# The Fiscal Year 2023 Budget:

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

Legislative Finance Division

www.legfin.akleg.gov

## Short Fiscal Summary - FY22/FY23 Budget

| # | ($ Millions) (Non-duplicated Funds) | FY22 Budget UGF | FY23 Governor UGF | Change in UGF | Change in UGF % |
|---|---|---|---|---|---|
| 1 | **Revenue** | **5,744.0** | **5,937.8** | **193.8** | **3%** |
| 2 | UGF Revenue (Fall 2021 Forecast) | 2,662.7 | 2,577.2 | (85.5) | -3% |
| 3 | POMV Draw | 3,069.3 | 3,360.6 | 291.3 | 9% |
| 4 | Misc/Adjust/Non-UGF Revenue | 12.0 | - | (12.0) | |
| | | | | | |
| 5 | **Appropriations** | **6,245.9** | **6,286.1** | **40.3** | **1%** |
| 6 | **Operating Budget** | **4,375.3** | **4,451.1** | **75.8** | **2%** |
| 7 | Agency Operations | 3,919.3 | 3,933.6 | 14.3 | 0% |
| 8 | Statewide Items | 414.0 | 517.6 | 103.6 | 25% |
| 9 | Supplemental Appropriations | 42.1 | - | (42.1) | |
| | | | | | |
| 10 | **Capital Budget** | **335.9** | **154.7** | **(181.2)** | **-54%** |
| 11 | Current Year Appropriations | 242.9 | 154.7 | (88.2) | -36% |
| 12 | Supplemental Appropriations | 93.0 | - | (93.0) | |
| | | | | | |
| 13 | **Permanent Fund** | **1,534.6** | **1,680.3** | **145.6** | **9%** |
| 14 | Permanent Fund Dividends | 739.0 | 1,680.3 | 941.2 | 127% |
| 15 | Supplemental Permanent Fund Dividend | 795.6 | - | | |
| 16 | Inflation Proofing/Other Deposits* | - | - | | |
| | | | | | |
| 17 | **Pre-Transfer Surplus/(Deficit)** | **(501.9)** | **(348.4)** | | |
| 18 | Statutory Budget Reserve | (410.7) | - | | |
| 19 | American Rescue Plan Act (ARPA) | (250.0) | (375.4) | | |
| 20 | Other Fund Transfers | 14.6 | 0.3 | | |
| | | | | | |
| 21 | **Post-Transfer Surplus/(Deficit)** | **144.2** | **26.7** | | |

**Reserve Balances (EOY)**

| | FY22 | FY23 |
|---|---|---|
| **SBR** | - | - |
| **CBR** | 1,159.6 | 1,218.2 |
| **ERA** | 14,901.4 | 15,613.8 |

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** In FY22 there is an appropriation to transfer $4 billion from the Permanent Fund earnings reserve account to principal. In FY23 there is an appropriation to transfer $1.039 billion from the Permanent Fund earnings reserve account to principal for inflation proofing.*

## State of Alaska Detailed Fiscal Summary--FY22 and FY23 (Part 1)

($ millions)

| | | FY22 Management Plan + Governor's Supplementals | | | | | FY23 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** | **5,744.0** | **991.2** | **890.5** | **6,511.4** | **14,137.2** | **5,937.8** | **983.6** | **825.0** | **4,963.1** | **12,709.5** | **193.8** | **3.4%** |
| 2 | Unrestricted General Fund Revenue (Fall 2021 Forecast) **(1)** | **2,662.7** | 41.4 | **-** | **-** | **2,704.1** | **2,577.2** | 74.8 | **-** | **-** | **2,652.0** | | |
| 3 | POMV Payout from ERA | 3,069.3 | - | - | - | 3,069.3 | 3,360.6 | - | - | - | 3,360.6 | | |
| 4 | Carryforward, Repeals, and Reappropriations **(2)** | 12.0 | 53.5 | 96.0 | 1,247.4 | 1,408.9 | - | - | - | - | - | | |
| 5 | Restricted Revenue **(3)** | - | 896.3 | 794.5 | 5,264.0 | 6,954.9 | - | 908.8 | 825.0 | 4,963.1 | 6,696.9 | | |
| | **APPROPRIATIONS** | | | | | | | | | | | | |
| 6 | **TOTAL OPERATING APPROPRIATIONS** | **4,375.3** | **889.8** | **820.0** | **4,661.9** | **10,747.1** | **4,451.1** | **802.7** | **787.6** | **3,177.1** | **9,218.6** | **75.8** | **1.7%** |
| 7 | **Agency Operations** | **3,927.3** | **748.6** | **769.1** | **4,516.7** | **9,961.8** | **3,933.6** | **707.0** | **721.8** | **3,139.1** | **8,501.5** | **6.2** | **0.2%** |
| 8 | **Current Fiscal Year Appropriations** | **3,919.3** | **747.6** | **769.1** | **4,496.7** | **9,932.7** | **3,933.6** | **707.0** | **721.8** | **3,139.1** | **8,501.5** | **14.3** | **0.4%** |
| 9 | Agency Operations (Non-Formula) **(9)** | 1,876.6 | 696.5 | 721.9 | 2,466.2 | 5,761.2 | 1,855.2 | 668.1 | 674.6 | 1,266.5 | 4,464.5 | (21.4) | -1.1% |
| 10 | K-12 Foundation and Pupil Transportation (Formula) | 1,233.7 | - | 31.7 | 20.8 | 1,286.3 | 1,215.1 | - | 31.7 | 20.8 | 1,267.6 | (18.7) | -1.5% |
| 11 | Medicaid Services (Formula) | 610.6 | 0.9 | 15.5 | 1,751.5 | 2,378.4 | 656.0 | 0.4 | 15.5 | 1,751.5 | 2,423.4 | 45.5 | 7.4% |
| 12 | Other Formula Programs | 198.3 | 50.2 | - | 222.1 | 470.6 | 207.2 | 38.5 | - | 100.3 | 346.0 | 8.9 | 4.5% |
| 13 | Revised Programs Legislatively Approved (RPLs) | - | - | - | 36.2 | 36.2 | - | - | - | - | - | - | |
| 14 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *870.6* | - | *870.6* | - | - | *877.7* | - | *877.7* | - | |
| 15 | **Supplemental Appropriations (Agency Operations)** | **8.1** | **1.0** | **-** | **20.0** | **29.1** | **-** | **-** | **-** | **-** | **-** | (8.1) | |
| 16 | Supplemental Appropriations | 8.1 | 1.0 | ` | 20.0 | 29.1 | - | - | - | - | - | | |
| 17 | **Statewide Items** | **448.0** | **141.2** | **50.9** | **145.2** | **785.3** | **517.6** | **95.7** | **65.8** | **38.0** | **717.1** | **69.6** | **15.5%** |
| 18 | **Current Fiscal Year Appropriations** | **414.0** | **141.2** | **50.9** | **145.2** | **751.3** | **517.6** | **95.7** | **65.8** | **38.0** | **717.1** | **103.6** | **25.0%** |
| 19 | Debt Service | 96.7 | 30.8 | 39.5 | 5.3 | 172.3 | 156.2 | 15.1 | 27.8 | 4.8 | 204.0 | 59.6 | 61.6% |
| 20 | Fund Capitalizations | 71.1 | 27.6 | 0.3 | 25.7 | 124.8 | 231.8 | 45.2 | 10.3 | 33.2 | 320.5 | 160.7 | |
| 21 | *Community Assistance* | - | *12.4* | - | - | *12.4* | - | *30.0* | - | - | *30.0* | - | |
| 22 | *REAA School Fund* | *17.1* | - | - | - | *17.1* | *32.8* | - | - | - | *32.8* | *15.7* | |
| 23 | *Oil and Gas Tax Credit Fund* | *54.0* | - | - | - | *54.0* | *199.0* | - | - | - | *199.0* | | |
| 24 | *Other Fund Capitalization* | - | *15.2* | *0.3* | *25.7* | *41.3* | - | *15.2* | *10.3* | *33.2* | *58.7* | - | |
| 25 | State Payments to Retirement Systems **(9)** | 246.2 | - | - | - | 246.2 | 129.6 | - | - | - | 129.6 | (116.6) | -47.4% |
| 26 | Shared Taxes | - | 29.2 | 11.1 | - | 40.3 | - | 35.4 | 27.7 | - | 63.2 | - | |
| 27 | Alaska Comprehensive Insurance Program | - | 53.5 | - | 114.3 | 167.8 | - | - | - | - | - | - | |
| 28 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *9.4* | - | *9.4* | - | - | *10.7* | - | *10.7* | - | |
| 29 | **Supplemental Appropriations (Statewide Items)** | **34.0** | **-** | **-** | **-** | **34.0** | **-** | **-** | **-** | **-** | **-** | | |
| 30 | *Supplemental Appropriations* | 34.0 | - | - | - | 34.0 | - | - | - | - | - | | |
| 31 | **TOTAL CAPITAL APPROPRIATIONS** | **335.9** | **56.6** | **70.2** | **1,599.5** | **2,062.2** | **154.7** | **73.4** | **37.1** | **1,410.6** | **1,675.8** | **(181.2)** | **-53.9%** |
| 32 | **Current Fiscal Year Appropriations** | **242.9** | **56.4** | **70.2** | **1,593.5** | **1,963.0** | **154.7** | **73.4** | **37.1** | **1,410.6** | **1,675.8** | **(88.2)** | **-36.3%** |
| 33 | Project Appropriations | 242.9 | 56.4 | 70.2 | 1,593.5 | 1,963.0 | 154.7 | 73.4 | 37.1 | 1,410.6 | 1,675.8 | (88.2) | |
| 34 | Direct from the Constitutional Budget Reserve **(7)** | - | - | - | - | - | - | - | - | - | - | - | |
| 35 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *33.5* | - | *33.5* | - | - | *337.5* | - | *337.5* | - | |
| 36 | **Supplemental Appropriations (Capital)** | **93.0** | **0.2** | **-** | **6.0** | **99.2** | **-** | **-** | **-** | **-** | **-** | (93.0) | |
| 37 | Capital Projects | 93.0 | 0.2 | - | 6.0 | 99.2 | - | - | - | - | - | (93.0) | -100.0% |
| 38 | *Duplicated Authorization (non-additive)* ***(4)*** | - | - | *32.8* | - | *32.8* | - | - | - | - | - | | |
| 39 | *Money on the Street (includes all fund sources)* ***(5)*** | *335.9* | *56.6* | *136.5* | *1,599.5* | *2,128.5* | *154.7* | *73.4* | *374.6* | *1,410.6* | *2,013.2* | | |
| 40 | **Pre-Permanent Fund Authorization** (unduplicated) | **4,711.2** | **946.4** | **890.3** | **6,261.4** | **12,809.3** | **4,605.9** | **876.1** | **824.8** | **4,587.7** | **10,894.4** | **(105.4)** | **-2.2%** |
| 41 | ***Revenue less operating and capital appropriations*** | ***1,032.8*** | | | | | ***1,331.9*** | | | | | | |
| 42 | **Permanent Fund Appropriations** | **1,534.6** | **41.4** | **-** | **-** | **1,576.0** | **1,680.3** | **74.8** | **-** | **-** | **1,755.1** | **145.6** | **9.5%** |
| 43 | Permanent Fund Dividends **(9)** | 739.0 | - | - | - | 739.0 | 1,680.3 | - | - | - | 1,680.3 | 941.2 | 127.4% |
| 44 | Amerada Hess Earnings to Alaska Capital Income Fund | - | 41.4 | - | - | 41.4 | - | 74.8 | - | - | 74.8 | | |
| 45 | Transfer to Principal from Earnings Reserve Account | 4,000.0 | - | - | - | 4,000.0 | 1,039.0 | - | - | - | 1,039.0 | | |
| 46 | Transfer from Earnings Reserve Account to Principal | (4,000.0) | - | - | - | (4,000.0) | (1,039.0) | - | - | - | (1,039.0) | | |
| 47 | **Supplemental Appropriations (Permanent Fund)** | **795.6** | **-** | **-** | **-** | **795.6** | **-** | **-** | **-** | **-** | **-** | (795.6) | |
| 48 | Permanent Fund Dividends | 795.6 | - | - | - | 795.6 | - | - | - | - | - | | |
| 49 | **Pre-Transfers Authorization** (unduplicated) | **6,245.9** | **987.8** | **890.3** | **6,261.4** | **14,385.3** | **6,286.1** | **950.9** | **824.8** | **4,587.7** | **12,649.5** | **40.3** | **0.6%** |
| 50 | ***Pre-Transfer Surplus/(Deficit) (8)*** | *(501.9)* | *Revenue =* | *92.0%* | *of Appropriations* | | *(348.4)* | *Revenue =* | *94.5%* | *of Appropriations* | | | |

