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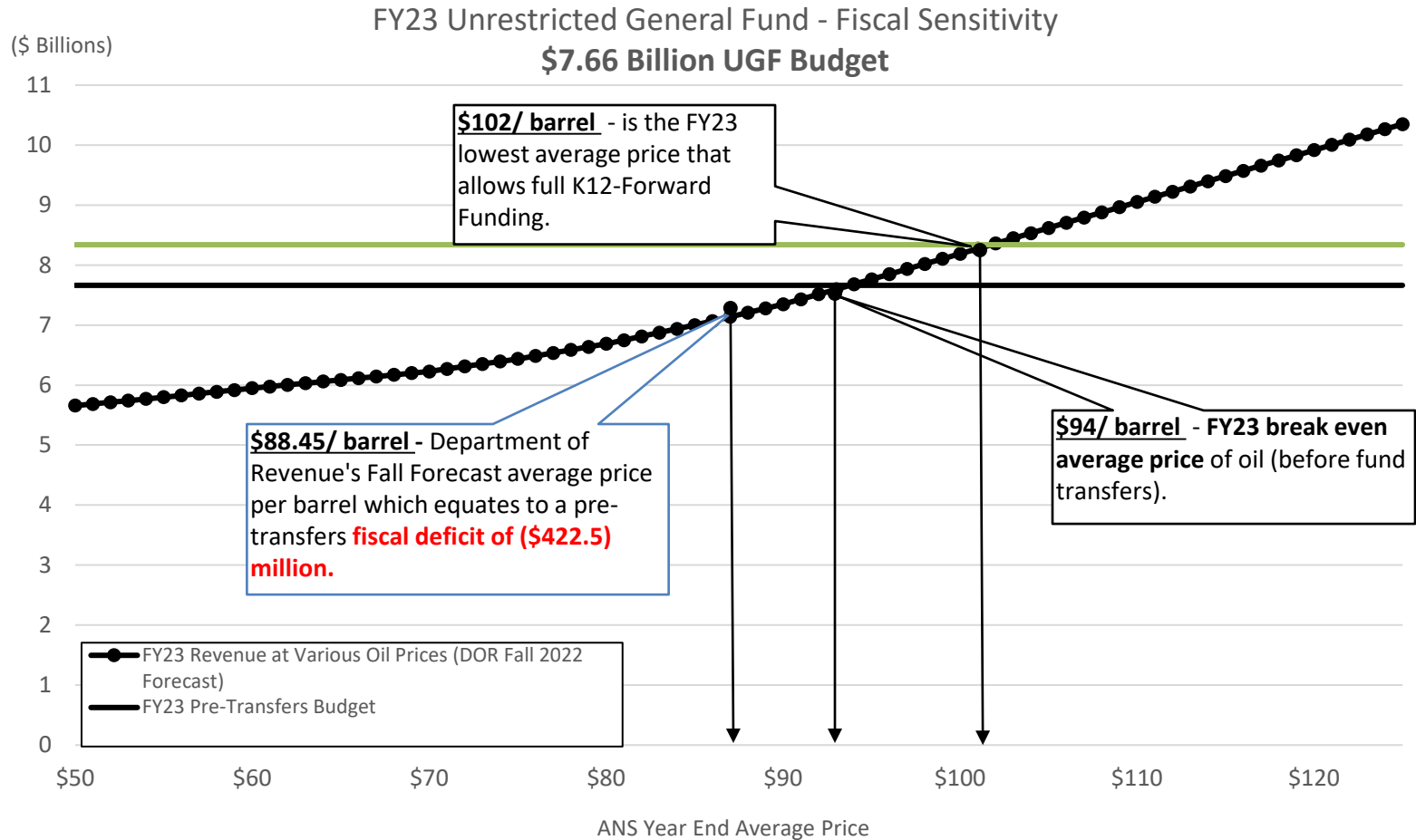
Overview of the Governor's FY24 Budget

House Finance Committee
January 27, 2023
Legislative Finance Division

Outline

- 2022 Session and FY23 budget Recap
- Fiscal Outlook
- FY24 Budget Baselines
- Governor's FY24 Proposal
- Long-Term Outlook and Governor's 10-Year Plan

FY23 Budget Recap



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

FY23 Budget Recap (Cont.)

