## State of Alaska Detailed Fiscal Summary--FY23 and FY24 (Part 1)

($ millions)

| | | FY23 Management Plan | | | | | FY24 Governor | | | | | Change in UGF | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Unrestricted General Funds | Designated General Funds | Other State Funds | Federal Receipts | All Funds | Unrestricted General Funds | Designated General Funds | Other State Funds | Federal Receipts | All Funds | $ | % |
| 1 | **REVENUE** | **7,239.5** | **1,053.7** | **869.3** | **6,173.1** | **15,335.5** | **6,935.3** | **978.0** | **811.6** | **4,850.0** | **13,574.9** | **(304.2)** | **-4.2%** |
| 2 | Unrestricted General Fund Revenue (Fall 2023 Forecast) **(1)** | **3,865.2** | - | **-** | **-** | **3,865.2** | **3,410.1** | - | **-** | **-** | **3,410.1** | | |
| 3 | POMV Payout from ERA | 3,360.6 | - | - | - | 3,360.6 | 3,526.1 | - | - | - | 3,526.1 | | |
| 4 | Adjustments, Carryforward, Repeals, and Reappropriations **(2)** | 13.7 | 54.5 | - | 689.8 | 758.0 | (0.9) | - | - | - | (0.9) | | |
| 5 | Restricted Revenue **(3)** | - | 999.2 | 869.3 | 5,483.3 | 7,351.7 | - | 978.0 | 811.6 | 4,850.0 | 6,639.6 | | |
| | **APPROPRIATIONS** | | | | | | | | | | | | |
| 6 | **TOTAL OPERATING APPROPRIATIONS** | **5,246.6** | **872.7** | **795.7** | **4,204.1** | **11,119.1** | **4,510.5** | **827.9** | **775.5** | **3,177.7** | **9,291.7** | **(736.1)** | **-14.0%** |
| 7 | **Agency Operations** | **4,220.8** | **723.5** | **739.9** | **3,988.7** | **9,672.8** | **4,151.5** | **766.7** | **706.9** | **3,128.4** | **8,753.5** | **(69.3)** | **-1.6%** |
| 8 | **Current Fiscal Year Appropriations** | **4,220.8** | **723.5** | **739.9** | **3,988.7** | **9,672.8** | **4,151.5** | **766.7** | **706.9** | **3,128.4** | **8,753.5** | **(69.3)** | **-1.6%** |
| 9 | Agency Operations (Non-Formula) | 2,085.7 | 716.9 | 680.5 | 1,997.8 | 5,481.0 | 2,068.2 | 748.4 | 658.7 | 1,210.6 | 4,685.9 | (17.5) | -0.8% |
| 10 | K-12 Foundation and Pupil Transportation (Formula) | 1,272.1 | - | 31.7 | 20.8 | 1,324.6 | 1,213.4 | - | 32.7 | 20.8 | 1,266.8 | (58.7) | -4.6% |
| 11 | Medicaid Services (Formula) | 649.9 | 0.4 | 15.5 | 1,769.1 | 2,434.9 | 670.6 | 0.4 | 15.5 | 1,769.2 | 2,455.7 | 20.7 | 3.2% |
| 12 | Other Formula Programs | 213.1 | 6.1 | - | 187.9 | 407.2 | 199.3 | 17.9 | - | 127.8 | 344.9 | (13.8) | -6.5% |
| 13 | Revised Programs Legislatively Approved (RPLs) | - | - | 12.1 | 13.1 | 25.2 | - | - | - | - | - | | |
| 14 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *874.4* | - | *874.4* | - | - | *904.1* | - | *904.1* | - | |
| 15 | **Statewide Items** | **1,025.8** | **149.2** | **55.8** | **215.4** | **1,446.3** | **359.0** | **61.3** | **68.7** | **49.3** | **538.2** | **(666.8)** | **-65.0%** |
| 16 | **Current Fiscal Year Appropriations** | **1,025.8** | **149.2** | **55.8** | **215.4** | **1,446.3** | **359.0** | **61.3** | **68.7** | **49.3** | **538.2** | **(666.8)** | **-65.0%** |
| 17 | Debt Service | 158.6 | 15.1 | 27.8 | 4.8 | 206.3 | 148.1 | 13.5 | 21.3 | 4.8 | 187.8 | (10.5) | -6.6% |
| 18 | Fund Capitalizations | 317.6 | 45.2 | 0.3 | 91.2 | 454.3 | 70.6 | 15.2 | 10.3 | 44.4 | 140.6 | (247.0) | -77.8% |
| 19 | *Community Assistance* | - | *30.0* | - | - | *30.0* | - | - | - | - | - | | |
| 20 | *REAA School Fund* | *32.8* | - | - | - | *32.8* | *27.9* | - | - | - | *27.9* | *(4.9)* | -14.9% |
| 21 | *Oil and Gas Tax Credit Fund* | *281.0* | - | - | - | *281.0* | *42.7* | - | - | - | *42.7* | | |
| 22 | *Other Fund Capitalization* | *3.8* | *15.2* | *0.3* | *91.2* | *110.5* | *0.0* | *15.2* | *10.3* | *44.4* | *70.0* | *(3.8)* | |
| 23 | State Payments to Retirement Systems | 129.6 | - | - | - | 129.6 | 140.3 | - | - | - | 140.3 | 10.7 | 8.3% |
| 24 | Energy Relief Payment **(5)** | 420.1 | - | - | - | 420.1 | - | - | - | - | - | (420.1) | |
| 25 | Shared Taxes | - | 35.4 | 27.7 | - | 63.2 | - | 32.5 | 37.1 | - | 69.6 | - | |
| 26 | Alaska Comprehensive Insurance Program | - | 53.5 | - | 119.4 | 172.9 | - | - | - | - | - | - | |
| 27 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *10.7* | - | *10.7* | - | - | *13.1* | - | *13.1* | - | |
| 28 | **TOTAL CAPITAL APPROPRIATIONS** | **735.1** | **74.0** | **73.4** | **1,782.3** | **2,664.8** | **276.4** | **72.7** | **35.9** | **1,661.7** | **2,046.7** | **(458.7)** | **-62.4%** |
| 29 | **Current Fiscal Year Appropriations** | **735.1** | **74.0** | **73.4** | **1,782.3** | **2,664.8** | **276.4** | **72.7** | **35.9** | **1,661.7** | **2,046.7** | **(458.7)** | **-62.4%** |
| 30 | Project Appropriations | 735.1 | 74.0 | 73.4 | 1,782.3 | 2,664.8 | 276.4 | 72.7 | 35.9 | 1,661.7 | 2,046.7 | (458.7) | |
| 31 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *66.3* | - | *66.3* | - | - | *75.6* | - | *75.6* | - | |
| 32 | *Money on the Street (includes all fund sources)* ***(6)*** | *735.1* | *74.0* | *139.7* | *1,782.3* | *2,731.1* | *276.4* | *72.7* | *111.4* | *1,661.7* | *2,122.3* | | |
| 33 | **Pre-Permanent Fund Authorization** (unduplicated) | **5,981.8** | **946.7** | **869.1** | **5,986.5** | **13,784.0** | **4,786.9** | **900.7** | **811.4** | **4,839.4** | **11,338.4** | **(1,194.8)** | **-20.0%** |
| 34 | ***Revenue less operating and capital appropriations*** | *1,257.7* | | | | | *2,148.4* | | | | | | |
| 35 | **Permanent Fund Appropriations** | **1,680.3** | **74.8** | **-** | **-** | **1,755.1** | **2,470.9** | **76.4** | **-** | **-** | **2,547.3** | **790.6** | **47.1%** |
| 36 | Permanent Fund Dividends **(5)** | 1,680.3 | - | - | - | 1,680.3 | 2,470.9 | - | - | - | 2,470.9 | 790.6 | 47.1% |
| 37 | Non-Mandatory Royalty Deposit to Principal | - | 74.8 | - | - | 74.8 | - | 76.4 | - | - | 76.4 | | |
| 38 | Transfer to Principal from Earnings Reserve Account | 4,181.0 | - | - | - | 4,181.0 | 1,413.0 | - | - | - | 1,413.0 | | |
| 39 | Transfer from Earnings Reserve Account to Principal | (4,181.0) | - | - | - | (4,181.0) | (1,413.0) | - | - | - | (1,413.0) | | |
| 40 | **Pre-Transfers Authorization** (unduplicated) | **7,662.0** | **1,021.5** | **869.1** | **5,986.5** | **15,539.1** | **7,257.8** | **977.1** | **811.4** | **4,839.4** | **13,885.7** | **(404.2)** | **-5.3%** |
| 41 | ***Pre-Transfer Surplus/(Deficit) (7)*** | *(422.5)* | ***Revenue =*** | ***94.5%*** | ***of Appropriations*** | | *(322.5)* | ***Revenue =*** | ***95.6%*** | ***of Appropriations*** | | | |
| 42 | **Fund Transfers (8)** | **(422.5)** | **32.2** | **0.2** | **186.6** | **(203.5)** | **(124.4)** | **0.9** | **0.2** | **10.6** | **(112.6)** | **298.1** | |
| 43 | **Current Fiscal Year Transfers** | **(422.5)** | **15.9** | **0.2** | **186.6** | **(219.8)** | **(124.4)** | **0.9** | **0.2** | **10.6** | **(112.6)** | **298.1** | |
| 44 | Renewable Energy Fund | - | 15.0 | - | - | 15.0 | - | - | - | - | - | - | |
| 45 | Other Fund Transfers | 0.3 | 0.9 | 0.2 | - | 1.4 | 0.3 | 0.9 | 0.2 | - | 1.5 | 0.0 | |
| 46 | Statutory Budget Reserve Fund | (350.3) | - | - | - | (350.3) | - | | | | - | 350.3 | |
| 47 | General Fund Deposit from American Rescue Plan Act (ARPA) | (186.6) | - | - | 186.6 | - | (10.6) | - | - | 10.6 | - | 176.0 | |
| 48 | K-12 Forward Funding **(9)** | 114.1 | - | - | - | 114.1 | (114.1) | - | - | - | (114.1) | (228.2) | |
| 49 | **Supplemental Appropriations (Fund Transfers)** | **-** | **16.3** | **-** | **-** | **16.3** | **-** | **-** | **-** | **-** | **-** | - | |
| 50 | **Post-Transfers Authorization** (unduplicated) | **7,239.5** | **1,053.7** | **869.3** | **6,173.1** | **15,335.6** | **7,133.4** | **978.0** | **811.6** | **4,850.0** | **13,773.1** | **(106.1)** | **-1.5%** |
| 51 | ***Post-Transfer Surplus/(Deficit) (10)*** | *(0.0)* | ***Revenue =*** | ***100.0%*** | ***of Appropriations*** | | *(198.1)* | ***Revenue =*** | ***97.2%*** | ***of Appropriations*** | | | |

