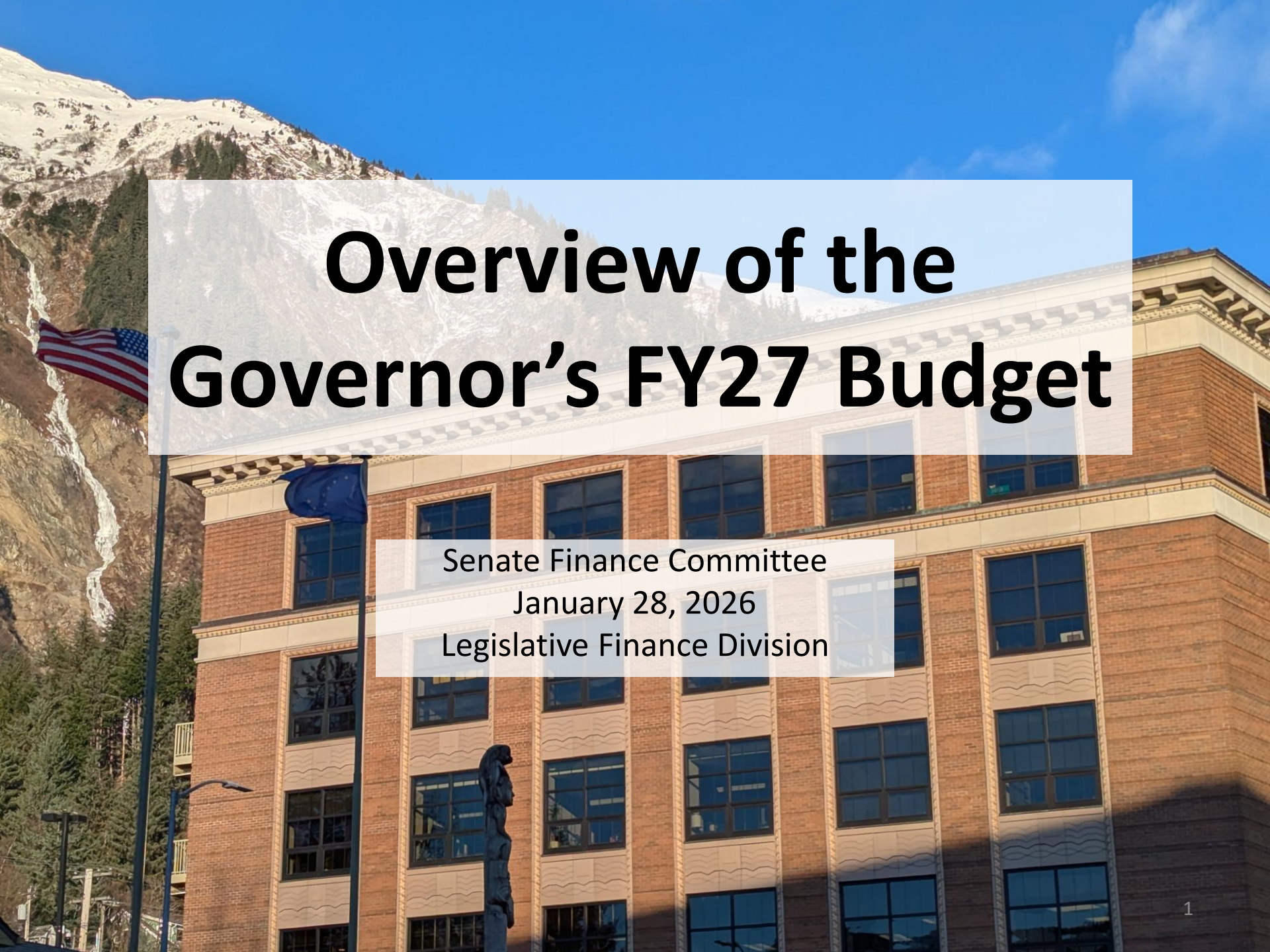




Overview of the Governor's FY27 Budget

Senate Finance Committee
January 28, 2026
Legislative Finance Division

Outline

- FY26 Recap and Update – Vetoes, Supplementals
- Fall Revenue Forecast
- FY27 Governor's Budget
- Long-Term View

FY26 Recap: Adjournment Budget

- When the legislature adjourned last year, there was a projected budget deficit of \$192.8 million in FY25 and a surplus of \$56.6 million in FY26 based on the Spring revenue forecast (\$68 oil).
 - The vote to fill the FY25 deficit from the CBR failed, so the deficit would have been filled first with a draw of up to \$100 million from AIDEA, then the remaining amount from the Higher Education Investment Fund.
 - The legislature did not have a source for a potential FY26 deficit.
- The legislature accepted \$42.9 million of the Governor's requested \$80.4 million of UGF increments, added \$44.6 million of increases not proposed by the Governor, and made \$34.0 million of budget reductions to the Adjusted Base.
- The legislature's budget funded the K-12 formula and most statewide items at their statutory levels.
 - School Debt Reimbursement was funded at 75% and the Community Assistance Fund capitalization was \$13.3 million, enough to pay a \$20.0 million distribution to communities.
 - The Fire Suppression Fund and Disaster Relief Fund were capitalized at their five-year average of expenditures.