January 7, 2022

## State of Alaska Detailed Fiscal Summary--FY22 and FY23 (Part 1)

($ millions)

| | | FY22 Management Plan + Governor's Supplementals | | | | | FY23 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 | $ | % |
| 51 | **Fund Transfers (6)** | **(646.0)** | **3.5** | **0.3** | **250.0** | **(392.3)** | **(375.1)** | **32.8** | **0.2** | **375.4** | **33.3** | **270.9** | |
| 52 | **Current Fiscal Year Transfers** | **(646.0)** | **3.5** | **0.3** | **250.0** | **(392.3)** | **(375.1)** | **32.8** | **0.2** | **375.4** | **33.3** | **270.9** | |
| 53 | Renewable Energy Fund | - | - | - | - | - | - | 15.0 | | | 15.0 | - | |
| 54 | Oil & Hazardous Substance Fund ***(10)*** | 14.3 | 1.9 | - | - | 16.2 | - | 16.8 | - | - | 16.8 | (14.3) | -100.0% |
| 55 | Other Fund Transfers | 0.3 | 1.6 | 0.3 | - | 2.1 | 0.3 | 0.9 | 0.2 | - | 1.4 | (0.0) | |
| 56 | Statutory Budget Reserve Fund | (410.7) | - | - | - | (410.7) | - | | | | - | | |
| 57 | General Fund Deposit from American Rescue Plan Act (ARPA) | (250.0) | - | - | 250.0 | - | (375.4) | - | - | 375.4 | - | | |
| 58 | **Post-Transfers Authorization** **(unduplicated)** | **5,599.8** | **991.2** | **890.5** | **6,511.4** | **13,993.0** | **5,911.0** | **983.6** | **825.0** | **4,963.1** | **12,682.7** | **311.2** | **5.6%** |
| 59 | ***Post-Transfer Surplus/(Deficit) (7)*** | ***144.2*** | ***Revenue =*** | ***102.6%*** | ***of Appropriations*** | | ***26.7*** | ***Revenue =*** | ***100.5%*** | ***of Appropriations*** | | | |
| 60 | **FISCAL YEAR SUMMARY** | **5,599.8** | **991.2** | **890.5** | **6,511.4** | **13,993.0** | **5,911.0** | **983.6** | **825.0** | **4,963.1** | **12,682.7** | **311.2** | **5.6%** |
| 61 | **Agency Operations** | 3,927.3 | 748.6 | 769.1 | 4,516.7 | 9,961.8 | 3,933.6 | 707.0 | 721.8 | 3,139.1 | 8,501.5 | 6.2 | 0.2% |
| 62 | Statewide Items | 448.0 | 141.2 | 50.9 | 145.2 | 785.3 | 517.6 | 95.7 | 65.8 | 38.0 | 717.1 | 69.6 | 15.5% |
| 63 | Permanent Fund Appropriations | 1,534.6 | 41.4 | - | - | 1,576.0 | 1,680.3 | 74.8 | - | - | 1,755.1 | 145.6 | 9.5% |
| 64 | **Total Operating** | **5,910.0** | **931.2** | **820.0** | **4,661.9** | **12,323.1** | **6,131.4** | **877.5** | **787.6** | **3,177.1** | **10,973.7** | **221.4** | **3.7%** |
| 65 | **Capital** | **335.9** | **56.6** | **70.2** | **1,599.5** | **2,062.2** | **154.7** | **73.4** | **37.1** | **1,410.6** | **1,675.8** | **(181.2)** | **-53.9%** |
| 66 | ***Transfers*** | ***(646.0)*** | ***3.5*** | ***0.3*** | ***250.0*** | ***(392.3)*** | ***(375.1)*** | ***32.8*** | ***0.2*** | ***375.4*** | ***33.3*** | ***270.9*** | |

**Notes:**

January 7, 2022

**(1)** The Department of Revenue's Fall 2021 oil forecast for FY22 is 0.487 mbd at $75.72 per barrel; the FY23 forecast is 0.500 mbd at $71.00 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 FY23 will be unknown until the close of FY22. Reappropriations to operating budget funds are counted as UGF revenue.