January 13, 2023

## State of Alaska Detailed Fiscal Summary--FY23 and FY24 (Part 1)

($ millions)

| | | FY23 Management Plan | | | | | FY24 Governor | | | | | Change in UGF | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Unrestricted General Funds | Designated General Funds | Other State Funds | Federal Receipts | All Funds | Unrestricted General Funds | Designated General Funds | Other State Funds | Federal Receipts | All Funds | $ | % |
| 52 | **FISCAL YEAR SUMMARY** | 7,239.5 | 1,053.7 | 869.3 | 6,173.1 | 15,335.6 | 7,133.4 | 978.0 | 811.6 | 4,850.0 | 13,773.1 | (106.1) | -1.5% |
| 53 | **Agency Operations** | 4,220.8 | 723.5 | 739.9 | 3,988.7 | 9,672.8 | 4,151.5 | 766.7 | 706.9 | 3,128.4 | 8,753.5 | (69.3) | -1.6% |
| 54 | Statewide Items | 1,025.8 | 149.2 | 55.8 | 215.4 | 1,446.3 | 359.0 | 61.3 | 68.7 | 49.3 | 538.2 | (666.8) | -65.0% |
| 55 | Permanent Fund Appropriations | 1,680.3 | 74.8 | - | - | 1,755.1 | 2,470.9 | 76.4 | - | - | 2,547.3 | 790.6 | 47.1% |
| 56 | **Total Operating** | **6,926.9** | **947.5** | **795.7** | **4,204.1** | **12,874.2** | **6,981.4** | **904.4** | **775.5** | **3,177.7** | **11,839.0** | **54.5** | **0.8%** |
| 57 | **Capital** | **735.1** | **74.0** | **73.4** | **1,782.3** | **2,664.8** | **276.4** | **72.7** | **35.9** | **1,661.7** | **2,046.7** | **(458.7)** | **-62.4%** |
| 58 | ***Transfers*** | ***(422.5)*** | ***32.2*** | ***0.2*** | ***186.6*** | ***(203.5)*** | ***(124.4)*** | ***0.9*** | ***0.2*** | ***10.6*** | ***(112.6)*** | ***298.1*** | |

**Notes:**

January 13, 2023

**(1)** The Department of Revenue's Fall 2022 oil forecast for FY24 is 512.1 bpd total Alaska production at $81 per barrel.

**(2)** Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multi-year appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY24 will be unknown until the close of FY23. Reappropriations to operating budget funds are counted as UGF revenue. The FY24 revenue adjustment is due to the declared AIDEA dividend being $0.9 million lower than the initial estimate.

**(3)** Restricted revenue equals spending for each category. Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose. Other funds have stricter restrictions on usage, and federal funds originate from the federal government and can be used only for a particular purpose. Several appropriations for federal receipts include "open ended" authorization that allow the agencies to accept any amount of federal funds received in connection to COVID-19 response (Medicaid, Public Health Emergency Programs, Disaster Relief Fund, Unemployment Insurance, and Workforce Services). The amount of actual FY23/FY24 federal receipts for COVID-19 response may be greater than shown.

**(4)** Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds will be reflected in future operating budgets.

**(5)** The FY23 enacted budget appropriates $420.1 million for an energy relief payment, which is shown separately from the Permanent Fund Dividend (PFD) payment, though the energy relief was distributed with the PFD.

**(6)** Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

**(7)** The "Pre-transfer Surplus/(Deficit)" indicates if projected state revenue is sufficient to pay for the budget before using money from savings or non-recurring revenue sources. If projected state revenue is projected to be insufficient indefinitely, it is often referred to as a "structural deficit."

**(8)** "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate. For example, the appropriation to transfer court filing fees from the general fund to the civil legal services fund.

**(9)** The FY23 enacted budget appropriates $1,215.1 million from the general fund to the public education fund to forward fund the FY24 K-12 Foundation formula. This appropriation will be reduced if UGF revenue is insufficient, and only $114.1 million will remain available under the fiscal summary's revenue assumptions before supplemental appropriations.

**(10)** No appropriation from the CBR to cover a general fund deficit was enacted for FY23. The Governor's FY24 budget proposal contains language appropriating from the CBR to cover a general fund deficit.

## Projected Fund Balances -- FY23 and FY24 (Part 2)

**($ millions)**

| | FY23 | | | | FY24 | | | |
|---|---|---|---|---|---|---|---|---|
| | BoY Balance | In | Out/ (Deposit) | EoY Balance | BoY Balance | In | Out/ (Deposit) | EoY Balance |
| **Total Budget Reserves and Designated Funds** | **4,018.7** | **269.8** | **502.6** | **3,785.9** | **3,785.9** | **176.5** | **333.9** | **3,628.5** |
| | | | | | | | | |
| **Undesignated Reserves** | **2,626.8** | **198.9** | **350.3** | **2,475.4** | **2,475.4** | **78.7** | **198.1** | **2,355.9** |
| **Total Excluding Permanent Fund** | **2,626.8** | **198.9** | **350.3** | **2,475.4** | **2,475.4** | **78.7** | **198.1** | **2,355.9** |
| Constitutional Budget Reserve Fund | 2,255.5 | 198.9 | 0.0 | 2,454.4 | 2,454.4 | 78.7 | 178.3 | 2,354.7 |
| Statutory Budget Reserve Fund | 370.1 | - | 350.3 | 19.8 | 19.8 | - | 19.8 | 0.0 |
| Alaska Housing Capital Corporation Fund | 1.1 | - | - | 1.1 | 1.1 | - | - | 1.1 |
| | | | | | | | | |
| **Select Designated Funds** | **1,391.9** | **70.9** | **152.3** | **1,310.5** | **1,310.5** | **97.9** | **135.7** | **1,272.6** |
| **Total Excluding Permanent Fund** | **1,391.9** | **70.9** | **152.3** | **1,310.5** | **1,310.5** | **97.9** | **135.7** | **1,272.6** |
| Alaska Capital Income Fund | (3.2) | 27.0 | 27.7 | (3.9) | (3.9) | 29.3 | 32.3 | (6.9) |
| Alaska Higher Education Investment Fund | 344.7 | 3.8 | - | 348.5 | 348.5 | 19.5 | 23.6 | 344.4 |
| Community Assistance Fund | 90.0 | 30.0 | 30.0 | 90.0 | 90.0 | - | 30.0 | 60.0 |
| Power Cost Equalization Endowment | 960.4 | 10.1 | 94.6 | 875.9 | 875.9 | 49.0 | 49.8 | 875.1 |
| | | | | | | | | |
| Unrestricted General Fund Appropriations | | | | 7,662.0 | | | | 7,257.8 |
| Reserves Ratio (Undesignated Reserves / Pre-Transfer Budget) | | | | 32% | | | | 32% |
| Pre-Transfer Deficit | | | | (422.5) | | | | (322.5) |
| Years of Deficit Coverage (Undesignated Reserves / Pre-Transfer Deficit) | | | | 5.86 | | | | 7.30 |
| **Permanent Fund *** | | | | | | | | |
| **Permanent Fund Principal - Realized (no appropriations allowed)** | 51,686.3 | 4,753.0 | 0.0 | **56,438.9** | 56,438.9 | 1,919.9 | 0.0 | **58,358.4** |
| **Permanent Fund Earnings Reserve Account - Realized** | 13,815.0 | 4,575.1 | 7,568.6 | **10,821.5** | 10,821.5 | 5,103.0 | 4,968.1 | **10,956.4** |
| **Permanent Fund -- Unrealized Gain (Loss)** | 11,034.9 | 452.0 | 0.0 | **11,486.9** | 11,486.9 | 116.0 | 0.0 | **11,602.9** |
| | | | | | | | | |
| **TOTAL PERMANENT FUND** | 76,536.2 | 9,780.1 | 7,568.6 | **78,747.3** | 78,747.3 | 7,138.9 | 4,968.1 | **80,917.7** |

**Alaska Permanent Fund Corporation (APFC) projection for FY23 as of November 30, 2022. Includes LFD adjustments.*

*January 13, 2023*

## Executive Summary

As required by law, the Governor released his FY24 budget proposal to the public and the legislature on December 15, 2022. The Legislative Finance Division prepared this Overview of the Governor's Budget and "Subcommittee Books" for each agency in accordance with AS 24.20.211-.231.

