



ALASKA · STATE · CAPITOL

Overview of the Governor's FY22 Budget

House Finance Committee

March 2, 2021

Legislative Finance Division

Outline

- Alaska's Structural Budget Deficit
- Legislative Finance's FY22 Budget Baselines
- Governor's FY22 Proposal and FY21 Supplementals
- Governor's 10-Year Plan and Fiscal Outlook

Alaska's Structural Budget Deficit

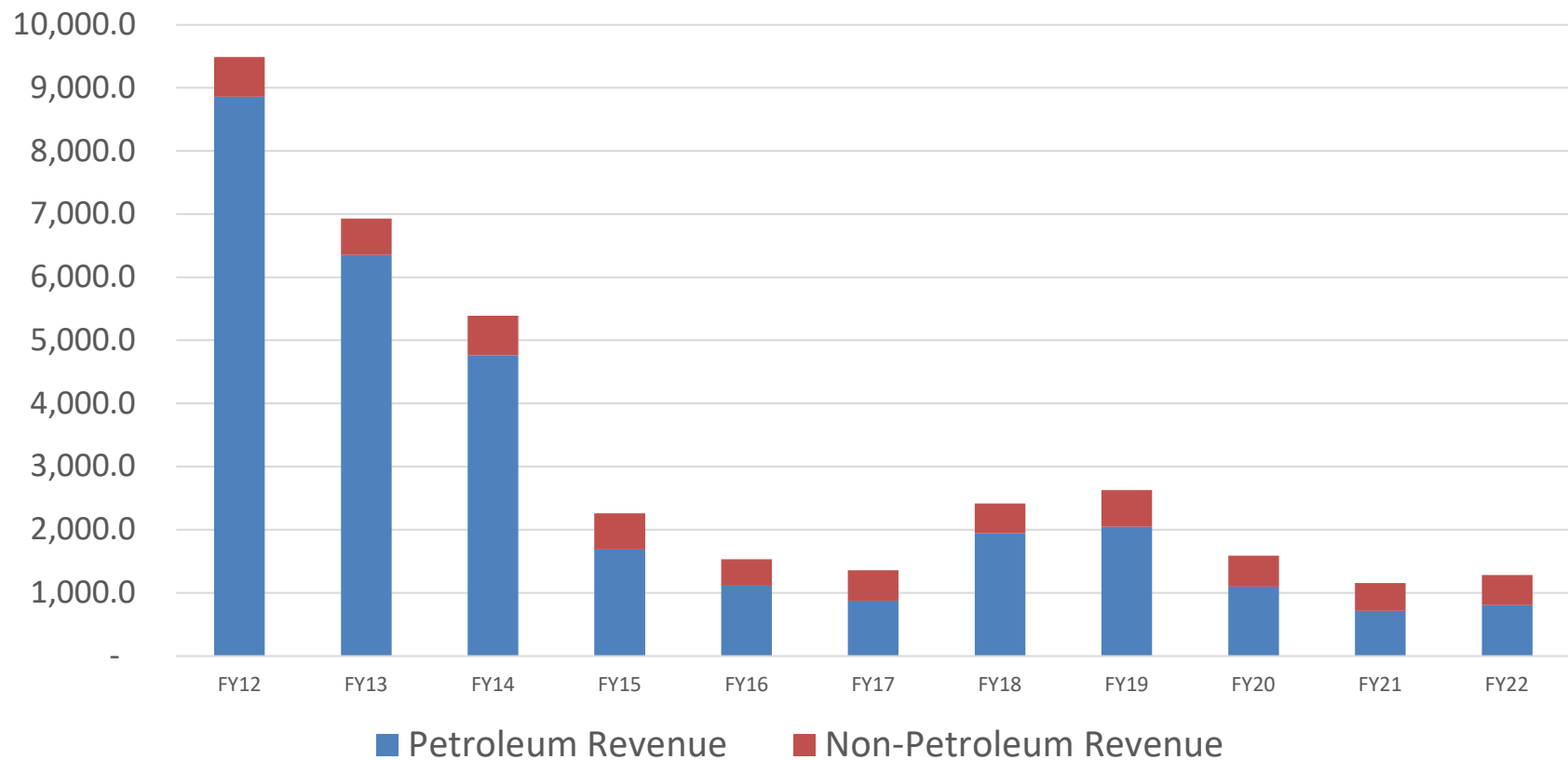
- FY21 is the ninth straight year of fiscal deficits
- The UGF budget has been reduced from \$7.8 billion in FY13 to \$4.5 billion in FY21, a 43% decrease
- Budget reserve balances dropped from over \$16 billion in FY13 to under \$1 billion today
- The general fund is projected to owe the CBR \$12.9 billion at the end of FY21

Alaska's Structural Budget Deficit (Cont.)

