The background of the slide features a large, multi-story brick building with many windows. To the left, a snow-capped mountain rises against a clear blue sky. An American flag is visible on the left side of the image. A semi-transparent white box contains the main title text.

Overview of the Governor's FY26 Budget

Senate Finance Committee
January 28, 2025
Legislative Finance Division

Outline

- FY25 Recap and Update – Vetoes, Supplementals
- Fall Revenue Forecast
- FY26 Governor's Budget
- Long-Term View

FY25 Recap: Adjournment Budget

- When the legislature adjourned last year, there was a projected budget surplus of \$66.3 million in FY24 and \$7.8 million in FY25.
 - The legislature did not include any provision to fill a potential deficit in FY25 if revenue falls short of projections.
- Capital budget appropriations totaled \$565.5 million UGF across FY24 supplementals and FY25.
- Included \$174.6 million of outside-the-formula K-12 funds (\$680 in Base Student Allocation, or about 11% of total foundation funding).
- Increased funding for Department of Corrections, Fire Suppression Preparedness and Disaster Relief Fund to try to avoid routine supplementals.
- Fully funded all statewide operating items to statutory levels.

FY25 Recap: Governor's Vetoes

SLA 2024 Governor's Vetoes – UGF Only			
	FY24	FY25	Total
Operating	5.0	83,231.3	83,236.3
Capital	63,928.8	44,280.3	108,209.1
Total	63,933.8	127,511.6	191,445.4

- Largest UGF operating budget vetoes:
 - \$20.0 million for Community Assistance Fund to reach \$90 million balance
 - \$11.9 million to school districts to satisfy federal Maintenance of Equity requirement for FY22
 - \$11.1 million for Broadband Assistance Grants
 - \$10.0 million for Alaska Seafood Marketing Institute
 - \$10.0 million for AMHS backstop
 - \$7.5 million for Disaster Relief Fund
 - \$5.4 million for UAF's Tier 1 Research
 - \$5.2 million for additional funds for K-3 students
- Capital vetoes included 34% of UGF FY24 supplementals and 12% of UGF FY25 projects (mostly legislative district projects).

FY25 Recap: Surplus to Deficit

- After vetoes, the FY25 budget had a projected \$146.9 million surplus based on the Spring Revenue Forecast.
- The Fall Revenue Forecast decreased the FY25 projection by \$219.9 million. This turned the surplus into a projected \$81.5 million deficit (after adjusting budgetary estimates).
- The FY25 budget now has an unfilled deficit that will likely need to be addressed this session (unless oil prices rise significantly).

Fall 2024 Revenue Forecast

- DOR's Fall 2024 Forecast shows lower oil prices and production in both FY25 and FY26.
- Lease expenditures (which are deducted in the production tax calculation) are also up significantly.
- The result is lower projected revenue in FY25 and FY26.

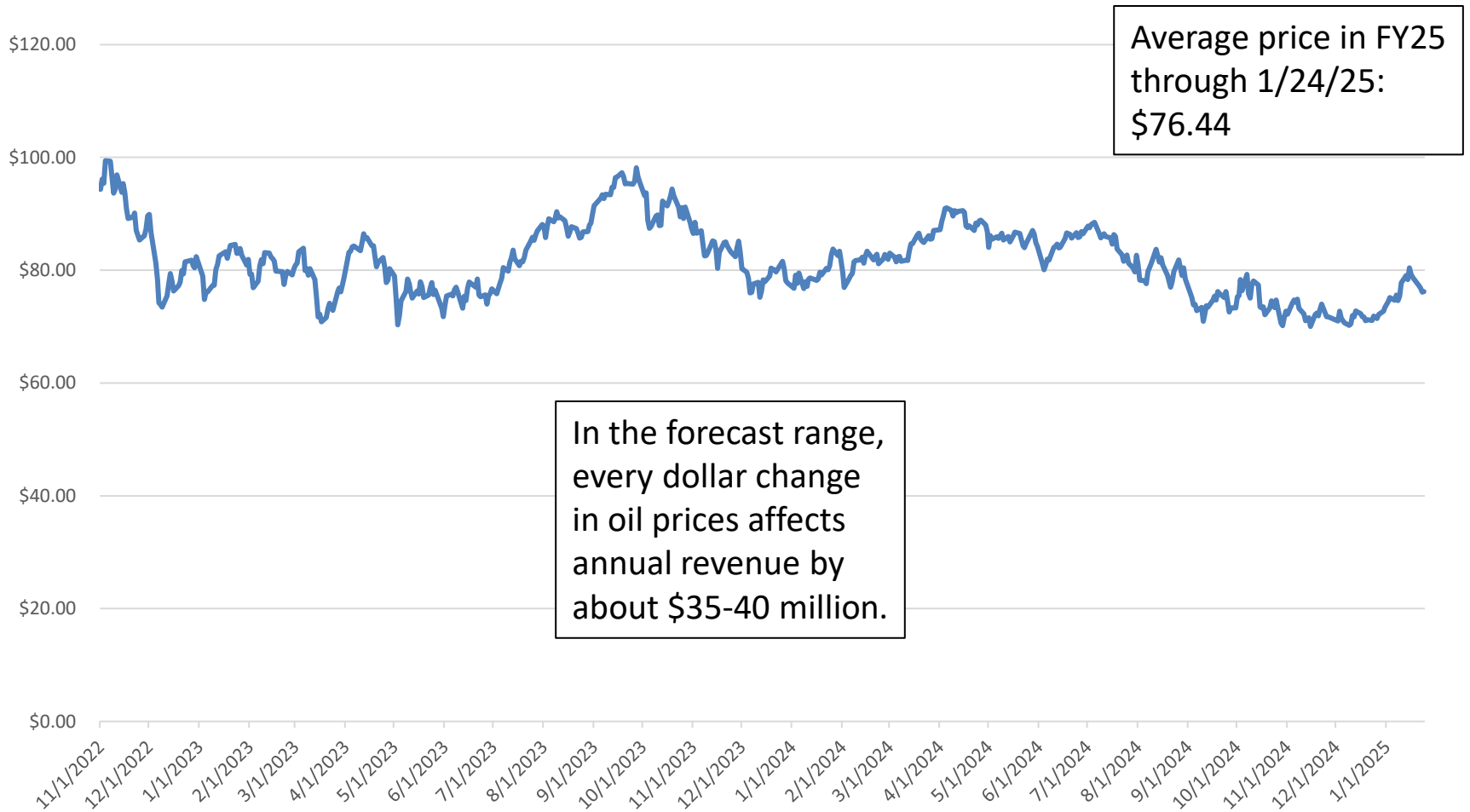
UGF Revenue	FY25	FY26
Spring 2024	6,448.5	6,430.4
Fall 2024	6,228.6	6,198.8
Difference	(219.9)	(231.6)

Oil Price	FY25	FY26
Spring 2024	78.00	74.00
Fall 2024	73.86	70.00
Difference	(4.14)	(4.00)

Oil Production	FY25	FY26
Spring 2024	476.8	482.0
Fall 2024	466.6	469.5
Difference	(10.2)	(12.5)

Lease Expenditures (millions of dollars)	FY25	FY26
Fall 2023	6,904	7,218
Fall 2024	7,698	7,665
Difference	794	447