- In FY23, the budget balances at \$94 per barrel before fund transfers – this is the true fiscal balancing point
- The legislature's budget transferred the FY22 surplus (nearly \$1 billion) to the SBR and used that to fill any FY23 deficit. The Governor vetoed most of that transfer, leaving about \$20 million in the SBR to fill a deficit
- Additional revenue up to \$102 per barrel will go into the Public Education Fund to forward-fund the K-12 formula
- Supplemental appropriations could change these balancing points

2022 Session Recap

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

One-Time Items

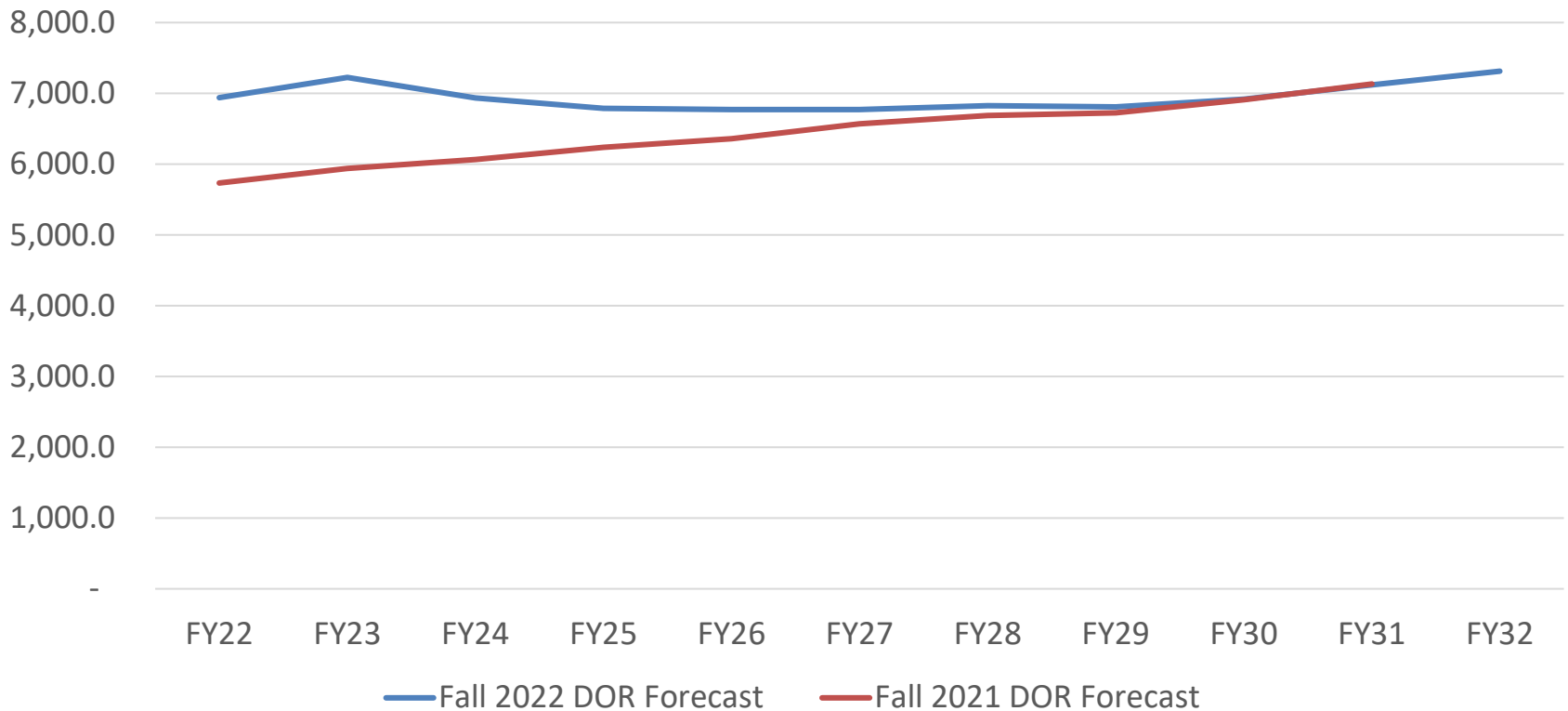
- \$220.8 million to pay past unfunded School Bond Debt Reimbursement from FY17-21
- \$84.0 million to repay past unfunded REAA deposits from FY17-21
- \$199.0 million to the Permanent Fund Corpus to satisfy an audit finding relating to FY17-18 royalties
- \$38.9 million in FY22 to bring the Community Assistance Fund balance back \$90.0 million
- An additional \$60.0 million in FY22 for oil and gas tax credits in an effort to purchase the remaining outstanding credits