UGF Revenue, FY12 - FY22

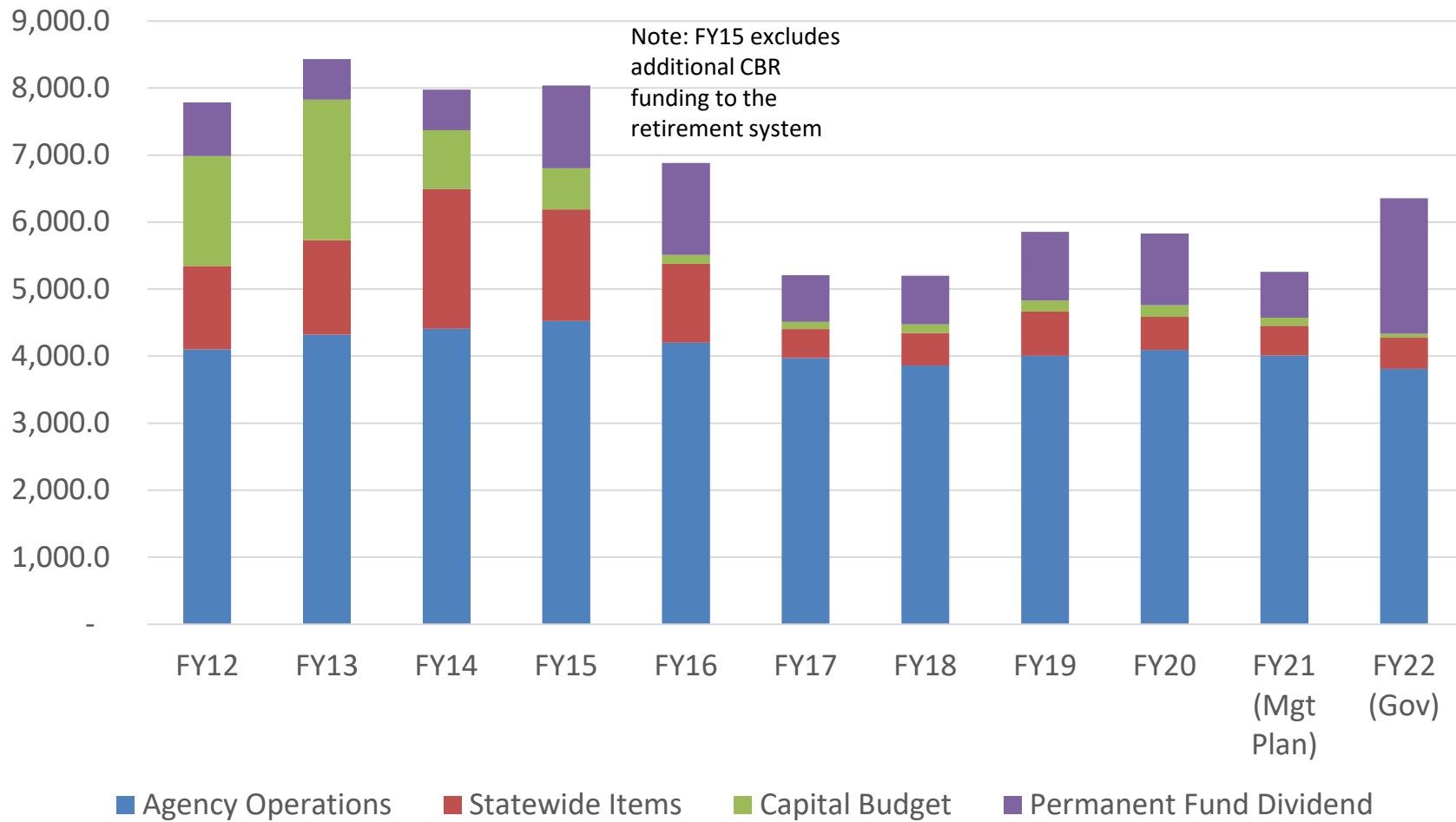
Excluding Permanent Fund