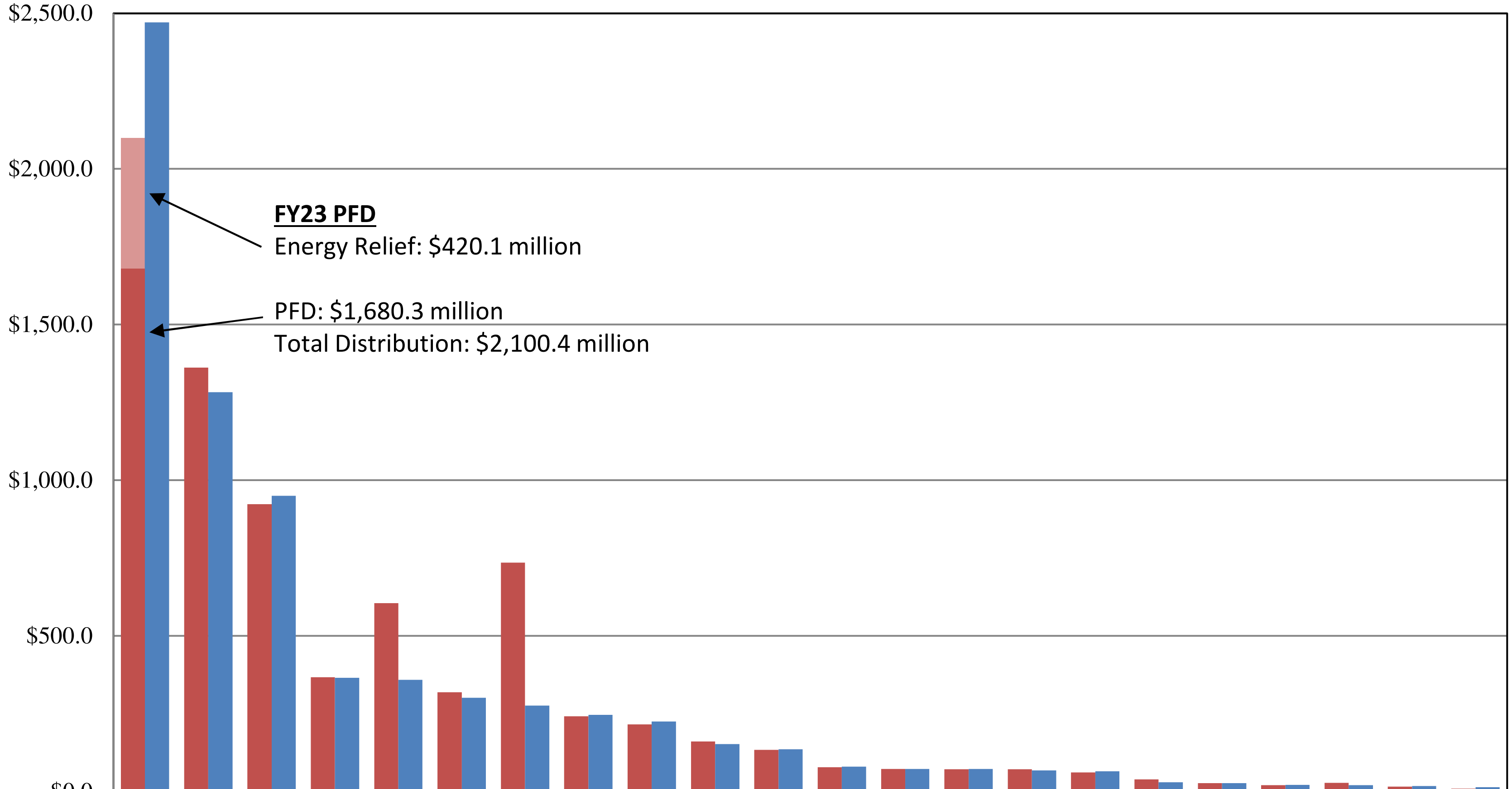
The Overview provides a starting point for legislative consideration of the Governor's proposed budget and revenue plan. It does not necessarily discuss the merits of budget plans, but more focuses on outlining the fiscal situation and presenting the budget in a way that provides simple, clear information to the legislature.

The first chapters in this publication primarily refer to Unrestricted General Funds (UGF). These are the state revenues with no constitutional or statutory restrictions on their use. The statewide fiscal surplus or deficit is calculated using this fund source group. Later in the publication, individual agency narratives account for significant changes in all fund sources. The first chapters also primarily use figures in the millions of dollars, with the decimal indicating hundreds of thousands, while agency narratives generally use figures in the thousands of dollars, with the decimal indicating hundreds.

Despite a spike in oil prices in the first half of 2022, the long-term fiscal situation is much the same as it has been for a decade: there is a gap between the statutory spending and revenue structures at expected oil prices. After years of budget cuts and PFD payments far below the statutory amounts, the 2022 legislature increased spending substantially and paid the highest nominal PFD in State history (the second highest when adjusted for inflation, after 2008). Heading into FY24, oil prices have declined, and the Governor once again submitted a budget that relies on the use of savings.

The Governor's FY24 budget balances at $86 per barrel, compared to DOR's forecast price of $81 per barrel. At the forecast price, this leaves a deficit of $322.5 million, which the Governor proposes to fill from a combination of several sources, including the Constitutional Budget Reserve.

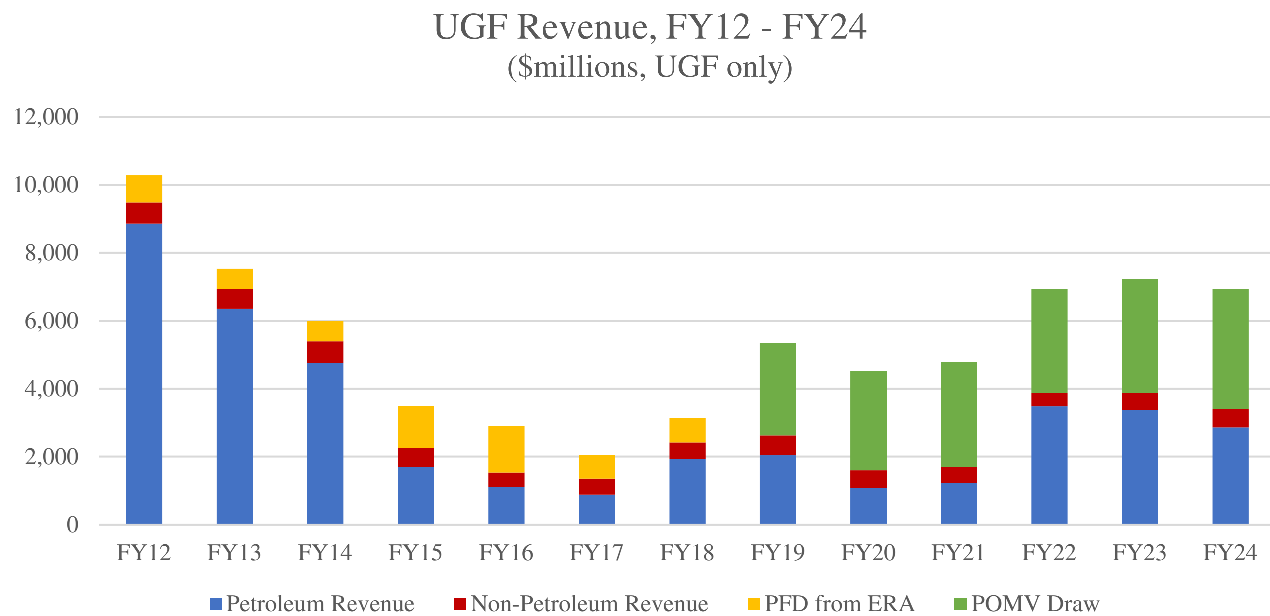
# Swoop Graph - UGF Only
## FY24 Governor's Budget Compared to FY23 Management Plan
## (Millions)



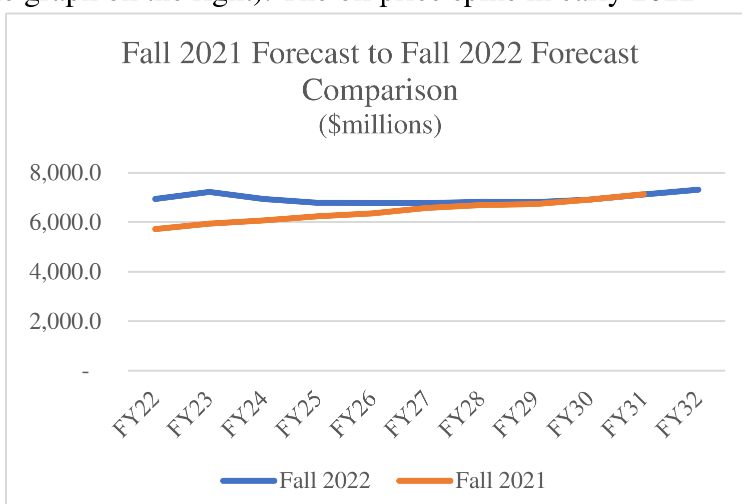

| | PFD/Energy Relief | Education | Health | DOC | Statewide Items | UA | Capital | DFCS | DPS | DOTPF | Jud | DOA | Leg | DNR | Law | DFG | Gov | DOR | DEC | DLWD | DMVA | DCCED |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY23 Mgmt Plan | 2,100.4 | 1,361.5 | 922.7 | 367.0 | 605.8 | 318.7 | 735.1 | 242.0 | 216.1 | 160.7 | 134.5 | 78.5 | 73.0 | 71.8 | 72.2 | 61.4 | 39.1 | 27.2 | 20.7 | 27.7 | 15.9 | 10.0 |
| FY24 Gov | 2,470.9 | 1,283.1 | 950.0 | 365.3 | 359.0 | 301.4 | 276.4 | 246.2 | 225.3 | 152.4 | 136.2 | 80.4 | 72.7 | 72.7 | 68.3 | 65.1 | 29.6 | 27.7 | 21.5 | 21.0 | 18.0 | 14.5 |
| | | | | | | | | | | | | | | | | | | | | | | |
| Cum. Budget From Right | 7,258 | 4,787 | 3,504 | 2,554 | 2,189 | 1,829 | 1,528 | 1,252 | 1,005 | 780 | 628 | 492 | 411 | 338 | 266 | 197 | 132 | 103 | 75 | 53 | 33 | 15 |
| % of FY24 Gov | 34.0% | 17.7% | 13.1% | 5.0% | 4.9% | 4.2% | 3.8% | 3.4% | 3.1% | 2.1% | 1.9% | 1.1% | 1.0% | 1.0% | 0.9% | 0.9% | 0.4% | 0.4% | 0.3% | 0.3% | 0.2% | 0.2% |

