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Preliminary Overview of the Governor's FY22 Budget

House Finance Committee
January 6, 2021
Legislative Finance Division

Outline

- Alaska's Structural Budget Deficit
- LFD's FY22 Budget Baselines
- Governor's FY22 Proposal and FY21 Supplementals
- Governor's 10-Year Plan

Note of Caution

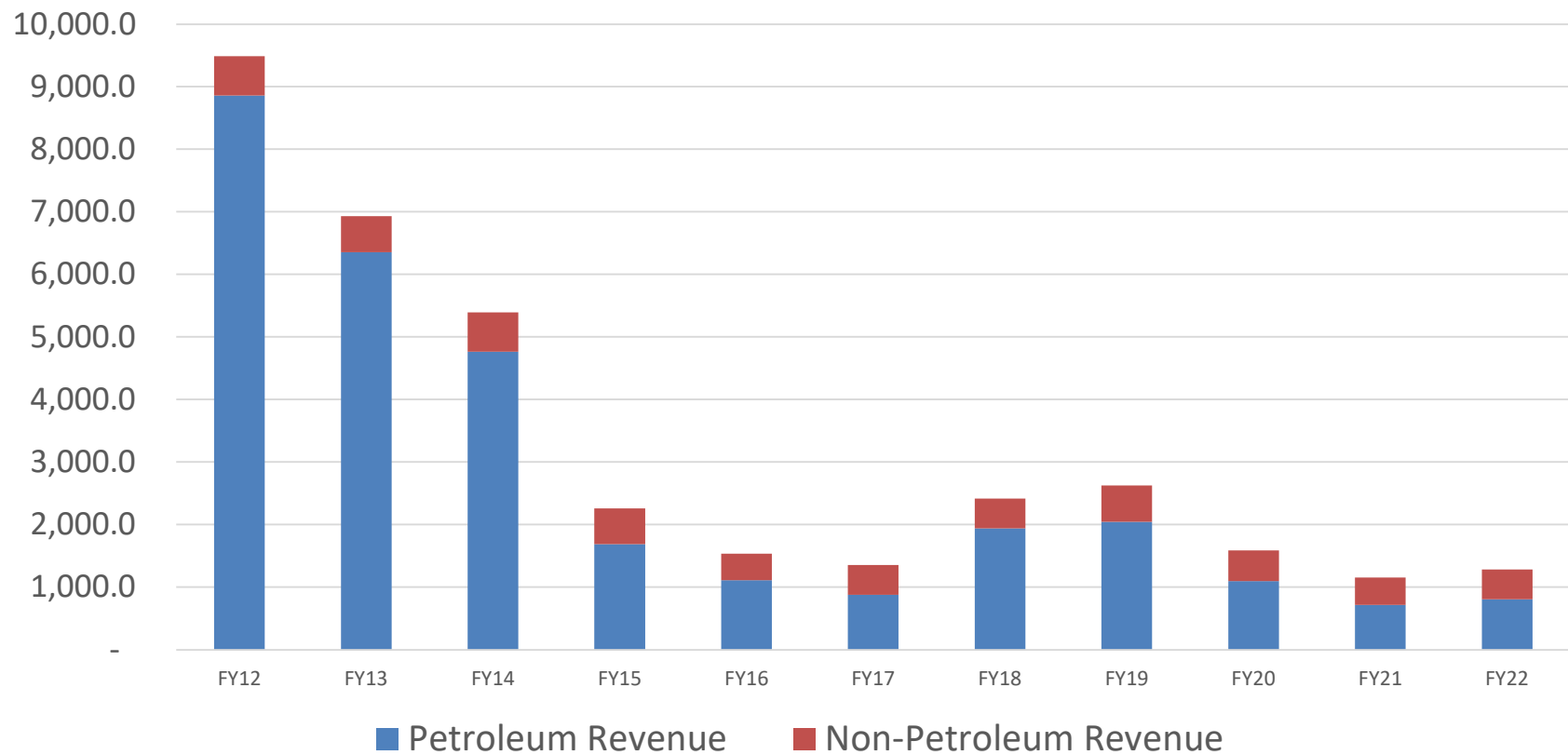
- Numbers in this presentation are drafts and may change before session
- LFD will publish the Overview of the Governor's Budget on the first day of session with detailed analysis
- Our understanding of some items in the Governor's budget may shift as agencies respond to questions we sent over the holidays

