



ALASKA · STATE · CAPITOL

# Overview of the Governor's FY23 Budget

Senate Finance Committee  
January 24, 2022  
Legislative Finance Division

# Outline

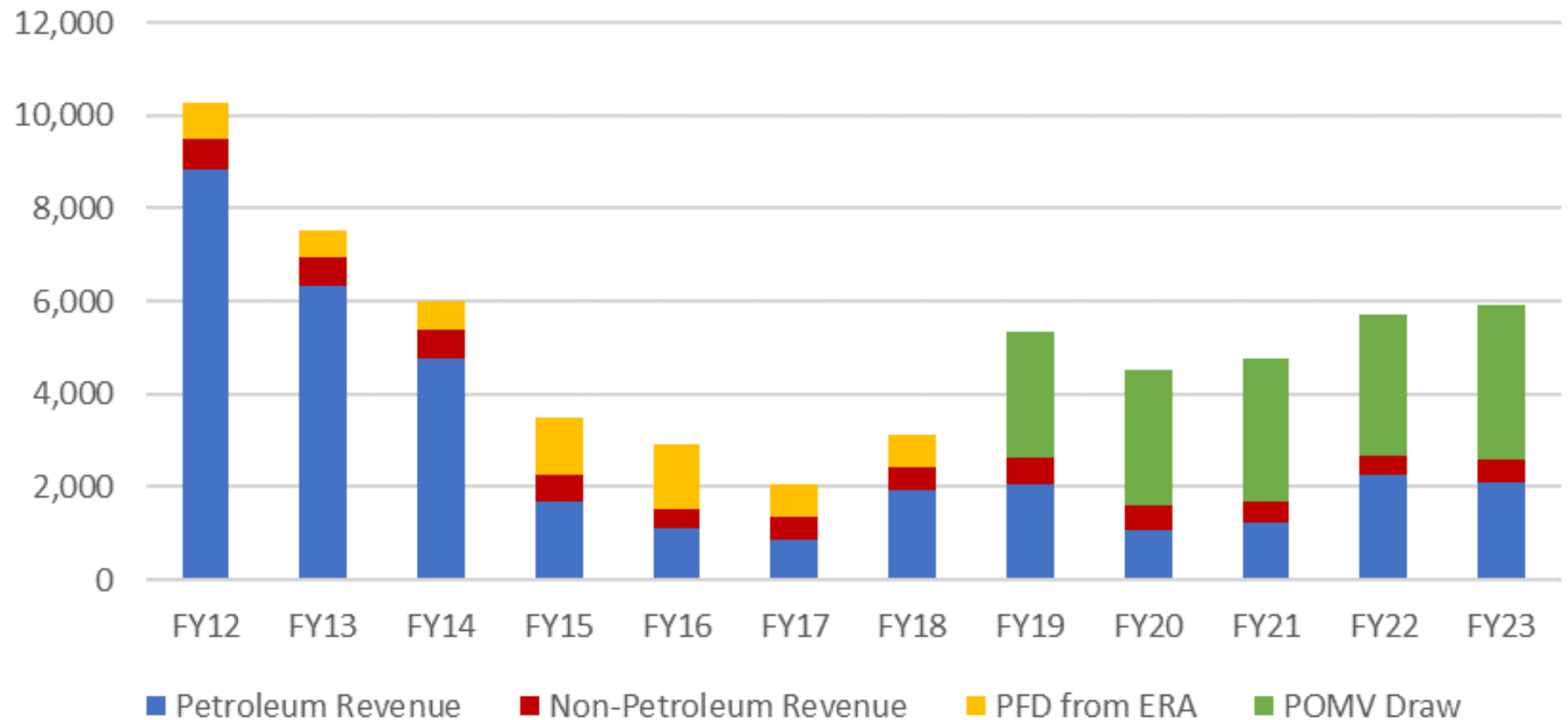
- Update on Fiscal Situation
- Legislative Finance's FY23 Budget Baselines
- Governor's FY23 Proposal and FY22 Supplementals
- Long-Term Outlook and Governor's 10-Year Plan
- Federal COVID-19 and Infrastructure Funds

# Update on Fiscal Situation

- Due to record investment performance in FY21 and higher oil prices than a year ago, Alaska's fiscal situation has improved.
- DOR's Fall Revenue Forecast calls for \$1 billion more UGF revenue in FY22 than the Spring Forecast, and \$800 million more in FY23.
- Before supplementals, there is a \$428.6 million pre-transfer surplus in FY22 (\$1,074.6 million after use of SBR and ARPA revenue replacement).

