

UGF Short Fiscal Summary - FY24/FY25 Budget

(\$ Millions) (Unrestricted General Funds)		FY24 Budget	FY25 Governor	Change, FY24 to FY25
1	Revenue	6,526.4	6,308.4	(218.0)
2	UGF Revenue (DOR Fall 2023 Forecast)	2,959.5	2,651.2	(308.3)
3	POMV Draw	3,526.0	3,657.2	131.2
4	Misc/Adjust	40.9	-	(40.9)
5	Appropriations	6,127.2	7,285.4	1,158.3
6	Operating Budget	4,880.5	4,676.6	(203.9)
7	Agency Operations	4,411.1	4,311.6	(99.5)
8	Statewide Items	346.8	365.0	18.2
9	Energy Relief Payment*	110.6	-	(110.6)
10	Supplemental Appropriations	12.0	-	(12.0)
11	Capital Budget	365.2	305.2	(60.0)
12	Current Year Appropriations	360.2	305.2	(55.0)
13	Supplemental Appropriations	5.0	-	(5.0)
14	Permanent Fund	881.5	2,303.7	1,422.2
15	Permanent Fund Dividends	881.5	2,303.7	1,422.2
16	Pre-Transfer Surplus/(Deficit)	399.2	(977.0)	(1,376.2)
17	Constitutional Budget Reserve*	110.6	-	(110.6)
18	American Rescue Plan Act (ARPA)	(10.6)	-	(10.6)
19	Other Fund Transfers	23.8	5.3	(18.5)
20	Post-Transfer Surplus/(Deficit)	275.4	(982.3)	(1,257.7)
Reserve Balances (EOY)				
				FY24
				FY25
SBR				19.8
CBR				3,205.8
ERA				7,470.5
				7,220.3

*Revenues exceeding DOR's Spring 2023 forecast are split between the CBR and a deposit into the dividend fund. The dividend fund appropriation is capped at \$318.3 million and would be distributed as an energy relief payment in FY25.

January 9, 2024

State of Alaska Detailed Fiscal Summary - FY24 and FY25 (Part 1)

(\$ millions)

	FY24 Budget					FY25 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	\$	%
REVENUE												
1 Unrestricted General Fund Revenue (Fall 2023 Forecast) (1)	6,526.4	1,088.0	927.0	6,205.4	14,746.8	6,308.4	1,074.7	887.1	6,522.3	14,792.5	(218.0)	-3.3%
2 POMV Payout from ERA	2,959.5	-	-	-	2,959.5	2,651.2	-	-	-	2,651.2	(308.3)	-10.4%
3 Adjustments, Carryforward, Repeals, and Reappropriations (2)	3,526.0	55.0	40.0	605.0	740.8	3,657.2	-	-	-	3,657.2	131.2	3.7%
4 Restricted Revenue (3)	40.9	1,033.0	887.0	5,600.4	7,520.5	-	1,074.7	887.1	6,522.3	8,484.1	(40.9)	-100.0%
APPROPRIATIONS												
6 TOTAL OPERATING APPROPRIATIONS	4,880.5	897.3	855.2	4,056.7	10,689.7	4,676.6	887.0	804.6	3,531.3	9,899.5	(203.9)	-4.2%
7 Agency Operations	4,423.1	782.7	796.5	3,957.7	9,960.1	4,311.6	794.3	733.5	3,447.2	9,286.6	(111.5)	-2.5%
8 Current Fiscal Year Appropriations	4,411.1	782.7	796.5	3,955.0	9,945.3	4,311.6	794.3	733.5	3,447.2	9,286.6	(99.5)	-2.3%
9 Agency Operations (Non-Formula)	2,202.1	716.1	747.9	1,760.9	5,427.0	2,245.7	727.7	682.5	1,233.7	4,889.6	43.6	2.0%
10 K-12 Foundation and Pupil Transportation (Formula)	1,300.8	32.7	32.7	20.8	1,354.3	1,181.3	-	35.5	20.8	1,237.6	(119.5)	-9.2%
11 Medicaid Services (Formula)	700.0	0.4	15.5	2,002.3	2,718.2	703.9	0.4	15.5	2,080.7	2,800.5	3.9	0.6%
12 Other Formula Programs	208.2	66.1	-	170.2	444.5	180.6	66.1	-	112.1	358.9	(27.6)	-13.2%
13 Revised Programs Legislatively Approved (RPLs)	-	-	0.5	0.9	1.4	-	-	-	-	-	-	-
14 Duplicated Authorization (non-additive) (4)	-	-	903.9	-	903.9	-	-	-	-	892.3	-	-
15 Supplemental Appropriations (Agency Operations)	12.0	-	-	2.8	14.7	-	-	-	-	-	-	-
16 Supplemental Appropriations	12.0	-	-	2.8	14.7	-	-	-	-	-	-	-
Statewide Items	457.4	114.7	58.7	99.0	701.8	365.0	92.7	71.2	84.1	612.9	(92.4)	-20.2%
18 Current Fiscal Year Appropriations	457.4	114.7	58.7	99.0	701.8	365.0	92.7	71.2	84.1	612.9	(92.4)	-20.2%
19 Debt Service	147.5	13.5	21.3	4.8	187.2	138.1	13.1	37.6	4.9	193.7	(9.4)	-6.4%
20 Fund Capitalizations	59.0	15.1	0.3	49.4	123.9	40.6	53.0	0.3	79.2	173.1	(18.3)	-31.1%
21 Community Assistance	-	-	-	-	-	-	-	-	-	-	-	-
22 REAA School Fund	27.9	-	-	-	-	2.2	27.8	-	-	30.0	2.2	3.3%
23 Oil and Gas Tax Credit Fund	28.4	-	-	-	28.4	27.0	-	-	-	27.0	(1.4)	(0.9)
24 Other Fund Capitalization	2.7	15.1	0.3	49.4	67.6	11.5	25.2	-	79.2	116.1	8.7	320.5%
25 State Payments to Retirement Systems	140.3	-	-	-	140.3	186.3	-	-	-	186.3	46.0	32.8%
26 Energy Relief Payment (5)	110.6	-	-	-	110.6	-	-	-	-	-	-	-
27 Shared Taxes	-	32.5	37.1	-	69.6	-	26.6	33.2	-	59.8	(110.6)	-100.0%
28 Alaska Comprehensive Insurance Program	-	53.5	-	44.7	98.2	-	-	-	-	-	-	-
29 Duplicated Authorization (non-additive) (4)	-	-	13.1	-	13.1	-	-	10.0	-	10.0	-	-
30 Supplemental Appropriations (Statewide Items)	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CAPITAL APPROPRIATIONS	365.2	73.5	71.5	2,138.1	2,648.3	305.2	76.2	82.3	2,991.0	3,454.6	(60.0)	-16.4%
32 Current Fiscal Year Appropriations	365.2	73.5	71.5	2,138.1	2,648.3	305.2	76.2	82.3	2,991.0	3,454.6	(60.0)	-16.4%
33 Project Appropriations	360.2	73.5	71.5	2,138.1	2,643.3	305.2	76.2	82.3	2,991.0	3,454.6	(55.0)	-15.3%
34 Duplicated Authorization (non-additive) (4)	-	-	118.9	-	118.9	-	-	90.2	-	90.2	-	-
35 Supplemental Appropriations (Capital)	5.0	-	-	-	5.0	-	-	-	-	-	-	-
36 Capital Projects	5.0	-	-	-	5.0	-	-	-	-	-	-	-
37 Money on the Street (includes all fund sources) (6)	365.2	73.5	190.4	2,138.1	2,767.2	305.2	76.2	172.4	2,991.0	3,544.8	-	-
Pre-Permanent Fund Authorization (unduplicated)	5,245.7	970.9	926.8	6,194.8	13,338.1	4,981.7	963.2	886.9	6,522.3	13,354.1	(263.9)	-5.0%
39 Revenue less operating and capital appropriations	1,280.7	-	-	-	-	1,326.7	-	-	-	-	-	-
Permanent Fund Appropriations	881.5	76.4	-	-	957.9	2,303.7	82.0	-	-	2,385.7	1,422.2	161%
41 Permanent Fund Dividends (5)	881.5	-	-	-	881.5	2,303.7	-	-	-	2,303.7	1,422.2	161.3%
42 Non-Mandatory Royalty Deposit to Principal	-	76.4	-	-	76.4	-	82.0	-	-	82.0	55.0	3.9%
43 Transfer to Principal from Earnings Reserve Account	1,413.0	-	-	-	1,413.0	1,468.0	-	-	-	1,468.0	(55.0)	-3.9%
44 Transfer from Earnings Reserve Account to Principal	(1,413.0)	-	-	-	(1,413.0)	(1,468.0)	-	-	-	(1,468.0)	-	-
Pre-Transfers Authorization (unduplicated)	6,127.2	1,047.3	926.8	6,194.8	14,296.0	7,285.4	1,045.2	886.9	6,522.3	15,739.8	1,158.3	18.9%
46 Pre-Transfer Surplus (Deficit) (7)	399.2	Revenue =	106.5%	of Appropriations	Revenue =	(977.0)	Revenue =	86.6%	of Appropriations	-	-	-