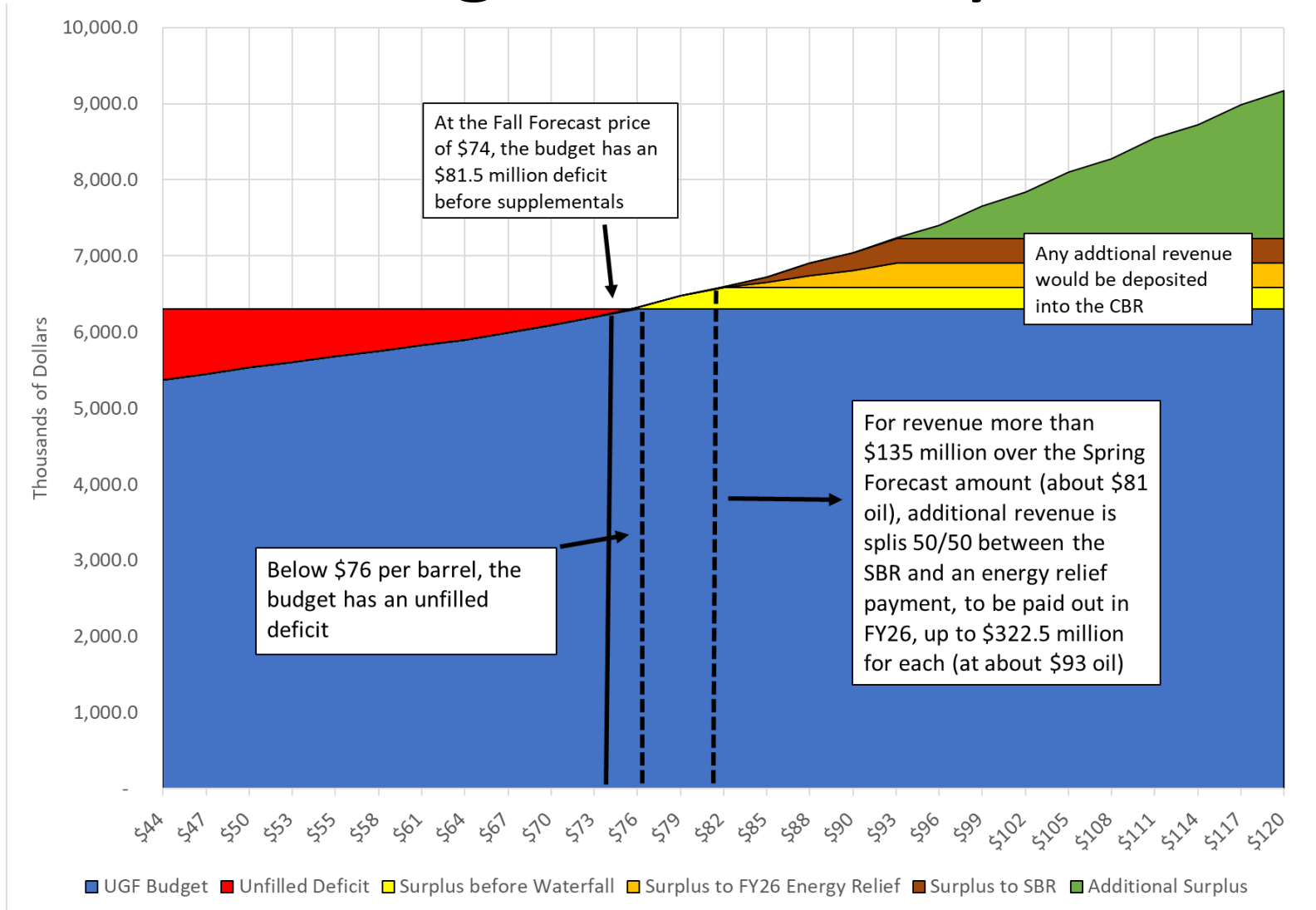
Daily ANS Price, November 2022- January 2025



Percent of Market Value Draw from Permanent Fund

		Year-End Permanent Fund Balance for POMV	
FY25 POMV (5% Times Average of FY19-23 Balances): \$3,657.3	FY19	65,876.1	FY26 POMV (5% Times Average of FY20-24 Balances): \$3,798.9
	FY20	64,877.8	
	FY21	81,472.8	
	FY22	75,912.8	
	FY23	77,587.5	
	FY24	80,038.5	

FY25 Budget Sensitivity Chart



FY25 Governor's Supplemental Budget

- The Governor introduced a fast-track supplemental bill with two items:
 - \$50.0 million UGF to AIDEA as backstop for an AKLNG contract.
 - \$15.0 million UGF to the Disaster Relief Fund, which does not have enough general funds to pay pending disaster costs.
- In addition, the Governor's operating bill includes a \$10.0 million supplemental appropriation to ASMI as an FY25-27 Multiyear appropriation.
- The operating budget also includes Constitutional Budget Reserve Fund deficit-filling language for FY25, up to \$200.0 million. This should be moved to the fast-track supplemental bill because otherwise those appropriations are not funded.
- Additional supplemental requests are due on the 15th day of the legislative session. These are expected to include items in the Department of Corrections, Fire Suppression, and Medicaid, among others.

FY26 Adjusted Base

- The starting point for the next year's budget is the Adjusted Base, which is the prior year's budget less one-time appropriations plus current statewide policy decisions (such as salary adjustments and formula changes) needed to maintain services at a status quo level.
- Starting in FY25, LFD modified the Adjusted Base to include formula changes. Previously, it was difficult to distinguish policy changes from changes in formula amounts. Now, formula-driven adjustments (for items like the K-12 formula, debt service, or retirement payments) will be reflected in the Adjusted Base, making policy changes by the Governor easier to see.
- For formula items funded at a partial amount (such as the PFD), the Adjusted Base would be the same formula carried forward into the next year (so 25% of the POMV draw, which was the formula used in FY25, is carried forward into the FY26 adjusted base).

FY26 Adjusted Base (cont.): One-Time Items

UGF One-Time Item	Amount
K-12 Outside Formula	(174,663.5)
AMHS Backstop	(10,000.0)
Child Care Grant Program	(7,500.0)
K-12 Additional Pupil Transportation	(7,305.9)
Tourism Marketing	(5,000.0)
Rate Smoothing Appropriation	(5,000.0)
Anchorage E 56th Shelter	(4,000.0)
SB67 (PFAS) Fiscal Note	(2,500.0)
AGDC Operations	(2,487.5)
Other Items	(9,388.7)
Total	(227,845.6)

- Largest One-Time Item removed in Adjusted Base is K-12 Additional Foundation Funding (\$174.7 million), all other items total \$53.2 million.

FY26 Adjusted Base (cont.): Formula Adjustments

Formula Adjustments	UGF	All Funds
K-12 Foundation Formula	(28,724.2)	(28,583.6)
K-12 Pupil Transportation	(2,782.2)	(2,782.2)
School Debt Reimbursement	(10,208.2)	(11,008.2)
Other Debt Service	(4,339.2)	(8,615.8)
State Contributions to Retirement	36,117.6	36,117.6
REAA Fund Capitalization	(4,093.6)	(4,093.6)
Total Adjusted Base Formula Adjustments	(14,029.8)	(18,965.8)

- K-12 Formula reduced due primarily to projected 3,777 student (3.6%) decrease in brick-and-mortar students (only partially offset by a 978-student increase in correspondence students).
- Retirement contributions up due to higher PERS and TRS past service costs based on June 30, 20223 valuations.
- School debt reimbursement continues to decline due to ongoing (since 2015) moratorium on new debt, which is scheduled to end on July 1, 2025.