**(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 FY22/FY23 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)** 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.

**(6)** "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.

**(7)** The FY22 and FY23 Governor budgets projects a General Fund surplus after Fund Transfers. No appropriation from the Constitutional Budget Reserve (CBR) Fund to cover a General Fund deficit was enacted for FY22 or proposed for FY23 by the Governor.

**(8)** 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."

**(9)** The FY22 appropriation for Permanent Fund Dividends (PFD) was $739.0 million ($330.0 million from the Statutory Budget Reserve Fund and $409.0 million from the General Fund). The Governor's budget proposes a $795.6 million supplemental appropriation for a second PFD from the Permanent Fund Earnings Reserve Account (ERA). The proposed FY23 PFD appropriation is $1,680.3 million from the ERA. The FY22 and FY23 PFD proposed appropriations equal 50% of the POMV draw, matching the Governor's proposed legislation.

**(10)** All revenue sources designated for transfer into the Oil and Hazardous Substance Release Prevention and Response Fund are now classified as designated general funds. Previously, revenue designated to be deposited into the fund was classified as unrestricted general funds (UGF) and recorded as a UGF fund transfer. Once deposited into the fund that funding was then classified as DGF and expenditures were recorded using the 1052 fund code. Classifying the revenue as DGF better reflects the intention of the legislature in enacting statutes that direct the revenue to the prevention and response funds and removes unnecessary confusion in financial reporting. UGF fund transfers should reflect transfers in and out of savings accounts, not the ongoing annual cost of a program. The ability of the legislature to appropriate the revenue for other purposes is not affected by this reclassification.

## Projected Fund Balances -- FY22 and FY23 (Part 2)

**($ millions)**

| | FY22 | | | | FY23 | | | |
|---|---|---|---|---|---|---|---|---|
| | BoY Balance | In | Out/ (Deposit) | EoY Balance | BoY Balance | In | Out/ (Deposit) | EoY Balance |
| **Total Budget Reserves and Designated Funds** | **3,093.8** | **149.2** | **846.8** | **2,396.3** | **2,396.3** | **166.1** | **115.3** | **2,447.0** |
| | | | | | | | | |
| **Undesignated Reserves** | **1,420.9** | **6.3** | **266.5** | **1,160.7** | **1,160.7** | **31.9** | **(26.7)** | **1,219.3** |
| **Total Excluding Permanent Fund** | **1,420.9** | **6.3** | **266.5** | **1,160.7** | **1,160.7** | **31.9** | **(26.7)** | **1,219.3** |
| Constitutional Budget Reserve Fund* | 1,009.1 | 6.3 | (144.2) | 1,159.6 | 1,159.6 | 31.9 | (26.7) | 1,218.2 |
| Statutory Budget Reserve Fund | 410.7 | - | 410.7 | - | - | - | - | - |
| Alaska Housing Capital Corporation Fund | 1.1 | - | - | 1.1 | 1.1 | - | - | 1.1 |
| | | | | | | | | |
| **Select Designated Funds** | **1,672.9** | **142.9** | **580.2** | **1,235.6** | **1,235.6** | **134.2** | **142.1** | **1,227.7** |
| **Total Excluding Permanent Fund** | **1,672.9** | **142.9** | **580.2** | **1,235.6** | **1,235.6** | **134.2** | **142.1** | **1,227.7** |
| Alaska Capital Income Fund | 38.6 | 31.0 | 69.6 | - | - | 28.0 | 27.7 | 0.3 |
| Alaska Higher Education Investment Fund | 416.4 | 25.1 | 441.5 | - | - | - | - | - |
| Community Assistance Fund | 68.7 | 12.4 | 22.9 | 58.2 | 58.2 | 30.0 | 19.4 | 68.8 |
| Power Cost Equalization Endowment | 1,149.2 | 74.4 | 46.2 | 1,177.4 | 1,177.4 | 76.2 | 95.0 | 1,158.6 |
| | | | | | | | | |
| Unrestricted General Fund Appropriations | | | | 6,245.9 | | | | 6,286.1 |
| Reserves Ratio (Undesignated Reserves / Pre-Transfer Budget) | | | | 19% | | | | 19% |
| Pre-Transfer Deficit | | | | (501.9) | | | | (348.4) |
| Years of Deficit Coverage (Undesignated Reserves / Pre-Transfer Deficit) | | | | 2.31 | | | | 3.50 |
| **Permanent Fund **** | | | | | | | | |
| **Permanent Fund Principal - Realized (no appropriations allowed)** | 46,938.4 | 4,429.0 | 0.0 | **51,367.0** | 51,367.0 | 1,470.0 | 0.0 | **52,836.6** |
| **Permanent Fund Earnings Reserve Account - Realized** | 16,340.7 | 5,661.0 | 7,100.3 | **14,901.4** | 14,901.4 | 5,137.0 | 4,424.6 | **15,613.8** |
| **Permanent Fund -- Unrealized Gain (Loss)** | 18,617.7 | (1,158.0) | 0.0 | **17,459.7** | 17,459.7 | (262.0) | 0.0 | **17,197.7** |
| **TOTAL PERMANENT FUND** | 81,896.8 | 8,932.0 | 7,100.3 | **83,728.1** | 83,728.1 | 6,345.0 | 4,424.6 | **85,648.1** |

** The FY21 Constitutional budget reserve (CBR) end of year (EoY) balance includes an estimated $432.7 million transfer (sweep) to the CBR from the general fund and general fund subfunds and accounts on June 30, 2021 per Alaska Constitution art. IX, sec. 17(d). The actual amount transferred will be known after the FY22 Annual Report is released, historically in December of the succeeding fiscal year. Some investments may be liquidated in FY23 to pay the FY22 CBR sweep liability.*

** *Alaska Permanent Fund Corporation (APFC) projection for FY22 and FY23 as of November 30, 2021.*

*January 7, 2022*

## Executive Summary

As required by law, the Governor released his FY23 budget proposal to the public and the legislature on December 15, 2021. 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.