# Update on Fiscal Situation (cont.)

UGF Revenue, FY12 - FY23  
(\$millions)

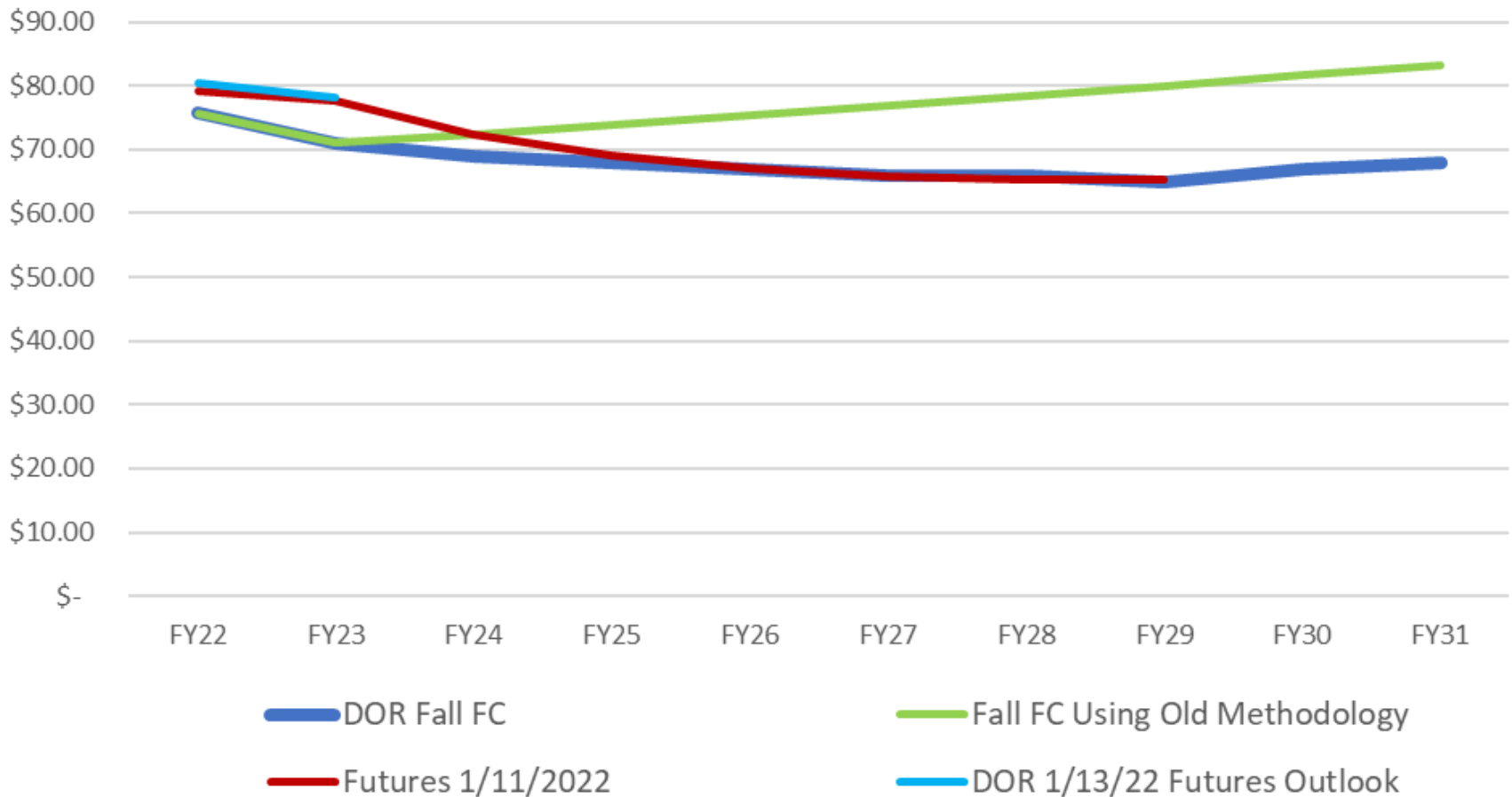


# Update on Fiscal Situation (cont.)

- Department of Revenue changed oil price forecast methodology this year.
- Pre-2019, the forecast used a “Modified Delphi” approach, with a group of stakeholders making predictions and DOR averaging them.
  - This had problems with timing lag between forecasting session and forecast release, causing DOR to frequently diverge from this method.
  - It also was not transparent – no outsider could validate the forecast.
- Starting in 2019, DOR began using the futures market (based on Brent, an international benchmark) for the first two years and then held that price flat, adjusted for inflation, for years beyond.
  - This improved transparency of the forecast. DOR’s statistical analysis (verified by LFD) showed no loss of accuracy.
- Starting with the Fall 2021 forecast, DOR now uses the futures market through FY29 (as far as they were available at the time).
  - This change was due to statistical analysis by DOR (verified by LFD) that showed that this approach increases forecast accuracy.
- LFD is supportive of the changes to a more transparent forecast informed by statistical analysis.