FY26 Recap: Governor's Vetoes and Override

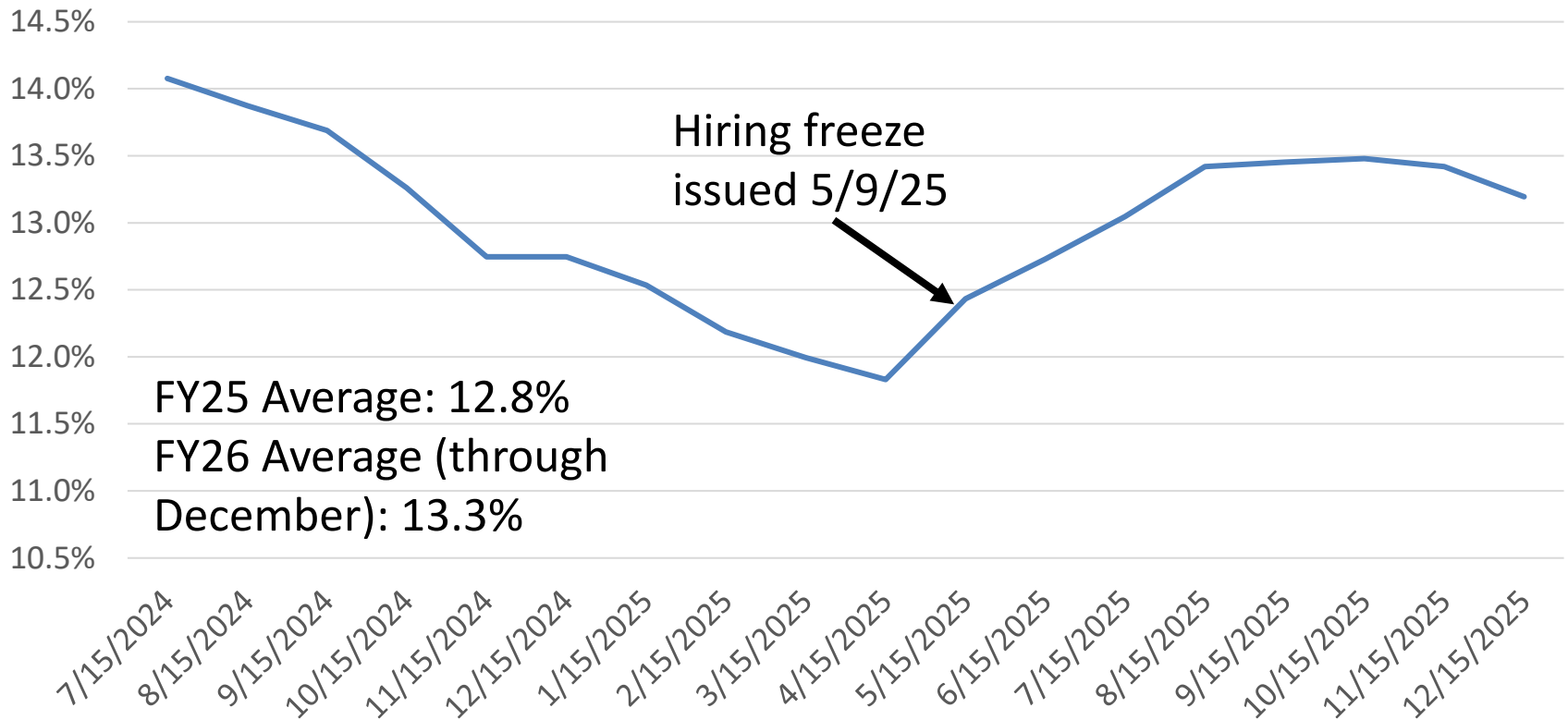
- FY25 Supplemental vetoes
 - \$5.0 million UGF for ASMI
 - \$62.2 million reappropriations to DOT for match (coming from a mix of old projects and unused prior year match)
 - AIDEA deficit fill language (meaning entire deficit came from HEIF)
- FY26 UGF vetoes totaled \$103.6 million from operating budget and \$14.3 million from capital budget.
 - Largest veto (\$45.4 million) was from K-12 foundation formula and was overridden.
 - Other vetoes included \$26.9 million from Fire Suppression Fund, \$10.3 million from Disaster Relief Fund, and \$25.1 million from Major Maintenance Grant Fund.
- After the override, the enacted FY26 budget had a projected \$130.4 million surplus.

FY26 Recap: Surplus to Deficit

- The Governor and legislature expressed skepticism about the \$68 oil price in the Spring Forecast, and both aimed for a lower balancing price.
- The Fall forecast reduced the projected oil price for FY26 to \$65.48 and projected revenue by \$181.4 million (due also to increased projected deductible expenses and reduced production). This moves the projected \$130.4 million surplus to a projected \$51.0 million deficit before supplemental appropriations.

Vacancy Rates Have Reversed Their Previous Downward Trend

Full-Time Permanent PCN Vacancy Rate
7/15/24 through 12/15/25



FY25 Lapsing Funds

- In the FY25 budget, lapsing general fund appropriations were directed as follows:
 - Working Reserve Fund (none needed in FY25)
 - Group Health and Life Benefits Fund (\$23.1 million utilized in FY25)
 - School Major Maintenance Grant Fund (added by Legislature, \$4.9 million used in FY25)
 - Catastrophe Reserve Account (none needed in FY25)
 - Central Services Cost Allocation Rate Smoothing (\$5.0 million used in FY25)
 - Any remainder would reduce the deficit draw from the Higher Education Investment Fund
- Entire amount of available lapse was utilized for these appropriations, and \$1.6 million need for Group Health and Life Benefits Fund was unmet and will be carried forward to FY26.

FY24 and FY25 Overspending of Appropriations

- In FY24, Legislative Audit identified that the Department of Corrections overspent its UGF appropriations by \$8.0 million.
- In FY25, DOC and the Department of Family and Community Services both overspent their UGF appropriations. Based on unaudited figures, the amounts are \$12.6 million and \$0.7 million, respectively.
- These amounts will come to the legislature as ratification requests.