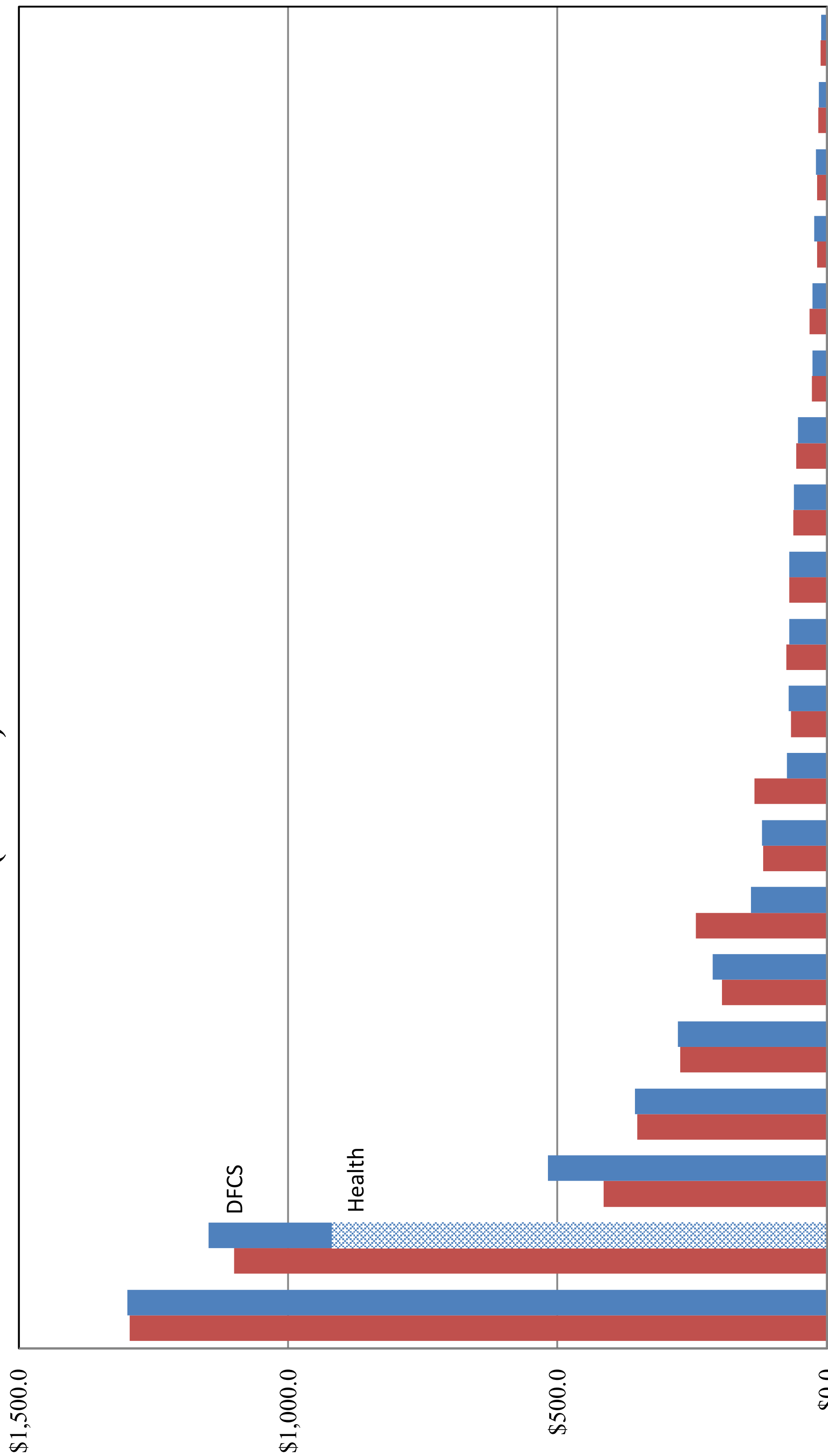
The Overview provides a starting point for legislative consideration of the Governor's spending and revenue plans. It does not discuss the merits of budget plans; it focuses on outlining the fiscal situation and presenting the budget in a way that provides simple, clear information to the legislature.

The first chapters in this publication primarily refer to Unrestricted General Funds (UGF) – State funds with no restrictions on use – because the fiscal deficit is limited to this fund source. Agency narratives in this publication cover changes in all fund sources. The first chapters also primarily use figures in the millions of dollars, with the decimal indicating hundreds of thousands. Agency narratives generally use figures in the thousands of dollars, with the decimal indicating hundreds.

Rising oil prices and strong investment performance have improved Alaska's fiscal situation significantly, yet a structural gap remains between Alaska's ongoing revenue and expenditures. The Governor's FY23 budget submission narrows the gap to a few hundred million dollars per year, down from $2 billion a year ago. Still, his 10-year plan calls for deficits through FY29, which would be filled by drawing from the Constitutional Budget Reserve.

In FY23, the Governor's budget fills a projected $348.4 million deficit by spending $375.4 million of federal funds from the American Rescue Plan to replace lost revenue. It includes budget reductions due to retirement savings (thanks in part to Senate Bill 55, a Governor's bill that passed in 2021) and by utilizing federal dollars for the Alaska Marine Highway System. That is balanced out by increases to Medicaid, the Department of Public Safety, and several other statewide items.

## Swoop Graph - UGF Only
## FY23 Governor Compared to FY22 Management Plan
## (Millions)




| | DEED | Health & DFCS | Stwd | DOC | UA | DPS | Capital | Courts | DOTPF | DNR | DOA | Leg | Law | DF&G | DOR | GOV | DEC | DLWD | DMVA | DCCE D |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY22 Mgmt Plan | 1,293. | 1,099. | 414.0 | 351.7 | 272.7 | 194.8 | 242.9 | 118.0 | 134.9 | 66.4 | 75.3 | 69.8 | 62.0 | 57.4 | 27.7 | 32.2 | 17.7 | 18.1 | 15.7 | 11.6 |
| FY23 Gov Budget | 1,297. | 1,147. | 517.5 | 356.1 | 276.8 | 212.2 | 140.7 | 120.4 | 74.5 | 70.8 | 70.4 | 69.8 | 61.0 | 53.7 | 27.1 | 26.4 | 23.9 | 20.0 | 15.4 | 10.2 |
| Cumulative Budget From Right | 4,591. | 3,294. | 2,146. | 1,629. | 1,273. | 996.5 | 784.3 | 643.6 | 523.2 | 448.7 | 377.9 | 307.5 | 237.7 | 176.7 | 123.0 | 95.9 | 69.5 | 45.6 | 25.6 | 10.2 |
| % of FY23 Governor Budget | 20.7% | 18.3% | 8.3% | 5.7% | 4.4% | 3.4% | 2.2% | 1.9% | 1.2% | 1.1% | 1.1% | 1.1% | 1.0% | 0.9% | 0.4% | 0.4% | 0.4% | 0.3% | 0.2% | 0.2% |

## Alaska's Overall Fiscal Situation

## An End to the Deficit Streak? Not Quite

Alaska has a Constitutional mandate to balance its budget each year, so some have asked how we can run deficits. The answer is that when we talk about "deficits" we are talking about a gap between current revenue and expenditures. That gap can then be met with transfers from savings accounts such as the Constitutional Budget Reserve (CBR) and Statutory Budget Reserve (SBR), which results in a balanced budget in accordance with the Constitution. When we refer to "deficits," we really mean pre-transfer deficits. The post-transfer deficit in the fiscal summary incorporates deficit-filling draws from savings and is not a good measure of the State's fiscal health.

Imagine you are balancing your personal checkbook. If you had to draw from your savings account to pay your bills, you would rightly conclude that you are spending more than you are taking in. That is what the pre-transfer deficit shows. If you had a month where you knew you would come up short so you transfer $600 from your savings account, but then you end up with $100 of that left over, you would still say you spent $500 from savings. The same goes for the State: just because we drew more than we needed from our savings does not mean that we have a surplus. The proper comparison is ongoing revenue to ongoing expenses, which is the pre-transfer deficit.

| **FY22 Bottom Line before Supplementals** ($ millions) | |
|---|---|
| Pre-Transfer Deficit with Spring Forecast | (571.8) |
| Post-Transfer Surplus with Spring Forecast | 74.2 |
| Fall Forecast Revenue Increase | 1,000.6 |
| Adjusted Pre-Transfer Surplus | 428.8 |
| Adjusted Post-Transfer Surplus | 1,074.8 |

From FY13 through FY21, Alaska had nine straight years of budget deficits, and it appeared that FY22 would be the tenth straight year. When the legislature wrapped up its FY22 budget in September with the passage of House Bill 3003, our fiscal summary showed a $571.8 million pre-transfer deficit, filled with a transfer from the SBR and with revenue replacement funding from the federal American Rescue Plan Act (ARPA). This left a post-transfer surplus, but based on the pre-transfer figure, the State was still running a deficit. Higher oil prices have now changed the situation, however: the Department of Revenue's 2021 Fall Revenue Forecast increased the UGF revenue projection for FY22 by about $1 billion over the Spring forecast. That leaves us with a pre-transfer surplus of $428.8 million and a post-transfer surplus of $1,074.8 million.

| **FY22 with Governor's Supplementals** ($ millions) | |
|---|---|
| Governor's Supplementals | 930.7 |
| Pre-Transfer Deficit After Supps | (501.9) |
| Post-Transfer Surplus After Supps | 144.2 |

If the legislature does not make any more appropriations for FY22, the Fall Forecast would indicate that FY22 would be the first year with a balanced budget since FY12. The Governor's December 15 budget includes $930.7 million of supplementals, spending nearly all the projected revenue increase. If these supplementals are adopted, that would push FY22 back to a deficit. The fund transfers from the SBR and ARPA Revenue Replacement would then fill this deficit, leaving a post-transfer surplus.