Overview

Notes:

January 9, 2024

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Projected Fund Balances - FY24 and FY25 (Part 2)							
(\$ millions)							
	FY24			FY25			
	BoY Balance	In	Out/ (Deposit)	EoY Balance	BoY Balance	In	Out/ (Deposit)
Total Budget Reserves and Designated Funds	4,140.1	222.0	(254.4)	4,616.5	4,616.5	255.5	1,130.6
Undesignated Reserves							
Total Excluding Permanent Fund	2,745.9	94.9	(386.0)	3,226.8	3,226.8	108.2	982.3
Constitutional Budget Reserve Fund	2,745.9	94.9	(386.0)	3,226.8	3,226.8	108.2	982.3
Statutory Budget Reserve Fund	2,724.9	94.9	(386.0)	3,205.8	3,205.8	108.2	962.5
Alaska Housing Capital Corporation Fund	19.8	-	-	19.8	19.8	-	19.8
	1.1	-	-	1.1	1.1	-	-
Select Designated Funds							
Total Excluding Permanent Fund	1,394.2	127.1	131.6	1,389.7	1,389.7	147.4	148.3
Alaska Capital Income Fund*	1,394.2	127.1	131.6	1,389.7	1,389.7	147.4	148.3
Alaska Higher Education Investment Fund	(16.0)	39.0	29.3	(6.3)	(6.3)	28.2	28.2
Community Assistance Fund	380.4	24.4	23.6	381.2	381.2	24.4	23.6
Power Cost Equalization Endowment	90.0	-	30.0	60.0	60.0	30.0	20.0
	939.8	63.7	48.7	954.8	954.8	64.8	76.5
Unrestricted General Fund Appropriations							
Reserves Ratio (Undesignated Reserves / Pre-Transfer Budget)				6,127.2			
Pre-Transfer Deficit				53%			
Years of Deficit Coverage (Undesignated Reserves / Pre-Transfer Deficit)				399.2			
Permanent Fund **				n/a			
Permanent Fund Principal - Realized (no appropriations allowed)	56,420.2	1,901.3	0.0	58,321.5	58,321.5	1,906.0	0.0
Permanent Fund Earnings Reserve Account - Realized	8,766.3	3,666.3	4,962.1	7,470.5	7,470.5	4,904.0	5,154.2
Permanent Fund -- Unrealized Gain (Loss)	12,825.3	319.0	0.0	13,144.3	13,144.3	426.0	0.0
TOTAL PERMANENT FUND	78,011.8	5,886.6	4,962.1	78,936.3	78,936.3	7,236.0	5,154.2
							81,018.1

*The FY24 Enacted Budget appropriates the amount necessary to bring the Alaska Capital Income Fund balance to zero at the start of the year.

**Alaska Permanent Fund Corporation (APFC) unaudited history and projections as of November 30, 2023. Includes LFD adjustments.

January 9, 2024

Executive Summary

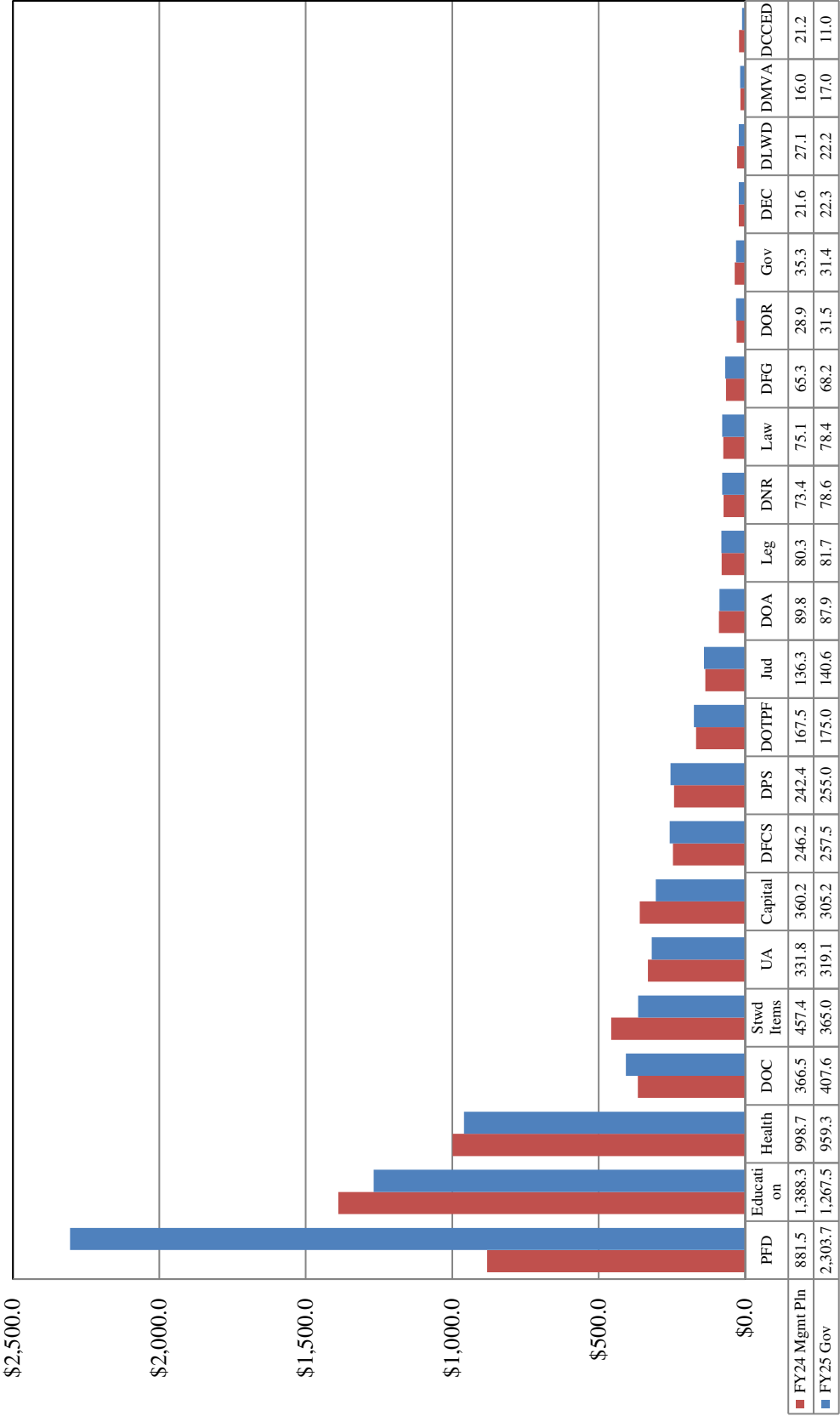
As required by law, the Governor released his FY25 budget proposal to the public and the legislature on December 14, 2023. The Legislative Finance Division prepared this Overview of the Governor's Budget and "Subcommittee Books" for each agency in accordance with AS 24.20.211-.231.

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 focuses on outlining the fiscal situation and presenting the budget in a way that provides objective 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.