FY26 Governor's Supplemental Budget

- The Governor's operating and capital bills include \$239.8 million of UGF supplementals, including:
 - \$69.7 million UGF for capital match for DOT to make up for the vetoed FY25 reappropriations.
 - \$40.0 million UGF for the Disaster Relief Fund.
 - \$129.6 million directly from the CBR to the HEIF to repay the estimated FY25 deficit draw.
- The Governor's supplemental requests do not include \$55.0 million for the Fire Suppression Fund that is needed to pay for fire disasters issued in 2025. A more refined figure that includes spring 2026 costs will likely be available later.
- The operating budget includes Constitutional Budget Reserve Fund deficit-filling language for FY26. Additional supplemental requests are due on the 15th day of the legislative session. These are expected to include \$36.4 million for Medicaid, among other items.

Fall 2025 Revenue Forecast

- DOR's Fall 2025 Forecast shows lower oil prices in both FY26 and FY27. Production is lower in FY26 but higher in FY27.
- Lease expenditures (which are deducted in the production tax calculation) are also up significantly, although not all are deductible due to the lower price projection.
- Petroleum corporate income tax projections are also down by \$90.0 million in FY26 and \$75.0 in FY27.
- The overall result is lower projected revenue in FY26 and FY27 beyond what the price change alone suggests.

UGF Revenue	FY26	FY27
Spring 2025	6,128.6	6,334.6
Fall 2025	5,947.1	6,215.5
Difference	(181.4)	(119.1)

Oil Price	FY26	FY27
Spring 2025	68.00	67.00
Fall 2025	65.48	62.00
Difference	(2.52)	(5.00)

Oil Production	FY26	FY27
Spring 2025	464.0	489.4
Fall 2025	457.0	517.8
Difference	(7.0)	28.4

Lease Expenditures (millions of dollars)	FY26	FY27
Fall 202	7,697.7	7,664.6
Fall 2025	8,658.4	8,238.1
Difference	960.7	573.5

NPR-A Revenue - Background

- Federal royalties from leases in the National Petroleum Reserve-Alaska have historically been split 50/50 with the State, but 42 U.S.C. 6056a(l)(1) requires that the State “give priority to use by subdivisions of the State most directly or severely impacted by development of oil and gas leased under this Act.” This requirement was litigated in the 1980s and the result is the NPR-A Impact Grant program under AS 37.05.530. Appropriations to that program are made annually in the capital budget.
- HR1 (also known as the One Big Beautiful Bill Act or OBBBA) changed the royalty split to 70/30 for leases issued after July 2025, but not until 2034.
- Legislative Legal wrote an opinion in November 2025 that confirmed that OBBBA did not amend the sharing requirement.

NPR-A Revenue – Governor’s Budget

- In the Fall 2025 Revenue Sources Book, this revenue is no longer classified as federal revenue and instead is split between the general fund, Permanent Fund, and the Public School Trust Fund.
- The Governor’s capital budget does not include the typical appropriation to the NPR-A Impact Grant program. His operating budget does, however, include typical language that appropriates any lapsing appropriations from the grant program to first the Permanent Fund (up to 25% of total revenue) and then the Public School Trust Fund (up to 0.5% of revenue) and PCE Endowment, consistent with statute.
- However, the Governor’s budget reports do not count the latter appropriation as a general fund expenditure, understating the deficit in the Governor’s fiscal summary by \$9.6 million.
- **Based on the Legislative Legal opinion, LFD’s reports and fiscal summary maintain the federal classification of NPR-A funds, decreasing FY27 UGF revenue by \$9.6 million.**

Impact of Governor’s Treatment of NPR-A Revenues									
	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
General Fund Deposits (to PCE Endowment on Gov op budget)	9.6	12.4	13.1	48.7	113.4	168.4	203.0	205.3	195.2
Permanent Fund Deposits	3.2	4.2	4.4	16.3	38.1	56.5	68.1	68.9	65.5
Public School Trust Fund Deposits	0.1	0.1	0.1	0.3	0.8	1.1	1.4	1.4	1.3
Impact to NPR- Impact Grant Program	(12.9)	(16.6)	(17.6)	(65.4)	(52.2)	(226.0)	(272.5)	(275.6)	(262.0)

Percent of Market Value Draw from Permanent Fund

		Year-End Permanent Fund Balance for POMV	
FY26 POMV (5% Times Average of FY20-24 Balances): \$3,798.9	FY20	64,877.8	FY27 POMV (5% Times Average of FY21-25 Balances): \$3,996.9
	FY21	81,472.8	
	FY22	75,912.8	
	FY23	77,587.5	
	FY24	80,038.5	
	FY25	84,675.5	

FY27 Adjusted Base

- The starting point for the next year's budget is the Adjusted Base, which is the prior year's budget less one-time appropriations plus current statewide policy decisions (such as salary adjustments and formula changes) needed to maintain services at a status quo level.
- Starting in FY25, LFD modified the Adjusted Base to include formula changes. Previously, it was difficult to distinguish policy changes from changes in formula amounts. Now, formula-driven adjustments (for items like the K-12 formula, debt service, or retirement payments) will be reflected in the Adjusted Base, making policy changes by the Governor easier to see.
- For formula items funded at a partial amount (such as the PFD), the Adjusted Base would be the same formula carried forward into the next year (so the amount needed for a \$1,000 payment, which was the formula used in FY26, is carried forward into the FY27 adjusted base).

FY27 Adjusted Base (cont.): One-Time Items

UGF One-Time Item	Amount
DOH: New SNAP Projects FY25-26	(5,954.3)
UA: Research Projects	(5,588.2)
DCCED: ASMI FY25-27	(5,000.0)
DOTPF: AMHS Backstop	(5,000.0)
Law: A Better Child Lawsuit	(2,872.8)
DEC PFAS FY25-27	(2,500.0)
Law: Statehood Defense	(2,067.7)
All Other Items	(2,604.7)
Total	(31,587.7)

- Some of these items originated in FY25 and the amounts here represent balances carried forward into FY26.