# Update on Fiscal Situation (cont.)

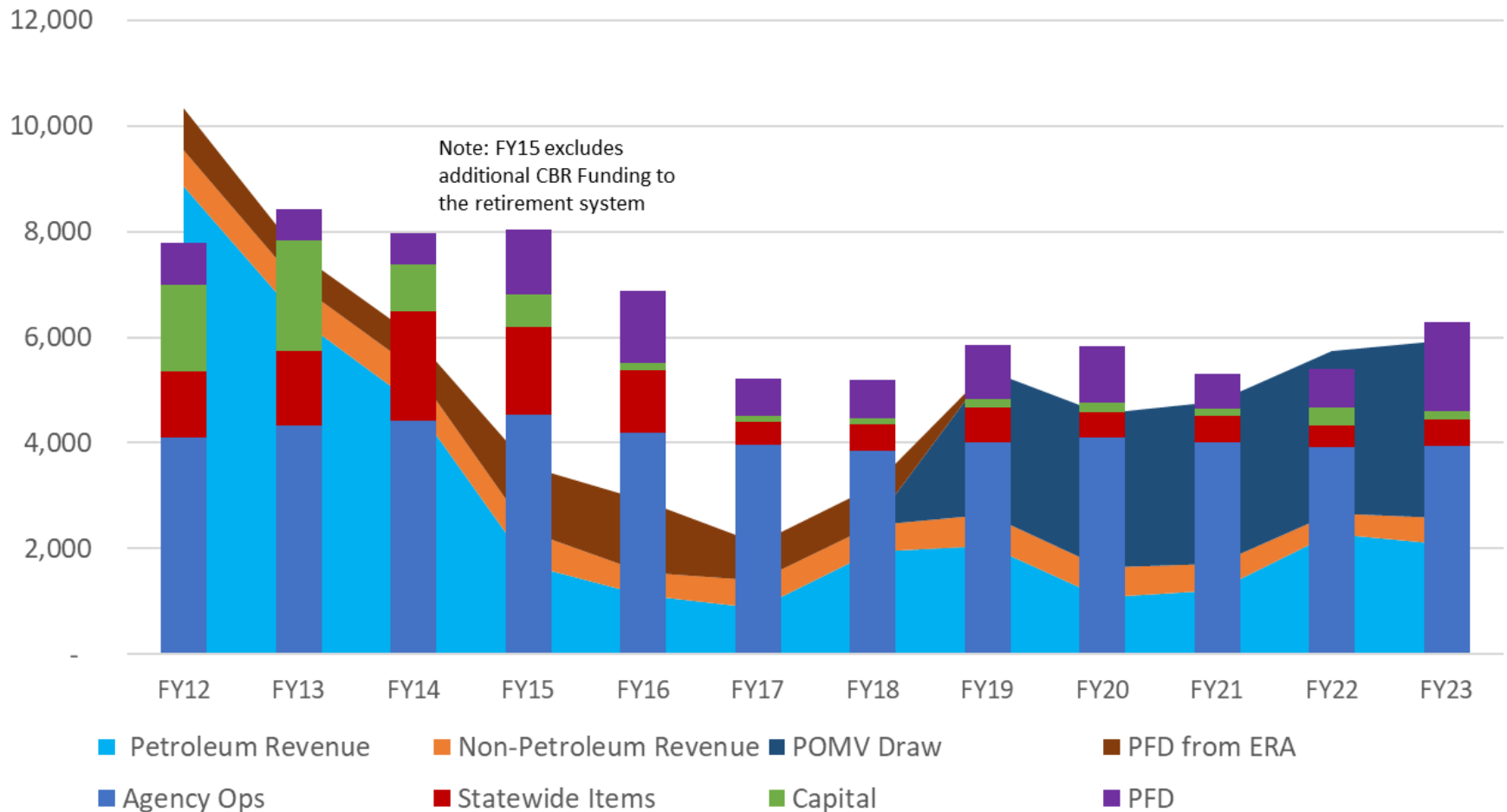
ANS Price Forecast Comparison



- DOR's 1/13/22 Futures Outlook forecasts \$78.17/bbl and \$6,404.3 UGF Revenue in FY23 (\$466.6 million above DOR's fall forecast)