DOR Fall Forecast



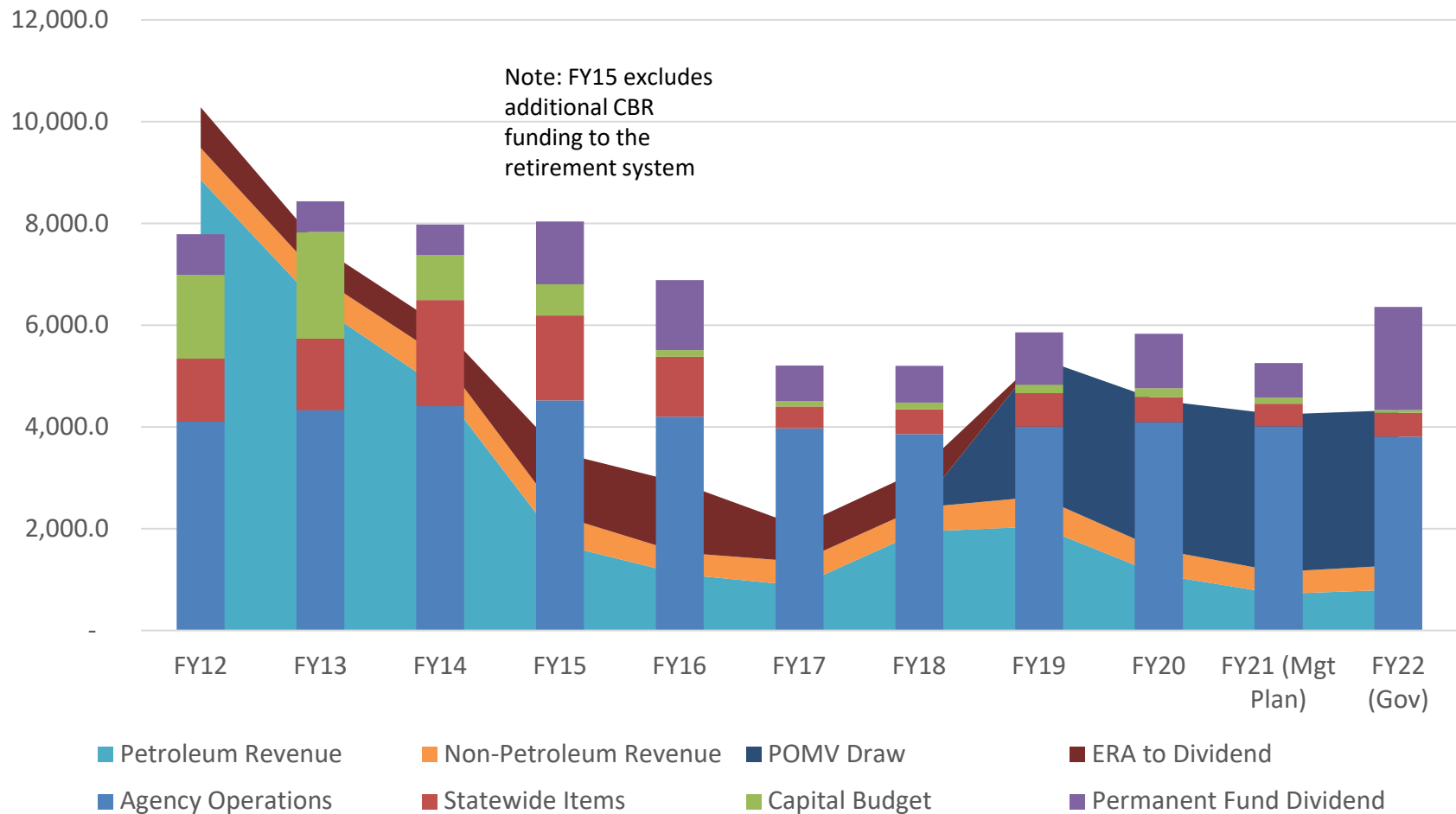
Alaska's Structural Budget Deficit (Cont.)