FY27 Adjusted Base (cont.): Formula Adjustments

Formula Adjustments	UGF	All Funds
K-12 Foundation	(25,424.2)	(22,995.9)
K-12 Pupil Transportation	(1,770.0)	(1,770.0)
School Debt Reimbursement	(2,147.1)	(3,647.1)
Other Debt Service	(188.9)	619.0
State Contributions to Retirement	48,721.1	48,721.1
REAA Fund Capitalization	(2,461.0)	(2,461.0)
Community Assistance Fund	5,978.0	6,666.7
Other Formula Adjustments	(401.0)	(39,431.8)
Total Adjusted Base Formula Adjustments	22,306.9	(14,299.0)

- K-12 formula reduced primarily due to 2,064 (2.0%) decrease in brick-and-mortar students (only partially offset by an 861-student increase in correspondence students) and increased local property tax values (offsetting State cost).
- State retirement contributions increased due to actuarial changes and policy changes by the ARM Board.

FY27 Adjusted Base (cont.): Salary and Benefits Adjustments

Salary Adjustments	UGF	Total
Health Insurance	15,687.1	31,660.5
PERS/JRS Rate	11,766.8	23,346.2
GGU COLA (3%)	11,401.0	27,464.9
GGU Lump Sum Adjustment	(1,465.8)	(4,497.8)
SU COLA (2.5%)	4,297.3	10,362.1
Exempt COLA (2.5%)	7,943.8	12,502.8
LTC COLA (2.5%)	1,600.3	4,298.8
Other BU COLAs	348.2	2,272.1
UA COLAs	3,474.5	4,963.4
Total	55,053.2	111,866.1

- Five unions are currently negotiating across the Executive Branch and University of Alaska. These contracts will likely be in future amendments from the Governor.

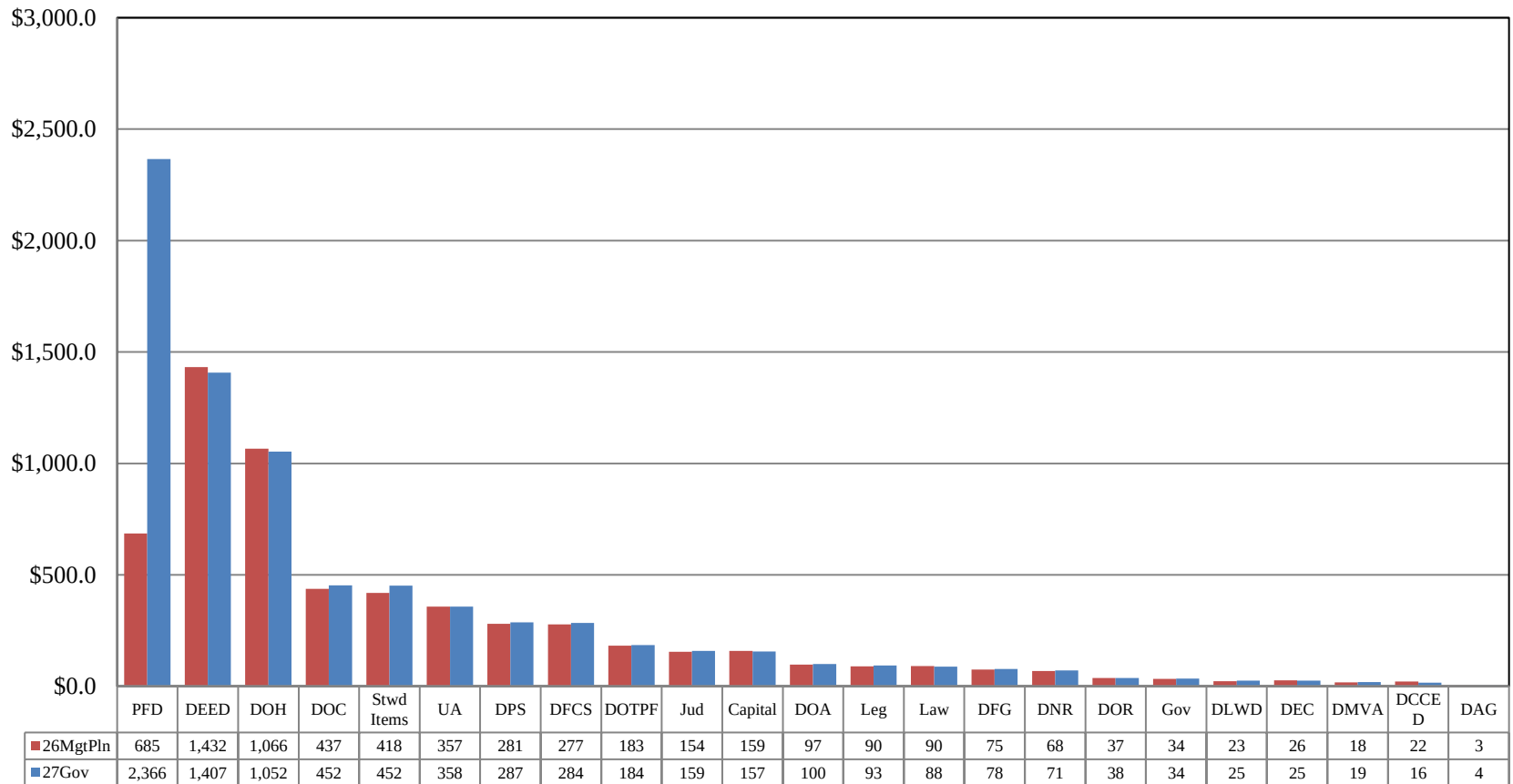
Governor's FY27 Budget

FY26-FY27 Governor's 12/11/25 Budget (UGF Only)				
	FY26	FY27	Difference	
Fall Revenue Forecast*	5,982.0	6,205.9	223.9	3.7%
Agency Operations	4,771.7	4,772.0	0.9	0.0%
Statewide Items	418.5	451.6	33.1	7.9%
Capital Budget	159.1	156.6	(2.5)	(1.6)%
Permanent Fund Dividend	685.3	2,365.9	1,680.6	245.2%
Total Budget (pre-Supplementals)	6,034.0	7,747.1	1,712.1	28.4%
Pre-Transfer Surplus/(Deficit)	(52.0)	(1,540.2)		
Fund Transfers	(0.9)	(1.3)		
Post-Transfer Surplus/(Deficit)	(51.1)	(1,538.9)		
Governor's 12/11 Supplementals	239.8			
Fire Suppression Disasters	55.0			
Post-Transfer Surplus/Deficit	(345.9)			
			Ending Balance	FY26
			SBR	-
			CBR	3,107.1
				1,683.0