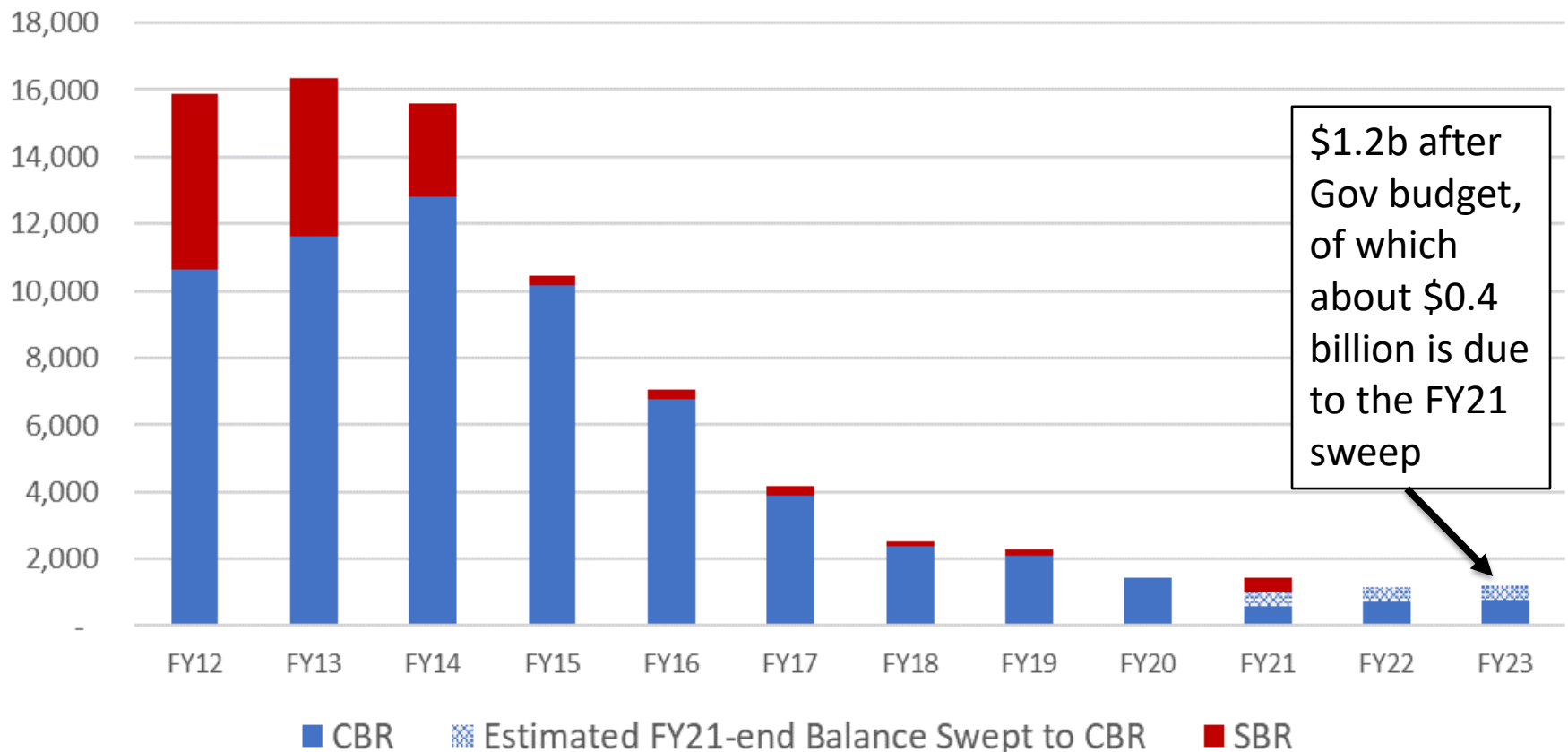
# Update on Fiscal Situation (cont.)

## UGF Budget & Revenue, FY12-F23 (\$millions)



# Update on Fiscal Situation (cont.)

CBR and SBR FY-End Balances, FY12-FY23  
(\$millions)





# LFD's Budget Baselines

- Two baselines to consider: *current policy* and *current law*. These are intended to create a “clean” starting point for the current budget rather than previous years that are distorted by one-time items.
- Both scenarios use a slightly modified version of the FY22 Adjusted Base for agency operations.
- *Current policy* assumes roughly \$1,100 PFD, continued partial funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
- *Current law* assumes statutory PFD, full funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
  - Statutory PFD is projected to be about \$2.76 billion, paying about \$4,200 per recipient.
  - Fully funding all statewide items that were partially funded in FY22 are estimated to be about \$167.9 million UGF more than maintaining FY22 funding levels.

# LFD's Budget Baselines (Cont.)

Agency Ops Changes from FY22 to FY23 Baseline (\$ millions)	
<b>SB 55 Investment Performance</b>	<b>(29.7)</b>
<b>SB 55 Fund Source Changes</b>	<b>(14.7)</b>
<b>K-12 Projection Change</b>	<b>(18.7)</b>
<b>Contractual Adjustments</b>	<b>13.6</b>
<b>Removal of One-Time Items</b>	<b>(17.8)</b>
<b>Other Changes</b>	<b>1.6</b>
<b>Total Change from FY22 to FY23 Baseline</b>	<b>(65.8)</b>

# LFD's Budget Baselines (Cont.)

Statewide Items Detail		
	Current Policy	Current Law
<b>School Debt Reimbursement*</b>	17.1	63.9
<b>Other Debt Service</b>	92.4	92.4
<b>State Retirement Payments</b>	129.6	129.6
<b>REAA Fund Capitalization</b>	16.4	32.7
<b>Community Assistance**</b>	-	-
<b>Oil and Gas Tax Credits</b>	94.3	199.0
<b>Statewide Items Total</b>	<b>349.6</b>	<b>517.5</b>
<p>*Plus \$15.1 million from the School Fund (DGF)</p> <p>**The \$30 million statutory deposit may be fully covered from the PCE Fund based on AS 29.60.850. To achieve the maximum \$90 million fund balance and full \$30 million distribution, an additional \$21.2 million deposit would be needed.</p>		