The Governor's FY23 budget once again proposes a pre-transfer deficit to be filled with ARPA Revenue Replacement. The Governor's budget has a pre-transfer deficit of $348.4 million. The Governor then uses $375.4 million of ARPA revenue replacement to close the deficit, leading to a $26.7 million post-transfer surplus. However, it is important to emphasize that the pre-transfer number is a better reflection of the State's fiscal position: the Governor's budget spends every dollar of remaining funds available for revenue replacement, so that maneuver will not be available in FY24. Indeed, the Governor's 10-year plan shows deficits in FY24-FY29 despite holding spending growth below inflation.

| **FY23 Bottom Line with Governor's Budget** ($ millions) | |
|---|---|
| Pre-Transfer Deficit | (348.4) |
| Fund Transfers (mostly ARPA revenue replacement) | (375.1) |
| Post-Transfer Surplus | 26.7 |

## Forecasting Volatile Revenue

While Alaska's fiscal picture is much improved from a year ago, it is fair to ask whether the current higher oil prices will last. Alaska's unique mix of volatile revenue from petroleum and investments makes predicting future revenue more difficult than in any other state. Investment revenue projections come from the State's investment advisor, Callan and Associates. Oil revenue projections are developed by the Department of Revenue (DOR), with assistance from the Department of Natural Resources on the oil production forecast. Oil prices are the most impactful variable in forecasting petroleum revenues, and DOR has changed its methodology in recent years to improve accuracy and transparency.

Up until the past several years, DOR had used essentially the same oil price forecasting methodology for decades. Under this methodology, known as "Modified Delphi," DOR held a seminar with stakeholders from within State government, the legislature, and academia that featured presentations on the oil and gas industry from subject matter experts. At the conclusion of the seminar, each participant would provide their own best prediction of future oil prices and DOR aggregated these predictions to generate the forecast. The "Modified Delphi" approach was used through the Fall 2018 forecast.

The principal drawback of this approach is that there was a significant gap in time between the forecasting session and the forecast release: in a typical year, the forecasting session was held in October and the results were released in December. In several years (most notably the Fall 2014 forecast and Fall 2018 forecast), oil prices changed significantly between the session and the forecast release, and the Department of Revenue was forced to issue a forecast that deviated from the results of the session. Another drawback is that the forecast process was not transparent: only DOR had access to the individual predictions, and outsiders could not replicate the forecast's results. Finally, despite engaging stakeholders it did was not a consensus-building process, merely the aggregation of individual predictions from whoever happened to attend the seminar.

In 2019, the Department of Revenue analyzed the results of the forecasting sessions and compared them to several alternative methodologies. They found that an approach utilizing oil futures market data performed as well as or better than the actual forecasting methodology while increasing transparency by using publicly available data. Under this methodology, DOR used an average of futures prices for Brent oil (the international benchmark for waterborne crude oil, which trades very closely with Alaska North Slope prices) over the five most recent trading days before the forecast is finalized. The futures data are used through the following fiscal year, then prices are held flat in inflation-adjusted terms for further years.

This methodology had the advantage of transparency: LFD and other observers could match the methodology and arrive at the same number, ensuring that there was no political influence on the forecast. This methodology was used through the Spring 2021 Revenue Sources Book.

In the fall of 2021, DOR again analyzed different forecasting methodologies, and found that their chosen methodology was not as accurate as an approach that utilized futures for as many years as are available. For the Fall 2021 forecast, DOR switched to this new methodology. (At the time DOR prepared the Fall 2021 forecast, Brent futures were only available through FY29, so FY30-FY31 grow the FY29 futures price with inflation.) It's worth noting that the Fall 2021 price forecast is significantly below what their prior methodology would have generated.

The futures-based methodology has two major advantages: first, it is transparent and free from political bias. Second, it uses a market-based approach that aggregates the wisdom of a large group of investors and is therefore likely to be as accurate a forecast can be. The primary downside is that futures prices are affected by factors such as physical storage costs and buyers' money being tied up in contracts that could otherwise be put to alternative productive uses – the futures market is not truly an oil price prediction market. While no methodology will be perfect, the Legislative Finance Division views the extension in futures market usage as an improvement in the forecasting methodology and lauds the data-driven process that led to the change.

## How Should the Legislature Handle Volatile Revenue?

DOR's oil price forecasting methodology is sound, but that does not mean that the forecast will come true – in DOR's test, this method still had significant forecasting errors. Even the best-informed oil traders are not omniscient and cannot foresee technological breakthroughs, extreme events like the COVID-19 pandemic, or geopolitical developments. When the oil market is unsettled due to constantly changing events (such as the emergence of the Omicron variant in December 2021), oil prices and futures often change by several dollars per day. For example, the futures price as of December 5, 2021 would indicate an FY23 average price of $67.14, while the futures price three days later would indicate an FY23 price of $72.55. This $5.41 difference is worth nearly $322 million in oil revenue in FY23 – enough to drastically change Alaska's fiscal situation. In the actual forecast, DOR smooths this in their forecast by averaging the futures market over five days, but the end result is still volatile.

How can policymakers handle this volatility? Historically, Alaska has utilized our large budget reserves to smooth volatility from year to year – a $300 million budget gap could be filled from the Constitutional or Statutory budget reserves, or a windfall could help refill those reserves. Today, reserves have shrunk (the CBR had about $1 billion at the start of FY22 and the SBR was depleted), and the legislature failed to muster the supermajority votes to access the CBR in FY22 anyway. This means that in 2022 the legislature has fewer options to handle volatility than in years past.

Without CBR access, there is no backstop if oil revenue underperforms projections, which is a significant risk. The Governor's budget shows a $26.7 million post-transfer surplus, but that represents less than $0.50 variation in the price of oil. If oil revenue dips, the next legislature would face very difficult choices in the supplemental budget next year: cut spending mid-year, overdraw the Earnings Reserve, or raid a smaller savings account?

This legislature should consider writing a budget that will be resilient in the face of oil revenue volatility. That could mean accessing the CBR (or another account) as a backstop, as in previous years. Or it could mean establishing a larger buffer than $27 million.

More broadly, Alaska has suffered from fiscal uncertainty since the 2014 oil price crash, which has had both political and economic consequences. Establishing a stable fiscal plan is a task of vital importance for the stability of the State. Yet volatility makes this task harder: deficits shrink and grow with investment performance and oil price fluctuations, so even agreeing on the size of the problem has proven to be a monumental task.

The Percent of Market Value (POMV) draw from the Permanent Fund is an example of a successful approach to managing volatility. Under the law passed in 2018, the amount drawn from the Permanent Fund each year is based on a lagged five-year average of the fund’s value. This results in a stable revenue stream despite volatile investment income. Good return years positively affect future draws, but only gradually. Likewise, the impact of a poor return year on the draw is gradual, allowing the legislature time to react. If Alaska spent all the income each year, our budget would fluctuate wildly from year to year: for example, in FY20 investment income totaled $1.6 billion, while in FY21 it totaled $19.4 billion. Instead, the legislature appropriated the roughly $3 billion POMV draw each year, providing a stable baseline source for revenue.

Alaska already smooths petroleum revenue somewhat by diverting a portion of oil royalties to the Permanent Fund and settlements to the Constitutional Budget Reserve, but our remaining petroleum revenue is a continuing source of volatility. Any fiscal plan that the legislature adopts will need to be robust at a variety of oil prices.