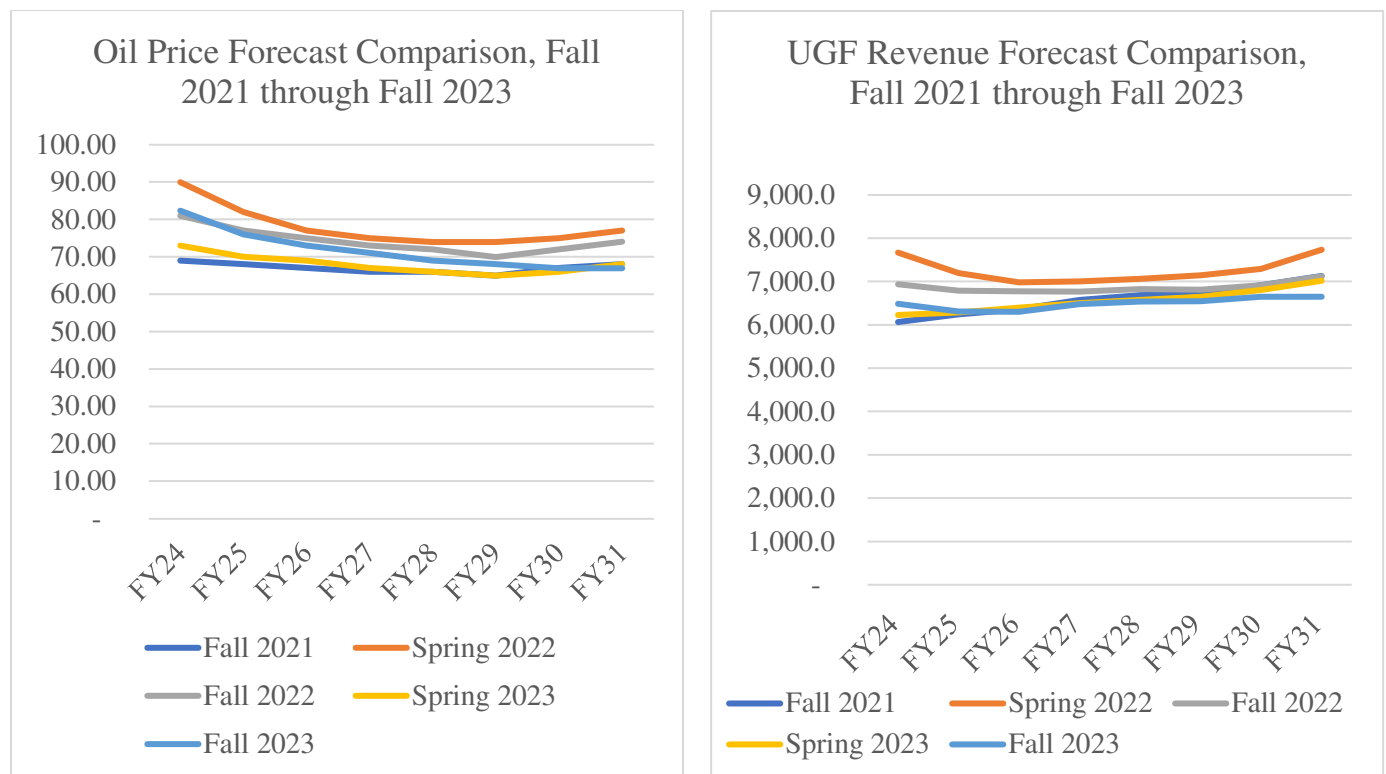
Despite oil price and investment market volatility, the State's long-term fiscal situation is much the same as it has been for a decade: there is a gap between the statutory spending and revenue structures at expected oil prices and financial market projections. The Enacted budget in FY24 left a surplus of several hundred million dollars, but the Governor's FY25 budget relies on nearly a billion-dollar draw from savings.

Swoop Graph - UGF Only
FY25 Governor's Budget Compared to FY24 Management Plan
(\$Millions)



Alaska's Overall Fiscal Situation

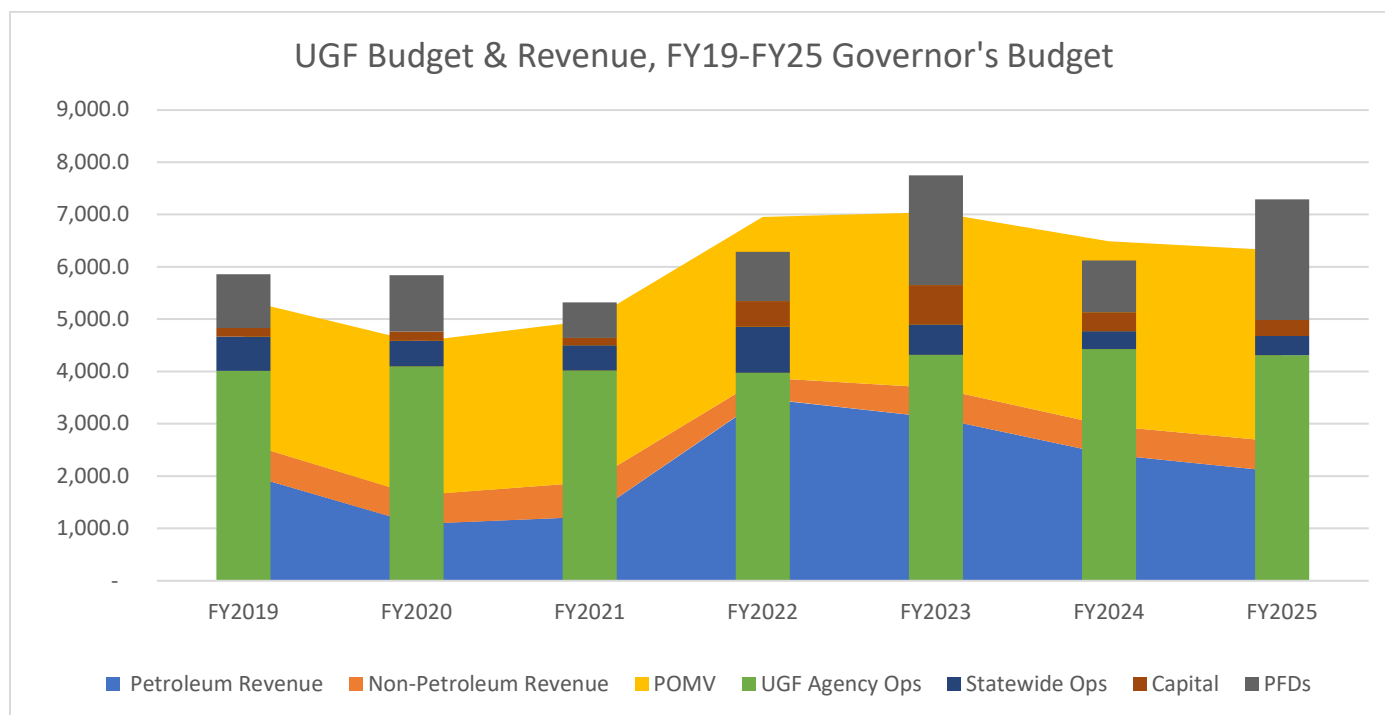
Alaska's general fund is still heavily reliant on oil revenue; though it is no longer the *largest* source of UGF revenue, it is the most volatile. In Fiscal Year 2025 (FY25), the Department of Revenue (DOR) projects that petroleum will account for 33 percent of Alaska's UGF revenue. As always, oil prices remain unpredictable, and Alaska's fiscal health appears to change as rapidly as oil prices fluctuate. Despite this short-term volatility, the long-term fiscal situation has not changed significantly; the past five revenue forecasts have shown a narrow band of prices, with \$10 or less separating the high and low forecasts for FY27 and beyond. As would be expected, the Unrestricted General Fund (UGF) revenue forecasts have also presented in a narrow band: just \$523 million separates the lowest and highest forecasts for FY27 and FY28.