# LFD's Budget Baselines (Cont.)

FY23 Current Policy and Current Law Scenarios		
<b>UGF Revenue</b>	<b>5,937.8</b>	<b>5,937.8</b>
	<b>Current Policy</b>	<b>Current Law</b>
Agency Operations	3,853.5	3,853.5
Statewide Items	349.6	517.5
Capital Budget	242.9	242.9
<b>Subtotal</b>	<b>4,446.0</b>	<b>4,613.9</b>
PFD	739.0	2,764.4
<b>Total Budget</b>	<b>5,185.0</b>	<b>7,378.3</b>
<b>Surplus/(Deficit)</b>	<b>752.8</b>	<b>(1,440.5)</b>

# Governor's FY22/23 Budget Compared to Baselines

Governor's Budget versus LFD Baselines					
UGF Revenue	5,937.8	5,937.8	5,937.8		
	Current Policy	Current Law	Governor	Difference from Current Policy	Difference from Current Law
Agency Ops	3,853.5	3,853.5	3,933.6	80.1	80.1
Statewide Items	349.6	517.5	517.5	167.9	-
Capital Budget	242.9	242.9	154.7	(88.2)	(88.2)
<b>Subtotal</b>	<b>4,446.0</b>	<b>4,613.9</b>	<b>4,605.8</b>	<b>159.8</b>	<b>(8.1)</b>
PFD	739.0	2,764.4	1,680.3	941.3	(1,084.1)
<b>Total Budget</b>	<b>5,185.0</b>	<b>7,378.3</b>	<b>6,286.1</b>	<b>1,101.1</b>	<b>(1,092.2)</b>
<b>Pre-Transfer Deficit</b>	<b>752.8</b>	<b>(1,440.5)</b>	<b>(348.3)</b>		

# Governor's FY22/23 Budget (Cont.)

- Includes supplemental PFD payment for FY22 to reach 50/50 and a 50/50 PFD in FY23.
- Agency Operations increases by \$80.1 million (2.1%) over LFD baseline – in line with inflation assumption of 2.0%.
- Fully funds statewide items.
- Pre-transfer deficit of \$348.4 million in FY23 is filled with \$375.4 million of one-time use of ARPA for revenue replacement.
- No reverse sweep or deficit-filling CBR language.

# Governor's FY22/23 Budget (Cont.)

Short Fiscal Summary - Governor's Budget (UGF Only)			
	FY22	FY23	Comparison
<b>Revenue</b>	<b>5,744.0</b>	<b>5,937.9</b>	<b>193.8</b>
Agency Operations	3,919.3	3,933.6	14.3
Statewide Items	414.0	517.6	103.6
Capital	242.9	154.7	(88.2)
<b>Subtotal</b>	<b>4,576.1</b>	<b>4,605.9</b>	<b>29.7</b>
Permanent Fund Dividend	739.0	1,680.3	941.2
<b>Subtotal before Supplementals</b>	<b>5,315.2</b>	<b>6,286.1</b>	<b>755.4</b>
Supplementals excl. PFD	135.1	-	(135.1)
Supplemental PFD	795.6	-	(795.6)
<b>Total Budget</b>	<b>6,245.9</b>	<b>6,286.1</b>	<b>40.3</b>
<b>Pre-Transfer Surplus/(Deficit)</b>	<b>(501.9)</b>	<b>(348.4)</b>	
Fund Transfers (excl. CBR)	(646.6)	(375.1)	
<b>Post-Transfer Surplus/(Deficit)</b>	<b>144.2</b>	<b>26.7</b>	

# Governor's FY22/23 Budget (Cont.)

- Agency Operations are \$80.1 million UGF above LFD's baseline:
  - Medicaid: Increase by \$45.0 million UGF due to the expiration of federal increased FMAP
  - Alaska Marine Highway System: *Decrease* by \$63.4 million UGF due to use of federal infrastructure funds
  - Reverse sweep: \$33.6 million UGF increase from fund changes to offset lost DGF due to failure of reverse sweep
  - Department of Public Safety: \$16.5 million increases for Alaska State Troopers, VPSOs, and other items
  - Department of Transportation: \$10.9 for replacing one-time federal funds (still leaving \$22.4 million that will need to be replaced in FY24)
  - Other items net to an increase of \$37.5 million



# Governor's FY22/23 Budget (Cont.)

- Statewide Items total \$517.6 million
  - School Debt Reimbursement, REAA Fund Capitalization, Oil and Gas Tax Credits all funded at statutory levels
  - Community Assistance funded with \$30 million for PCE fund per statute
  - State retirement payments down \$116.6 million from FY23 due to a combination of two factors:
    - Investment performance: \$61.5 million
    - ARM Board decision to adopt a zero additional contribution rate for health care: \$55.1 million

# Governor's FY22/23 Budget (Cont.)

- Capital Budget totals \$154.7 million UGF in FY23, plus an additional \$93.0 million of supplemental capital projects
  - Of the supplementals, \$47.9 million are in the fast-track bill and \$45.1 million are regular supplementals
- Governor also introduced a \$308.6 million general obligation bond package
- The Governor does not yet incorporate the federal Investing in Infrastructure and Jobs Act (IIJA) in his capital budget – that may come in future amendments