FY26 Adjusted Base (cont.): Salary and Benefits Adjustments

Salary Adjustments	UGF	Total
PERS/JRS Rate	11,505.9	23,314.8
Health Insurance	5,938.0	9,487.5
SU 3% COLA (non-Law Enforcement)	4,152.3	10,972.8
SU 5.5% COLA (Law Enforcement)	982.7	1,101.9
Exempt 3% COLA	9,023.5	14,417.2
LTC 1.25% COLA	774.6	2,134.9
PSEA 10% COLA	9,362.8	11,177.9
University of Alaska Salary & Benefits	5,875.2	9,682.8
University of Alaska Health	14,245.9	17,800.0
Total	61,860.9	100,089.8

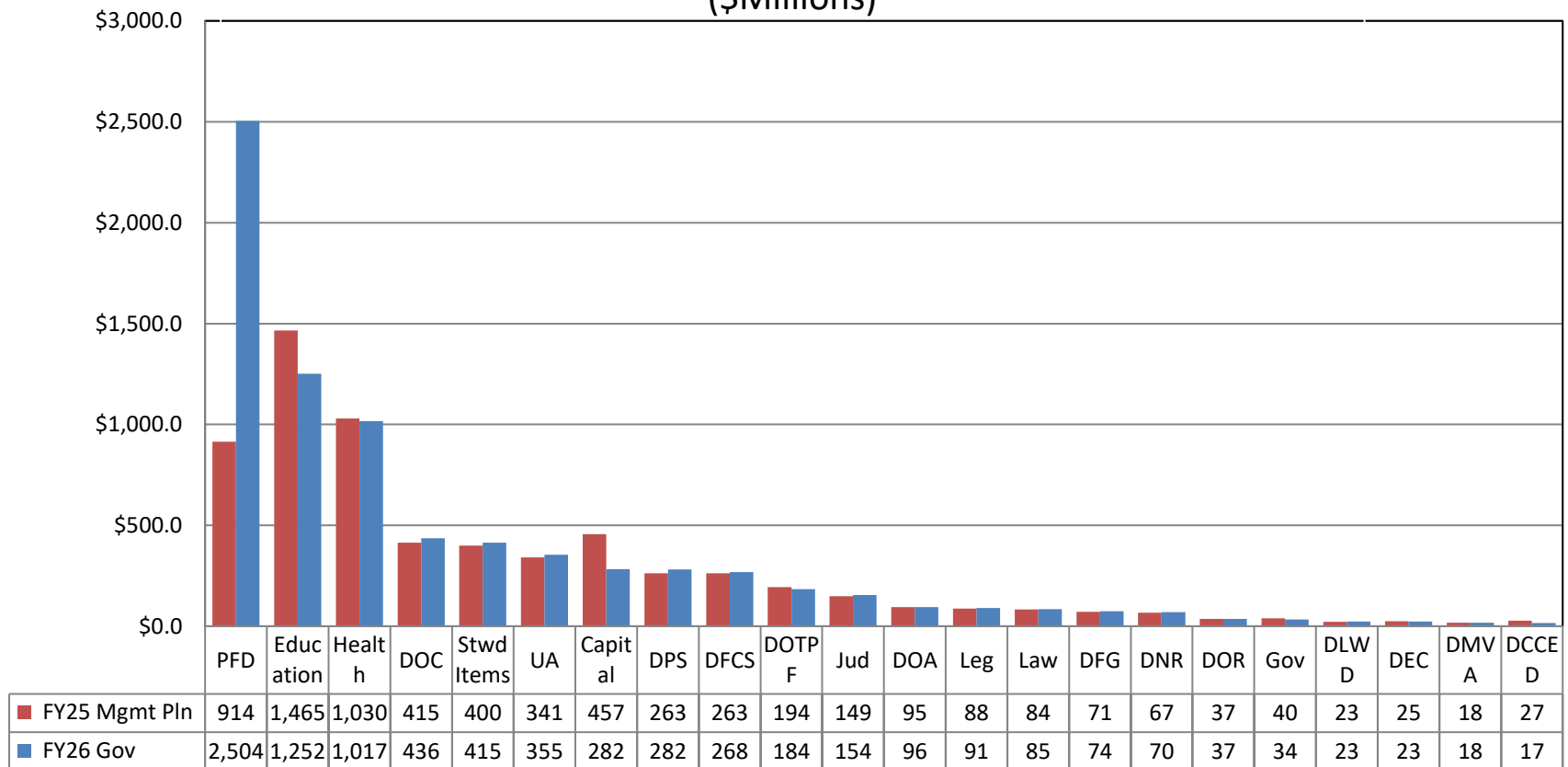
- Eight Executive Branch unions are currently negotiating, plus one University of Alaska union. This includes the largest executive branch unions, so there may be significant future amendments as these contracts are negotiated.

Governor's FY26 Budget

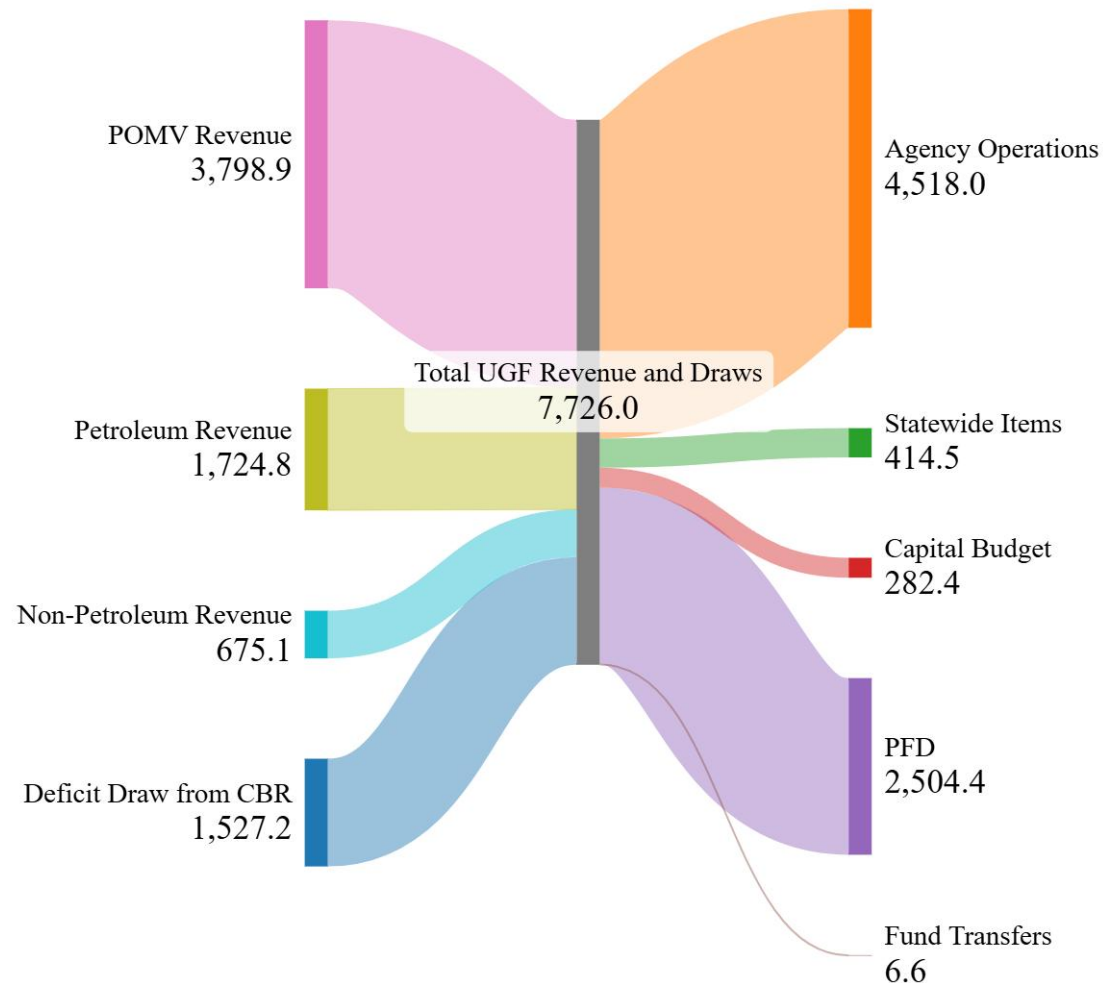
FY25-FY26 Governor's 12/12/24 Budget (UGF Only)														
	FY25	FY26	Difference											
Fall Revenue Forecast	6,261.0	6,198.8	(62.2)	-1.0%										
Agency Operations	4,693.1	4,518.0	(175.1)	-3.7%										
Statewide Items	400.1	414.5	14.5	3.6%										
Capital Budget	330.7	282.4	(48.3)	-14.6%										
Permanent Fund Dividend	914.3	2,504.4	1,590.1	173.9%										
Total Budget (pre-Supplementals)	6,338.2	7,719.4	1,381.3	21.8%										
			<table><tr><th>Ending Balance</th><th>FY25</th><th>FY26</th></tr><tr><td>SBR</td><td>-</td><td>-</td></tr><tr><td>CBR</td><td>2,981.4</td><td>1,591.8</td></tr></table>			Ending Balance	FY25	FY26	SBR	-	-	CBR	2,981.4	1,591.8
Ending Balance	FY25	FY26												
SBR	-	-												
CBR	2,981.4	1,591.8												
Pre-Transfer Surplus/(Deficit)	(77.2)	(1,520.6)												
Fund Transfers	4.3	6.6												
Post-Transfer Surplus/(Deficit)	(81.5)	(1,527.2)												
Governor's 12/12 Supplementals	75.0													
Post-Transfer Surplus/Deficit	(156.5)													

Governor's FY26 Budget (Cont.)

