Budget
January 26, 2009

Implementation Schedule

The initial cycle of the 10 year plan process

- HB 125 introduced in 2007 session, passed in April 2008.
- In June 2008, HB 125 signed into law.
- Initial 10-year plan development schedule:
 - August-December 2008 – Development of initial 10 year plans (simultaneous with agency budgets)
 - December 2008 - Release of FY2010 budget, revenue forecast, and executive summary of 10-year plan
 - January 2009 - Release of agency level plan detail and additional required fund projections



Purpose of the Plan

To keep a dialogue about Alaska's future in the forefront

- Should initiate a dialogue about the future fiscal health of Alaska.
- Must involve the Legislature and engage Alaskans.
- The FY2010 plan is a starting point - not the “answer”.



Imperatives of the Plan

The fiscal plans “must do’s”

- AS Statute 37.30.020 (b) (2) says that the annual fiscal plan must:
 - Balance the Budget
 - Provide for essential state services
 - Protect Alaska’s economic stability



Goal of the FY2010 Plan

Bridge the projected revenue gap from today to first gas

- In the long run, Alaska must diversify its revenue base.
- Monetizing Alaska's natural gas resource represents the state's best chance to replace the revenue decline that is projected due to falling oil production.
- The plan's primary goal is to bridge the revenue gap from today to the onset of natural gas revenue, currently forecast to occur sometime between 2018 and 2020.



Principles of the FY2010 Plan

Four basic principles of the FY2010 plan

- Slow the growth of government
- Live within our means
- Save for the future
- Invest in responsible resource development



Plan Guidance Provided by OMB

Agencies were provided an instruction memo in mid-August

- Agencies given latitude to develop their projections given the stated goals of the Administration and the plan.
- OMB did not provide a target growth rate
- Agencies were directed not to view the plan as an opportunity to develop a “wish list”
 - “ ..the projections should be the result of a rational , objective process within each department that will withstand the scrutiny of the Governor, the legislature and the public. “



Consistent Assumptions

Agencies were provided guidance for some “key assumptions”

- If inflation was to be included in the projection, it had to be documented which program and either use a 2.75% annual rate (DOR/Callan) or if appropriate a generally recognized rate i.e. medical care.
- Consistent with OMB policy, projections were not to be automatically adjusted for general inflation.
- If population growth is a factor in program growth, DOLWD November 2007 mid-case estimates were to be used, unless there is a commonly used projection source for a specific program.



What Did Agencies Project?

Agencies were asked to provide 3 discreet projections

- **Baseline-** Projected cost to continue the FY09 level of service through FY2019.
 - (*exception:* a program projecting a non-GF fund source decrease was not to assume that GF would replace that fund source. Those proposed GF increases were to be considered initiatives.)
 - Wage and benefit driven increases are not part of the agency projections, they were projected at a statewide level using data from the Dept. of Administration. (2.0% wages/5.0% medical for blended rate of approximately 3.25%)



Gasline and Initiatives Projections

In addition to baseline, two other projections scenarios were provided

- **Gasline-** Projected costs associated with the development of the TC/ Alaska gasline project.
- **Initiatives-** Projected costs associated with expanding the service capacity of the agency beyond the FY09 service level (or if new GF would be needed to replace non GF funds.)



Level of Detail

What did the agencies provide?

Department level projections for FY2010-FY2019 by fund source (GF/Federal/Other) for the following categories

- Operations

- Formula (with detailed projections for each formula program)
- Non-formula

- Capital



Sample Projection

Baseline Budget Growth

(thousands \$)