Alaska's Structural Budget Deficit

- FY21 is the ninth straight year of fiscal deficits
- Oil revenue in FY21 is projected to be the lowest since FY78 in nominal terms and FY75 in real terms
- The UGF budget has been reduced from \$7.8 billion in FY13 to \$4.5 billion in FY21, a 43% decrease
- Budget reserve balances dropped from over \$16 billion in FY13 to about \$900 million at the end of FY21

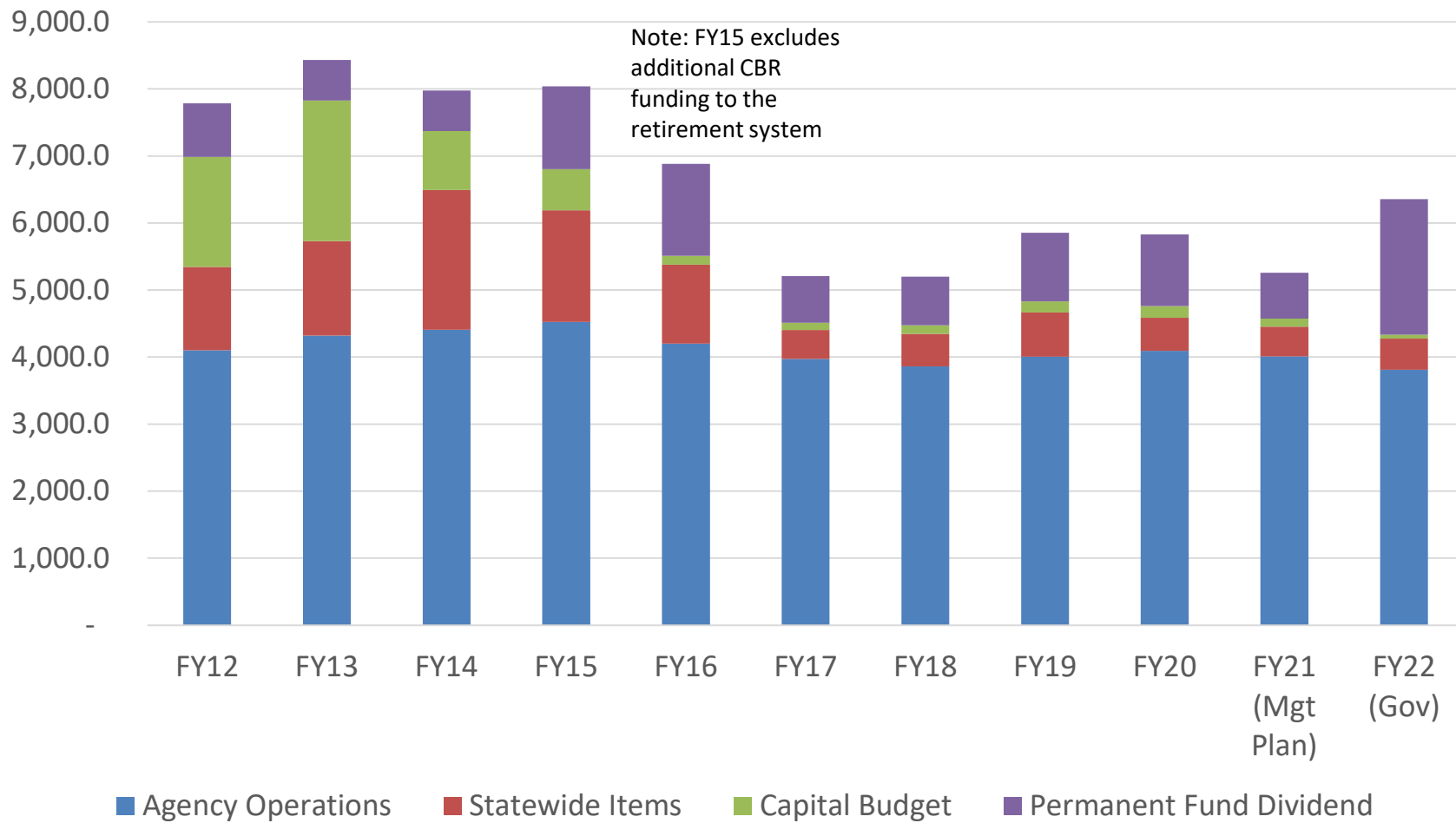
Alaska's Structural Budget Deficit (Cont.)