## Alaska's Overall Fiscal Situation

Alaska's general fund is still heavily reliant on oil revenue. In Fiscal Year 2024 (FY24), the Department of Revenue projects that petroleum will account for 41% of Alaska's UGF revenue. Within the last five years, that figure has fluctuated from 24% in FY20 to 50% in FY22. As always, oil prices remain volatile and Alaska's fiscal fortunes appear to change rapidly from year to year, or even month to month.




Zooming out, though, the State's long-term fiscal outlook today is remarkably similar to the picture a year ago, despite the oil price roller coaster in between. Comparing DOR's Fall 2021 and Fall 2022 forecasts, the two converge over time (see the graph on the right). The oil price spike in early 2022 appears to have been temporary, and the fiscal situation remains as it was a year ago: improved from the FY15-21 period, but not improved enough to eliminate the structural budget deficit the State has faced since FY14.




Though the specific steps the legislature might take to ensure the fiscal stability are contentious policy choices, the Legislative Finance Division has historically encouraged the legislature approach the fiscal situation with these two goals in mind:

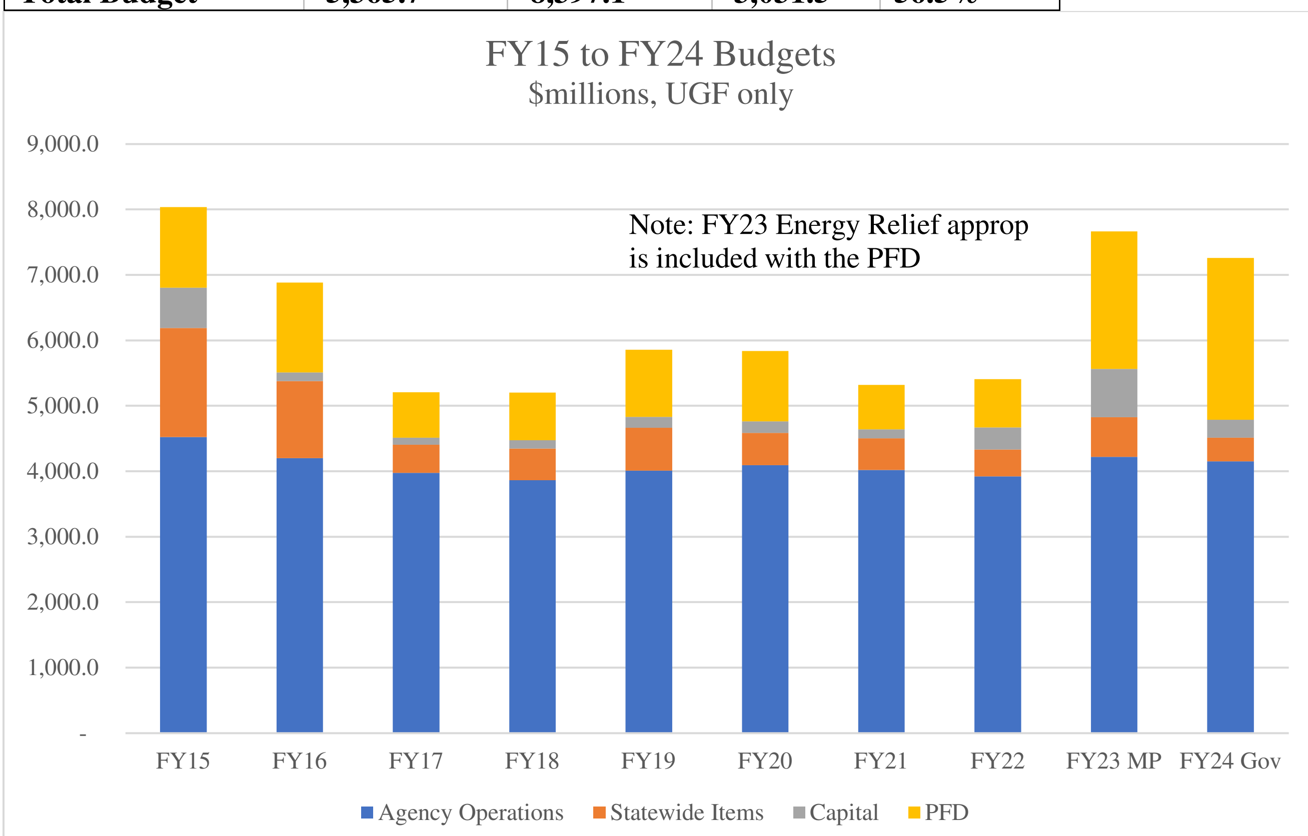
1. In the short term, look at how the budget performs over a wide range of oil prices and ensure that it can pay the bills no matter how oil may change over the course of the year.

2. Over the long term, ensure that the State's fiscal structure is balanced at a moderate oil price so that surpluses can be saved, and deficits can be filled using those savings.

## The End of Alaska's Austerity Era?

During the 2022 legislative session, the upward spike in expected revenue led to a spike in spending. Comparing UGF spending from the 2021 session to the 2022 session (not by fiscal year, since many expenditures were placed in the supplemental FY22 budget), UGF spending increased by 56.5%. Excluding statewide and capital appropriations and just focusing on agency operations, the growth rate was still 7.5%.

| **Comparison of 2021 Session to 2022 Session** (regular appropriations plus supplementals) | | | | |
|---|---|---|---|---|
| | **2021 Session** | **2022 Session** | **$ Change** | **% Change** |
| Agency Operations | 3,914.9 | 4,207.6 | 292.7 | 7.5% |
| Statewide Items | 453.1 | 1,117.5 | 664.3 | 146.6% |
| Capital Budget | 258.6 | 971.7 | 713.1 | 275.8% |
| **Pre-PFD Total** | **4,626.7** | **6,296.8** | **1,670.1** | **36.1%** |
| | | | | |
| PFD/Energy Relief | 739.0 | 2,100.4 | 1,361.3 | 184.2% |
| **Total Budget** | **5,365.7** | **8,397.1** | **3,031.5** | **56.5%** |




This 56.5% growth was partly driven by one-time spending to make up for past budget reductions. Major one-time items include:

- $220.8 million to pay past unfunded School Bond Debt Reimbursement from FY17-21
- $84.0 million to repay past unfunded Regional Educational Attendance Area (REAA) Fund deposits from FY17-21
- $199.0 million to the Permanent Fund Corpus to satisfy an audit finding relating to FY17-18 royalty appropriations
- $38.9 million in FY22 to bring the Community Assistance Fund balance back to the statutory target of $90.0 million
- An additional $60 million beyond the statutory appropriation for oil and gas tax credits in an effort to purchase the remaining outstanding credits

These items, totaling $602.7 million, contribute to the ballooning Statewide Items figure above, but the growth rates would still be unsustainable without them: even excluding these items, the pre-PFD budget would have still increased by 23.1%.

The significantly larger capital budget can be partially explained by the federal Infrastructure Investment and Jobs Act (IIJA), but also by much more funding for legislative priorities. IIJA expanded several programs that require state matching funds, particularly the Department of Transportation's Surface Transportation and Airport Improvement programs. In total, matching funds increased by about $75.7 million between the 2021 and 2022 sessions, more than doubling. However, the bulk of the increased spending came from legislative priorities, including $200.0 million for the Port of Alaska, $175.3 million for the Port of Nome, $30.0 million for a Mat-Su Transportation Infrastructure package, and $37.5 million for School Major Maintenance. Going forward, the increased matching requirements will likely raise the baseline expected capital budget, even if funding for legislative priorities decreases when there is less available revenue.

| **Operating Budget Growth in FY23** | |
|---|---|
| K-12 One-Time Increase | 57.0 |
| University of Alaska One-Time Item | 29.8 |
| Labor One-Time Item | 7.4 |
| Salary Adjustments (including HB 226) | 63.1 |
| Medicaid Formula Increase | 22.0 |
| DPS Increases | 21.2 |
| Sweep-Related Fund Changes | 33.7 |
| All Other Changes Net | 53.4 |
| **Total Change, FY22 MP to FY23 Budget** | **287.6** |

The 7.5% increase in agency operations from session to session was driven by several factors, as can be seen in the table to the right. Some of these one-time items may not really be temporary in nature: after years without an increase to the Base Student Allocation, many advocates are calling for significant increases in education funding as the federal pandemic relief to school districts comes to an end. With high inflation in 2021 and 2022, salary adjustments will continue to be a significant item in future years, and many agencies face other inflationary pressures in lease costs, commodities, travel, and other core costs.