Swoop Graph - UGF Only
FY26 Governor's Budget Compared to FY25 Management Plan
 (\$Millions)



Governor's FY26 Budget (Cont.)



Governor's FY26 Budget (Cont.)

- Agency Operations total \$4.5 billion UGF, \$57.0 million UGF (1.3%) above the Adjusted Base:
 - \$7.5 million UGF increase to Department of Corrections to replace federal funding from manday billings.
 - \$6.6 million UGF for multiple increments for Department of Public Safety, Alaska State Troopers, including reopening the Talkeetna post, adding Troopers in Kotzebue, and adding additional funding for overtime.
 - \$5.9 million UGF to Department of Health for SB 189 impacts on child care assistance.
 - \$4.4 million to Family and Community Services, Alaska Psychiatric Institute to address a structural deficit due to reduced federal payments.
 - No significant budget reductions.

Governor's FY26 Budget (Cont.)

- Statewide Items total \$414.5 million UGF, \$8.6 million (2.0%) below the Adjusted Base:
 - Statutory funding for debt service, REAA Fund deposit, retirement system, and Community Assistance Fund.
 - Community Assistance Fund remains below the \$90.0 million full balance due to vetoes, so the FY26 distribution will be \$23.3 million based on the Governor's budget.
 - \$13.0 million UGF deposit to Disaster Relief Fund, matching FY25 post-veto number but below \$16.8 million average usage.
 - \$25.8 million UGF deposit to Fire Suppression Fund, \$8.6 million lower than FY25 deposit and far short of the \$53.5 million average UGF cost of fire suppression activity.

Governor's FY26 Budget (Cont.)

- Capital Budget totals \$282.4 million UGF, \$2.8 billion all funds. This is a 14.6% reduction from FY25 and a 38.2% reduction from the total for the 2024 session across both fiscal years.
 - \$154.6 million UGF (55% of total UGF) is to match federal funds.
 - \$33.5 million UGF for AHFC capital projects.
 - \$19.5 million UGF for IT projects across five agencies.
 - \$17.3 million UGF for University of Alaska projects (most of which would be more properly reflected as operating budget items).
 - \$6.5 million UGF to the Department of Public Safety for a Pilatus PC-12 aircraft.
 - \$6.5 million UGF for AEA's Dixon Diversion project.
 - \$6.3 million DGF for AEA's Renewable Energy Fund, which funds the top six projects on the priority list.
 - \$5.6 million UGF to the Department of Fish and Game for Gulf of Alaska Chinook Salmon research.
 - No funding for school construction or major maintenance.

Governor's FY26 Budget (Cont.)

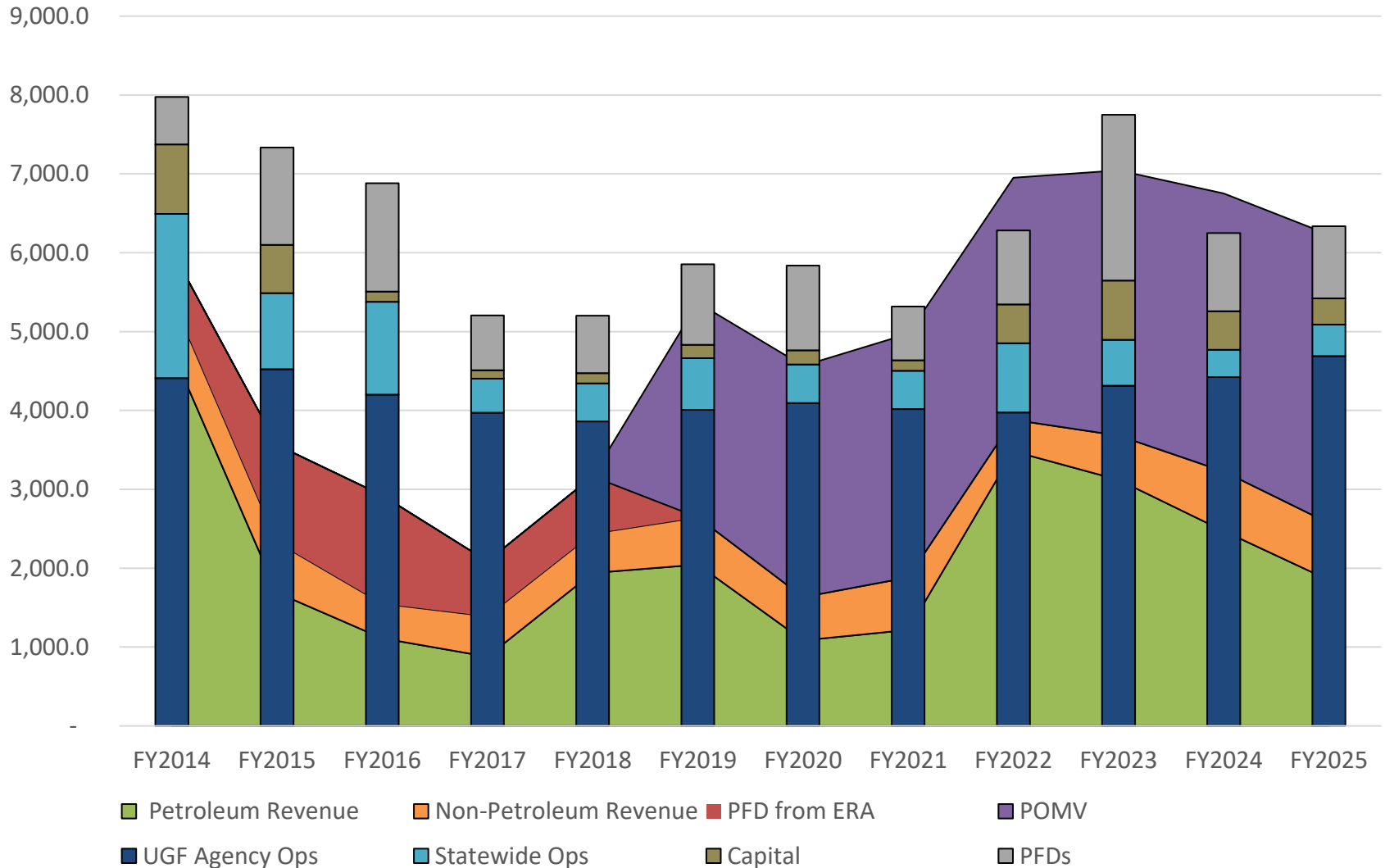
- Also notable is what is not yet in the budget:
 - **Education** – no outside the formula funds or BSA increase (there was **\$174.7 million** outside the foundation formula and **\$7.3 million** outside the Pupil Transportation formula in FY25). The Governor mentioned a planned \$200.0 million K-12 funding bill in his budget release press conference.
 - **Medicaid** – the Governor's budget does not contain an increase to Medicaid funding, but the Department of Health stated that the projection will be trued up in a future amendment. Preliminary projections indicate a need for an additional **\$19.6 million** UGF.
 - **Ongoing Employee Bargaining Negotiations** – nine unions are currently negotiating new contracts to begin in FY26. Legislative Finance estimates that a 3% increase (in line with what the Supervisory Union will receive in FY26) would cost about **\$29.4 million** UGF.