UGF Revenue, FY12 - FY22
Excluding Permanent Fund



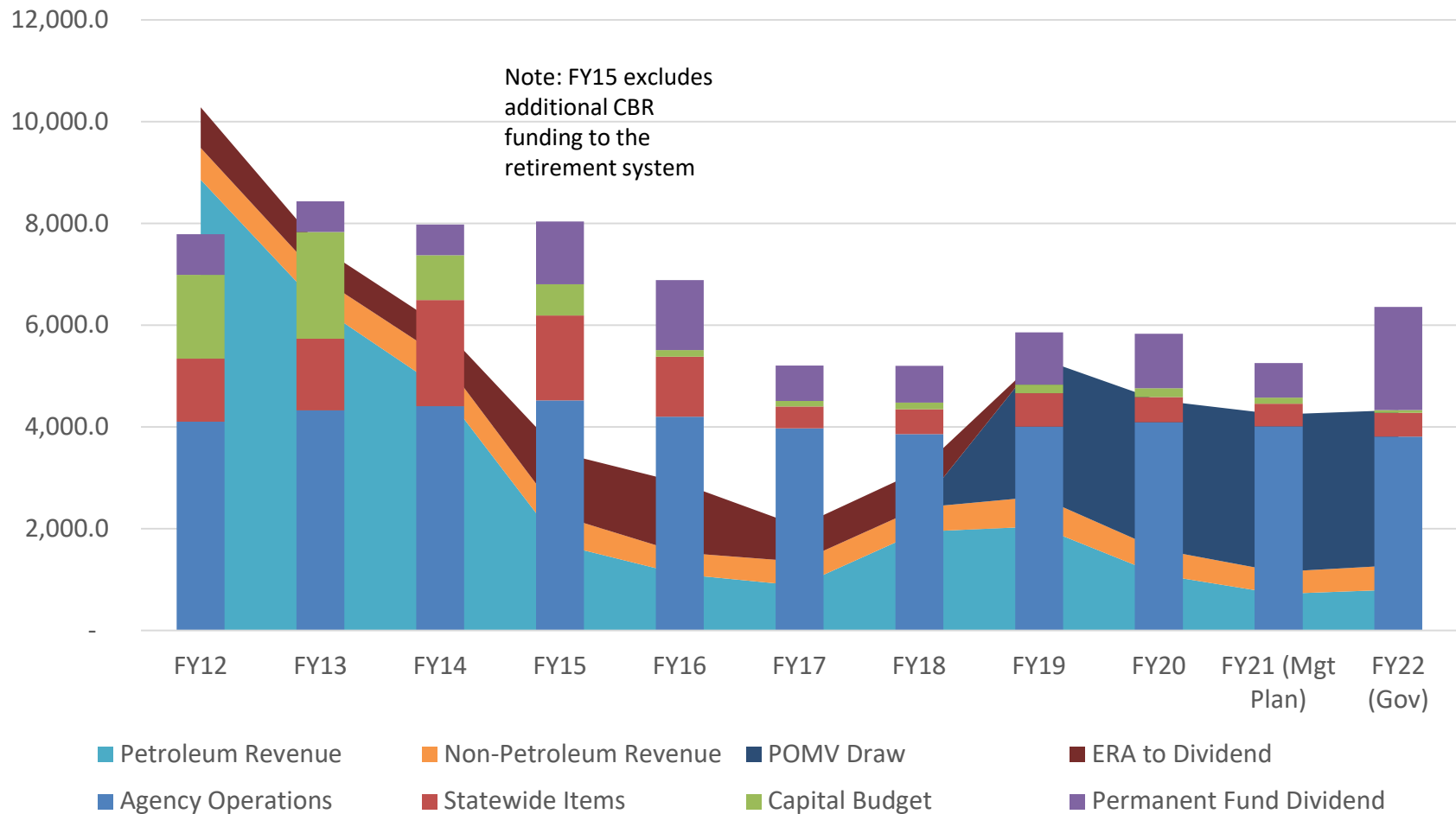
Alaska's Structural Budget Deficit (Cont.)