Despite a relatively stable revenue forecast in the past several years, the State's fiscal situation is unsettled. Alaska still has a structural budget deficit: if all spending statutes are followed, the State would have a substantial budget deficit at expected long-term revenue. This has led to a widespread perception that Alaska is in the midst of an ongoing fiscal crisis.

Since SB 26 authorized the Percent of Market Value (POMV) transfer from the Permanent Fund to the general fund beginning in FY19, the State's fiscal stability has increased substantially. The FY19, 20, 21 and 23 budgets had deficits, the FY22 and 24 budgets had surpluses. The Constitutional Budget Reserve (CBR) and Statutory Budget Reserve (SBR), the State's main reserve funds, had a combined balance of about \$2.75 billion at the start of FY19 and is estimated to have a balance of about \$2.74 billion at the end of FY23.

The difference between the structural deficit and the actual history of relatively balanced budgets is that expenditure statutes are not required to be followed in the appropriations process; most notably, the legislature has not adhered to the Permanent Fund Dividend (PFD) statute since FY16. PFD payments and capital budgets have fluctuated with available revenue. This ad-hoc fiscal policy has stabilized the State's reserve funds, but leaves uncertainty from year to year. A durable solution to the structural deficit would allow for more meaningful fiscal planning.



Fall 2023 Revenue Forecast Shows Shifting Alaska Oil Production Landscape

The DOR Fall 2023 Revenue Sources Book's topline revenue numbers are similar to past forecasts, but underneath the surface there are significant changes in Alaska's oil production. Oil prices for FY24 and FY25 are up significantly from the Spring 2023 forecast, but revenue increased less than a price sensitivity table would indicate. This is because oil production decreased overall, while tax-deductible lease expenditures and transportation costs increased.

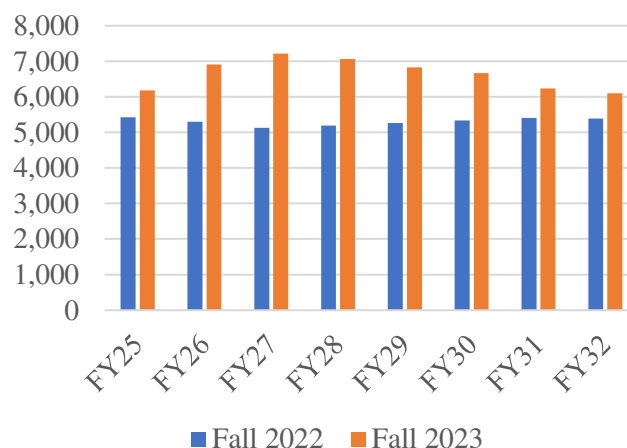
The most visible reason for this change is the progress of the Willow field, which was mired in lawsuits when the Spring forecast was produced but has since been given the green light to begin development. DOR employs a risking methodology for their forecast that reduces the impact of a potential project based on how likely it is to occur. While it is still not definite that production will occur, ConocoPhillips publicly announced a \$700 million development investment for FY24 that is very certain at this point. The result is an increase in lease expenditures in FY24 and beyond, and a projected increase in production starting in FY29. In the short term, this means less revenue for the State because those lease

expenditures reduce production taxes, but in the long term, increased production should increase revenue to the State.¹

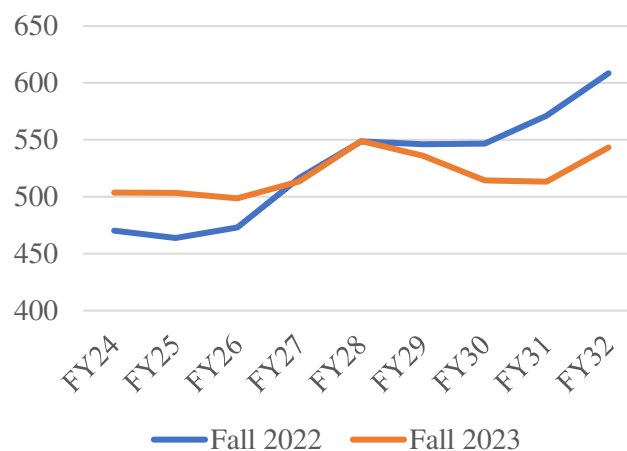
The forecast also shows significant production changes in several units: increases in the Prudhoe Bay and Kuparuk satellite fields, and decreases at the main Prudhoe Bay and Kuparuk fields, as well as Greater Mooses Tooth and Point Thomson. Production from different geographical areas impacts revenue differently because of land ownership (the State receives the most royalty revenue from production on State lands) and because new fields are eligible for a Gross Value Reduction (GVR) for their first three to seven years of production. The GVR reduces production taxes by excluding 20 percent or 30 percent of gross value from tax calculations (although it also limits the per-barrel tax credit to a maximum of \$5 instead of \$8 for non-GVR production). The Fall 2023 forecast shows lower production from non-GVR fields for most of the forecast window, but higher production from GVR-eligible fields in FY25 and beyond.

Altogether, the Fall 2023 revenue forecast marks a significant shift of production to new fields and away from legacy fields. The increase in the price forecast is largely cancelled out in the near term by the shift to GVR-eligible production, but it means that lawmakers may need to reframe their expectations as to what oil prices are needed to sustain State spending. For example, the FY24 Enacted budget had an estimated \$293.2 million surplus based on the Spring forecast. It also had a provision that split the first \$636.45 million of UGF revenue received above the Spring forecast 50/50 between an energy relief payment (to be paid with the FY25 PFD) and the CBR. At the time, LFD estimated that the energy relief payment would kick in above \$73 per barrel and max out (at about \$500 per person) at \$83 per barrel. With the updated revenue forecast, those trigger points have shifted to \$78 and \$90, respectively.

North Slope Lease Expenditure Forecast
Comparison, Fall 2022 to Fall 2023
(millions of dollars)



North Slope Production Forecast
Comparison, Fall 2022 to Fall 2023
(thousands of barrels per day)



¹ See the Department of Revenue's Willow Project Fiscal Analysis from April 2023 for more details about how this project could impact the State's finances: <https://tax.alaska.gov/programs/documentviewer/viewer.aspx?7321f>

Building the FY25 Budget

FY25 Adjusted Base

The FY25 budget represents a set of changes from the Adjusted Base, which the Legislative Finance Division establishes using the FY24 Enacted budget less one-time appropriations, plus current statewide policy decisions (such as salary adjustments) needed to maintain services at a status quo level.

The FY24 budget included \$165.9 million of one-time items that were backed out in the FY25 Adjusted Base. The largest of these was a one-time additional appropriation to schools for \$87.4 million, to be distributed according to the K-12 formula. Several other items (particularly in the Department of Education and Early Development) were requested by the Governor as permanent items in FY24 but were made one-time items by the legislature.

Salary adjustments in the FY25 Adjusted Base include PERS rate adjustments and health insurance adjustments for most State employees and Cost of Living Adjustments (COLAs) for members of six bargaining units. The COLAs are not automatic and must be approved by the legislature through the budget to take effect, but are in the Adjusted Base because they do not represent a service level change and cannot be taken individually.

The FY25 Adjusted Base includes \$97.0 million in total salary adjustments, of which \$44.5 million are funded with UGF. There are three bargaining units currently negotiating for FY25 that may be included in future Governor's amendments: the Supervisory Unit, the Alaska Correctional Officers Association, and the Labor, Trades and Crafts Unit. (Note that there are already salary adjustments in the budget for the Alaska Correctional Officers Association. That funding reflects a Letter of Agreement from FY24 that gave them a 2 percent increase that was not authorized in the FY24 budget.)