*Including \$9.6m revenue adjustment for NPR-A funds

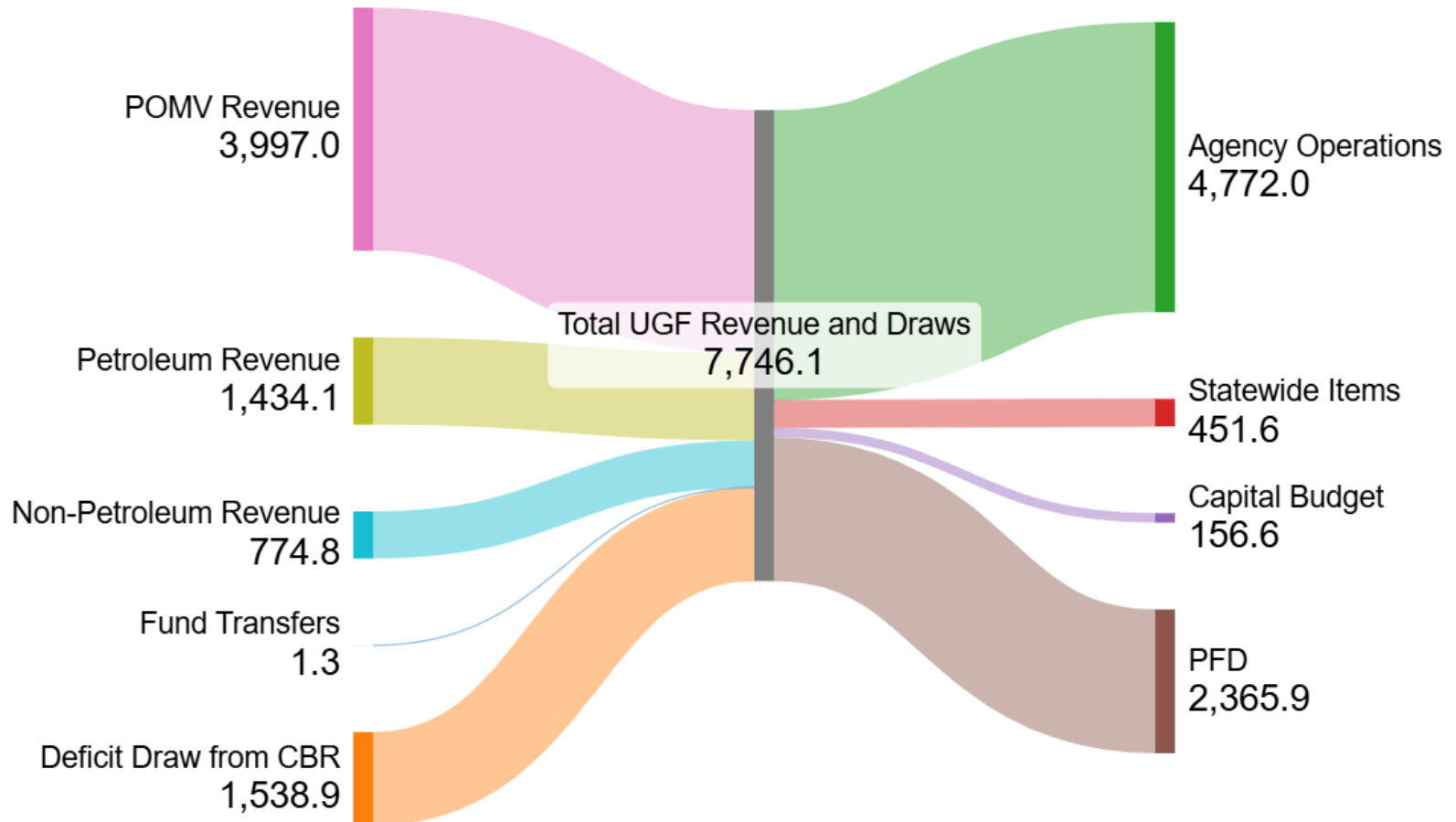
Governor's FY27 Budget (Cont.)

FY27 Governor's Budget Compared to FY26 Management Plan
UGF Only - (\$ Millions)



Governor's FY27 Budget (Cont.)

(UGF only, \$ millions)



Governor's FY27 Budget (Cont.)

- Agency operations are \$11.3 million (0.2%) above adjusted base.
 - DOH: Medicaid reduced by \$10.0 million due to early termination of FY26-27 temporary increment for behavioral health rates.
 - DOT: Added \$6.5 million UGF to replace one-time fund sources used in the FY26 budget.
 - Added \$5.2 million UGF to replace Restorative Justice Funds that are unavailable due to the lower FY26 PFD.
 - Added \$1.9 million UGF, \$7.9 million all funds for IT Class Study.

Governor's FY27 Budget (Cont.)

- Statewide items are \$14.5 million (3.1%) below Adjusted Base.
 - Does not fully fund ARM Board recommended contribution to PERS and TRS. Governor's amount is \$37.7 million below ARM Board.
 - Fully funds school debt reimbursement and REAA fund.
 - \$14.0 million from PCE Fund and no UGF to Community Assistance Fund. This would result in an \$18.0 million payment to communities in FY28, less than the amount of the base payments.
 - \$47.5 million UGF for Fire Suppression Fund, matching post-veto, pre-supplemental FY26 total.
 - \$24.0 million UGF to Disaster Relief Fund, \$11.0 million above post-veto, pre-supplemental FY26 total.