75/25 PFD Alone Won't Balance the Budget

FY26 Revenue	6,198.8
FY26 Governor's Budget	7,719.4
Surplus/Deficit	(1,520.6)
Reduce PFD to 75/25	(1,554.7)
Revised Surplus/Deficit	34.1
Add K-12 Funding to Match FY25	182.0
Add Projected Medicaid Need	19.6
Add Placeholder for Contractual Increases	29.4
Revised Surplus/Deficit	(196.9)

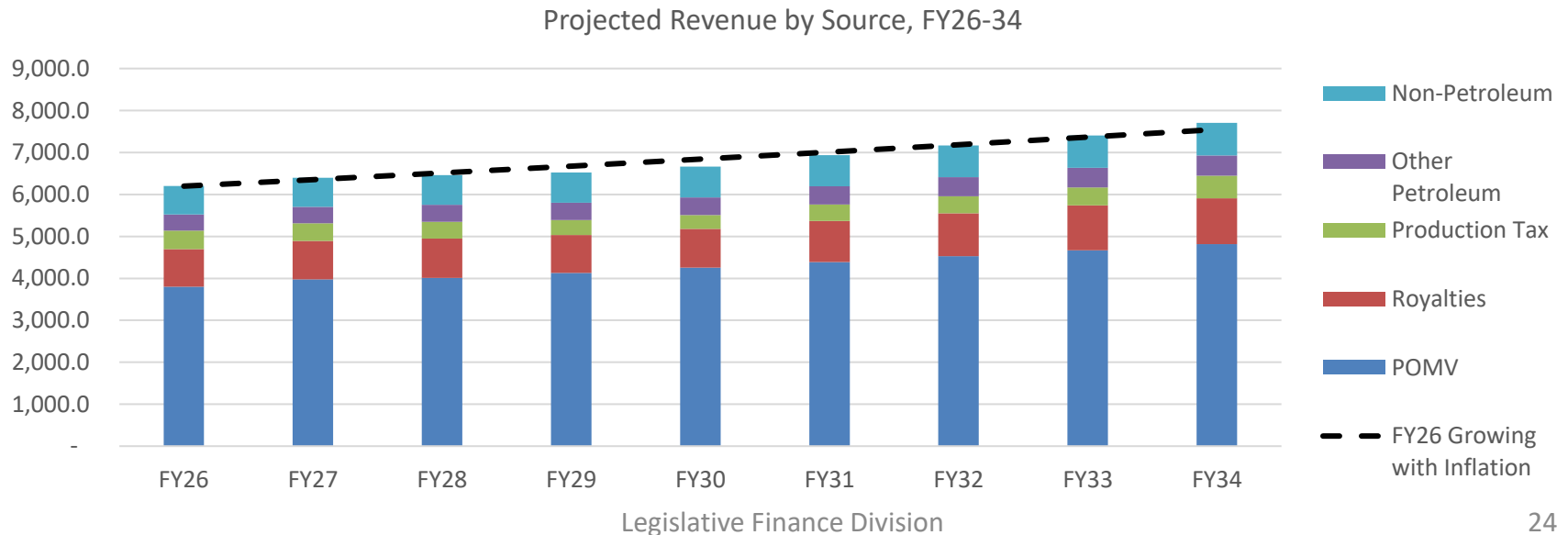
UGF Revenue and Budgets, FY14-25

(\$millions)



Long-Term Revenue Outlook

- The Department of Revenue's Fall Forecast projects that oil prices will fall from \$70.0 in FY26 to \$68-69 from FY27-32, then increase slightly after that.
- Oil production is projected to increase from 479.5 mbbl/day in FY26 to 656.9 mbbl/day in FY34.
- The Permanent Fund is projected to earn 7.65% per year.

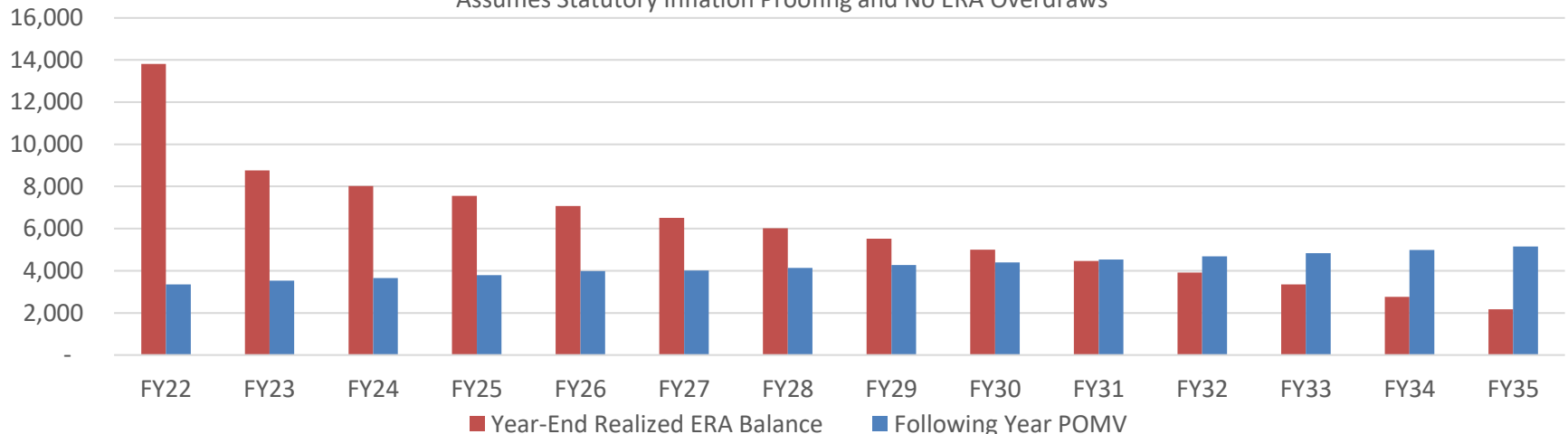


Earnings Reserve Account (ERA) Sufficiency

- APFC's Statutory Net Income projection for FY25+ is 6.25%, compared to inflation of 2.50% and a 5.00% POMV draw. This leads to a projected decline in the balance of the ERA balance.
- APFC's projections show that the year-end ERA balance will drop below the following year's POMV draw amount in FY32, assuming statutory inflation proofing each year. That means that when the year begins, the ERA won't have enough money to pay out the entire POMV draw for the year and will have to rely on current-year earnings.
- LFD's probabilistic modeling shows an 46% chance of having an insufficient ERA balance to make the full POMV draw over FY26 – FY35, assuming full inflation proofing and statutory POMV draws. If inflation-proofing is suspended when the ERA balance drops below the following year's POMV draw, that drops to 33%.

Realized ERA Balance, FY22-35 (\$millions)