UGF Budget, FY12-22



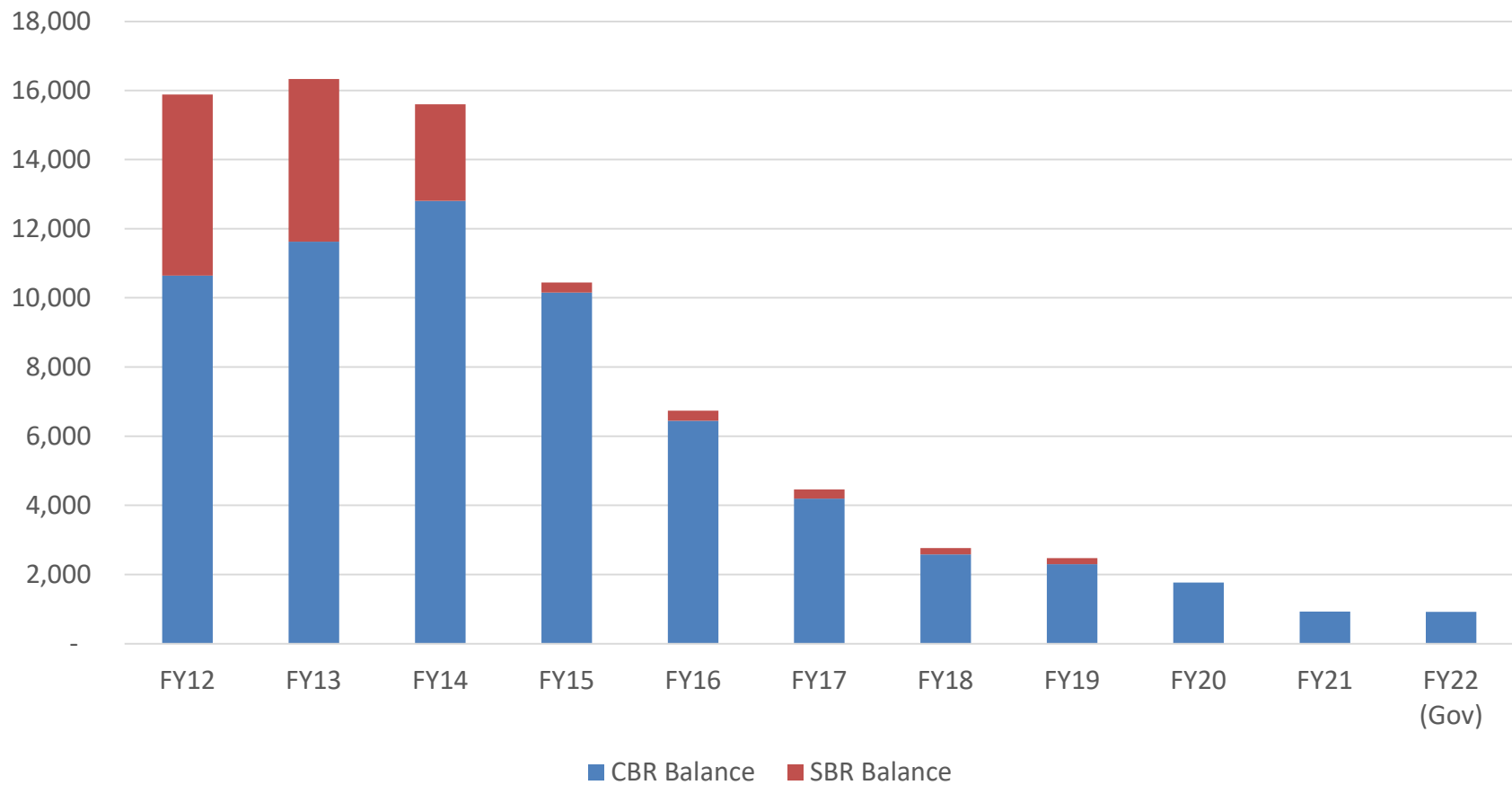
Alaska's Structural Budget Deficit (Cont.)