These cost pressures may continue to mount due to years of flat or declining budgets since the 2014 oil price crash. UGF agency operations remained virtually flat from FY17 to FY22, increasing by $41.2 million (1.1%) over that five-year span. Even the comparatively larger FY23 budget was $279.5 million (6.2%) *lower* than the FY15 agency operations budget, despite cumulative inflation of over 11% across that span.

# Alaska's Fiscal Situation in FY24 and the Governor's Budget Proposal

## Budget Baselines

To set perspective, the Legislative Finance Division has provided two budget baseline scenarios for FY24 which will then be used to compare to the Governor's FY24 proposal: one reflecting current policy based on the FY23 budget and the other reflecting current law.

Both baselines assume that agency operating budgets match the FY24 Adjusted Base (the FY23 budget with one-time spending removed and contractual obligations added). For agency operations, these baseline scenarios are $123.6 million lower than the FY23 Management Plan. This is primarily due to the reversal of numerous one-time items funded in the FY23 budget. On the other hand, new salary adjustments increase the budget by $31.4 million.

| **Agency Ops Changes from FY23 to FY24 Baseline** ($ millions) | |
|---|---|
| K-12 One Time Increase | (57.0) |
| University of Alaska One-Time Item | (29.8) |
| Labor One-Time Item | (7.4) |
| AMHS Backstop One-Time Item | (20.0) |
| Zero Out Carryforward | (13.7) |
| All Other One-Time Items | (29.6) |
| Salary Adjustments | 31.4 |
| All Other Changes Net | 0.7 |
| **Total Change from FY23 to FY24 Current Law Baseline** | **(123.6)** |

| **FY24 Current Policy and Current Law Scenarios** ($ millions) | | |
|---|---|---|
| **UGF Revenue** | **6,935.3** | **6,935.3** |
| | | |
| | **Current Policy** | **Current Law** |
| Agency Operations | 4,090.3 | 4,090.3 |
| Statewide Items | 389.0 | 389.0 |
| Capital Budget | 735.8 | 735.8 |
| **Budget before PFD** | **5,221.5** | **5,221.5** |
| | | |
| PFD | 2,183.1 | 2,470.9 |
| **Total Spending** | **7,404.6** | **7,692.4** |
| | | |
| **Surplus/(Deficit)** | **(469.3)** | **(756.2)** |

Both scenarios assume a capital budget equal to the FY23 capital budget. The FY23 budget fully funded all statewide items to their statutory level other than the PFD, so the statewide items also match in FY24.

The one difference between the scenarios is the PFD: the FY23 budget included a PFD equal to 50% of the Percent of Market Value (POMV) draw from the Permanent Fund (often called a "50/50" PFD), plus a $420.1 million "Energy Relief" payment. The Current Policy scenario assumes that this is repeated in FY24, for a total cost of about $2.2 billion. The Current Law scenario assumes a statutory PFD payment, estimated to cost about $2.5 billion.

There is a deficit under both scenarios, but it is larger under the Current Law scenario because of the PFD size.

## Governor's FY24 Budget Proposal

### Overall View

The Governor's UGF budget totals $7.3 billion in expenditures contrasted with $6.9 billion of revenue, leaving a deficit of $322.5 million. The Governor proposes to fill this deficit by utilizing an estimated $114.1 million left over from FY23 forward-funding of K-12, $10.6 million from American Rescue Plan Act (ARPA) revenue replacement, and the remainder from the Statutory Budget Reserve (estimated balance of $19.8. million) and the Constitutional Budget Reserve (CBR). Note that this deficit figure depends on the price of oil; see the sensitivity charts later in this publication for a more comprehensive view of potential deficit or surplus figures.

## Agency Operations

The Governor's FY24 budget is $54.8 million above LFD's baseline. This is a 1.3% increase, about half of the 2.5% inflation assumption.

| **Governor's FY24 Budget Compared to Baselines** ($ millions) | | | | | |
|---|---|---|---|---|---|
| | **Current Policy** | **Current Law** | **Governor** | **Gov to CP** | **Gov to CL** |
| Agency Operations | 4,090.3 | 4,090.3 | 4,151.5 | 54.8 | 54.8 |
| Statewide Items | 389.0 | 389.0 | 359.0 | (30.0) | (30.0) |
| Capital Budget | 735.8 | 735.8 | 276.4 | (459.4) | (459.4) |
| **Budget before PFD** | **5,221.5** | **5,221.5** | **4,786.9** | **(434.5)** | **(434.5)** |
| | | | | | |
| PFD | 2,183.1 | 2,470.9 | 2,470.9 | 287.8 | - |
| **Total Spending** | **7,404.6** | **7,692.4** | **7,257.8** | **(146.7)** | **(434.5)** |
| | | | | | |
| **Surplus/(Deficit)** | **(469.3)** | **(757.1)** | **(322.5)** | | |

The agency narratives section of this publication includes details on the Governor's proposed changes to agency budgets. Overall, the Governor's budget proposes relatively few major changes to agency budgets. The most significant change is a proposed increase to Medicaid of $20.7 million, for a combination of expected utilization and inflationary changes, as well as to expand postpartum coverage.

## Statewide Items

The Governor funds statewide items at their statutory levels with the exception of the Community Assistance program. AS 29.60.850(b) states that the legislature may appropriate $30 million to the fund annually. The Governor did not include this appropriation in his FY24 budget proposal. This will affect the distribution to communities in FY25, since the distribution is based on the ending balance the prior year.

One item of note is oil and gas tax credits. The legislature included the statutory appropriation in FY23 and a supplemental appropriation in FY22 to the Oil and Gas Tax Credit Fund, which is used to purchase certain tax credits from oil and gas producers. The combined amounts were projected to be enough to fully purchase the remaining credits (purchasable tax credits were largely phased out with the passage of legislation in 2016 and 2017). However, the drop in oil prices from the Spring 2022 Forecast to the Fall 2022 Forecast left a projected $42.7 million remaining after the FY23 appropriation because that appropriation was tied to a statutory formula that depends on tax collections. The Governor's budget includes an appropriation to purchase the remaining credits.

## Capital Budget

The Governor's FY24 capital budget request totals $276.4 million of UGF, down $458.7 million from the FY23 budget. Of note, it does not include any supplemental appropriations. The majority of the UGF in the Governor's capital budget is used for federal match: $171.3 million of the $276.4 million total is for this purpose. This is a $19 million increase from FY23 budget. For more details on the capital budget, see the Capital Budget Overview section of this publication.

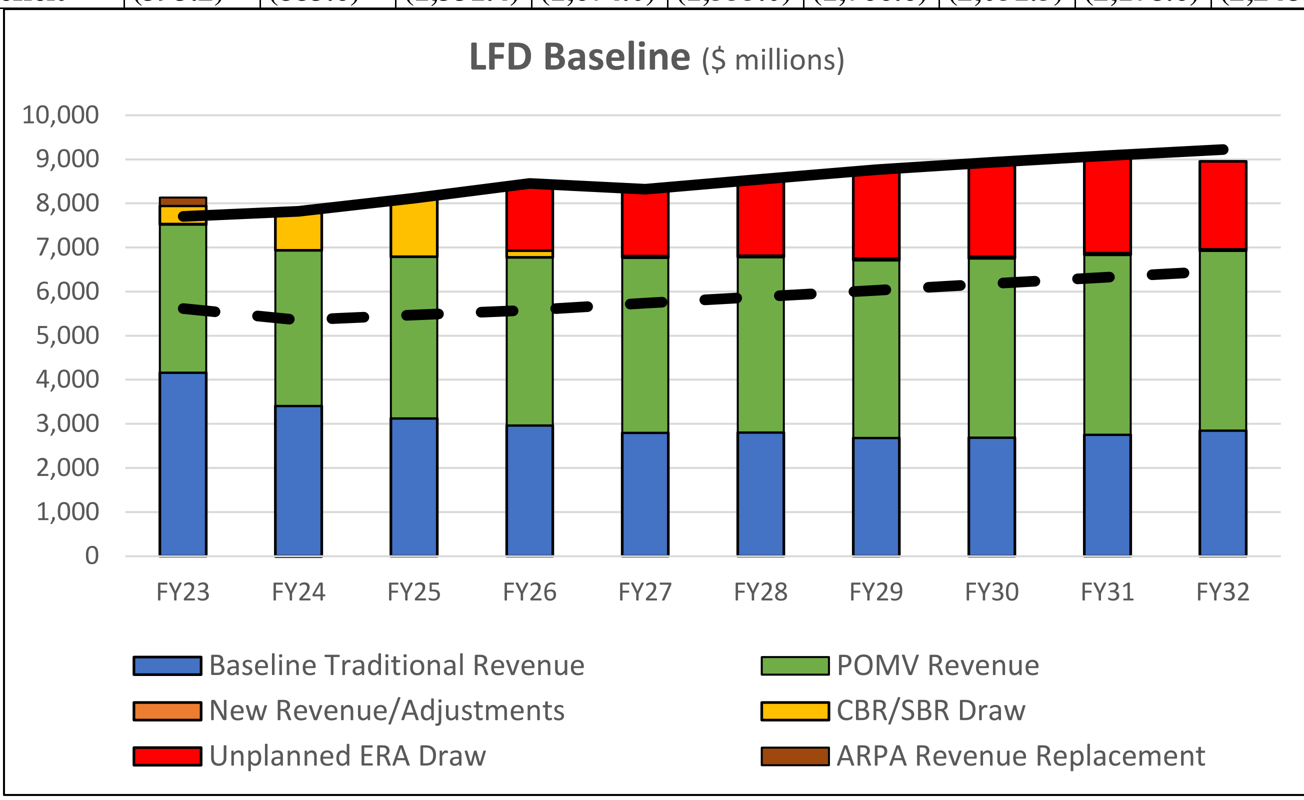
# Long-Term Outlook

## LFD Baseline Projections

For the long-term baseline scenario, the Legislative Finance Division's fiscal model uses a baseline scenario that grows the current budget with inflation – essentially, it reflects the FY24 Current Law budget scenario extended over the next decade. This allows policy proposals to stand out against a neutral baseline, which is the FY23 budget growing with inflation, with all statewide items funded to their statutory level. The baseline assumes 2.5% inflation for agency operations and assumes statewide items follow anticipated schedules (such as debt projections). All models in this section assume a statutory PFD payment.