Item	Amount
Public Defender	(1,900.0)
Tourism Marketing	(2,500.0)
AGDC	(3,086.1)
ASMI	(5,000.0)
K-12 Foundation	(87,443.0)
Other Education Items	(17,258.8)
Child Care Benefits	(7,500.0)
Public Assistance	(9,569.9)
Statehood Defense	(5,000.0)
CDVSA	(3,000.0)
AMHS Backstop	(10,000.0)
Other Items	(13,064.3)
Total	(165,322.1)

Salary Adjustment Type	UGF
PERS/JRS Rates	11,036.0
Health Insurance	5,713.2
PSEA COLA 3%	2,548.4
ACOA COLA 2% (FY24)	2,351.5
GGU COLA 5%	16,157.3
CEA COLA 5%	184.4
AVTECA COLA 2.5%	30.8
TEAME COLA 2%	3.8
UA 2.5%	6,130.6
Misc. Adjustments	325.0
Total	44,481.0

Formula	UGF	All Funds
K-12 Foundation	(30,090.3)	(27,242.1)
K-12 Pupil Transportation	(1,973.8)	(1,973.8)
School Debt Reimbursement	(9,201.7)	(9,650.5)
Other Debt Service	(234.6)	15,769.4
State Contributions to Retirement	45,990.2	45,990.2
REAA Fund Capitalization	(919.0)	(919.0)
Total Adjusted Base		
Formula Adjustments	3,570.8	21,974.2

Additionally, changes to formula programs are also addressed in the Adjusted Base so that policy changes are more clearly distinguished from formula-driven changes in the Governor's Budget. For the K-12 Formula, while Basic Need is increased by \$0.8 million (a \$3.0 million increase due to Pre-K funding in the Alaska Reads Act and a \$2.2 million decrease due to the student count), the State's share

of funding is down by \$27.2 million because of increases to the required local contribution (\$12.2 million) and deductible federal impact aid (\$15.8 million). Retirement contributions are up due primarily to higher PERS and TRS past service costs based on June 30, 2022, valuations. School debt reimbursement continues to decline due to the ongoing (FY16 - FY26) moratorium on new debt.

Governor's FY25 Budget Proposal

The Governor's FY25 budget proposal appears to be a work in progress that will develop through the amendment process. The budget as presented contains no reductions and only a few significant increases, yet significant gaps exist where future increases are likely.

1. Education – in FY24, the legislature appropriated \$175.9 million outside the foundation formula for school districts, but the Governor vetoed that in half to \$87.4 million. The Governor did not put forward a proposal to increase the education formula or additional outside the formula funding, but some amount is likely to be approved, at least matching the amount from FY24. There is also a pending issue with the federal disparity test that could cause State costs to increase by \$89.1 million.
2. 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 the need for an additional \$22.6 million of UGF.
3. Senior Benefits – the Senior Benefits program will sunset on June 30, 2024 without legislative action. The Governor did not include funding for the program in his budget, deferring it to a fiscal note (which aligns with past legislative practice). However, this means that the final budget will likely be \$20.8 million higher in UGF with that reincorporated.
4. Alaska Energy Authority Electrical Grid Grant – the Alaska Energy Authority (AEA) received a \$206.5 million federal grant to upgrade the Alaska Railbelt electrical grid, but it requires equal matching funds. The funds may be spread over several years, but securing the grant will require a significant investment of general funds. AEA is considering multiple funding options, but the need this legislative session is likely to be \$30.0 - \$35.0 million.
5. Alaska Marine Highway – the Governor's budget request does not change funding levels or sources from the Calendar Year (CY) 24 Enacted budget, but it does not include any backstop funding if federal funding is insufficient. If a similar amount of federal grants are awarded in CY25 as the State expects in CY24, there will be a \$38.0 million shortfall in the CY25 budget.
6. Ongoing Employee Bargaining Negotiations – three unions (Alaska Correctional Officers Association, Alaska Public Employees Association Supervisory Unit, and Labor, Trades and Crafts) are currently negotiating new contracts to begin in FY25. Collectively, these units cover about 4,800 State employees. In addition, AS 39.27.011(m) indicates that the legislature shall increase the salary schedule for partially-exempt employees to match future increases for the supervisory unit. Legislation would be needed to modify the salary schedule set out in statute. This could potentially affect an additional 2,800 employees if exempt employees are included.

Collectively, these items could increase the UGF budget by hundreds of millions of dollars by the time it leaves the legislature.

The Governor's budget has a projected deficit of \$982.3 million based on the Fall revenue forecast, which is filled from a combination of the Statutory Budget Reserve and the Constitutional Budget Reserve.

Agency Operations

The Governor's FY25 budget for agency operations is \$94.9 million above the Adjusted Base. This is a 2.3 percent increase, above the out-year assumption in the Governor's 10-year plan but below LFD's 2.5 percent inflation assumption.

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 Departments of Corrections, Education and Early Development, and Public Safety have the largest increases above Adjusted Base, while the Department of Health is the only agency with a UGF decrease from Adjusted Base.

Governor's FY25 Budget Compared to Adjusted Base				
	Adjusted Base	Governor	Comparison	
Fall Revenue Forecast	6,308.4	6,308.4		
Agency Operations	4,216.7	4,311.6	94.9	2.3%
Statewide Items	351.4	365.0	13.6	3.9%
Capital Budget	360.2	305.2	(55.0)	-15.3%
Perm. Fund Dividend	914.3	2,303.7	1,389.4	152.0%
Total Budget	5,425.5	7,285.4	1,442.9	24.7%
Pre-Transfer Surplus/(Deficit)	465.8	(977.0)		

Statewide Items

The Governor funds statewide items to their statutory levels, including the PFD, which is estimated to be \$2.3 billion, paying about \$3,600 per recipient. The increase over the Adjusted Base (25 percent of the POMV draw from the Permanent Fund) is about \$1.4 billion; additionally, the FY24 energy relief deposit would be paid out in FY25 although the funds would be deposited at the end of FY24. That amount is estimated to be \$110.6 million, adding about \$175 per person to the FY25 PFD.

Another item of note is the Community Assistance program. The Governor vetoed a \$30.0 million UGF deposit into the fund in FY24 but is proposing a \$30.0 million deposit in FY25 (of which \$27.8 million is from the PCE Fund and \$2.2 million is UGF). Without a supplemental appropriation, the FY25 payments to local governments would be \$20.0 million (one-third of the balance at the end of FY24). With the \$30.0 million deposit in FY25, the FY26 payments would equal \$23.3 million.

More discussion of statewide items can be found in the Operating Language section of this publication.

Capital Budget

The Governor's FY25 capital budget request totals \$305.2 million of UGF, down from \$359.8 million in the FY24 budget. Half of the UGF in the Governor's capital budget is used for federal match. For more details on the capital budget, see the Capital Budget Overview section of this publication.