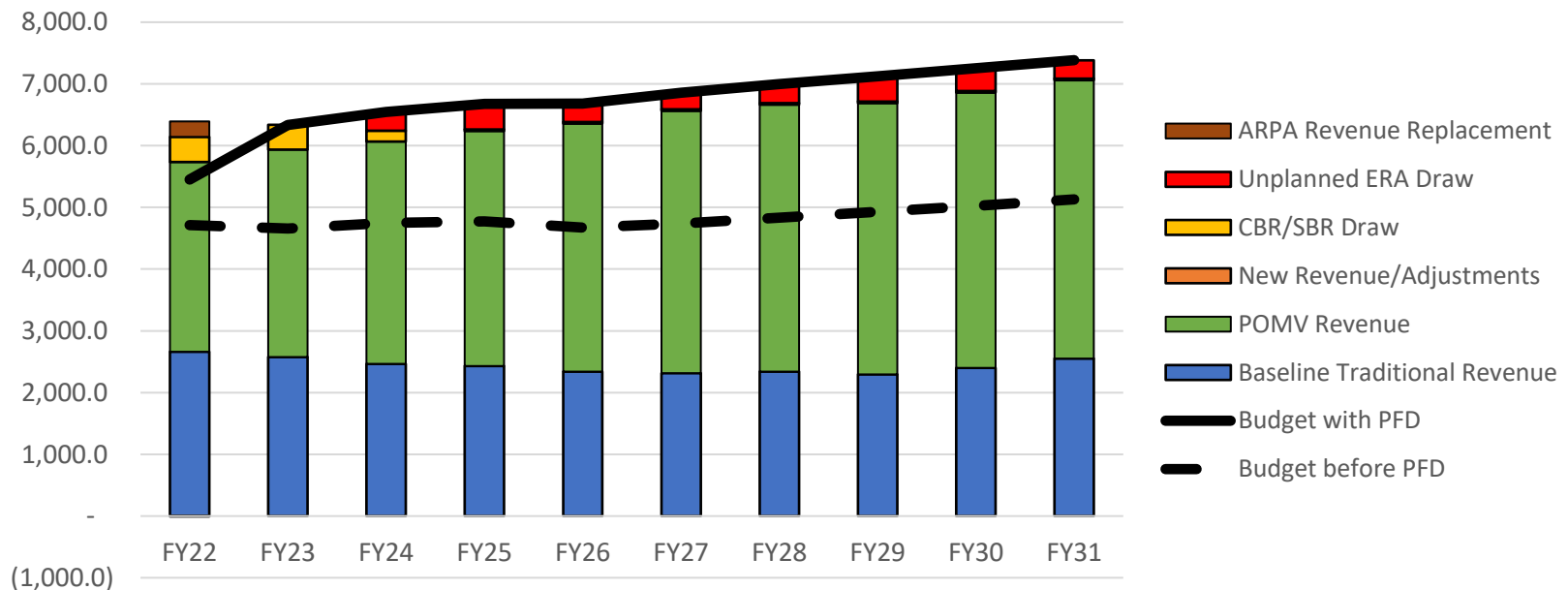
# Long-Term Outlook and Governor's 10-Year Plan

- LFD modeling baseline assumes Governor's FY23 budget grows with inflation.
- With the 50/50 PFD plan, LFD's baseline shows deficits in the range of \$300-500 million per year over the next decade – enough to drain the CBR in FY25.
- The Governor's 10-Year Plan makes several policy changes relative to the baseline that reduce the deficit and maintain the CBR, but it still has deficits from FY23-29.

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

LFD Baseline with 50/50 PFD plan (\$ millions)									
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
<b>Revenue</b>	5,937.7	6,064.5	6,237.4	6,358.9	6,567.9	6,675.8	6,706.3	6,877.8	7,082.2
<b>Budget</b>	4,655.9	4,747.5	4,774.5	4,672.3	4,735.3	4,833.6	4,926.5	5,025.1	5,127.8
<b>PFD</b>	1,680.3	1,800.0	1,903.8	2,009.4	2,126.8	2,167.5	2,204.6	2,237.5	2,266.3
<b>Pre-Transfer Deficit</b>	<b>(398.5)</b>	<b>(483.0)</b>	<b>(440.9)</b>	<b>(322.9)</b>	<b>(294.3)</b>	<b>(325.3)</b>	<b>(424.8)</b>	<b>(384.8)</b>	<b>(311.8)</b>