Based on the LFD baseline with a statutory PFD, Alaska would face deficits ranging from under $400 million in FY24 to over $2.2 billion by the end of the decade.

| **LFD Baseline** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** | **FY32** |
| Revenue | 6,938.2 | 6,935.3 | 6,789.0 | 6,776.1 | 6,771.0 | 6,781.0 | 6,713.6 | 6,757.0 | 6,835.3 |
| Budget | 4,965.5 | 5,355.1 | 5,470.8 | 5,579.4 | 5,740.8 | 5,886.4 | 6,027.8 | 6,178.7 | 6,324.3 |
| PFD | 2,464.5 | 2,463.8 | 2,649.6 | 2,870.7 | 2,585.3 | 2,661.1 | 2,737.3 | 2,756.9 | 2,759.3 |
| **Pre-Transfer Deficit** | **(393.2)** | **(883.6)** | **(1,331.4)** | **(1,674.0)** | **(1,555.0)** | **(1,766.6)** | **(2,051.5)** | **(2,178.6)** | **(2,248.3)** |



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

The Governor's 10-Year Plan makes several budgetary policy changes compared to LFD's baseline and adds an annual target for unspecified new revenues. This analysis will consider the Governor's plan with and without the unspecified revenue increases.

The policy choices in the Governor's 10-Year Plan include:

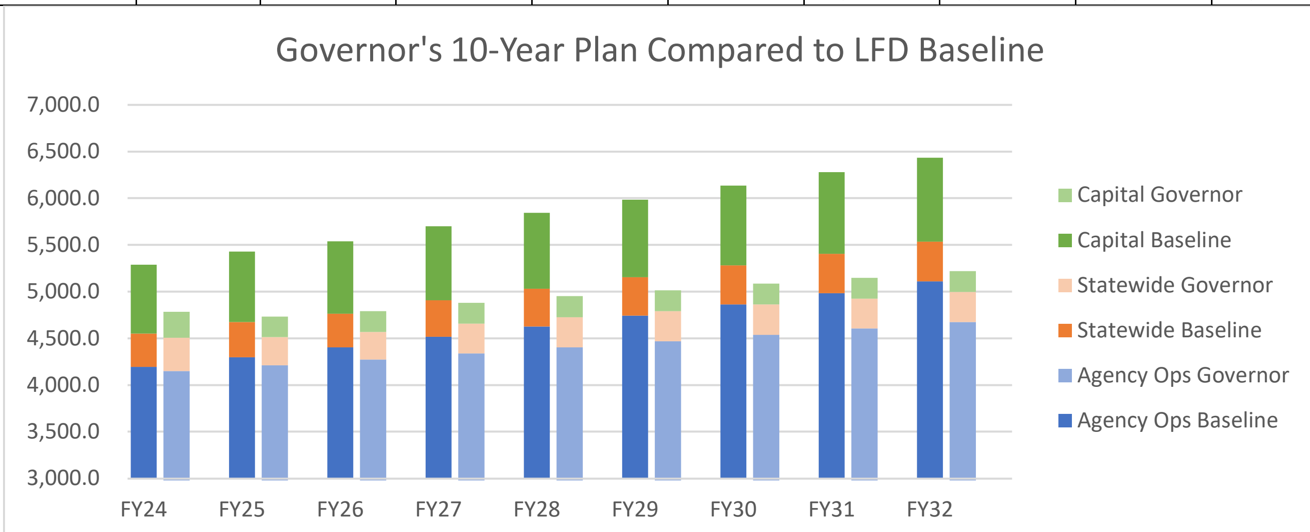
- Agency operations are held to 1.5% annual growth (compared to LFD's 2.5% inflation assumption);
- Does not fund Community Assistance with UGF (LFD's model assumes a mix of PCE [DGF] and UGF funding);
- PERS and TRS health care costs continue to be unfunded as they were in FY23 and FY24; and
- The Governor's capital budget drops from $276.4 million UGF in FY24 to $220.0 million in FY25 and then grows by 1.5% per year, while LFD assumes that the Governor's FY24 submission grows with inflation.

There are also two notable assumption differences between the 10-Year Plan and LFD's model that do not reflect policy choices:

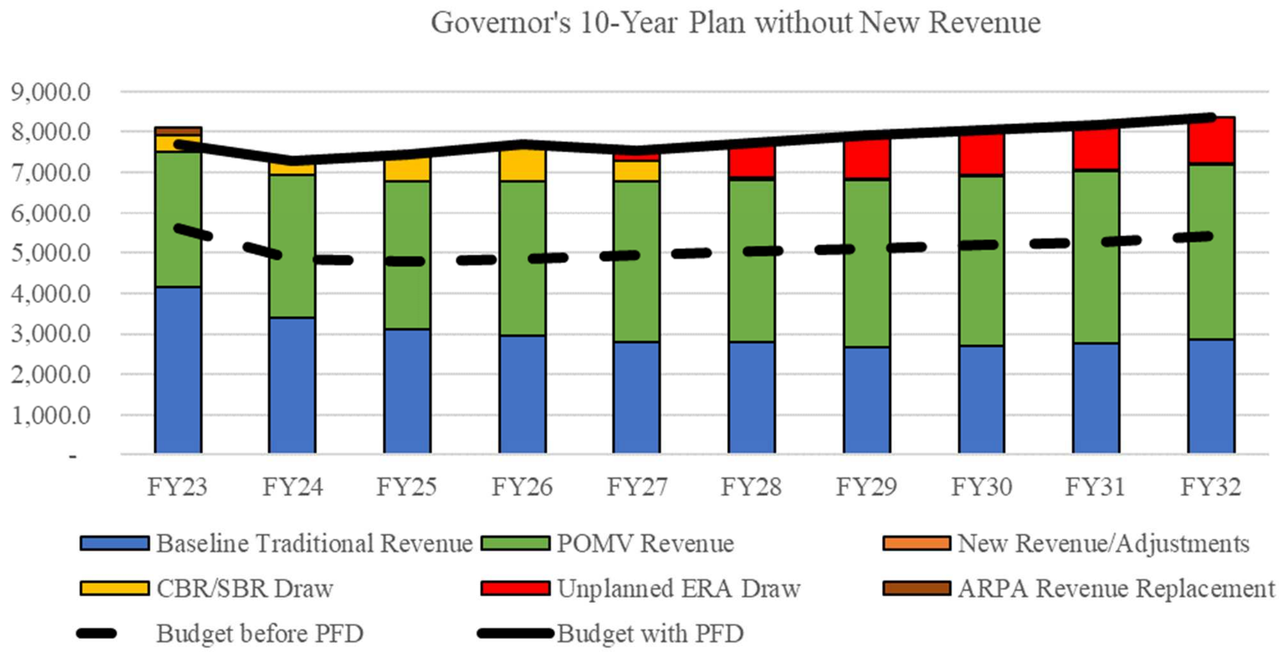
- LFD's modeling includes a placeholder for new school debt when the current moratorium expires as the end of 2025, which the Governor's plan does not; and
- The Governor assumes that supplementals and lapsing appropriations cancel out, while LFD assumes net supplementals of $50.0 million, based on historical averages.