Fiscal Outlook

- Compared to the Spring 2022 Revenue Forecast, the Fall 2022 Forecast projects \$1.1 billion less UGF revenue in FY23 and \$0.7 billion less in FY24
- While the oil price spike in the first half of 2022 contributed to the CBR balance and financed a nearly \$1 billion UGF capital budget in the 2022 session, it did not change the long-term revenue picture
- Over the medium to long term, the Fall 2022 Forecast is very similar to the Fall 2021 forecast

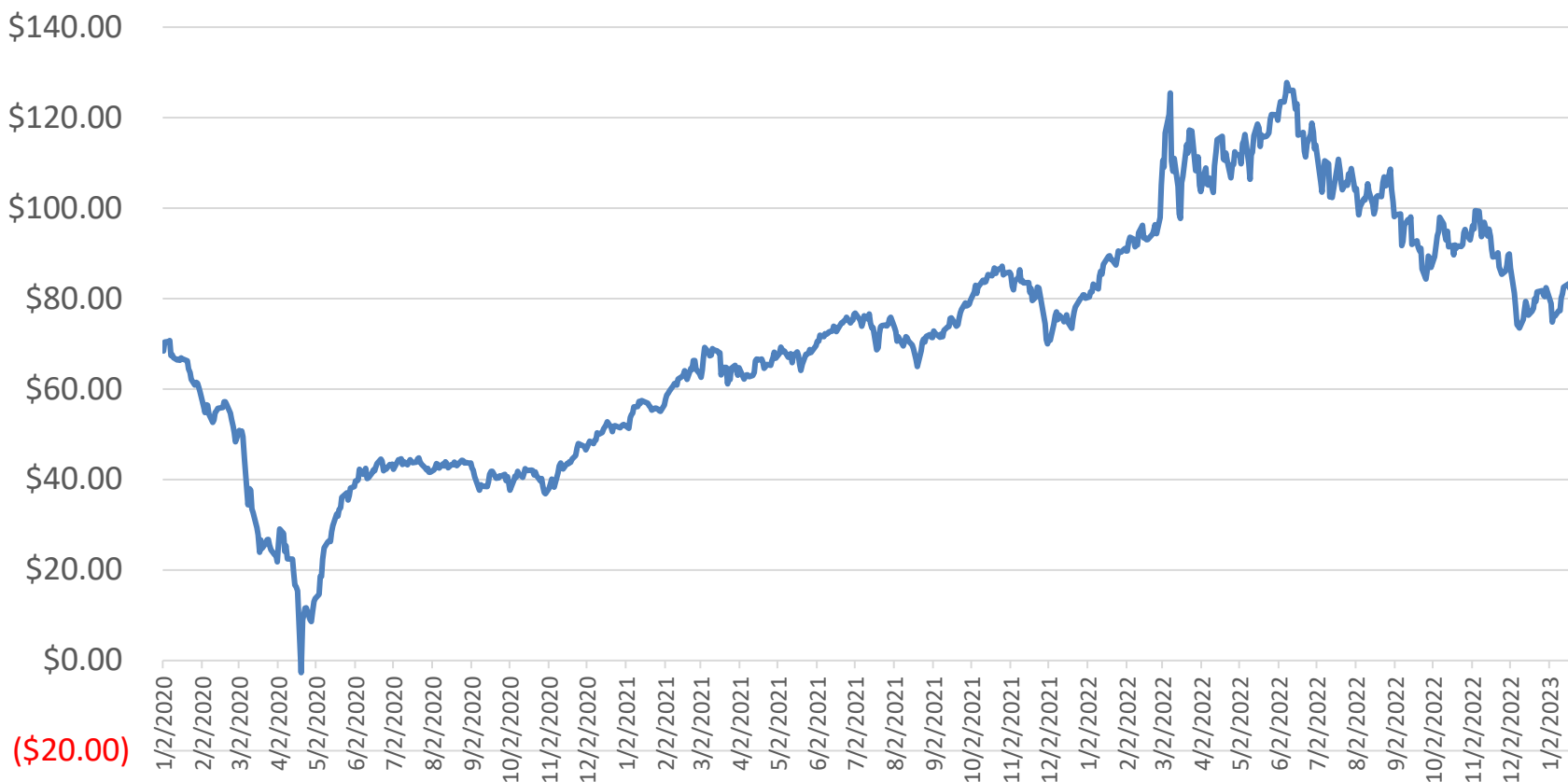
Fiscal Outlook (cont.)