Assumes Statutory Inflation Proofing and No ERA Overdraws

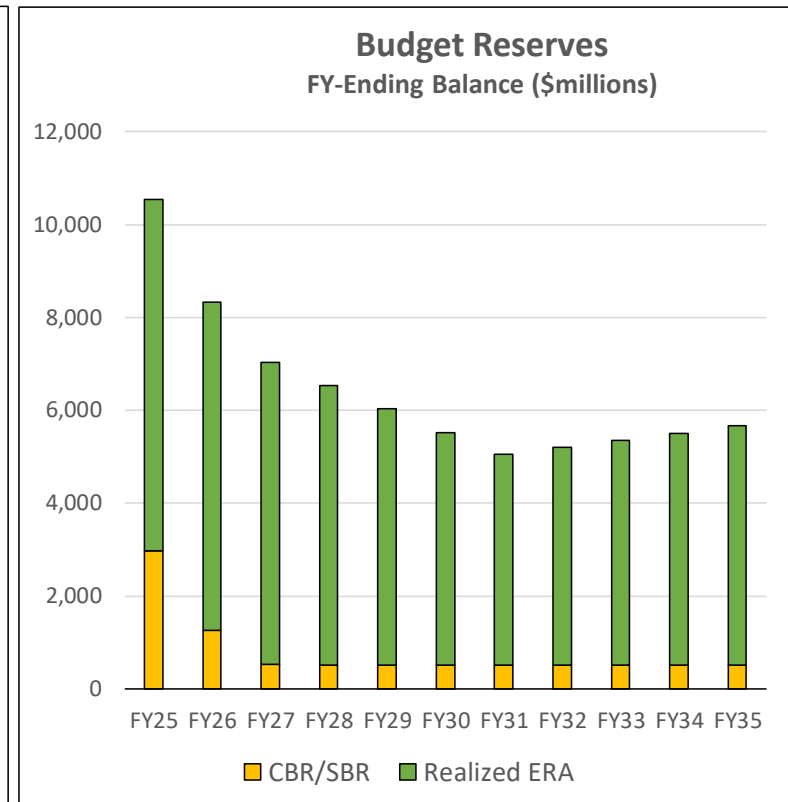
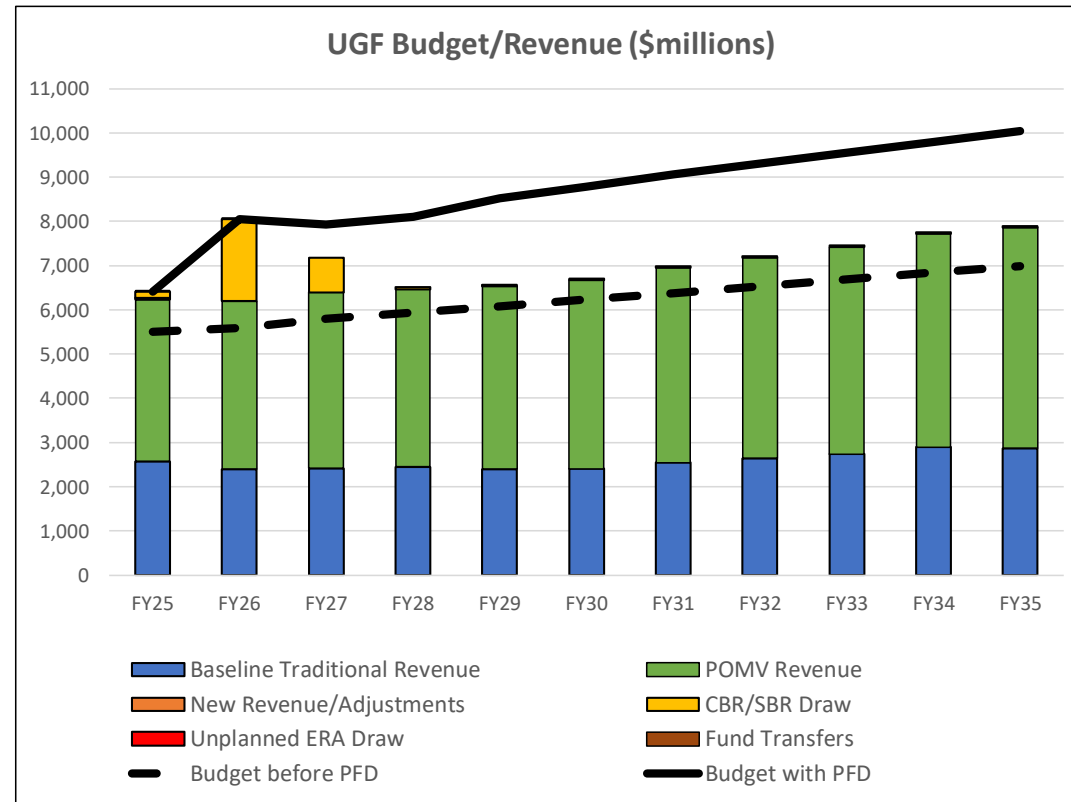


Long-Term Fiscal Outlook and Governor's 10-Year Plan

- LFD modeling baseline assumes the FY25 Management Plan grows with inflation and all statewide items are funded to statutory levels (including the PFD), or FY25 levels if there's no clear funding formula to follow.
- This results in substantial deficits every year in the modeling window, illustrating Alaska's continued structural budget deficit.

LFD Baseline Model, No ERA Overdraws

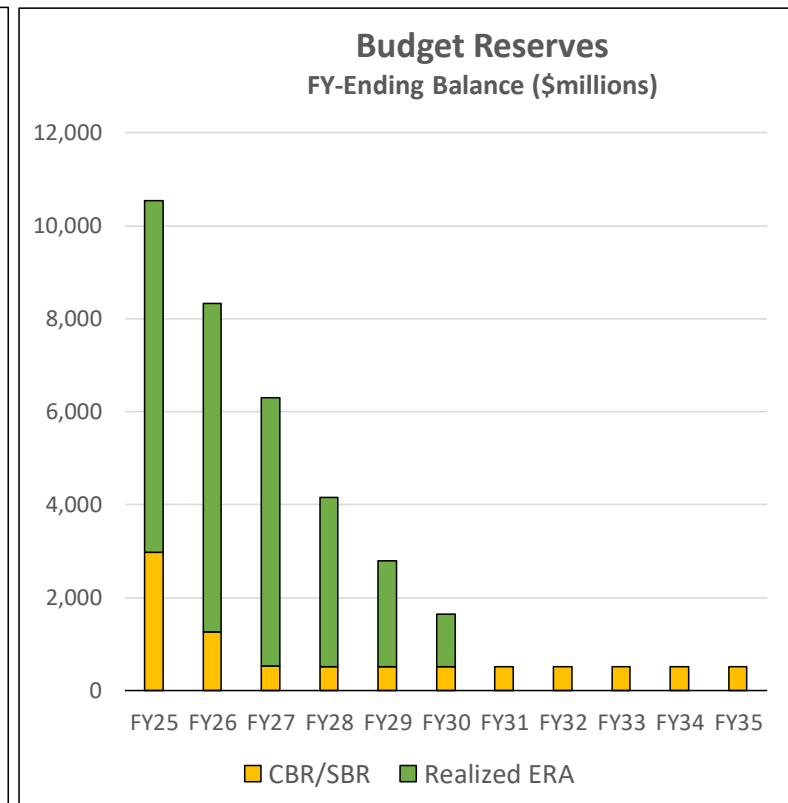
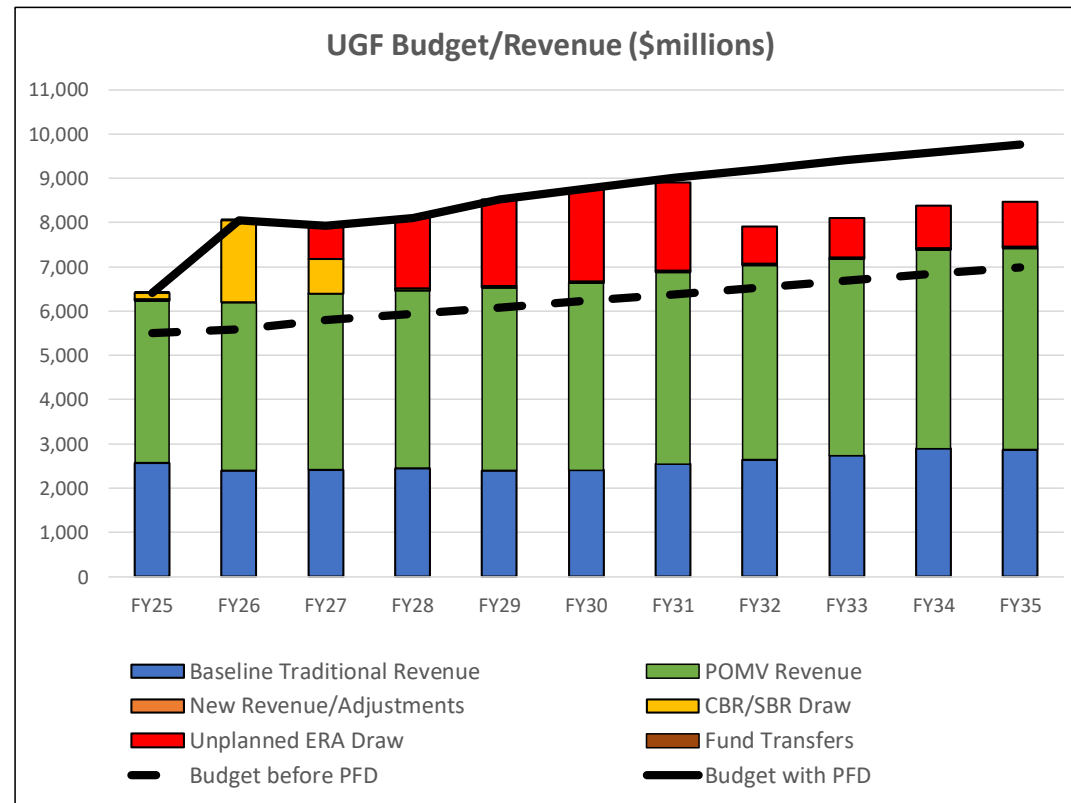
Surplus/(Deficit) (\$millions)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	(152)	(1,846)	(1,523)	(1,637)	(1,991)	(2,116)	(2,112)	(2,122)	(2,140)	(2,077)	(2,180)