LFD Baseline with 50/50 PFD Plan



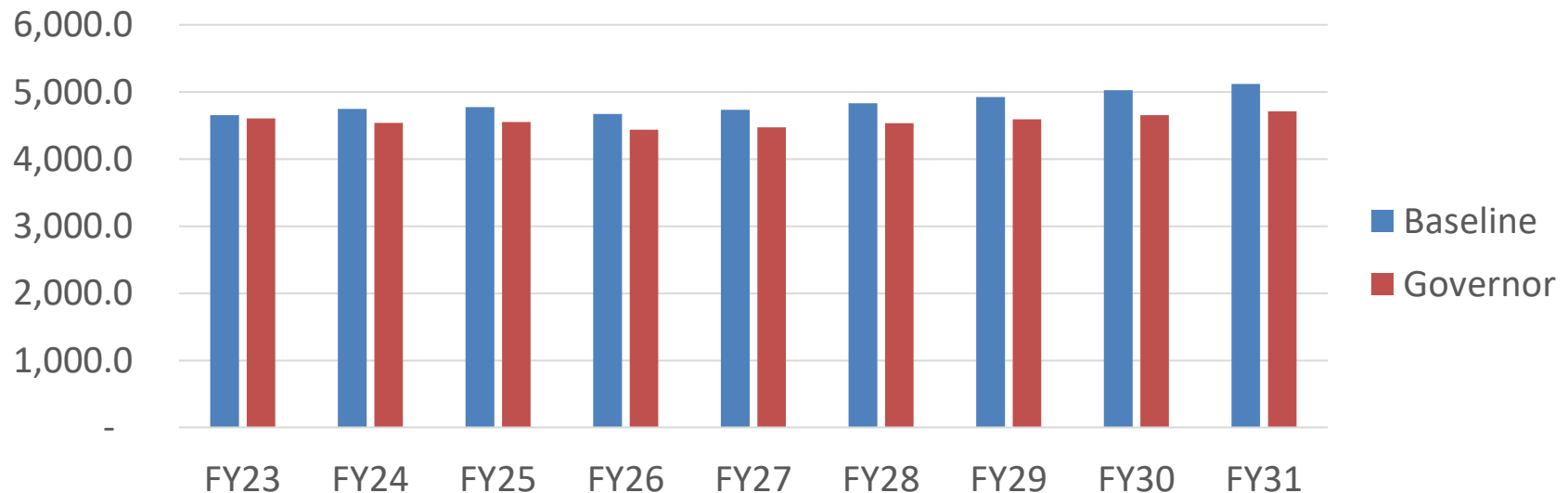
# Long-Term Outlook and Governor's 10-Year Plan (Cont.)

- Policy changes in Governor's 10-Year Plan:
  - Agency operations are held flat in FY24, then grow at 1.5% for all items except Medicaid, which grows at 1.0%;
  - Beginning in FY24, School Debt Reimbursement is funded at 50%, and the REAA Fund Cap is reduced to a flat \$17.5 million;
  - PERS and TRS health care contributions are not funded;
  - The capital budget is held flat with no inflationary growth, but a General Obligation Bond issued in FY23 increases debt service by \$22.8 million in FY24 and beyond;
  - Supplementals and lapse are assumed to cancel out; and
  - Governor uses \$375.4 million of ARPA revenue replacement in FY23.

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

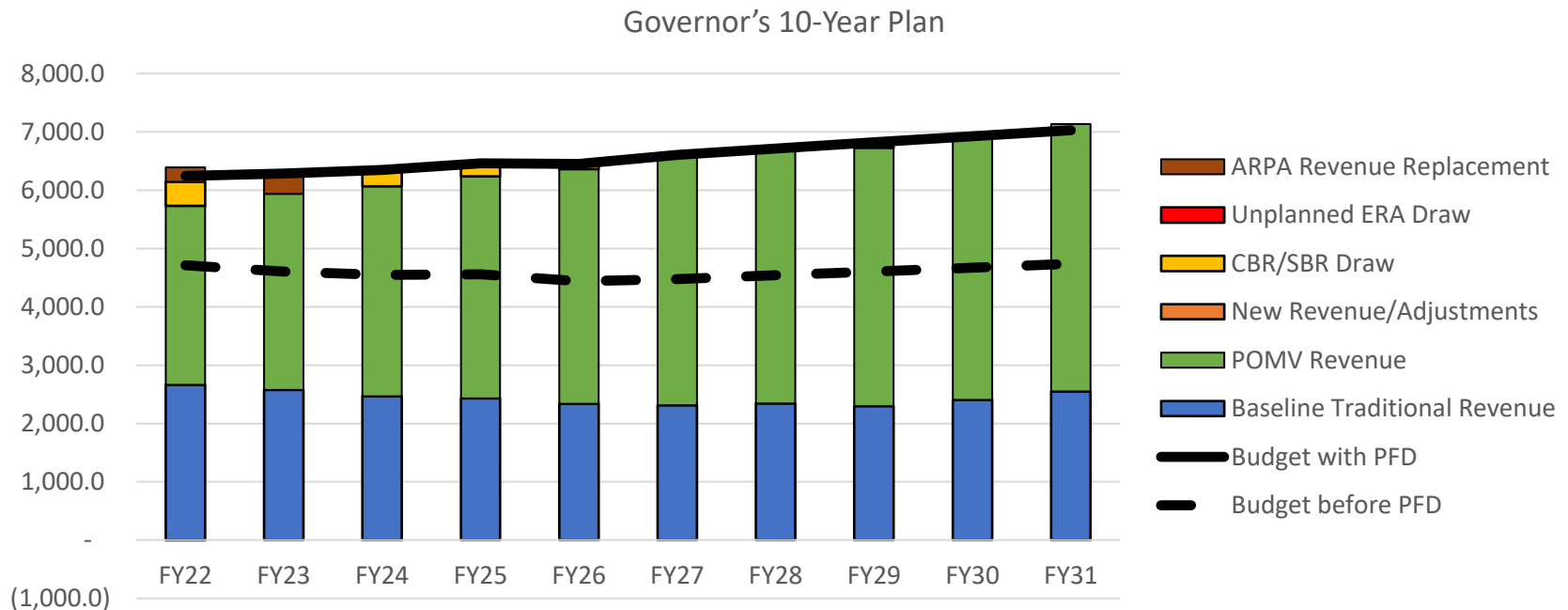
Comparison of LFD Baseline to the Governor's 10-Year Plan (\$ millions)									
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
<b>Baseline</b>	4,655.9	4,747.5	4,774.5	4,672.3	4,735.3	4,833.6	4,926.5	5,025.1	5,127.8
<b>Governor</b>	4,606.2	4,540.0	4,554.7	4,440.0	4,473.2	4,535.0	4,594.3	4,656.8	4,711.9
<b>Difference</b>	<b>(49.7)</b>	<b>(207.5)</b>	<b>(219.8)</b>	<b>(232.3)</b>	<b>(262.1)</b>	<b>(298.6)</b>	<b>(332.2)</b>	<b>(368.3)</b>	<b>(415.9)</b>