UGF Budget, FY12-22



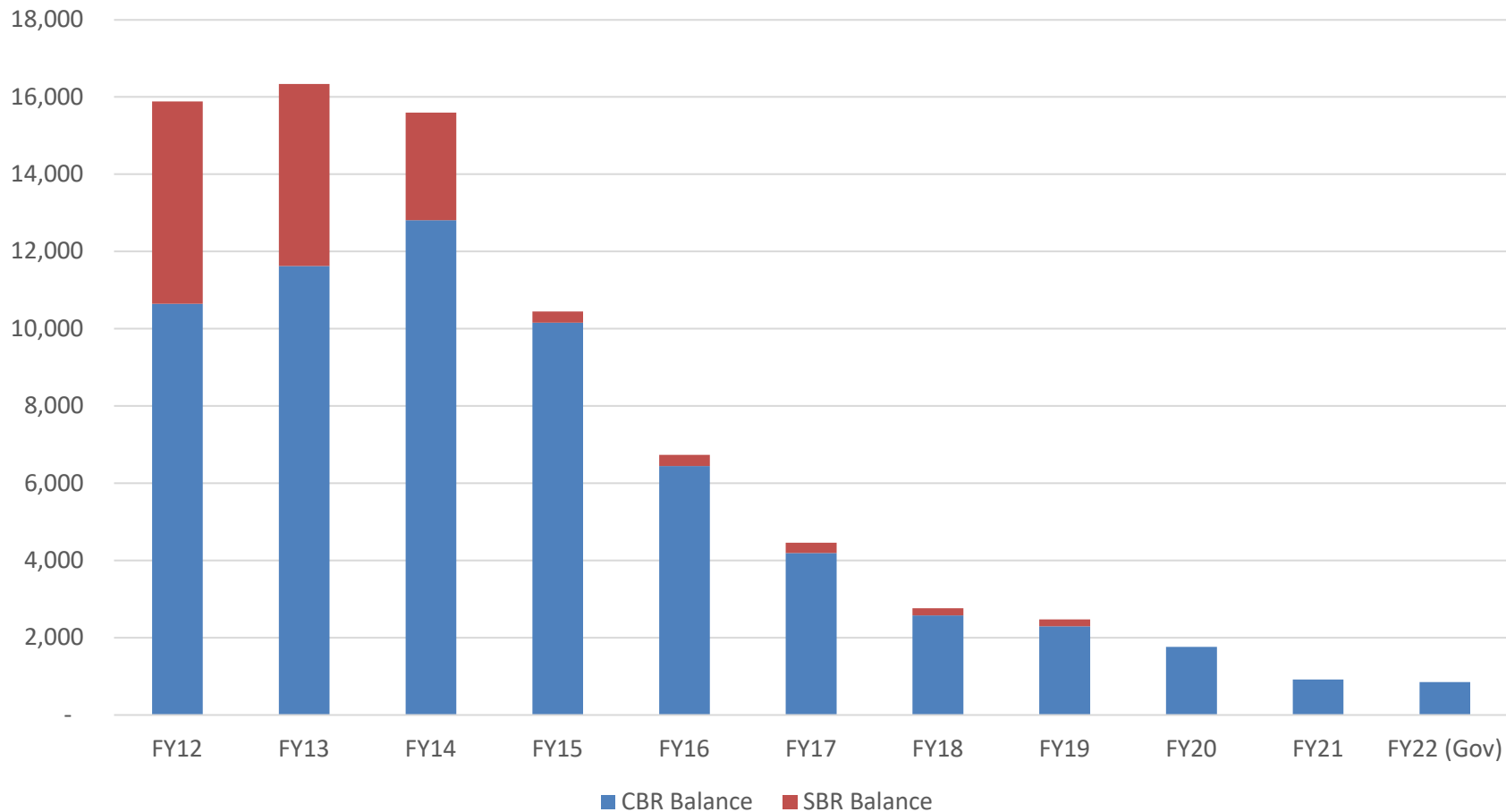
Alaska's Structural Budget Deficit (Cont.)