Governor's FY27 Budget (Cont.)

- Capital Budget totals \$156.6 million UGF, \$2.1 billion all funds.
 - \$127.7 million GF/Match (81.1% of total UGF)
 - \$22.9 million AHFC dividends to AHFC projects (compared to \$28.7 million board recommendations)
 - \$1.9 million GF/Mental Health (compared to \$6.5 million MH Trust recommendation)
 - \$4.1 UGF for two projects in DFG (\$3.3 million Gulf of Alaska Chinook Salmon, \$0.8 million Alaska Marine Salmon Program)
 - No funding for school construction/major maintenance
 - \$26.3 million from Alaska Capital Income Fund for deferred maintenance

Governor's FY27 Budget (Cont.)

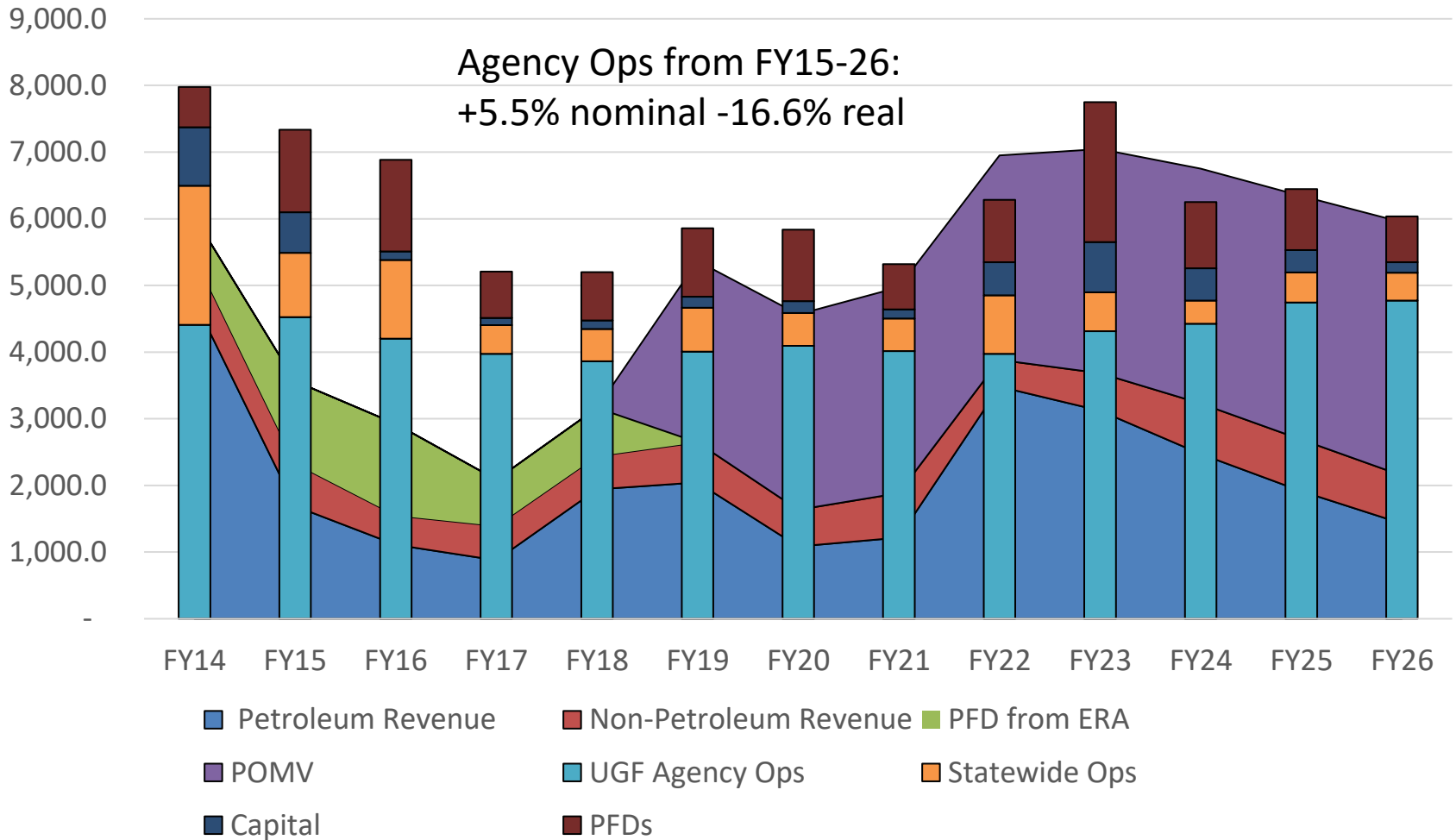
- Also notable is what is not yet in the budget:
 - **Medicaid** – the Governor's budget does not contain an increase to Medicaid funding, but the Department of Health stated that the projection will be trued up in a future amendment. Preliminary projections indicate a need for an additional **\$47.4 million** UGF.
 - This does not factor in any increases related to four rate rebalancing studies commissioned by DOH.
 - **Ongoing Employee Bargaining Negotiations** – five unions are currently negotiating new cost of living increases to begin in FY27.
 - **SNAP Administrative Cost Match** – Starting in FFY27, the State's match share for SNAP administrative costs will increase from 25% to 50%, increasing State cost by an estimated **\$10.7 million**. This was not included in the Governor's budget.
- From FY21-26, the Governor's amended budget was on average \$103.3 million UGF higher than his December release.