UGF Budget and Revenue, FY12-22

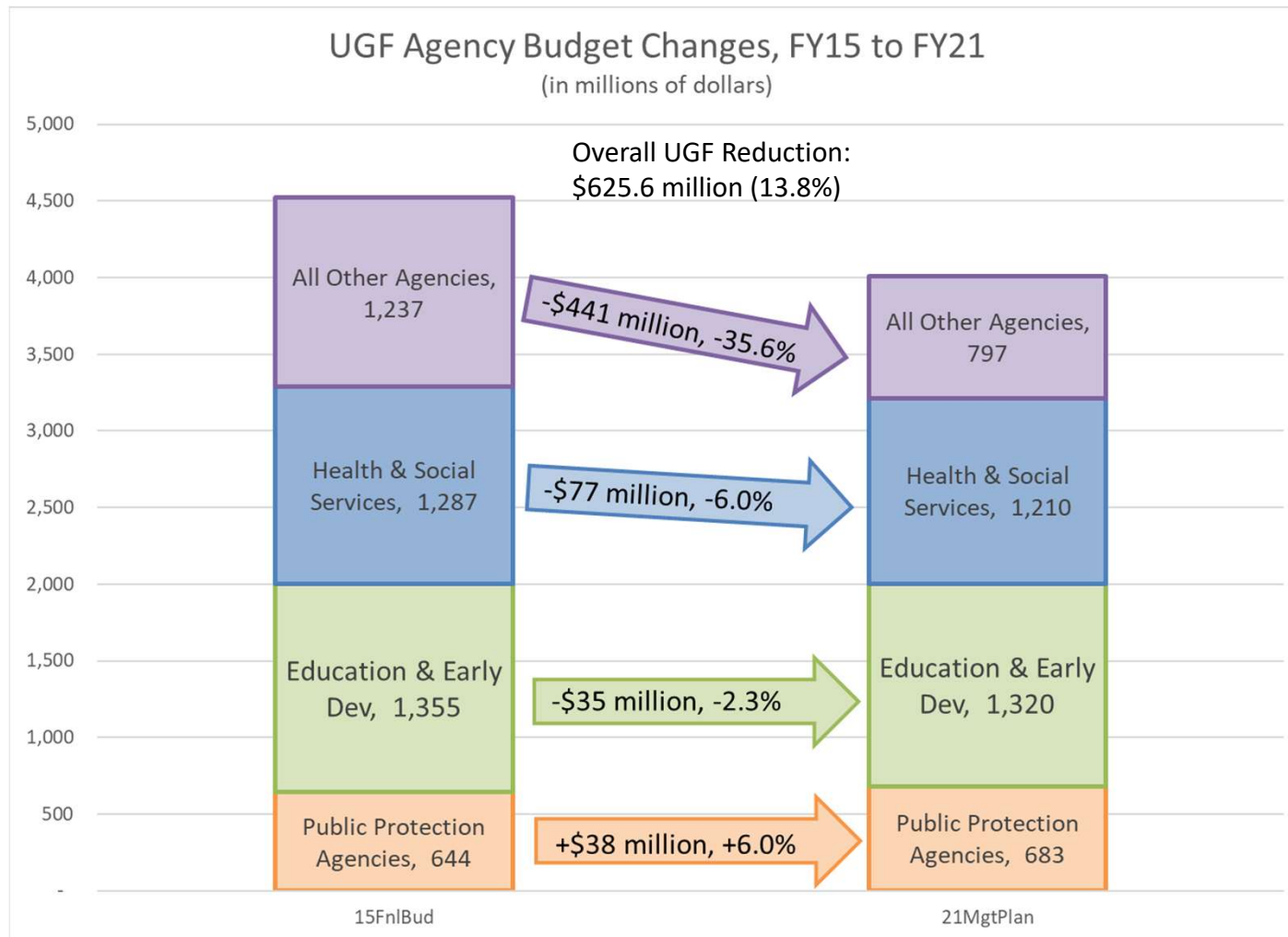


Alaska's Structural Budget Deficit (Cont.)

CBR and SBR Balances, FY12-22



Alaska's Structural Budget Deficit (Cont.)



LFD's Budget Baselines

- Two baselines to consider: current policy and current law
- Both use a slightly modified version of the FY22 Adjusted Base for agency operations
- Current policy assumes roughly \$1,000 PFD, no UGF funding for school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits
- Current law assumes statutory PFD, full funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits
 - Statutory PFD is projected to be about \$2 billion, paying about \$3,050 per recipient
 - Statewide items that were unfunded in FY21 are estimated to be about \$168.5 million UGF in FY22

LFD's Budget Baselines (Cont.)

Statewide Items Detail		
	Current Policy	Current Law
Debt Service	92.5	94.9
School Debt Reimbursement	-	54.2*
State Retirement Payments	342.0	342.0
REAA Fund Capitalization	-	34.2
Community Assistance	-	17.6**
Oil and Gas Tax Credits	-	60.0
Statewide Items Total	434.5	603.0
*Plus \$29.3 million from the School Fund (DGF)		
**Plus \$12.4 million from the PCE Fund (DGF)		

LFD's Budget Baselines (Cont.)