UGF Budget and Revenue, FY12-22

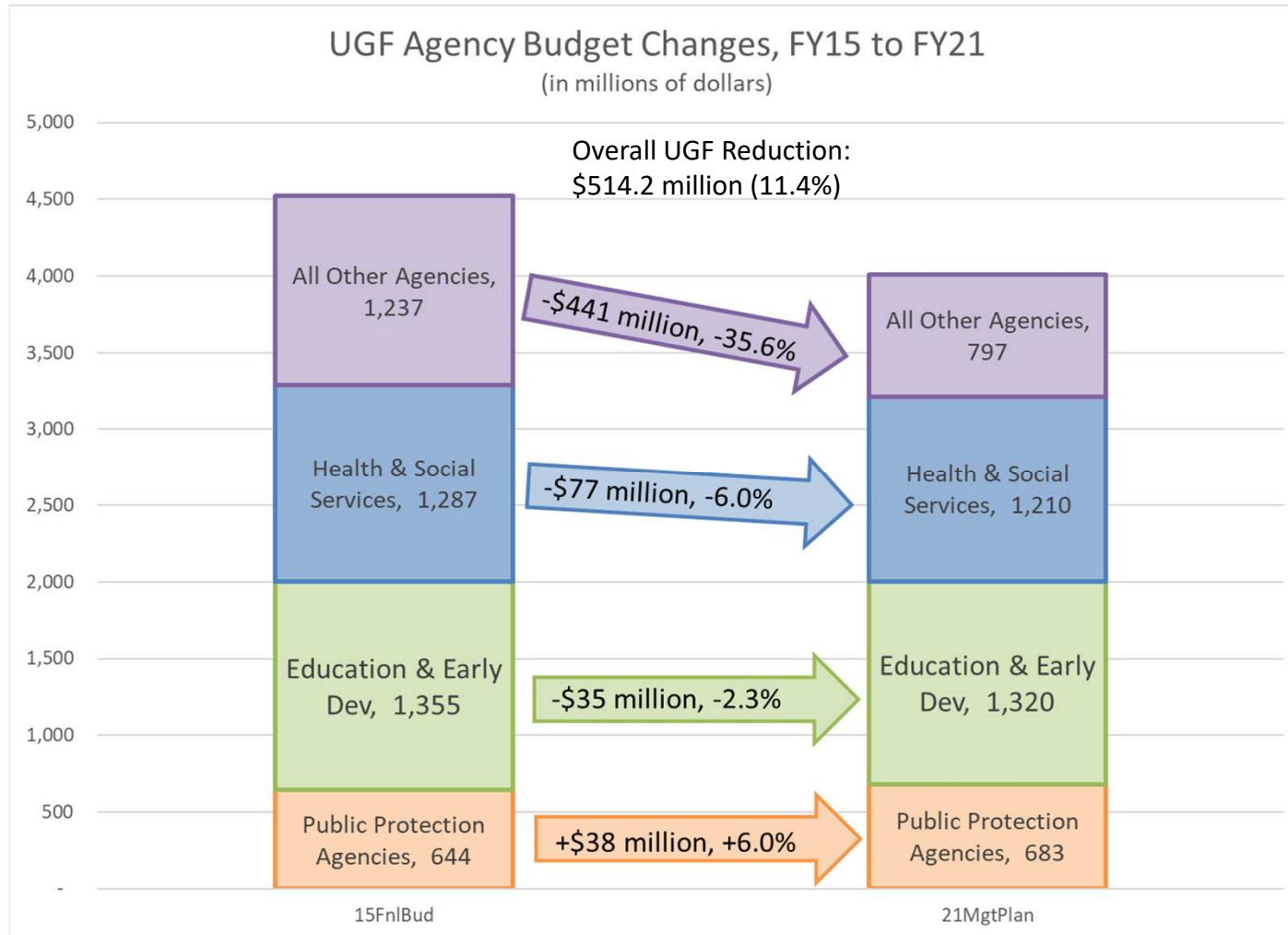


Alaska's Structural Budget Deficit (Cont.)