# Alaska's Fiscal Situation in FY23 and the Governor's Budget Proposal

## Budget Baselines

Strong investment performance in FY21 and higher oil prices lead to an improved fiscal outlook for FY23. The POMV draw from the Permanent Fund is set to increase by $291.3 million compared to FY22. Overall, UGF revenue is forecast to be $809.7 million higher than the Spring revenue forecast. Yet a substantial gap remains between revenue and expenditures if current statutes are followed for the Permanent Fund Dividend (PFD) and other formula items. The State's fiscal picture only appears rosy if those laws continue to be ignored in the budget process (or if they are changed).

| **FY23 Current Policy and Current Law Scenarios** ($ millions) | | |
|---|---|---|
| **UGF Revenue** | **5,937.8** | **5,937.8** |
| | | |
| | **Current Policy** | **Current Law** |
| Agency Operations | 3,853.5 | 3,853.5 |
| Statewide Items | 349.6 | 517.5 |
| Capital Budget | 242.9 | 242.9 |
| **Budget before PFD** | **4,446.0** | **4,613.9** |
| | | |
| PFD | 739.0 | 2,764.4 |
| **Total Spending** | **5,185.0** | **7,378.3** |
| | | |
| **Surplus/(Deficit)** | **752.8** | **(1,440.5)** |

The Legislative Finance Division has two budget baselines for FY23: one reflecting current policy and the other reflecting current law. Both baselines assume that agency operations budgets match the FY23 Adjusted Base, which is the FY22 budget with one-time spending removed and contractual obligations added.[3] Both assume a capital budget equal to the FY22 capital budget. The difference is their treatment of statewide items: in the current policy scenario, we assume that items will be funded as they were in FY22, while the current law scenario assumes that they will be funded in accordance with statutory formulas.

The largest item that this affects is the PFD. In FY22, the legislature appropriated $739.0 million, enough to pay a PFD of $1,114 per person. The statutory calculation for FY22, based on a five-year average of Permanent Fund earnings, would have cost $2.5 billion and paid out an estimated $3,870 per recipient. In FY23, the statutory amount is projected to grow to nearly $2.8 billion, paying out an estimated $4,200 per person. This $2 billion difference between the Current Policy and Current Law scenarios dwarfs all other items.

| **Statewide Items Detail** ($ millions) | | |
|---|---|---|
| | **Current Policy** | **Current Law** |
| School Debt Reimbursement[1] | 17.1 | 63.9 |
| Other Debt Service | 92.4 | 92.4 |
| State Retirement Payments | 129.6 | 129.6 |
| REAA Fund Capitalization | 16.4 | 32.7 |
| Community Assistance[2] | - | - |
| Oil and Gas Tax Credits | 94.3 | 199.0 |
| **Statewide Items Total** | **349.6** | **517.5** |

Due to vetoes by the Governor and the failure of the Constitutional Budget Reserve vote, several other statewide items were left partially funded

[1] Plus $15.1 million from the School Fund (DGF)

[2] 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.

[3] The one exception is the K-12 formula; for this item, both scenarios use the FY23 projected formula amounts rather than the Adjusted Base figure, which represents the FY22 budgeted amount.

in FY22. The CBR vote failure caused oil tax credits to be funded at $54 million out of the statutory $114 million (about 47%) and school debt reimbursement to be funded at $4.1 million UGF (plus $30.8 million DGF, so it was 42% funded overall). The Governor vetoed all UGF funding for Community Assistance ($17.2 million) and half of the funding for the Regional Educational Attendance Area (REAA) Fund capitalization. Other statewide items were funded to their statutory level. These funding levels are the baseline for the Current Policy scenario, adjusted for the FY23 total cost. The Current Law scenario assumes all these items are fully funded.

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

For agency operations, the baseline is for a decrease of $65.8 million below the FY22 budget. This decrease is primarily due to the effects of Senate Bill 55, which was passed in the 2021 session. This legislation shifted retirement payments for the State of Alaska as an employer from a statewide item to agency budgets, allowing other fund sources to contribute to this cost beyond UGF. In FY23, this helps the budget in two ways: strong investment performance reduced the amount of payments needed (a savings of $29.7 million in agency budgets), and a continued effort to charge more non-UGF fund source shifted part of the cost away from UGF (a savings of $14.7 million UGF). Combined, these two changes result in SB 55 reducing UGF costs in agency operations by $44.5 million in FY23 compared to FY22 (the $29.7 million savings would have been achieved in statewide items in the absence of SB 55, however). Other changes include contractual adjustments, removal of one-time items, and rate adjustments.

Under the Current Policy scenario, there would be an estimated surplus of $752.8 million, while the Current Law scenario would have an estimated deficit of $1.4 billion.

# Governor’s FY23 Budget Proposal

## Overall View

The Governor’s UGF budget totals $6.2 billion in expenditures against $5.9 billion of revenue, leaving a deficit of $348.4 million. The Governor proposes to fill this deficit by utilizing $375.4 million of one-time use federal money from the American Rescue Plan Act (ARPA).

| **Governor’s FY23 Budget Compared to Baselines** ($ millions) | | | | | |
|---|---|---|---|---|---|
| | **Current Policy** | **Current Law** | **Governor** | **Gov to CP** | **Gov to CL** |
| Agency Operations | 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) |
| **Budget before PFD** | **4,446.0** | **4,613.9** | **4,605.8** | **159.8** | **(8.1)** |
| | | | | | |
| PFD | 739.0 | 2,764.4 | 1,680.3 | 941.3 | (1,084.1) |
| **Total Spending** | **5,185.0** | **7,378.3** | **6,286.1** | **1,101.1** | **(1,092.2)** |
| | | | | | |
| **Surplus/(Deficit)** | **752.8** | **(1,440.5)** | **(348.4)** | | |

ARPA provided Alaska with just over $1 billion to spend over three years on pandemic relief and other related purposes from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). One of the allowable uses is to replace revenue lost due to the pandemic. Due to low oil prices in calendar year 2020, Alaska is eligible to use the entire amount to replace lost revenue. The FY22 budget used $250 million for revenue replacement and $252.8 million for other purposes. The Governor's FY23 budget proposes using $375.4 million for revenue replacement and $136.4 million on other purposes, which will exhaust these funds.[4]

The Governor's FY23 budget proposal overall falls near the midpoint of the two baselines. In agency operations, the Governor proposes increases of $80.1 million over the LFD baseline, or $13.8 million above the FY22 budget. The Governor is proposing to fund all statewide items at the statutory level, so that portion of his proposal matches the Current Law baseline. His capital budget is $88.2 million below last year's level. The PFD appropriation is equal to 50% of the POMV draw, which aligns with legislation proposed by the Governor. That is $1.7 billion, estimated to pay out a PFD of about $2,500 per recipient.

## Agency Operations

The Governor's FY23 budget is $80.1 million above the LFD baseline – a 2.1% increase that is essentially in line with inflation (the State's investment advisor, Callan and Associates, has a 2% inflation assumption).

The agency narratives of this publication include details on the Governor's proposed changes to agency budgets. Items that stand out include an increase of $45.5 million to Medicaid, multiple increases in the Department of Public Safety, and a reduction of $60.4 million UGF by funding the Alaska Marine Highway System with federal infrastructure dollars rather than State funds.

Another significant item is the Governor's handling of the CBR sweep. In the FY22 budget cycle, the legislature repeatedly failed to achieve the supermajority vote needed to reverse the sweep. The Governor also changed his interpretation of the sweep's mechanics, partially in response to a Superior Court ruling. See Page 18 of LFD's FY22 Summary of Appropriations for more details on these changes. In FY23, the Governor is not requesting a reverse sweep in his budget, and instead requests fund source changes necessary to avoid programmatic impacts due to the sweep. These fund source changes, going from Designated General Funds to UGF, increase the UGF budget by a total of $33.6 million.