Additional Potential Items for FY26-28

- **Federal Disparity Test:** Governor's budget assumes Alaska passes the federal K-12 disparity test, allowing the State to deduct federal impact aid from its share of the K-12 formula. The State failed the FY26 test and is currently appealing the ruling. If the State fails its appeal, formula costs would go up by an estimated **\$78.9 million in FY26** and **\$70.8 million in FY27**.
- **AMHS:** Federal Transit Administration has not yet issued grant application for FFY26 Rural Ferry program. CY26 AMHS budget relies on **\$77.9 million** of federal funds (after factoring in \$5.0 million of UGF backstop) and FY27-28 Governor's request relies on **\$83.3 million**. If these funds are not granted, those will be budget holes in both FY26 and FY27.
 - FY26 capital budget appropriated previously-awarded funding so it is unaffected.
 - Even if the funds are granted eventually for FY26 and FY27, they expire after that and would need to be replaced in FY28.
- **SNAP Match:** In addition to the administrative match, H.R. 1 adds a match requirement for SNAP funding itself. The timing and amount depend on Alaska's error rate and would begin in FFY28 unless the State receives a waiver to delay the impact. DOH estimates an impact of **\$15.4 to \$46.2 million**.

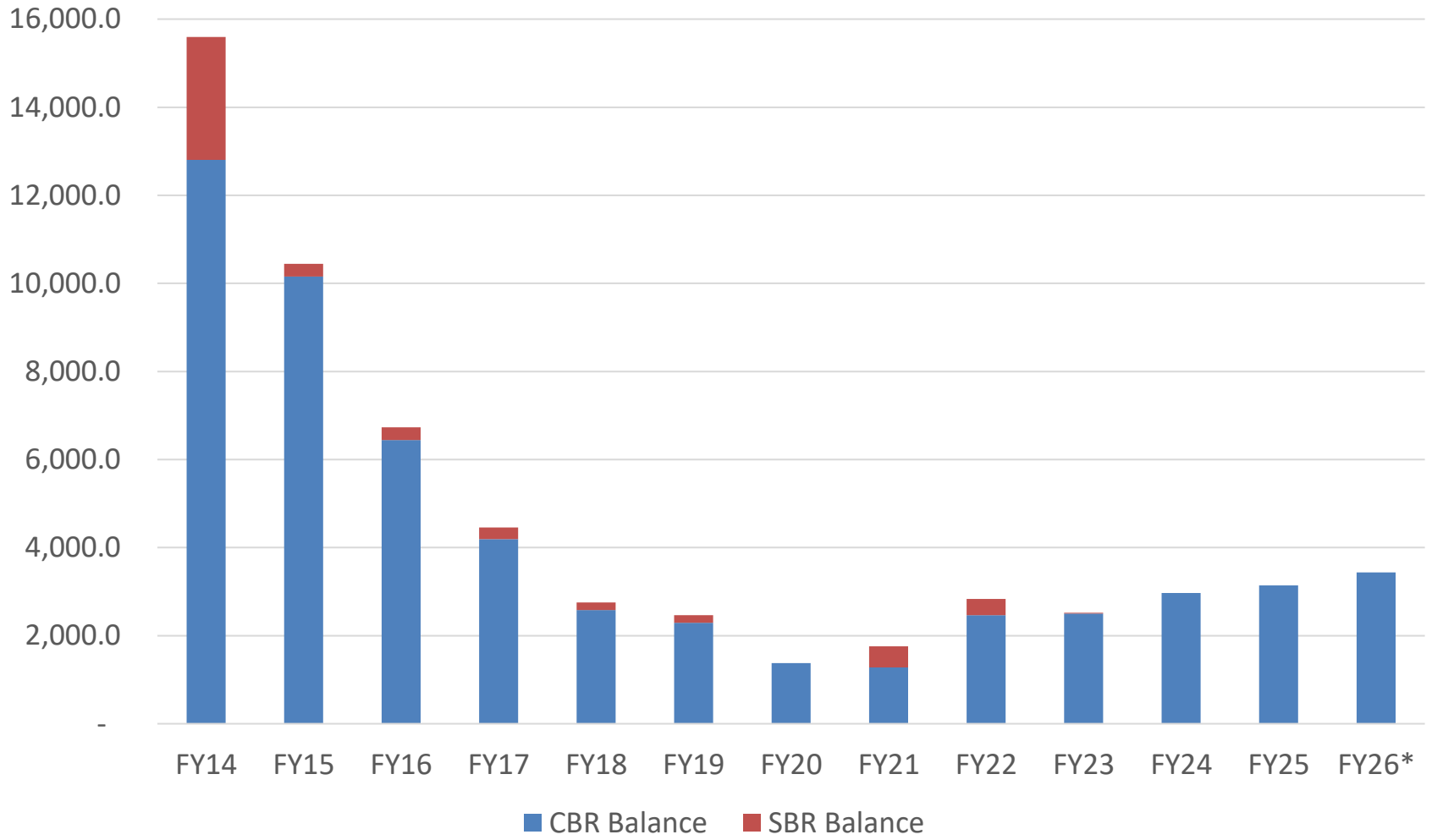
UGF Budget and Revenue, FY14-26

(Millions of dollars)