CBR and SBR Balances, FY12-22

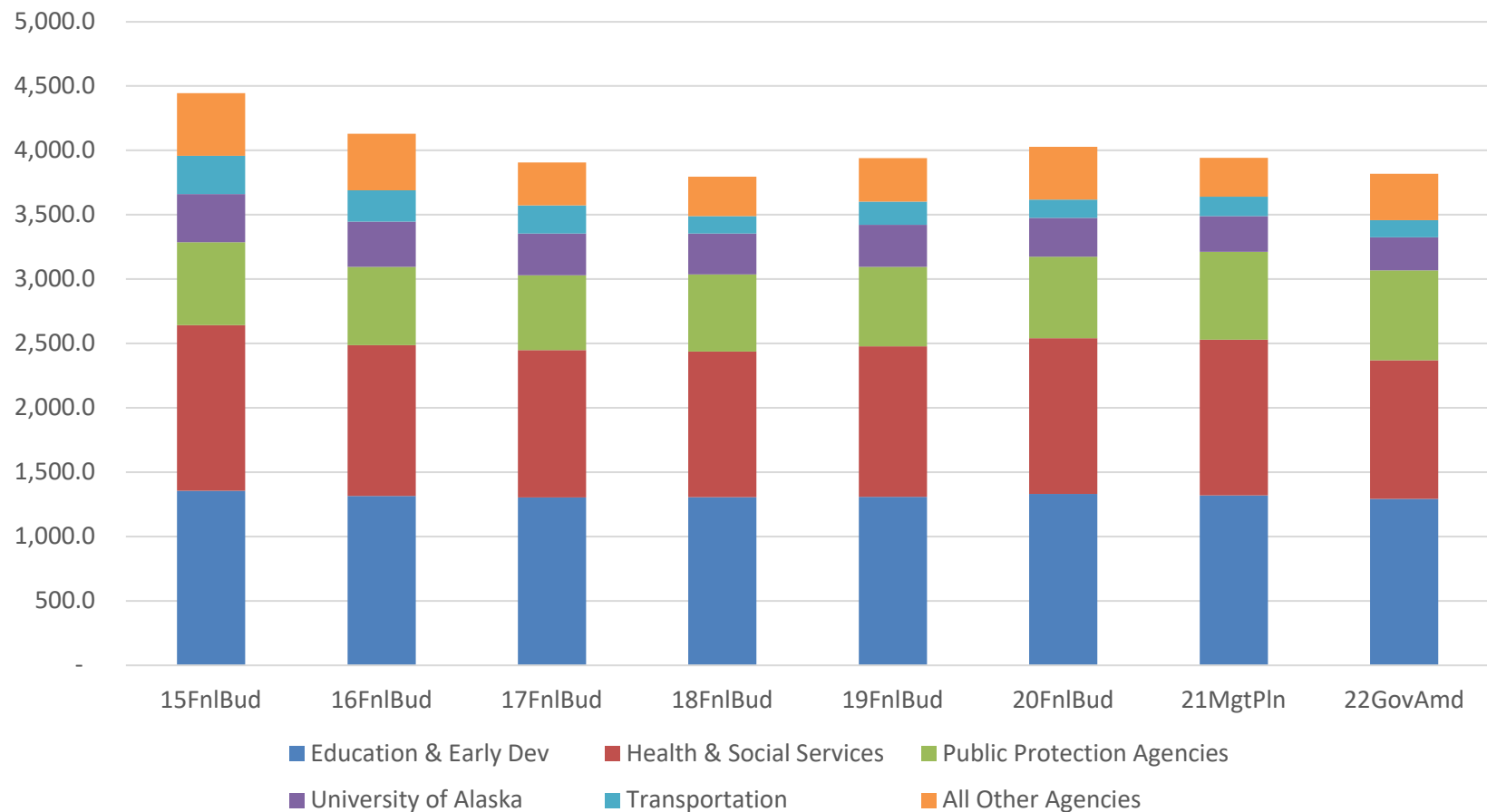


Alaska's Structural Budget Deficit (Cont.)



Alaska's Structural Budget Deficit (Cont.)