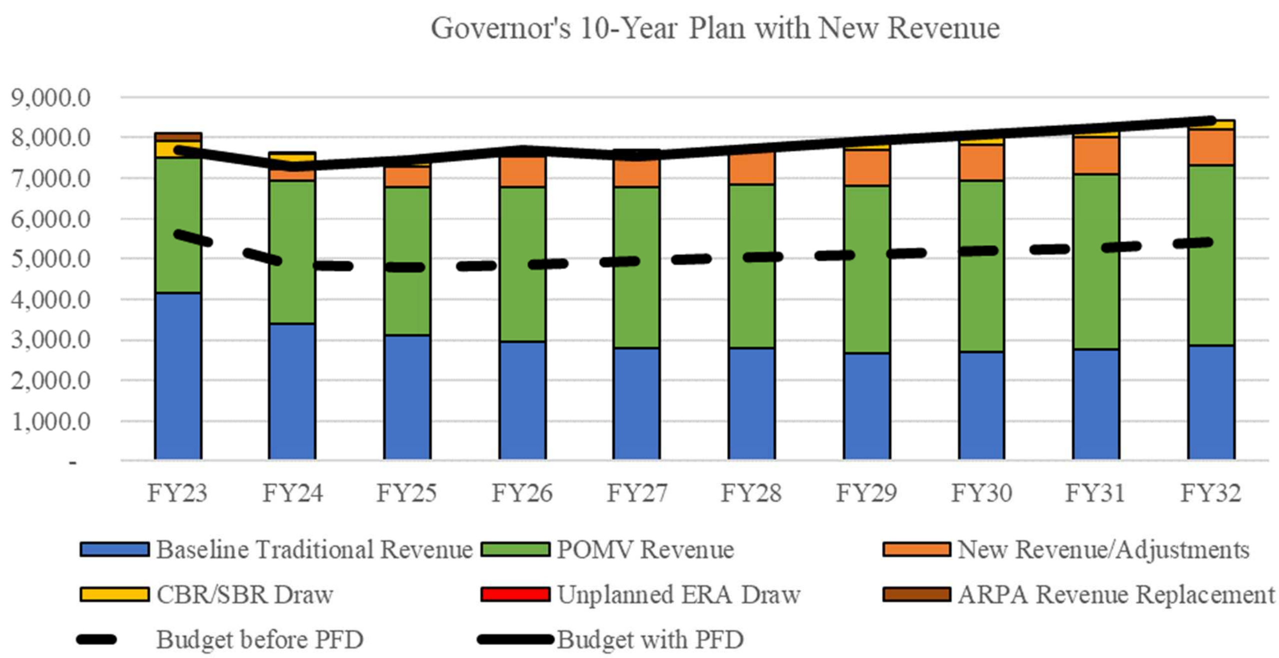
These policy choices reduce the growth rate of the budget compared to the baseline, so their impact grows rapidly over time; in the first year, the difference is largely due to the smaller capital budget.

| **Governor's 10-Year Plan Compared to LFD Baseline** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** | **FY32** |
| Baseline | 5,336.7 | 5,477.7 | 5,587.3 | 5,749.5 | 5,893.6 | 6,034.5 | 6,184.5 | 6,329.4 | 6,482.2 |
| Governor | 4,783.9 | 4,732.0 | 4,790.8 | 4,879.8 | 4,950.5 | 5,014.3 | 5,084.6 | 5,147.1 | 5,221.0 |
| **Difference** | **(552.8)** | **(745.7)** | **(796.5)** | **(869.7)** | **(943.1)** | **(1,020.2)** | **(1,099.8)** | **(1,182.3)** | **(1,261.2)** |



LFD's modeling of the policy choices in the Governor's 10-Year Plan closely matches the Governor's own figures. Both demonstrate that without further policy changes, there will be substantial deficits that will rapidly deplete the State's savings accounts (both the CBR and SBR would be empty in FY27), based on the Fall Revenue Forecast. The Governor's 10-Year Plan includes unspecified new revenue to fill these deficits, but those policy choices could be any combination of budgetary changes, revenue changes, and PFD amounts. See the next chapter for an overview of some new revenue options.



# Revenue Requirements of the State

AS 24.20.231(2) provides that the Legislative Finance Division analyze the revenue requirements of the State. As the above sections indicate, Alaska still faces a structural budget deficit, and increasing revenue is one option to close that deficit. The following section provides a brief analysis along with potential revenue sources and any issues therein.

## New Revenue Options

To introduce additional revenue, the State could increase existing taxes or impose new ones. Alaska is the only state without a statewide broad-based tax, so existing taxes are primarily resource-based taxes or excise taxes on certain consumer items such as motor fuels, alcohol, and tobacco. Increasing existing taxes may cause Alaska to have higher rates than other states, but increases could bring in revenue quickly with minimal administrative costs. New taxes would take longer to set up and would require additional administrative costs. However, significant revenue could be generated with new broad-based taxes.

In his budget release press conference, the Governor spoke about the potential of carbon credits. However, no legislation or details have been provided on this option, so LFD cannot analyze it. The only public revenue estimate that has been released was presented by the Department of Revenue in August 2021 to the Fiscal Policy Working Group. DOR's presentation included a very preliminary estimate of $1.3 to $20.0 million per year. The Governor mentioned significantly higher estimates in December 2022.

The following options are reflective of common practice in other states, and do not constitute a policy recommendation. Equity, economic impacts, efficiency, and other considerations are not presented here but should be addressed if the legislature chooses to explore revenue options.

## Modify Existing Taxes

### *Oil and Gas Production Tax*

Alaska's oil and gas production tax is projected to bring in $1,228.7 million in FY24. Oil prices are highly variable, and the production tax's complex structure adds further volatility. The tax features a two-tiered structure, with a net tax and an alternative gross tax "floor." Proposals aimed at only one component may not impact revenue at all price levels. For instance, DOR estimates that capping the per-taxable barrel credit at $5 would increase revenue by roughly $450 million at $80/barrel but would have no revenue impact at $40/barrel. Past proposals to increase this tax have included raising the tax "floor" from 4% of gross revenue to 5% or higher; eliminating the per-taxable barrel credit; or more complex changes proposed in Ballot Measure 1, which failed to pass in 2020.

The revenue impact of production tax changes is highly dependent on oil prices. At low oil prices, increasing the minimum tax would have a positive revenue impact but modifying the per-taxable barrel credit would have no impact. At higher prices, the reverse is true. The legislature should be mindful of this impact when assembling a fiscal plan to ensure that the plan can survive lower oil prices.

### *Corporate Income Tax*

The petroleum and non-petroleum corporate income taxes are projected to bring in a combined $445.0 million in FY24. Alaska's 9.4% top marginal rate is the sixth highest in the nation. Alaska is one of two states with a corporate income tax but no individual income tax (along with Florida), which results in C-Corporations paying taxes but S-Corporations not paying taxes (as their income flows through to the owners and personal income is not taxed). The Department of Revenue (DOR) estimates that taxing S-Corporations at the same rates as C-Corporations would raise $80 million in the first full year administered. Another potential change would be to decouple Alaska's tax code from the federal code, which would eliminate unanticipated shifts in revenue due to changes in federal tax law (such as provisions in the federal CARES Act which allowed taxpayers to carryback losses against past tax liabilities).

### *Other Resource Taxes*

Alaska's Mining License Tax is estimated to bring in $32.8 million in FY24. The Fisheries Business and Fishery Resource Landing taxes are estimated to bring in $26.6 million in UGF revenue and an additional $27.9 million that is shared with municipal governments. National comparisons for these taxes are difficult.

### *Excise Taxes*

Alaska imposes excise taxes on several consumer goods. The largest of these are:

- Tobacco taxes: Estimated FY24 revenue is $48.7 million, of which $33.2 million is UGF and $15.5 million is DGF. Alaska's cigarette tax of $2 per pack ranks 19th nationwide. The tax on other tobacco products is 75% of the wholesale price, which ranks 8th nationwide.
- Alcoholic beverage tax: $43.0 million, split equally between UGF and DGF. Alaska's tax is designed to tax all alcoholic beverages equally on a per-drink basis. The $12.80 per gallon tax on liquor ranks 8th nationwide. The $2.50 per gallon tax on wine and $1.07 per gallon tax on beer are both second highest in the country.
- Motor fuel tax: $32.8 million, all DGF. Alaska's $0.08 per gallon tax on highway fuel ranks 50th nationwide. Tripling Alaska's tax to the national median of $0.24 would bring in an additional $66 million.
- Marijuana taxes: $33.0 million, of which $8.5 million is UGF and $24.5 million is DGF. Alaska taxes $50/ounce for flowers, $15/ounce for stems and leaves, and $25/ounce for immature flowers/buds. National comparisons are challenging because many states have a mix of per-ounce and excise taxes. Twenty-one states either have in place or are implementing permitting and taxation of recreational marijuana.

## New Taxes

### *Income Tax*

Income is taxed in 41 states (not including New Hampshire, which exclusively taxes dividends and interest). Of these, 32 have progressive income taxes, and the remaining nine have flat taxes. Alaska had an income tax from statehood until 1980, when it was repealed. At the time of its repeal, Alaska's income tax brackets ranged from 3% to 14.5% and brought in $117 million in FY79. Adjusted for inflation and population, that is the equivalent of about $600 million in 2020.

DOR estimates an individual income tax levied at 10% of federal income tax liability would generate $350 million in the first full year administered. Using federal income tax liability would be consistent with Alaska's existing corporate income tax. However, most other states levy individual income taxes based on federal AGI. LFD estimates an individual income tax based on 3% of AGI, with no exemptions or deductions, would generate $900 million in the first full year administered.

### *Sales Tax*

Statewide sales taxes exist in 45 states, while four states have no state or local sales tax. Alaska is the only state that has no statewide sales tax but allows for the collection of local sales taxes. Of the 45 states with a statewide sales tax, 37 have additional municipal sales taxes. In Alaska, sales taxes may be levied at the city or borough level. As of 2019, 107 of Alaska's 129 taxing municipalities imposed sales taxes, at rates ranging from 1.5% to 7.5%.

DOR estimates a broad-based 4% sales tax including all services and business to business exempting only prescription drugs, medical equipment, and business-to-business purchases to resale, would generate $1.28 billion in the first full year administered. DOR estimates that a 4% sales tax styled on Wyoming's sales and use tax would generate $600 million in the first full year administered. This tax would exempt groceries, prescription medicine, medical equipment, and some business-to-business sales and services.

### *Property Tax*

All 50 states have property taxes that are applied by either state or local governments. Alaska has a statewide property tax for oil and gas property, but other property is taxed only at the municipal level. Fifteen of Alaska's nineteen boroughs levy personal property taxes. Additionally, nine cities located outside of boroughs levy a property tax. Some boroughs rely very heavily on property tax revenue, and Alaska's average property tax burden ranks 21st nationwide despite not being universally applied.