Effective POMV Draw Rate	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PFD/Person	\$1,702	\$3,777	\$3,231	\$3,303	\$3,729	\$3,899	\$4,100	\$4,228	\$4,363	\$4,504	\$4,652

LFD Baseline Model with ERA Overdraws

Surplus/(Deficit) (\$millions)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	(152)	(1,846)	(1,523)	(1,637)	(1,993)	(2,126)	(2,138)	(2,172)	(2,223)	(2,195)	(2,334)



Effective POMV Draw Rate	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	5.00%	5.00%	5.93%	6.98%	7.37%	7.47%	7.31%	5.95%	6.00%	6.06%	6.11%
PFD/Person	\$1,702	\$3,777	\$3,231	\$3,303	\$3,721	\$3,867	\$4,023	\$4,081	\$4,121	\$4,163	\$4,213

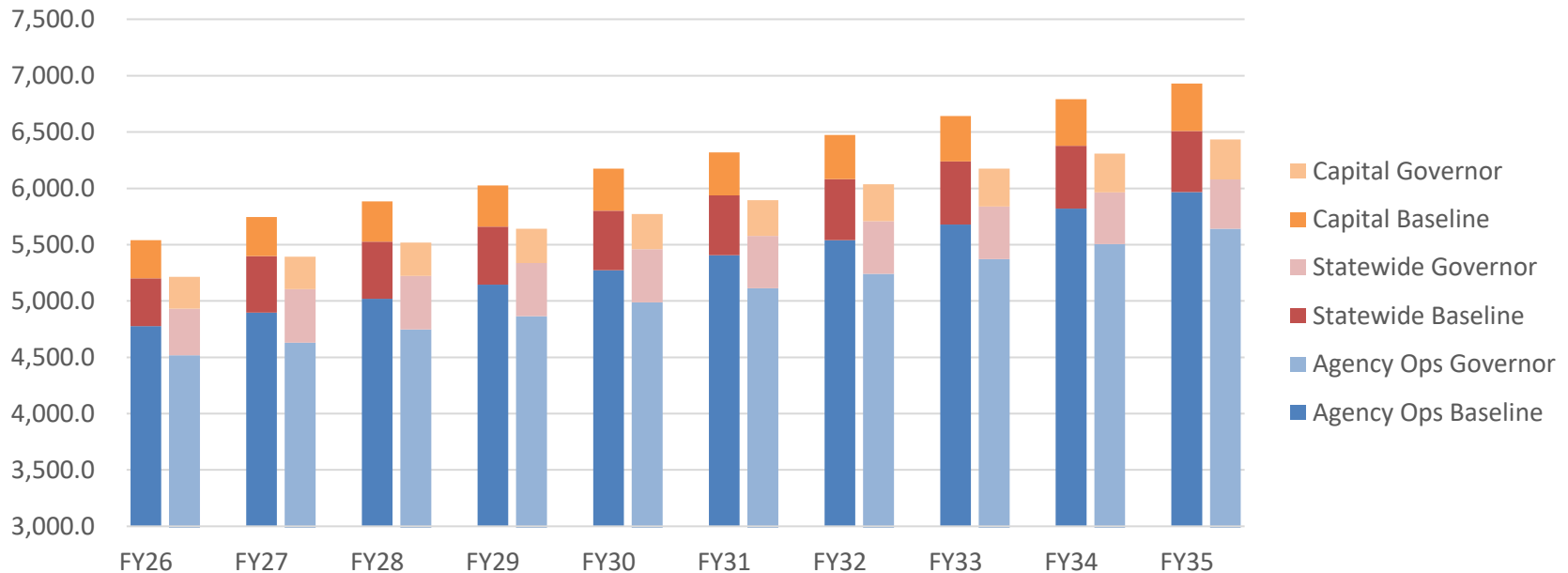
Long-Term Outlook and Governor's 10-Year Plan (Cont.)

- Policy changes in Governor's 10-Year Plan:
 - Governor's FY26 agency operations and capital budgets are below the FY25 levels.
 - Only other difference is reduction of funding to Fire Suppression Fund.
 - Unlike prior years, Governor assumes 2.5% growth with inflation rather than 1.5% growth.
- Assumption Differences in LFD Model:
 - Governor assumes supplementals and lapse cancel out after FY25, LFD includes \$50.0 million placeholder.
 - LFD includes a placeholder for new school debt after the moratorium ends in 2025, Governor does not.
 - LFD uses Permanent Fund projections from APFC's December report, which corrects an error that was in the DOR Forecast.

Long-Term Outlook and Governor's 10-Year Plan (Cont.)