UGF Agency Budget Changes, FY15-22
(in millions of dollars)



LFD's Budget Baselines

- Two baselines to consider: *current policy* and *current law*. These are intended to create a “clean” starting point for the current budget rather than previous years that are distorted by one-time items
- Both scenarios 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
Subtotal	4,472.4	4,640.9
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 Policy	Difference from Current Law
Agency Ops	3,887.9	3,887.9	3,818.6	(69.3)	(69.3)
Statewide Items	434.5	603.0	464.1	29.6	(138.9)
Capital Budget	150.0	150.0	62.2	(87.8)	(87.8)
Subtotal	4,472.4	4,640.9	4,345.0	(127.4)	(295.9)
PFD	680.0	2,023.9	2,023.9	1,343.9	-
Total Budget	5,152.4	6,664.8	6,368.9	1,216.5	(295.9)
Pre-Transfer Deficit	(880.5)	(2,392.9)	(2,092.4)		

Governor's FY21/22 Budget (Cont.)

- Agency Operations are \$69.3 million UGF below LFD's baseline
 - Medicaid is down \$35.1 million, but total funding is flat because of one-time funding carried forward from FY21
 - 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). Governor introduced a bill (SB 58) to amend the K-12 formula to increase funding by \$35.5 million, but this is not reflected in the Governor's fiscal summary
 - All other changes net to a \$6.4 million increase

Governor's FY21/22 Budget (Cont.)

- Statewide Items total \$464.1 million
 - School Debt Reimbursement and REAA Fund Capitalization funded at 50% of statutory level
 - 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 using AIDEA Receipts (Other), not UGF
 - Governor also introduced a PERS bill (HB 75) estimated to save a net of \$31.3 million UGF

Governor's FY21/22 Budget (Cont.)

- Capital Budget totals \$62.2 million UGF, but is bolstered by a \$104.0 million AHFC bond package
 - Repaying those bonds would reduce AHFC dividends by about \$6.9 million per year
- Governor introduced a \$356.4 million GO Bond in addition (HB 93) that funds additional capital items
 - Projected cost is \$22.4 million per year
- Fast track supplemental includes some unfunded FY21 capital projects, others are moved to FY22 budget, others were funded in August 2020 RPLs

Governor's FY21/22 Budget (Cont.)

Short Fiscal Summary - Governor's Budget (UGF Only)			
	FY21	FY22	Comparison
Revenue	4,443.2	4,271.9	(171.3)
Agency Operations	4,008.9	3,818.6	(190.3)
Statewide Items	446.3	464.1	17.8
Capital	120.3	62.2	(58.1)
Subtotal	4,575.6	4,345.0	(230.6)
Permanent Fund Dividend	680.0	2,023.9	1,343.9
Subtotal before Supplementals	5,255.6	6,368.9	1,113.4
Supplementals excl. PFD	56.5	-	(56.5)
Supplemental PFD	1,225.5	-	(1,225.5)
Total Budget	6,537.6	6,368.9	(168.6)
Fund Transfers (excl. CBR/ERA)	40.9	19.9	
Total Deficit	(2,135.3)	(2,116.9)	
ERA Transfers beyond POMV	(1,225.5)	(2,023.9)	
Deficit from CBR	(909.8)	(93.0)	

Governor's FY21/22 Budget (Cont.)

- Governor's budget builds in several UGF reductions that may be difficult to repeat:
 - \$35.0 million of lapsing balances for Medicaid
 - \$14.1 million of one-time fund changes in DOT
 - \$60.0 million of AIDEA Receipts for tax credits
 - \$101.6 million of AHFC bonds for capital budget
- Without these, the Governor's UGF budget would be relatively flat at \$4.5 billion rather than \$4.3 billion

Governor's 10-Year Plan

- Overdraws ERA in FY21-22, but balanced budget starting in FY23
- \$900 million to \$1.2 billion in new revenue 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
 - This would reduce agency operations from \$3.8 billion in FY22 to \$3.7 billion in FY23 and \$3.6 billion in FY24

Governor's 10-Year Plan (Cont.)