## Statewide Items

The Governor funds statewide items at their statutory levels. This includes items that he had previously vetoed, such as School Debt Reimbursement, the REAA Fund capitalization, and the Community Assistance Fund capitalization. More details on these items can be found in the Operating Budget Language section of this publication.

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[4] In the budget, revenue replacement appears as a fund transfer of federal ARPA funds into the general fund (using fund code 1269) and then the funds are spent in agencies as UGF replacement on normal government activities (using code 1271). The use of code 1271 allows the State to affirm to the federal government that the funds were used for eligible purposes but has no impact on agency operations. In FY24, the use of 1271 will be replaced by typical UGF in the Adjusted Base.

One item of note is the State's additional contribution to retirement. Historically strong investment performance in FY21 caused the State's annual contribution amount to go down significantly – for PERS, the actuarial rate in FY22 was 30.11%, which fell to 27.63% due to the FY21 investment performance. This caused a reduction in State assistance by about $61.5 million compared to FY22. The Alaska Retirement Management (ARM) Board then decided not to fund the past service cost for health care, which is funded at greater than a 100% level after the FY21 performance. This reduced the rate to 24.79% for PERS, dropping State costs by another $55.1 million in the additional contribution (plus $34.2 million for the State as an employer, which is captured in the SB 55 adjustments in Agency Operations). In total, this policy shift by the ARM Board reduced contributions by $71.0 million UGF.

| **Retirement Savings from FY22 to FY23** ($ millions) | | |
|---|---|---|
| **State as an Employer (SB 55)** | **UGF** | **All Funds** |
| Investment Performance | (13.9) | (29.8) |
| Zero Funding of Health Care | (15.9) | (34.2) |
| Fund Source Changes | (14.7) | - |
| **Total Reduction** | **(44.5)** | **(64.0)** |
| | | |
| **Additional State Contributions** | **UGF** | **All Funds** |
| Investment Performance | (61.5) | (61.5) |
| Zero Funding of Health Care | (55.1) | (55.1) |
| **Total Reduction** | **(116.6)** | **(116.6)** |
| | | |
| **Overall Reductions** | **(161.1)** | **(180.6)** |

The ARM Board chairman specified that this was a one-year change only and would be revisited for FY24, so that savings may not persist in future years. In LFD's long-term projections, this is treated as a one-time savings in FY23 only.

## Capital Budget

The Governor's FY23 capital budget totals $154.7 million UGF, $88.2 million below the enacted FY22 capital budget. However, the Governor also requests $93.0 million UGF of capital supplementals between the fast-track bill and regular supplementals, plus a $308.6 million General Obligation bond bill with additional projects.

The Governor's capital budget does not yet integrate the federal Infrastructure Investment and Jobs Act, which may increase both available federal funds and the required matching funds. For more details on the capital budget, see the Capital Budget Overview section of this publication.

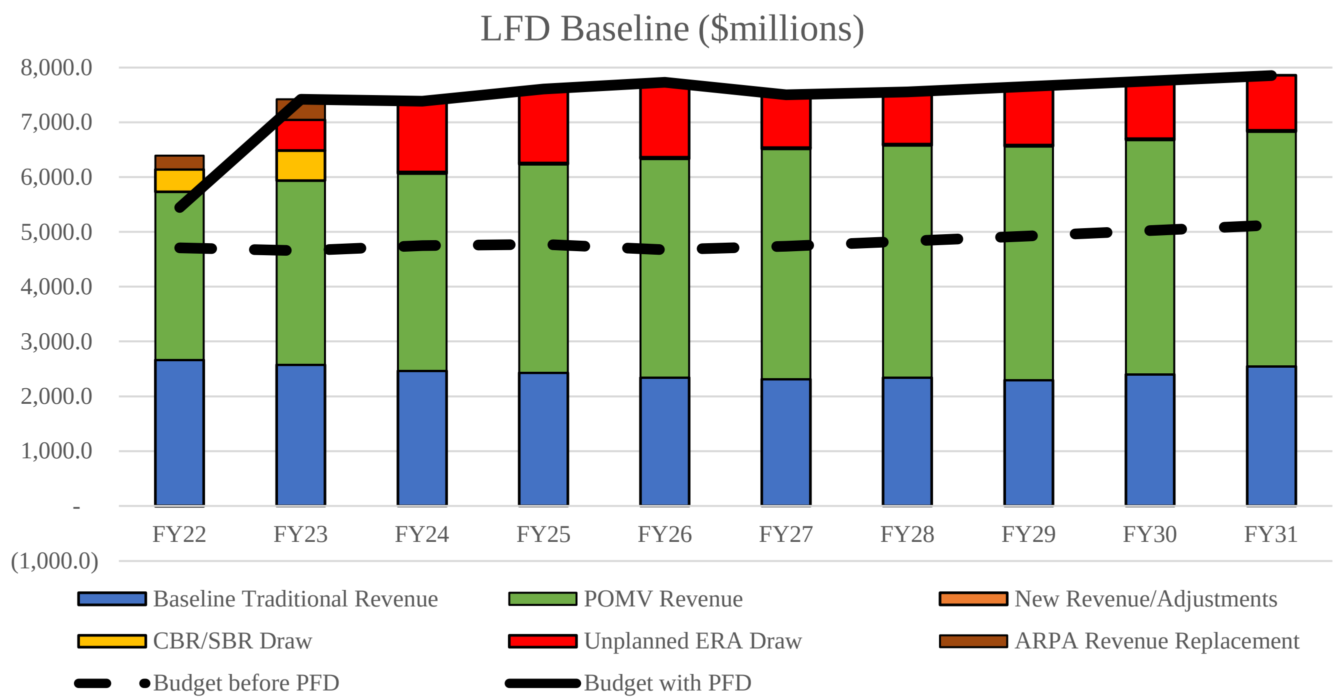
## Long-Term Outlook

## LFD Baseline Projections

The Legislative Finance Division's fiscal model uses a baseline that grows the current budget with inflation – essentially, it reflects the Current Law budget assumption extended over the next decade. This allows policy proposals to stand out against a neutral baseline. The baseline assumes 2% inflation for agency operations and assumes statewide items follow anticipated schedules (such as debt projections).

Based on the LFD baseline and a statutory PFD, Alaska would face deficits ranging from about $1.0-1.5 billion over the next decade, which would rapidly deplete the CBR and require draws from the ERA above the POMV:

| **LFD Baseline** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY23** | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** |
| Revenue | 5,937.7 | 6,064.5 | 6,228.0 | 6,326.6 | 6,501.3 | 6,562.4 | 6,536.9 | 6,652.9 | 6,806.4 |
| Budget | 4,655.9 | 4,748.0 | 4,774.8 | 4,673.5 | 4,736.5 | 4,834.7 | 4,927.6 | 5,026.2 | 5,121.2 |
| PFD | 2,764.3 | 2,636.7 | 2,831.3 | 3,048.5 | 2,755.8 | 2,706.6 | 2,712.6 | 2,713.9 | 2,713.2 |
| **Pre-Transfer Deficit** | **(1,482.5)** | **(1,320.1)** | **(1,378.1)** | **(1,395.3)** | **(991.0)** | **(978.9)** | **(1,103.3)** | **(1,087.2)** | **(1,028.0)** |