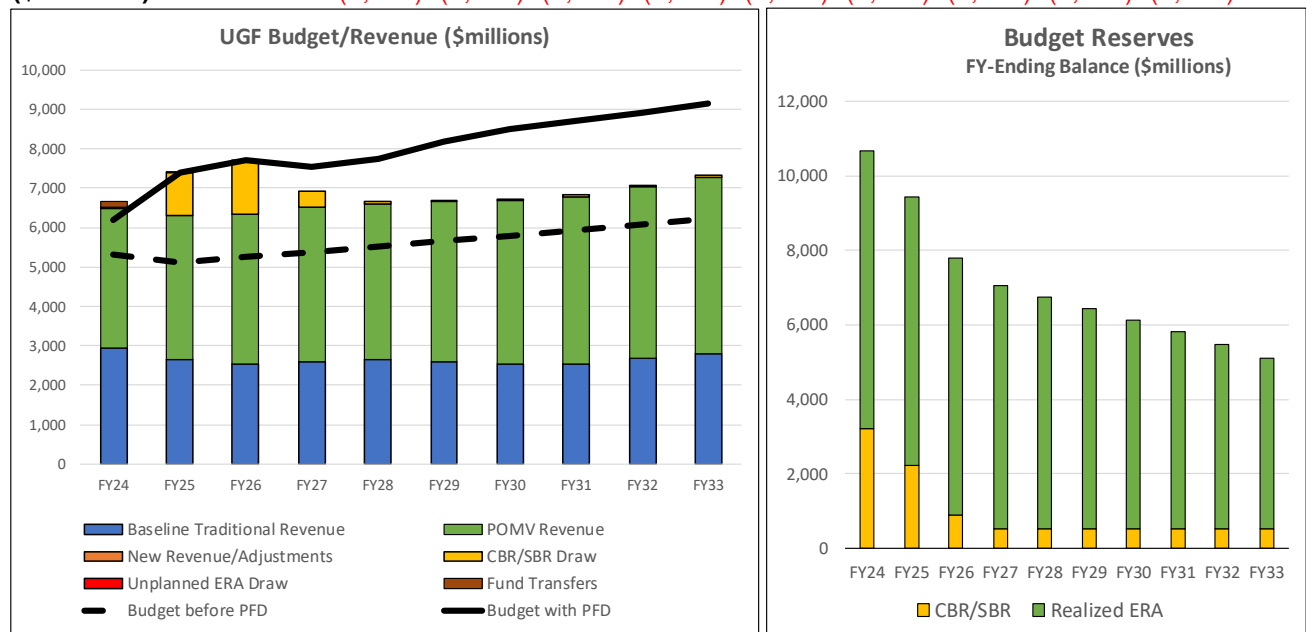
Long-Term Fiscal Outlook

LFD Baseline Fiscal Projections

For the long-term baseline scenario, the Legislative Finance Division's fiscal model reflects current statutes and expenditures growing with inflation. It uses the FY25 Adjusted Base, growing with inflation of 2.5 percent per year (including in FY25), with all statewide items (including the Permanent Fund Dividend) funded at their statutory level. Any policy or statutory changes can therefore be compared to this neutral baseline to see their effect on the fiscal situation.

LFD Baseline	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Agency Operations	4,322.1	4,430.2	4,540.9	4,654.4	4,770.8	4,890.1	5,012.3	5,137.6	5,266.1
Statewide Items	365.0	388.2	403.1	425.7	432.7	442.5	444.9	458.4	471.4
Capital Budget	368.8	378.0	387.5	397.2	407.1	417.3	427.7	438.4	449.3
Supplementals	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
PFDs	2,283.3	2,469.4	2,158.9	2,220.8	2,507.6	2,680.3	2,727.6	2,763.4	2,787.8
Total Budget	7,389.2	7,715.8	7,540.3	7,748.0	8,168.1	8,480.2	8,662.5	8,847.8	9,024.7

Surplus/(Deficit) (\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
	339	(1,081)	(1,388)	(1,012)	(1,134)	(1,522)	(1,813)	(1,910)	(1,880)	(1,871)

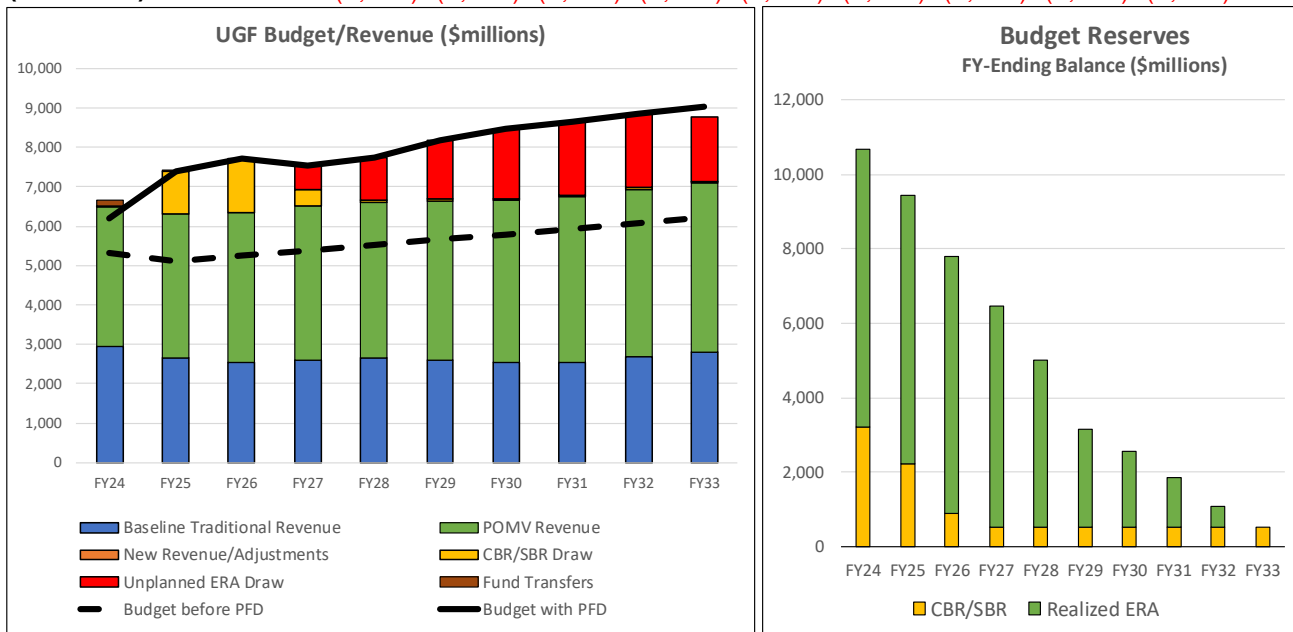


	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PFD/Person	\$1,312	\$3,654	\$3,731	\$3,241	\$3,333	\$3,772	\$4,042	\$4,140	\$4,243	\$4,352

LFD's baseline projection shows a deficit of \$1.1 billion in FY25, increasing to a peak of over \$1.9 billion in FY31. This baseline does not include any deficit-filling draws from the ERA and leaves a \$500.0 million balance in the CBR for cashflow; the gap between the revenue bars on the graph on the left and the budget line represents an unfilled deficit.

If deficits are filled from the ERA, deficits would increase from the baseline scenario due to compounding effects, and by FY33, there would not be sufficient funds in the ERA to fill the entire deficit.

Surplus/(Deficit) (\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
	339	(1,081)	(1,388)	(1,012)	(1,134)	(1,524)	(1,820)	(1,928)	(1,914)	(1,928)



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.00%	5.77%	6.38%	6.85%	7.17%	7.26%	7.21%
PFD/Person	\$1,312	\$3,654	\$3,731	\$3,241	\$3,333	\$3,765	\$4,017	\$4,079	\$4,127	\$4,156

These models demonstrate that there is a continued structural budget deficit. The legislature could choose to fill this deficit from any combination of spending reductions (including Permanent Fund Dividends, as it has done in recent years) and new revenue.

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

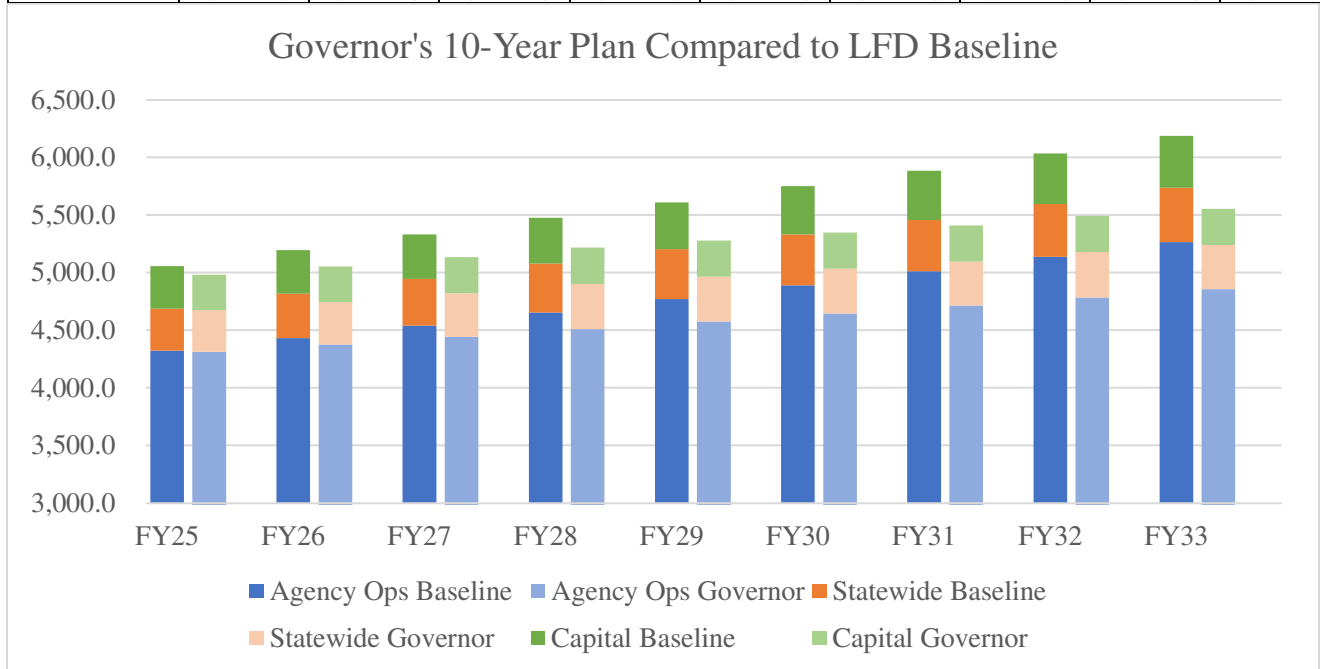
The Governor is required by AS 37.07.020(b) to "submit a fiscal plan with estimates of significant sources and uses of funds for the succeeding 10 fiscal years." The plan "must balance sources and uses of funds held while providing for essential state services and protecting the economic stability of the state," among other requirements.