Alaska could impose a statewide property tax that excludes oil and gas property. Implementing such a tax would be administratively challenging because property values would have to be determined in any area of the state that does not already have a property tax. Unlike most states, Alaska does not require that real estate sale prices be reported publicly to ensure accurate assessments, although some municipalities do.

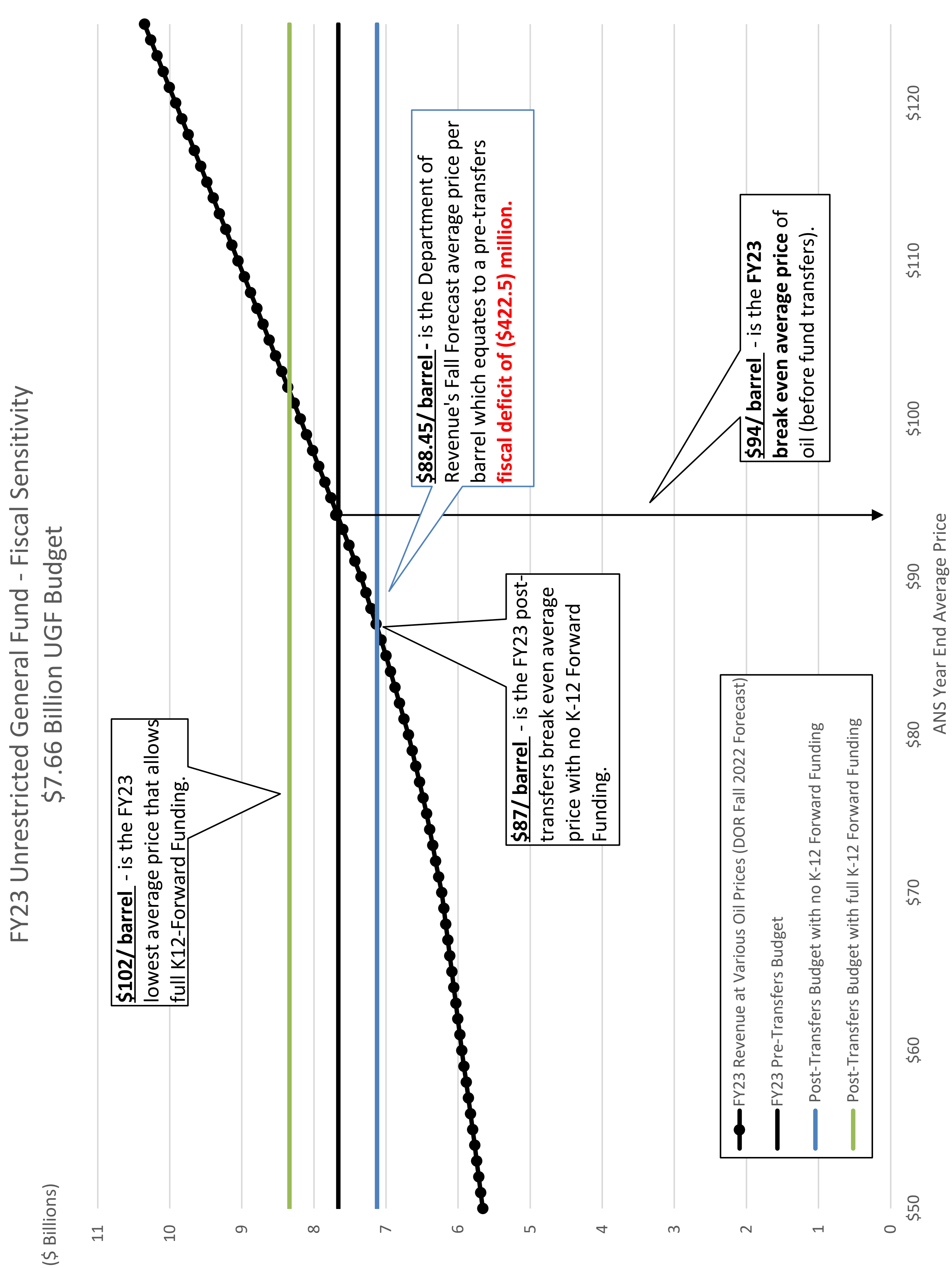
DOR estimates that a tax on all in-state property of 0.1% (10 mills) of assessed value would generate $117.5 million in the first full year administered.

### *Payroll Tax or Head Tax*

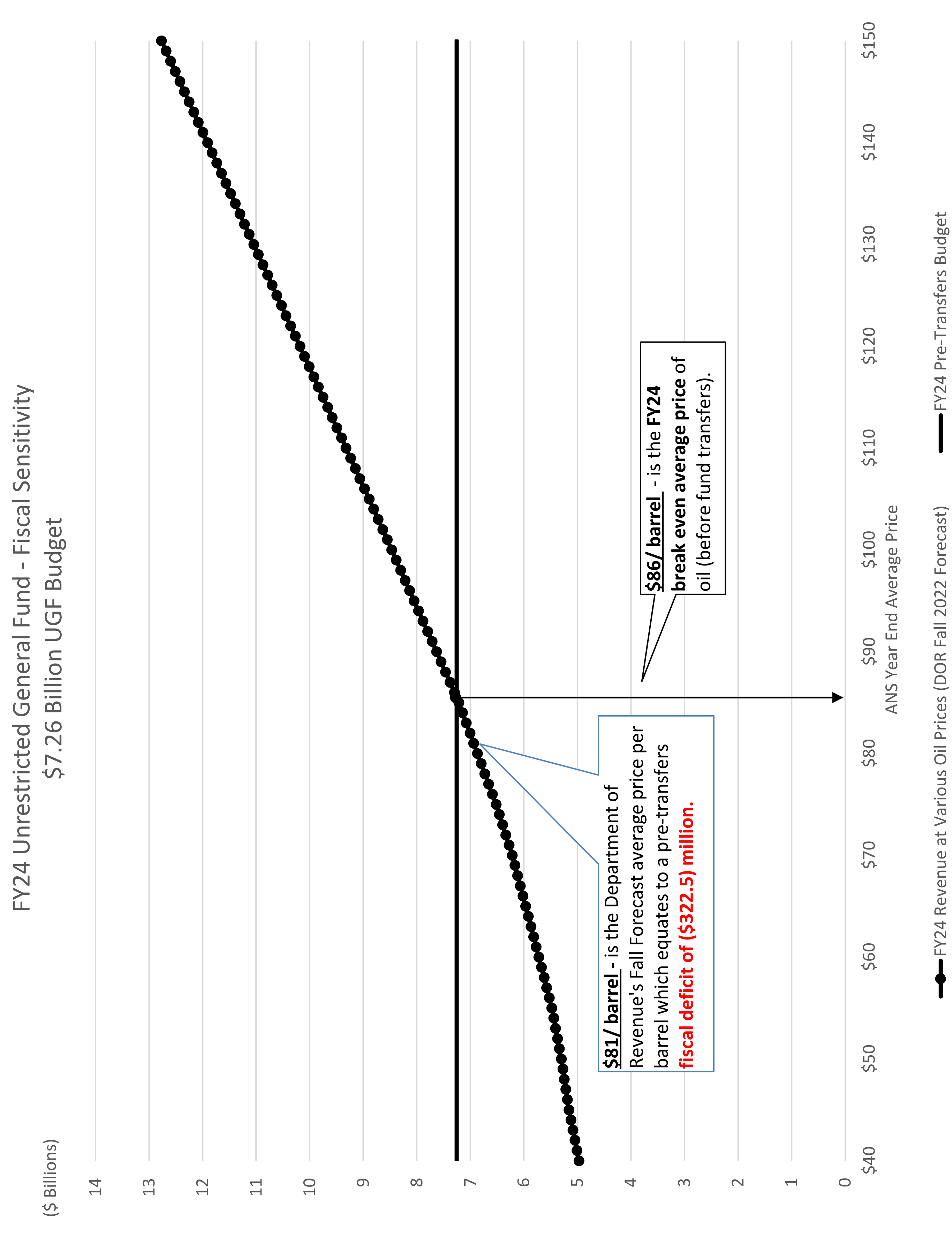
Alaska had a $10 per worker "head tax" to pay for a portion of the education budget until its repeal in 1980. Such taxes are a flat amount per person rather than a percentage of income. No other state currently imposes a head tax.

Several pieces of legislation have proposed graduated head taxes or other payroll taxes. Such taxes could build on the existing payroll tax administered for workers' compensation so they could be implemented with fewer additional resources. However, these taxes would have a narrower base than an income tax because they exclude dividend and investment income, so their revenue-raising potential is more limited.

DOR estimates a $30 payroll tax on all resident and nonresident workers in Alaska would generate $13.5 million in the first full year administered. DOR estimated the initial implementation cost to be $11 million, with an additional $0.8 million in annual administration costs.




*Note: Revenue projections are based on the average price for the entire fiscal year. ANS prices averaged $97.59 for July-November 2022. An FY23 average price of $50.00 would require December-June prices to average $16.01.*


FY24 Unrestricted General Fund - Fiscal Sensitivity
$7.26 Billion UGF Budget
($ Billions)
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
$40
$50
$60
$70
$80
$90
$100
$110
$120
$130
$140
$150
ANS Year End Average Price
$81/ barrel - is the Department of Revenue's Fall Forecast average price per barrel which equates to a pre-transfers fiscal deficit of ($322.5) million.
$86/ barrel - is the FY24 break even average price of oil (before fund transfers).
FY24 Revenue at Various Oil Prices (DOR Fall 2022 Forecast)
FY24 Pre-Transfers Budget

# Operating Budget

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