LFD Baseline to Governor's 10-Year Plan



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

Governor's 10-Year Plan in LFD Model (\$ millions)									
	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
<b>Revenue</b>	5,937.7	6,064.5	6,237.4	6,358.9	6,571.3	6,685.9	6,726.0	6,910.7	7,132.6
<b>Budget</b>	4,605.9	4,543.7	4,558.1	4,440.4	4,475.5	4,542.4	4,604.4	4,669.1	4,735.7
<b>PFD</b>	1,680.3	1,800.0	1,903.8	2,009.4	2,128.6	2,172.5	2,214.5	2,254.0	2,291.4
<b>Pre-Transfer Deficit</b>	(348.5)	(279.2)	(224.5)	(90.9)	(32.7)	(29.1)	(92.9)	(12.4)	105.4



# Federal COVID-19 and Infrastructure Funds

- In the 2021 legislative session, the legislature appropriated about \$1.5 billion of non-discretionary federal COVID-related funds and \$758.2 million of discretionary COVID funds
  - The discretionary sources were the Coronavirus State and Local Federal Relief Fund (CSLFRF) and several transportation-related fund sources
- This left approximately half (\$504.8 million) of the CSLFRF for FY23/24, plus the \$111.8 million Capital Projects Fund, which must be appropriated by September of this year



# Federal COVID-19 and Infrastructure Funds (Cont.): CSLFRF

- From CSLFRF, Governor proposes spending the remaining \$504.8m balance in FY22/23 budgets. Highlights:
  - \$375.4 million for revenue replacement (filling the FY23 deficit)
  - \$72.0 million for capital projects, including:
    - \$25.0 million mariculture incentive program
    - \$25.0 million food security agriculture grants
  - \$22.8 million for three University of Alaska research projects (drones, heavy oil, and critical minerals)
  - \$20.0 million for COVID-19 response in fast-track
  - \$10.0 million for workforce training

# Federal COVID-19 and Infrastructure Funds (Cont.): Capital Projects Fund

- Capital Projects Fund guidance came out in September 2021 and funding must be appropriated by September 2022. Eligible uses include broadband and other projects enabling remote work, education, and health monitoring.
- Governor proposes spending \$63.8 million out of the \$111.8 million Alaska has to spend – the remainder will presumably come in future amendments.
- Proposals in FY23 budget:
  - \$30.0 million for Healthcare Record System improvements
  - \$20.0 million for Student Information Technology Systems
  - \$13.8 million for Eagle River Fire Crew Facility

# Federal COVID-19 and Infrastructure Funds (Cont.): IIJA

- IIJA increases several existing federal programs and adds new ones, generally over FY22-26.
- Federal apportionments and guidance are still being developed, so there is significant uncertainty about how much money Alaska could receive and how much matching funds that would take. Governor did not incorporate these funds in his capital budget.
- LFD estimates up to \$36.4 million of additional match could be needed in FY23. However, that may be reduced by using a previous appropriation for the Tustumena replacement (\$22.0 million of match appropriated in FY18).
- The Alaska Marine Highway System (AMHS) is the one area that the Governor uses IIJA funds – to offset UGF in its operating budget for a \$63.4 million reduction. In addition, funds are available on the capital side for AMHS that are not in the Governor's budget yet.

# Questions?

## Contact Information

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