The 10-Year Plan submitted by the Governor on December 14, 2023, does not comply with this statutory requirement: the CBR is drawn below zero in FY27 and down to *negative* \$10.6 billion at the end of the 10-year window in FY34.

The Governor's 10-Year Plan does make two policy changes compared to LFD's modeling baseline: agency operations and the capital budget grow at 1.5 percent per year instead of with inflation. Second, Community Assistance is not funded with UGF, while LFD projects that an average of \$13.6 million of UGF would be needed in combination with PCE funds to make the statutory \$30.0 million annual deposits.

The Governor's 10-Year Plan also has three non-policy choice assumption differences from LFD's modeling. The Governor assumes zero supplemental appropriations (net of any lapsing appropriations), while LFD assumes \$50 million per year based on historical averages. The Governor also assumes that no new school debt will be authorized even after the program resumes in 2025, while LFD assumes that \$7.8 million per year of new debt will be added annually based on historical averages. This assumption also influences the REAA Fund deposit, which changes proportionally to school debt payments. Finally, the Fall 2023 Revenue Sources Book uses draft numbers from the Alaska Permanent Fund Corporation that do not match their current projections; LFD uses figures from the November 2023 History and Projections Report, which show higher POMV draws than the Governor's 10-Year Plan.

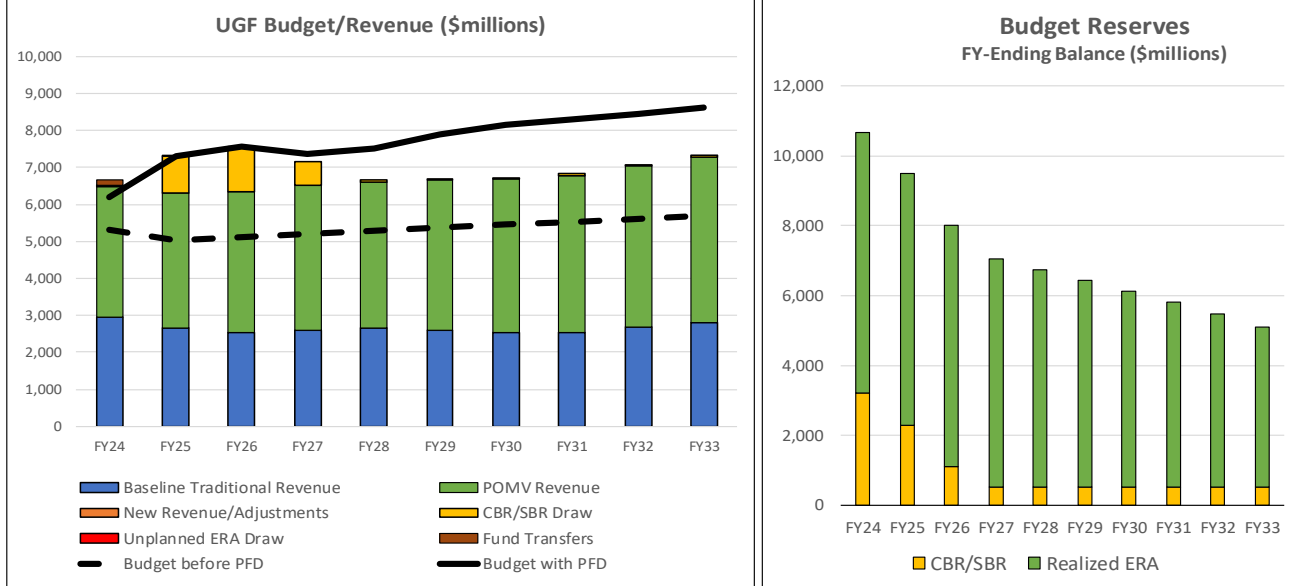
Comparison of Governor's 10-Year Plan Budget Figures to LFD Baseline									
	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Baseline	5,105.9	5,246.4	5,381.5	5,527.3	5,660.5	5,799.8	5,934.9	6,084.4	6,236.8
Governor	4,981.8	5,054.7	5,135.4	5,216.7	5,279.0	5,347.8	5,409.1	5,492.1	5,553.1
Difference	(124.1)	(191.7)	(246.0)	(310.6)	(381.5)	(452.0)	(525.8)	(592.2)	(683.7)



This model shows the policy proposals in the Governor's 10-Year Plan (the lower growth rates and partial funding of Community Assistance) in LFD's model, without any deficit-filling draws that would draw the CBR below zero. Despite the assumption differences, the policy choices in the Governor's 10-Year Plan result in a similar outcome in LFD's model as in the plan itself: persistent deficits and a depleted CBR in FY27. This model shows unfilled deficits of \$1.0 billion in FY25 increasing to over \$1.5 billion in FY31.

Legislative Fiscal Analyst's Overview of the Governor's FY2025 Request

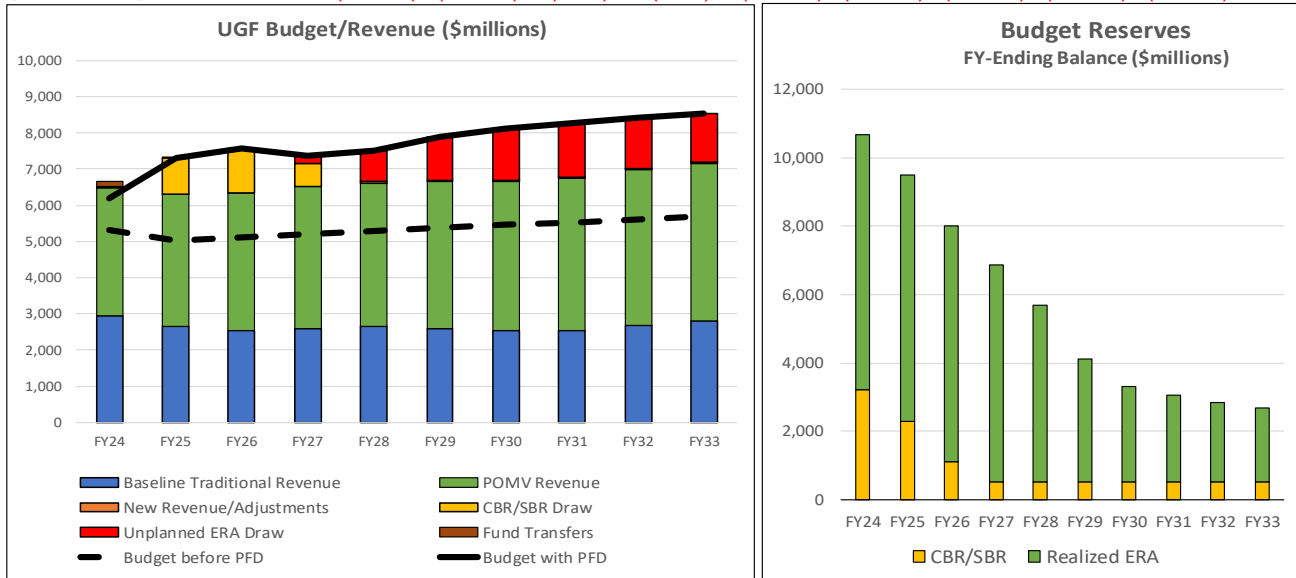
Surplus/(Deficit) (\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
	339	(1,007)	(1,250)	(823)	(893)	(1,227)	(1,463)	(1,503)	(1,413)	(1,341)



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
PFD/Person	\$1,312	\$3,654	\$3,731	\$3,241	\$3,333	\$3,772	\$4,042	\$4,140	\$4,243	\$4,352

The Governor's 10-Year Plan shows continued draws on the CBR even after the balance goes negative. If the deficits are made up from the ERA instead, the compounding effect of those overdraws would result in larger deficits.