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
Total Appropriations	61,130.1	72,229.7	72,674.8	73,123.7	76,926.5
General Fund	9,919.6	16,184.4	16,290.1	16,396.7	16,254.3
General Fund Match	3,407.3	3,505.8	3,540.2	3,574.8	3,609.8
Federal Funds	34,485.3	39,186.3	39,455.9	39,728.0	43,902.5
Other State Funds	13,317.9	13,353.2	13,388.6	13,424.2	13,159.9
Operations	47,730.1	49,829.7	50,214.8	50,723.7	49,776.5
General Fund	8,619.5	17,724.4	8,800.0	8,936.7	9,044.3
General Fund Match	2,657.3	2,755.8	2,700.0	2,824.8	2,859.8
Federal Funds	23,135.3	24,996.3	25,265.9	25,538.0	24,712.5
Other State Funds	13,317.9	13,353.2	13,388.6	13,424.2	13,159.9
Formula Programs	2,380.8	2,280.8	2,280.8	2,280.8	880.8
General Fund	880.8	880.8	880.8	880.8	880.8
General Fund Match	0.0	0.0	0.0	0.0	0.0
Federal Funds	1,200.0	1,100.0	1,100.0	1,100.0	0.0
Other State Funds	300.0	300.0	300.0	300.0	0.0
<u>Formula Detail</u>					
<u>Formula #1</u>	2,380.8	2,280.8	2,280.8	2,280.8	880.8
General Fund	880.8	880.8	880.8	880.8	880.8
General Fund Match	0.0	0.0	0.0	0.0	0.0
Federal Funds	1,200.0	1,100.0	1,100.0	1,100.0	0.0
Other State Funds	300.0	300.0	300.0	300.0	0.0
Non-formula Programs	45,349.3	47,548.9	47,994.0	48,442.9	48,895.7
General Fund	7,738.8	7,843.6	7,949.3	8,055.9	8,163.5
General Fund Match	2,657.3	2,755.8	2,790.2	2,824.8	2,859.8
Federal Funds	21,935.3	23,896.3	24,165.9	24,438.0	24,712.5
Other State Funds	13,017.9	13,053.2	13,088.6	13,124.2	13,159.9
Capital	13,400.0	22,400.0	22,400.0	22,400.0	27,150.0
General Fund	1,300.0	7,460.0	7,460.0	7,460.0	7,210.0
General Fund Match	750.0	750.0	750.0	750.0	750.0
Federal Funds	11,350.0	14,190.0	14,190.0	14,190.0	19,190.0
Other State Funds	0.0	0.0	0.0	0.0	0.0

Sample
Draft



Yet to Accomplish

There could be significant improvements to the 10 year planning process

Planning & Budgeting data are not integrated

- Budget changes do not automatically inform the plan, they are manually dealt with.
- Statewide “sum of all agencies” is calculated separately from the statewide model.

Existing statewide projections model is GF focused- changes in federal and other funds are not factored in to the overall picture.

Depending on the level of engagement, one approach might be the development of an “outward” facing model for citizens to engage in the process.



Disclaimer

The plan will change

- *Appropriations projections in the plan do not represent a commitment by the Administration to propose spending at a particular level in FY2010 or any future year.*
- *The 10 year forecast shows that based on the Fall 2008 revenue forecast and expenditure assumptions, budget shortfalls over the 10-year period could be filled through prudent use of reserve funds. However, other fiscal tools including spending reductions could be used in addition to, or in lieu of, reserve funds.*
- *The plan will be revisited as conditions warrant.*



The 10-year forecast

Under Fall 2008 forecast, the CBR and SBR can sustain 3% growth through 2019

Fall 2008 Forecast	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
ANS West Coast (\$/bbl)	\$77.66	\$74.42	\$71.65	\$72.57	\$73.55	\$74.24	\$73.82	\$78.51	\$80.74	\$83.03	\$85.31
ANS production (mbbl./day)	0.683	0.659	0.640	0.641	0.641	0.658	0.633	0.614	0.605	0.584	0.643

Revenue vs. Spending (\$ Millions)

General Fund Unrestricted Revenue	\$6,765.4	\$5,275.4	\$4,356.6	\$4,482.3	\$4,417.9	\$4,964.1	\$4,596.3	\$4,758.8	\$5,052.2	\$5,383.2	\$6,294.6
General Fund Expenses	\$7,167.6	\$4,886.7	\$5,033.3	\$5,184.3	\$5,339.8	\$5,500.0	\$5,665.0	\$5,835.0	\$6,010.0	\$6,190.3	\$6,376.0
Budget Surplus/Shortfall	\$402.2	\$388.7	\$676.7	\$702.0	\$921.9	\$535.9	\$1,068.7	\$1,076.1	\$957.9	\$807.2	\$81.5

Reserve Balances

CBRF Total	\$5,985.6	\$6,806.5	\$7,301.0	\$7,097.9	\$6,673.1	\$6,636.1	\$6,035.1	\$5,378.9	\$4,791.9	\$4,308.7	\$4,551.9
Statutory Budget Reserve Balance	\$638.5	\$664.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Reserve Balances	\$6,624.1	\$7,471.0	\$7,301.0	\$7,097.9	\$6,673.1	\$6,636.1	\$6,035.1	\$5,378.9	\$4,791.9	\$4,308.7	\$4,551.9



More Information on the Plan

<http://www.gov.state.ak.us/omb/>

Executive Summary currently available

Agency plans will be posted as they are finalized over the next two weeks.

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