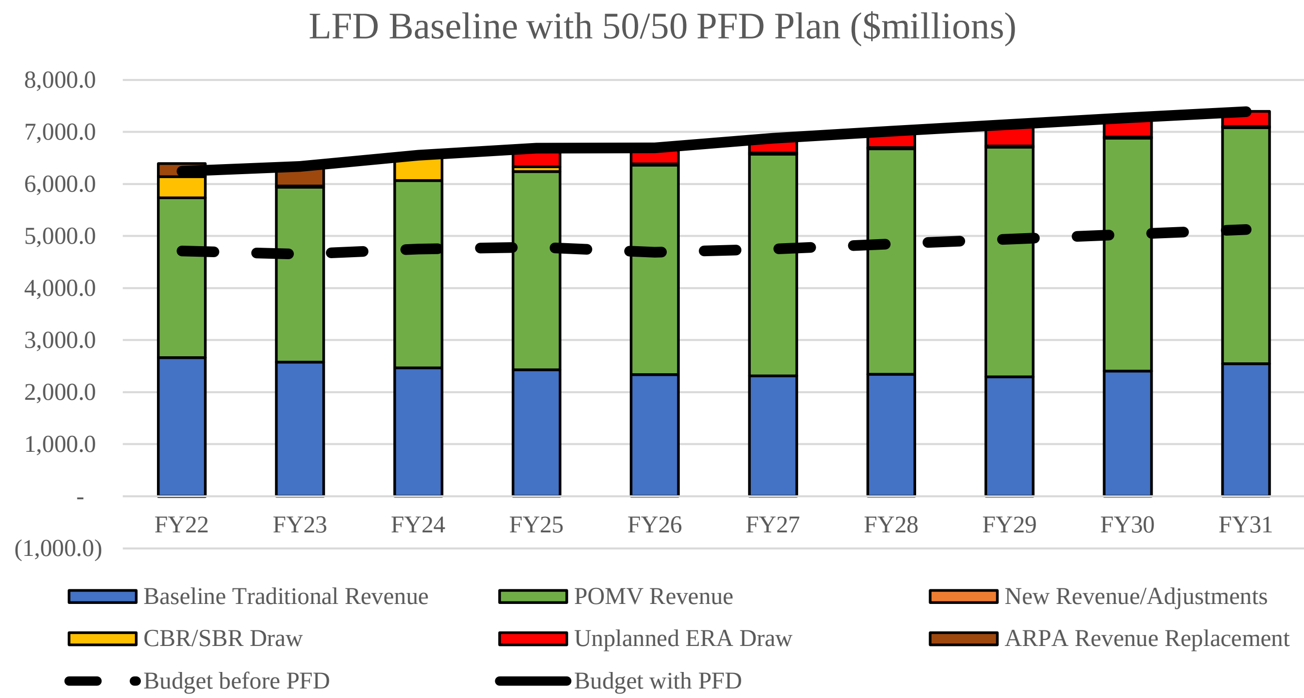



## Comparison of Governor's 10-Year Plan to Baseline

The Governor's 10-Year Plan makes several policy changes compared to LFD's baseline. By far the most impactful is changing the PFD formula from 50% of the average Statutory Net Income of the

Permanent Fund (the current statute) to 50% of the POMV draw (often referred to as the “50/50 plan”). For a cleaner comparison, the next two figures show the LFD baseline with the 50/50 plan:

| **LFD Baseline with 50/50 PFD plan** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY23** | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** |
| Revenue | 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 |
| Budget | 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 |
| PFD | 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 |
| **Pre-Transfer Deficit** | **(398.5)** | **(483.0)** | **(440.9)** | **(322.9)** | **(294.3)** | **(325.3)** | **(424.8)** | **(384.8)** | **(311.8)** |




Without other changes, this would have deficits of approximately $300-500 million per year for the next decade. The Governor’s 10-Year Plan does propose several additional policy changes:

- Agency operations are held flat in FY24, then grow at 1.5% for all items except Medicaid, which grows at 1% (this works out to about 1.4% growth overall);
- Beginning in FY24, School Debt Reimbursement is funded at 50%, and the REAA Fund capitalization is reduced to a flat $17.5 million;
- PERS and TRS health care contributions are not funded (see the “Statewide Items” discussion earlier in the Overview for more details on this item);
- 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;

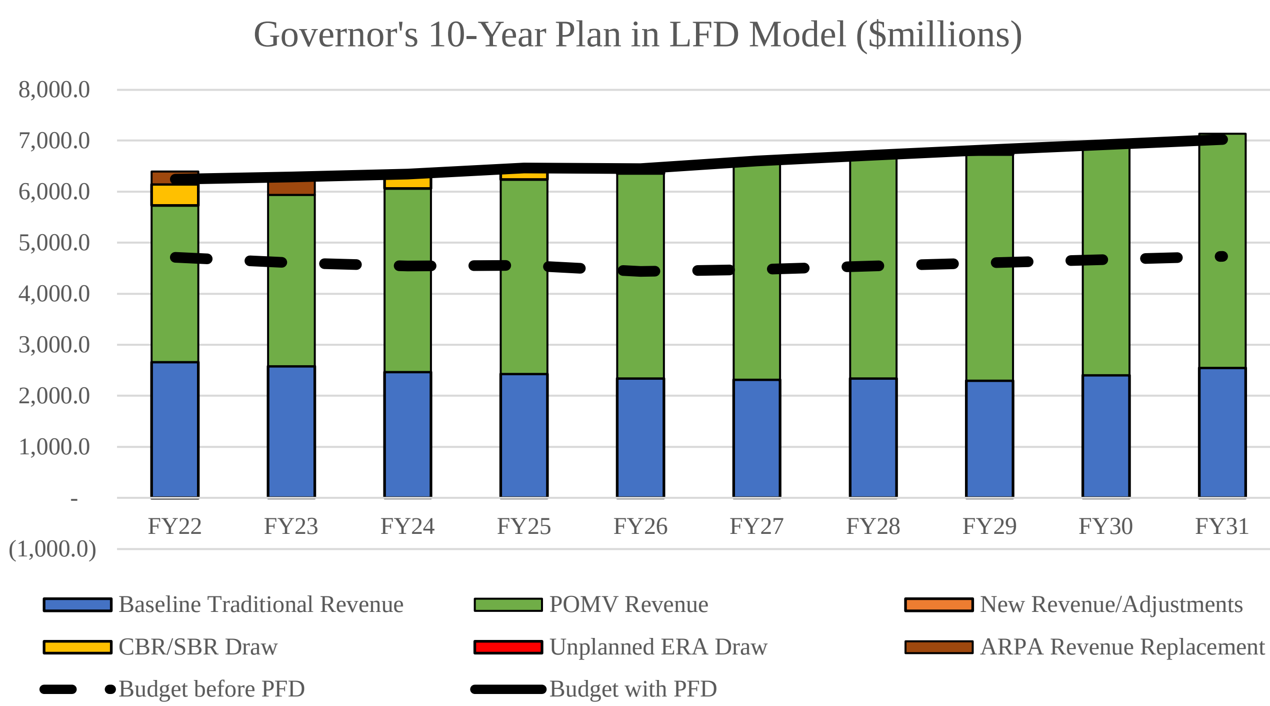
- Supplementals and lapse are assumed to cancel out (LFD estimates $50 million of net supplementals); and
- The Governor uses $375.4 million of ARPA revenue replacement in FY23 to close the deficit.

The combined effect of these changes is to a budget that begins about $200 million below the baseline in FY24 and is more than $400 million below by FY31 due to the compounding effect of inflation:

| **Comparison of LFD Baseline to the Governor's 10-Year Plan** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY23** | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** |
| Baseline | 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 |
| Governor | 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 |
| **Difference** | **(49.7)** | **(207.5)** | **(219.8)** | **(232.3)** | **262.1)** | **(298.6)** | **(332.2)** | **(368.3)** | **(415.9)** |

The result of these changes is that the Governor's 10-Year Plan has a smaller deficit from FY23-FY30 than the LFD baseline, with a balanced budget in FY31:

| **Governor's 10-Year Plan in LFD Model** ($ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **FY23** | **FY24** | **FY25** | **FY26** | **FY27** | **FY28** | **FY29** | **FY30** | **FY31** |
| Revenue | 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 |
| Budget | 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 |
| PFD | 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 |
| **Pre-Transfer Deficit** | **(348.5)** | **(279.2)** | **(224.5)** | **(90.9)** | **(32.7)** | **(29.1)** | **(92.9)** | **(12.4)** | **105.4** |



This result closely matches the Governor's own projections in the 10-Year Plan, with only very minor differences due to rounding and slightly different projections of some statewide items. This demonstrates that the numbers within the Governor's plan are technically sound, so the legislature can debate it on its merits rather than the math.