FY22 Current Policy and Current Law Scenarios		
UGF Revenue	4,271.9	4,271.9
	Current Policy	Current Law
Agency Operations	3,887.9	3,887.9
Statewide Items	434.5	603.0
Capital Budget	150.0	150.0
PFD	680.0	2,023.9
Total Budget	5,152.4	6,664.8
Pre-Transfer Deficit	(886.2)	(2,392.0)

Governor's FY21/22 Budget

Governor's Budget versus LFD Baselines				
UGF Revenue	4,271.9	4,271.9	4,271.9	
	Current Policy	Current Law	Governor	Difference from Current Law
Agency Operations	3,887.9	3,887.9	3,810.5	(77.4)
Statewide Items	434.5	603.0	464.1	(138.9)
Capital Budget	150.0	150.0	58.3	(91.7)
PFD	680.0	2,023.9	2,023.9	-
Total Budget	5,152.4	6,664.8	6,356.9	(307.9)
Pre-Transfer Deficit	(880.5)	(2,392.9)	(2,085.0)	

Governor's FY21/22 Budget (Cont.)

- Includes supplemental PFD payment for FY22 (\$1.2 billion from ERA)
- Takes two ERA draws in FY22: \$3.1 billion for POMV and \$2.0 billion for dividend
- December 11 submission includes a fast-track supplemental budget
- FY22 budget has \$37.9 million deficit from CBR after ERA draws

Governor's FY21/22 Budget (Cont.)

- Agency Operations are \$77.4 million UGF below LFD's baseline
 - Medicaid is down \$35.1 million, but has backstop from projected FY21 lapse
 - University of Alaska is down \$20 million UGF, in line with compact agreement
 - DOT&PF is down \$17.2 million; \$14.1 million due to one-time fund changes to utilize federal CARES Act money, \$3.6 million reduction to AMHS
 - Public Assistance Administration is reduced by \$3.4 million UGF and 101 positions
 - K-12 formula is fully funded but student count changes result in lower funding (included in LFD baseline)
 - All other changes net to a \$1.7 million reduction

Governor's FY21/22 Budget (Cont.)

- Statewide Items total \$464.1 million
 - School Debt Reimbursement and REAA Fund Capitalization funded at 50%
 - Community Assistance only funded with \$12.4 million of PCE Funds (DGF), no UGF (leading to \$19.5 million payout in FY23)
 - Oil and Gas Tax Credits funded at statutory \$60 million but use AIDEA Receipts (Other), not UGF
 - Governor also has a PERS bill estimated to save a net of \$43.3 million UGF

Governor's FY21/22 Budget (Cont.)

- Capital Budget totals \$58.5 million UGF, but is bolstered by \$101.6 million AHFC bond package
- Governor plans a \$350 million GO Bond in addition but no legislation or projects have been introduced
- Fast track supplemental includes some unfunded FY21 capital projects, others are moved to FY22 budget

Governor's FY21/22 Budget (Cont.)

Short Fiscal Summary - Governor's Budget (UGF Only)			
	FY21	FY22	Comparison
Revenue	4,440.4	4,271.9	(168.5)
Agency Operations	4,008.9	3,810.5	(198.4)
Statewide Items	446.3	464.1	17.8
Capital	120.3	58.5	(61.8)
PFD	680.0	2,023.9	1,343.9
Legislation	-	(43.3)	(43.3)
Supplementals excl. PFD	39.8	-	(39.8)
Supplemental PFD	1,225.5	-	(1,225.5)
Total Budget	6,520.9	6,313.9	(207.0)
Fund Transfers (excl. CBR/ERA)	41.7	19.9	
Total Deficit	(2,122.2)	(2,067.9)	
ERA Transfers beyond POMV	(1,225.5)	(2,023.9)	
Deficit from CBR	(896.7)	(37.9)	

Governor's 10-Year Plan

- Overdraws ERA in FY21-22, but balanced budget starting in FY23
- Statutory dividend formula change to 50% of POMV in FY23 (reduction of about \$400 million per year)
- Agency operations reductions of about \$100 million in each of FY23 and FY24, 1.5% growth after that
- \$900 million to \$1.2 billion in new revenue starting in FY23

Governor's 10-Year Plan (Cont.)

- Governor's FY21/22 ERA overdraws increase future deficits by per year \$160 million in real terms
- Legislature must weigh desire for stimulus against long-term cost
- FY23 new revenue would need to be authorized this year since it takes time to set up new taxes
- If legislature agrees to overdraws without deficit-filling measures, ERA could rapidly be depleted like CBR/SBR
- Each year we delay resolving long-term deficit digs the hole deeper

Questions?

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