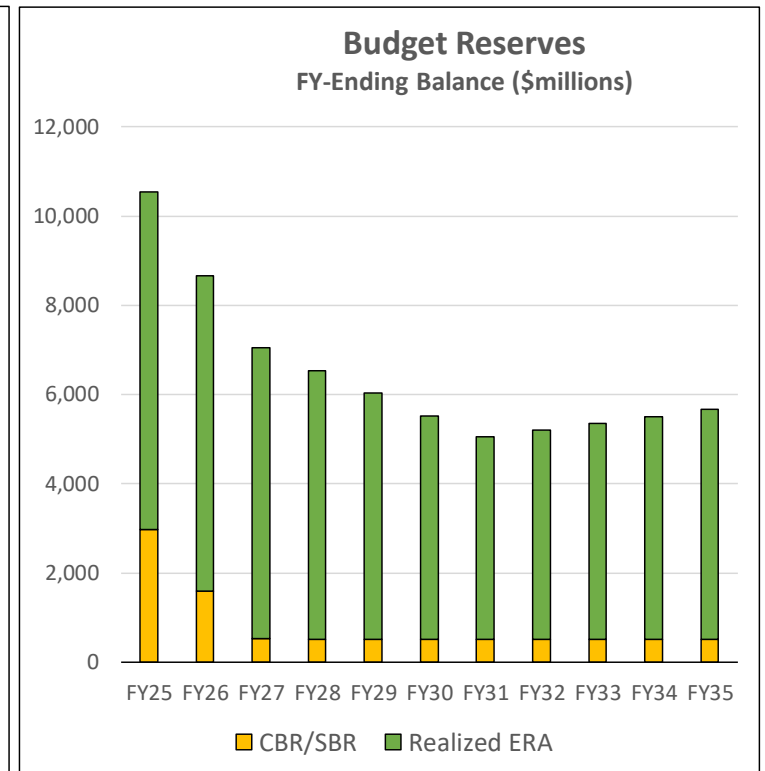
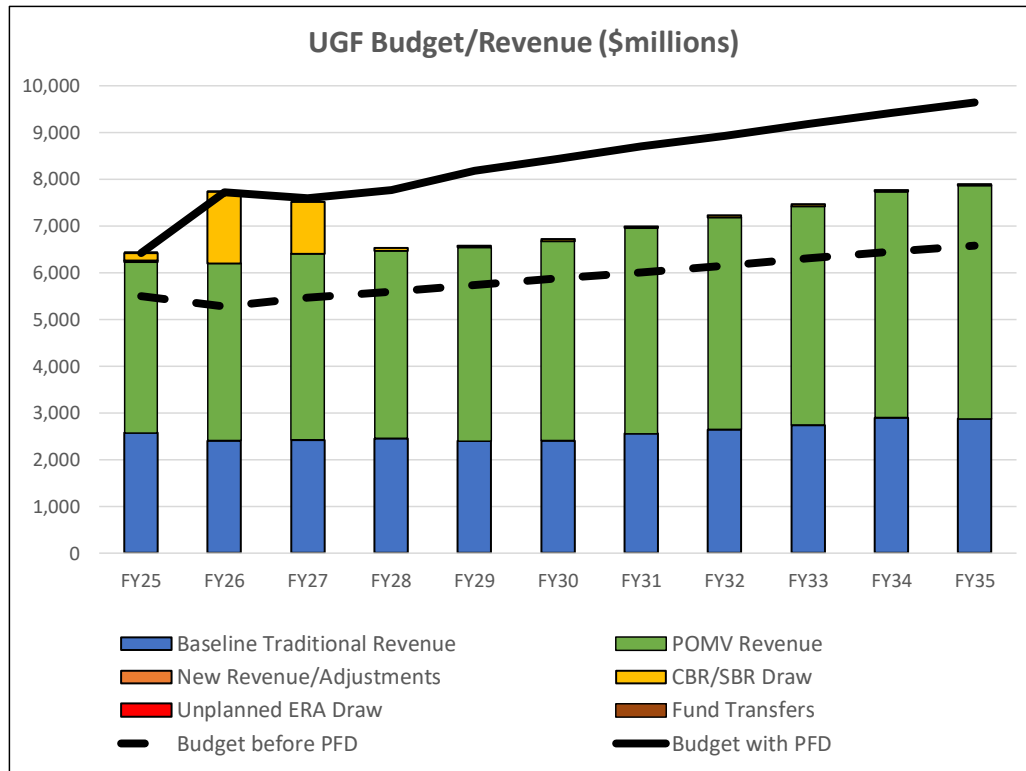
Comparison of LFD Baseline to the Governor's 10-Year Plan (\$ millions)										
	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
Baseline	5,589.2	5,795.8	5,934.0	6,076.3	6,226.0	6,370.2	6,524.0	6,691.8	6,842.1	6,981.8
Governor	5,214.9	5,393.1	5,518.5	5,639.9	5,770.5	5,895.7	6,035.6	6,175.5	6,307.2	6,432.5
Difference	(374.3)	(402.7)	(415.5)	(436.4)	(455.5)	(474.5)	(488.4)	(516.3)	(534.9)	(549.3)

Governor's 10-Year Plan Compared to LFD Baseline



Governor's 10-Year Plan in LFD Model, No ERA Overdraws

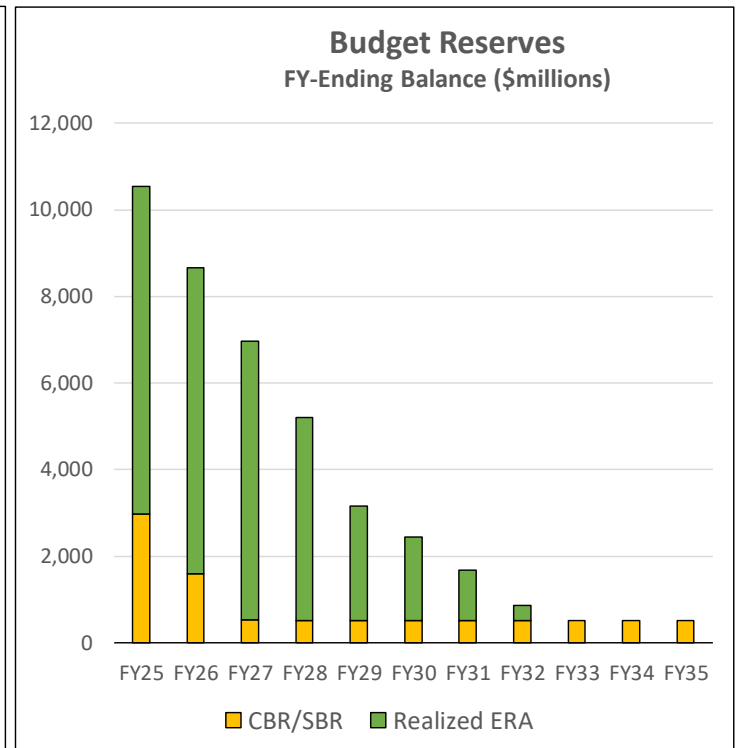
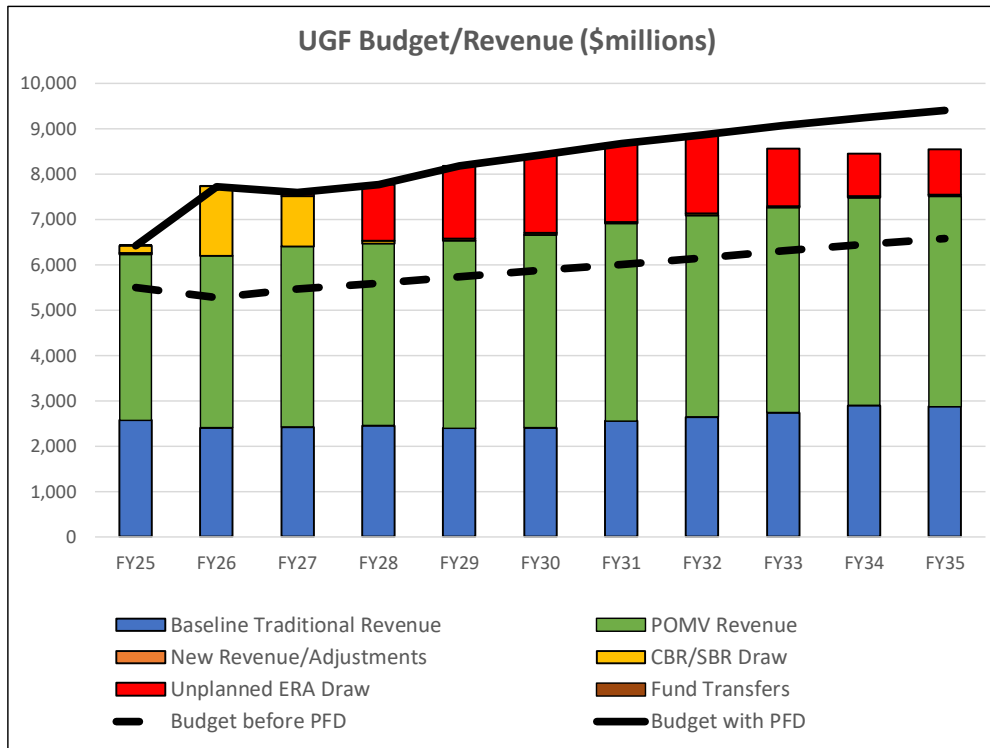
Surplus/(Deficit) (\$millions)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	(152)	(1,522)	(1,190)	(1,297)	(1,641)	(1,758)	(1,745)	(1,746)	(1,754)	(1,682)	(1,775)



Effective POMV Draw Rate	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PFD/Person	\$1,702	\$3,777	\$3,231	\$3,303	\$3,729	\$3,899	\$4,100	\$4,228	\$4,363	\$4,504	\$4,652

Governor's 10-Year Plan in LFD Model with ERA Overdraws

Surplus/(Deficit) (\$millions)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	(152)	(1,522)	(1,190)	(1,297)	(1,642)	(1,762)	(1,760)	(1,778)	(1,811)	(1,771)	(1,899)



Effective POMV Draw Rate	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
	5.00%	5.00%	5.10%	6.55%	6.94%	7.03%	6.98%	6.96%	6.40%	6.03%	6.07%
PFD/Person	\$1,702	\$3,777	\$3,231	\$3,303	\$3,728	\$3,884	\$4,055	\$4,133	\$4,197	\$4,246	\$4,297

Questions?

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