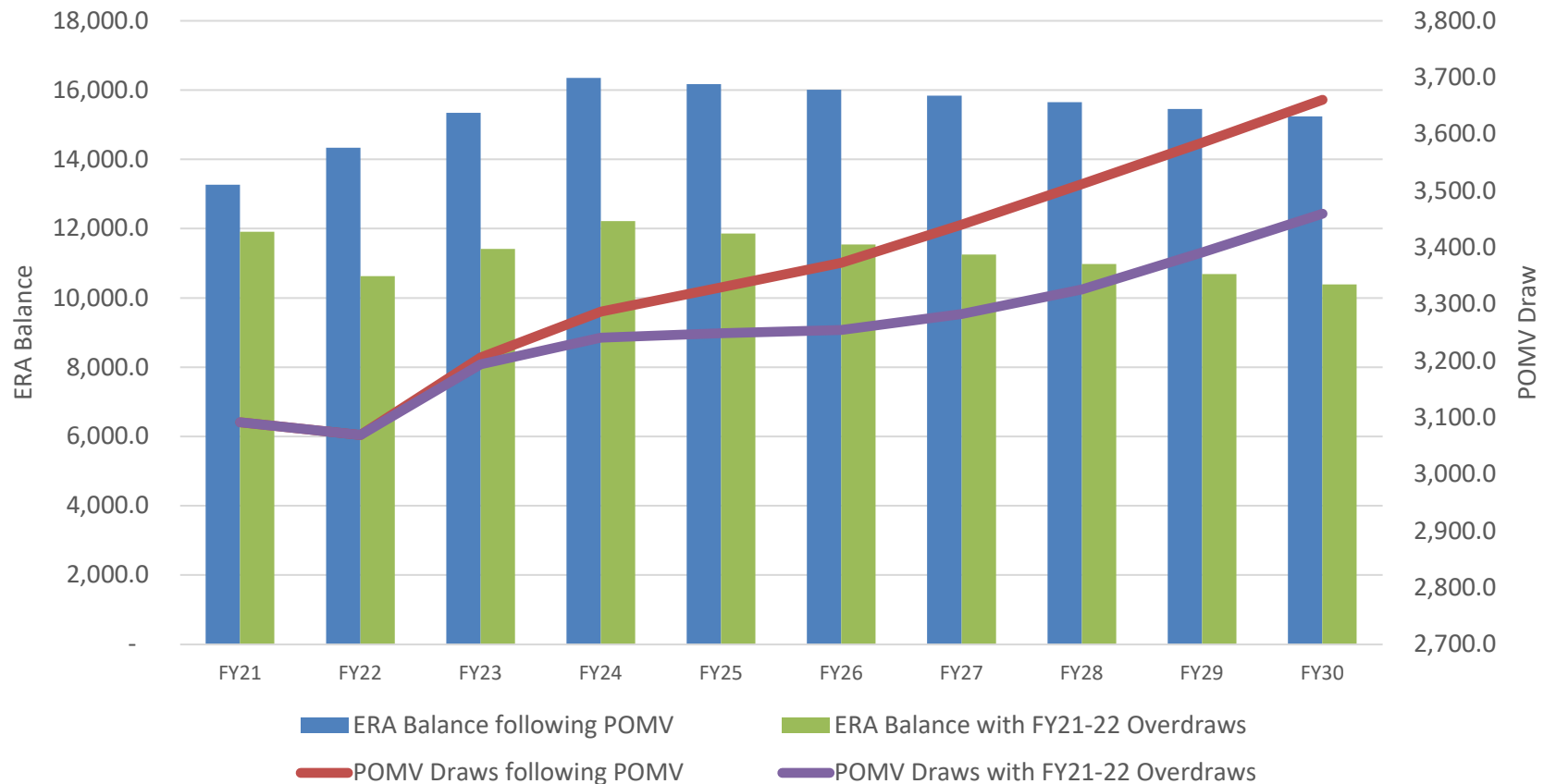
- Governor's FY21/22 ERA overdraws increase future deficits by \$160 million per year in real terms
- Legislature must weigh economic benefits of stimulus against long-term cost
 - Governor's stimulus proposal of PFD and a GO Bond is one of many potential packages for economic relief or stimulus spending
- Policy choices the legislature and Governor make will have different effects on the economy and different distributional impacts
- 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

Governor's 10-Year Plan (Cont.)

Impact of FY21-22 Overdraws on ERA Balance and POMV Draw

(In millions, based on Callan forecast)

(Assumes no inflation-proofing from FY21-24)



Questions?

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