CBR and SBR Balances, FY14-26

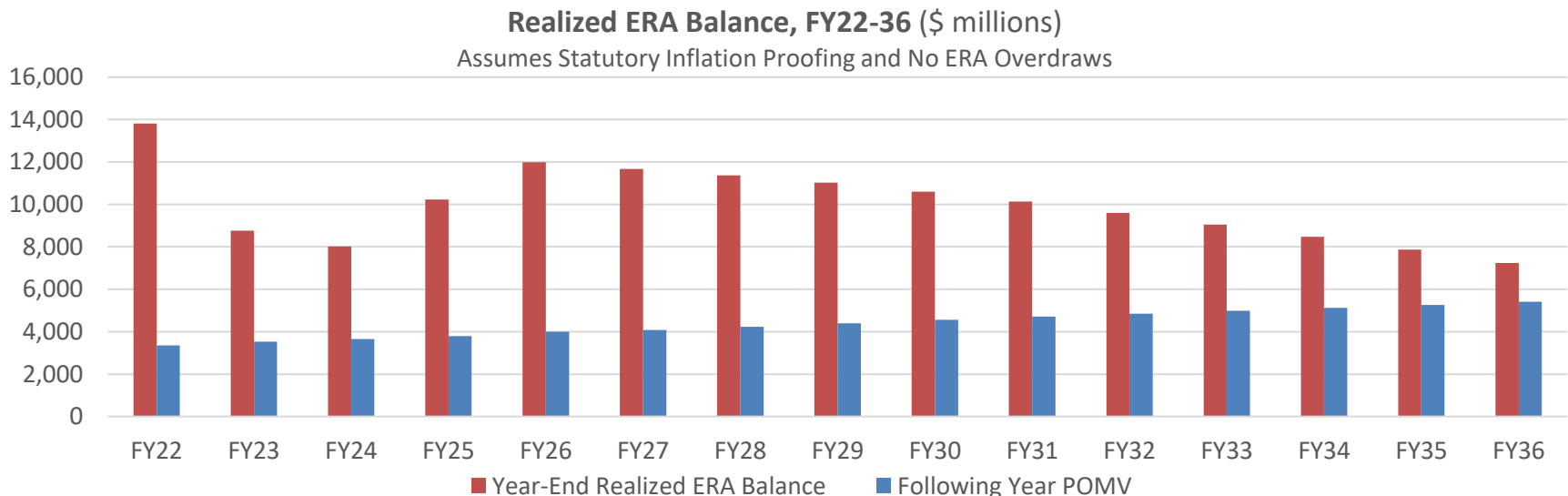
(Millions of dollars)



*FY26 balance before any draws

Earnings Reserve Account (ERA) Sufficiency

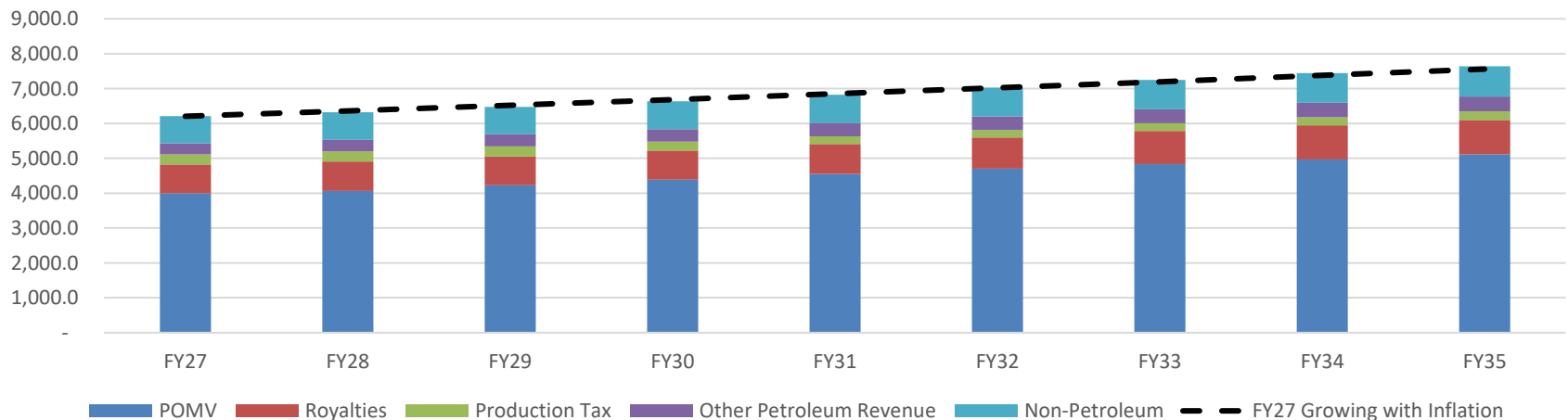
- APFC's Statutory Net Income projection for FY27+ is 6.20%, compared to inflation of 2.50% and a 5.00% POMV draw. This leads to a projected decline in the balance of the ERA balance.
- LFD's probabilistic modeling shows an 33% chance of having an insufficient ERA balance to make the full POMV draw over FY27 – FY36, assuming full inflation proofing and statutory POMV draws. If inflation-proofing is suspended when the ERA balance drops below the following year's POMV draw, that drops to 24%.
- This outlook is significantly better than a year ago when the chances were 46% and 33%, respectively. This improvement is due to relatively strong realized earnings in FY25 (\$5.9 billion, compared to a projected \$4.6 billion).



Long-Term Revenue Outlook

- The Department of Revenue's Fall Forecast projects that oil prices will rise from \$62.00 in FY27 to \$73.0 in FY35 (slightly slower than inflation)
- Oil production is projected to increase from 517.8 mbbl/day in FY27 to 659.9 mbbl/day in FY35.
- The Permanent Fund is projected to earn 7.30% per year. APFC's POMV projections do not match the Revenue Sources Book (they are slightly higher for all years). LFD's modeling is based on APFC's forecast, with an adjustment for NPR-A royalties.

Projected UGF Revenue by Source, FY27-35



Long-Term Fiscal Outlook

- Since revenue is projected to increase roughly with inflation, LFD modeling shows that the current \$1.5 billion structural deficit will persist throughout the modeling window without policy changes.
- This outlook arguably understates the true ongoing deficit because the current capital budget is unsustainably small for deferred maintenance and renewal of State facilities.
- The Governor's 10-Year Plan does not make significant policy changes and therefore continues the structural deficit. The Governor's proposed revenue measures were introduced too late to be analyzed for this presentation.

Questions?

Contact Information

Alexei Painter

Legislative Fiscal Analyst

(907) 465-5413

Alexei.Painter@akleg.gov

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