Surplus/(Deficit) (\$millions)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
	339	(1,007)	(1,250)	(823)	(893)	(1,228)	(1,467)	(1,514)	(1,436)	(1,382)



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Effective POMV Draw Rate	5.00%	5.00%	5.00%	5.00%	5.25%	6.08%	6.48%	6.74%	6.76%	6.64%
PFD/Person	\$1,312	\$3,654	\$3,731	\$3,241	\$3,333	\$3,769	\$4,029	\$4,101	\$4,164	\$4,214

Constitutional and Statutory Appropriation Limits

Alaska has two appropriation limits: a limit in Article IX, Section 16 of the Alaska Constitution, and another in AS 37.05.540(b). Both limits factor in changes in inflation and population that can only be estimated ahead of time, so these figures may change when actual inflation and population changes are known.

The constitutional limit is binding, but the statutory limit can be (and has been) exceeded through the appropriations process.

Expenditures Subject to the Limits

Article IX, Section 16 and AS 37.05.540(b) both set out exclusions from the limit that are both *sources of money* and *uses of money*. Excluded sources are:

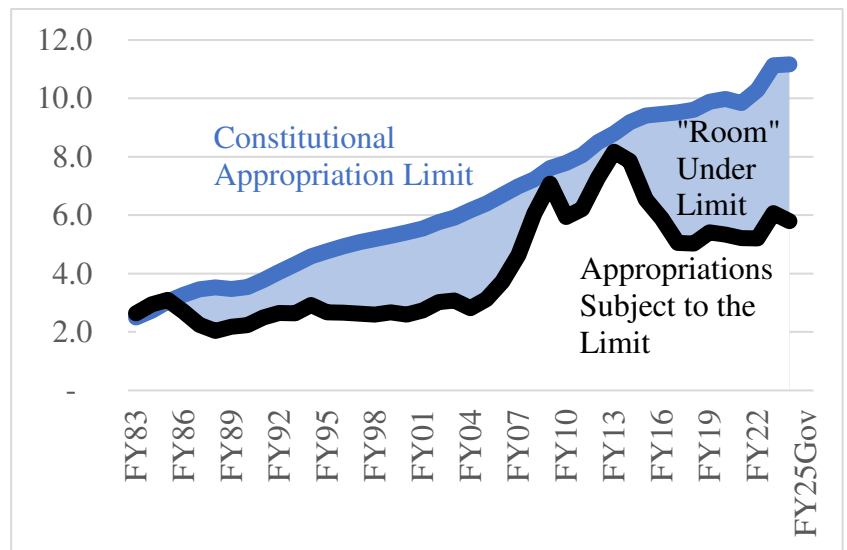
- Proceeds of revenue bonds
- Money held in trust for a specific purpose (this includes all federal funding and most “Other” funds)
- Corporate revenues

Excluded purposes are:

- Permanent Fund Dividends
- General obligation and revenue bond interest
- Appropriations to the Permanent Fund
- Appropriations to meet a state of disaster

Calculating the Constitutional Limit

The constitutional appropriation limit is equal to \$2.5 billion times the cumulative change in population and inflation since July 1, 1981. Based on the way the limit has been calculated by the executive branch in the Annual Comprehensive Financial Report (ACFR), we estimate that in FY24 the limit will be \$11.2 billion and in FY25 the limit will be \$11.5 billion.² This is based on actual changes in inflation and



² This ACFR calculates the adjustment for inflation and population by multiplying the two factors together; an alternative approach would be to add the changes together (the Anchorage tax cap is worded identically to the State limit but is calculated in this way, for example). Under this alternative calculation, the limit would be \$8.3 billion in FY24 and \$8.5 billion in FY25.

population through FY23, a 2.5% inflation assumption, and the Department of Labor's population growth assumption.

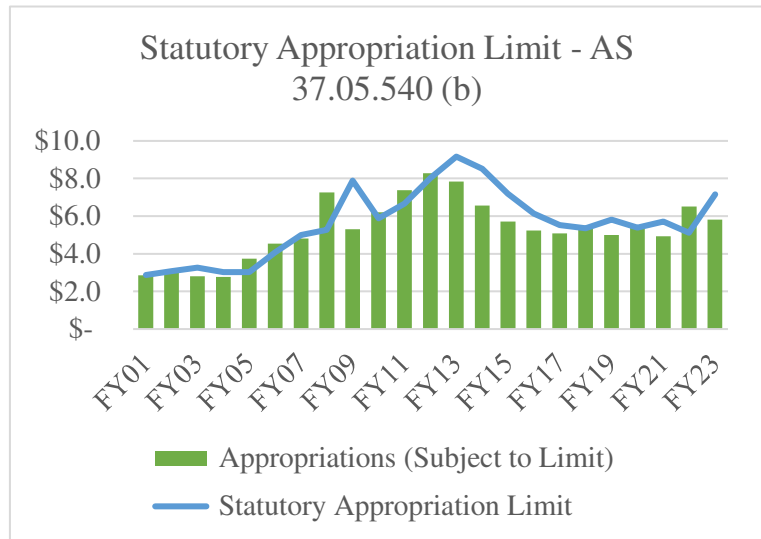
The enacted FY24 budget subject to the limit was \$5.8 billion, \$5.4 billion below the estimated appropriation limit. The Governor's proposed FY25 budget subject to the limit is \$5.5 billion, \$6.0 billion below the estimated appropriation limit.

Calculating the Statutory Limit

While the constitutional limit applies to expenditures *for* a fiscal year, the statutory limit applies to appropriations *made in* a fiscal year, regardless of what year they were effective (essentially, it compares appropriations from one session to the next). Appropriations in a fiscal year may not exceed the appropriations made in a previous fiscal year by more than 5% plus the change in inflation and population.

Appropriations made in FY23 subject to the limit were \$5,817.3 million. Based on the same inflation and population assumptions used for the constitutional limit, that would allow for appropriations of \$6,610.2 million in FY24.

The Governor's proposed budget subject to the limit totals \$5,565.9 million, but that does not yet include supplemental appropriations (which are due on the 15th legislative day) or amendments. This means that \$1,044.3 million remains under the statutory appropriation limit.



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.

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 \$642.4 million in FY25. 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 \$460.0 million in FY25. Alaska's 9.4% top marginal rate is the fourth 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 \$131 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 \$29.1 million in FY25. The Fisheries Business and Fishery Resource Landing taxes are estimated to bring in \$23.3 million in UGF revenue and an additional \$25.0 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 FY25 revenue is \$47.3 million, of which \$32.2 million is UGF and \$15.1 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: \$42.6 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 9th 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: \$33.5 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: \$27.7 million, of which \$6.9 million is UGF and \$20.8 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-four 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 or Washington, which only tax income from specific sources). Of these, 30 have progressive income taxes, and the remaining 11 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 \$700 million in 2022.

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 Adjusted Gross Income (AGI). LFD estimates an individual income tax based on 3% of AGI, with no exemptions or deductions, would generate roughly \$1 billion 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 2022, 107 of Alaska's 129 taxing municipalities imposed sales taxes, at rates ranging from 1% to 7%.

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 \$619 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.