Fall 2021 Forecast to Fall 2022 Forecast Comparison
(\$ Millions)



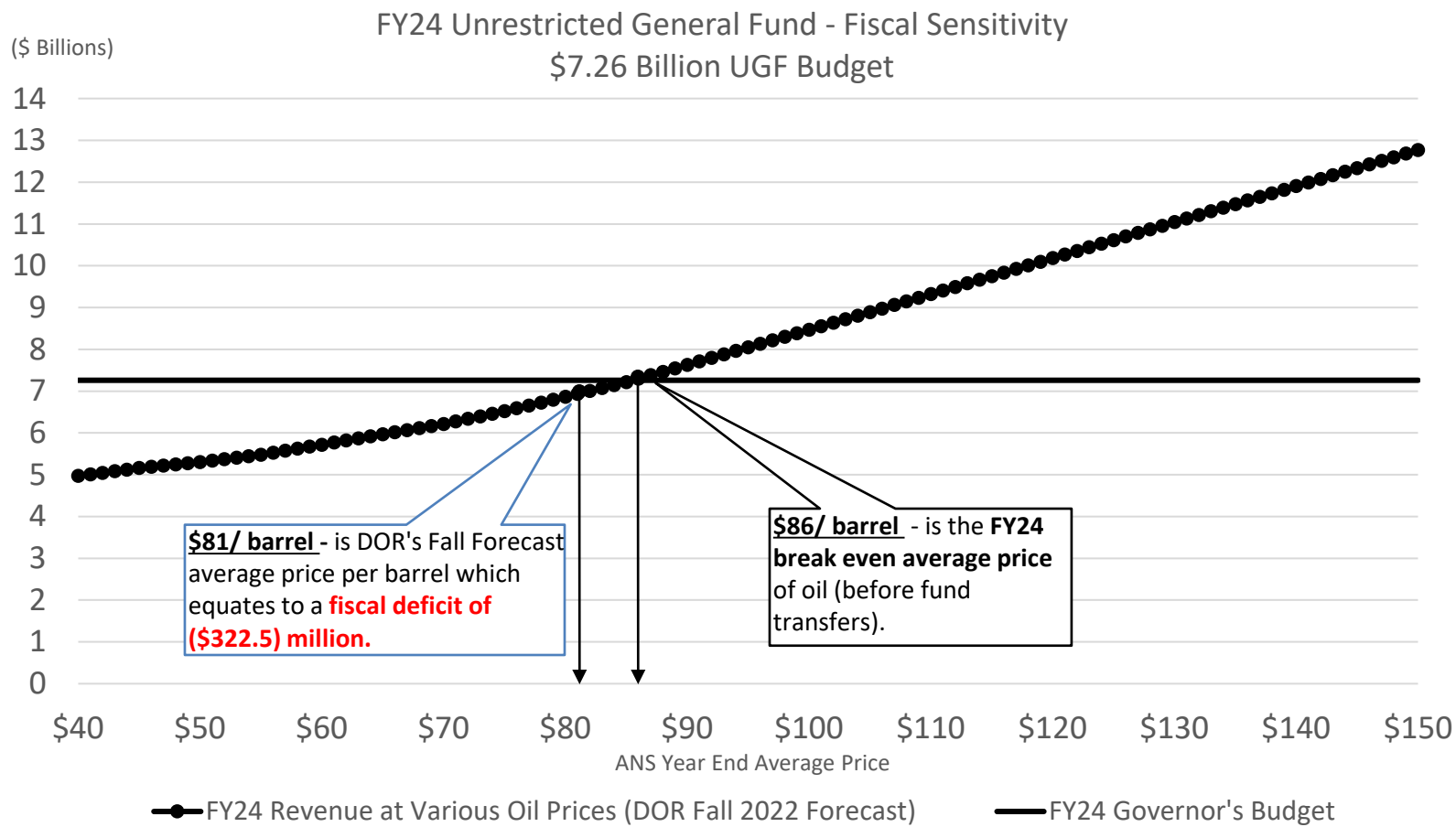
Fiscal Outlook (cont.)

Daily ANS Price, January 2020- January 2023



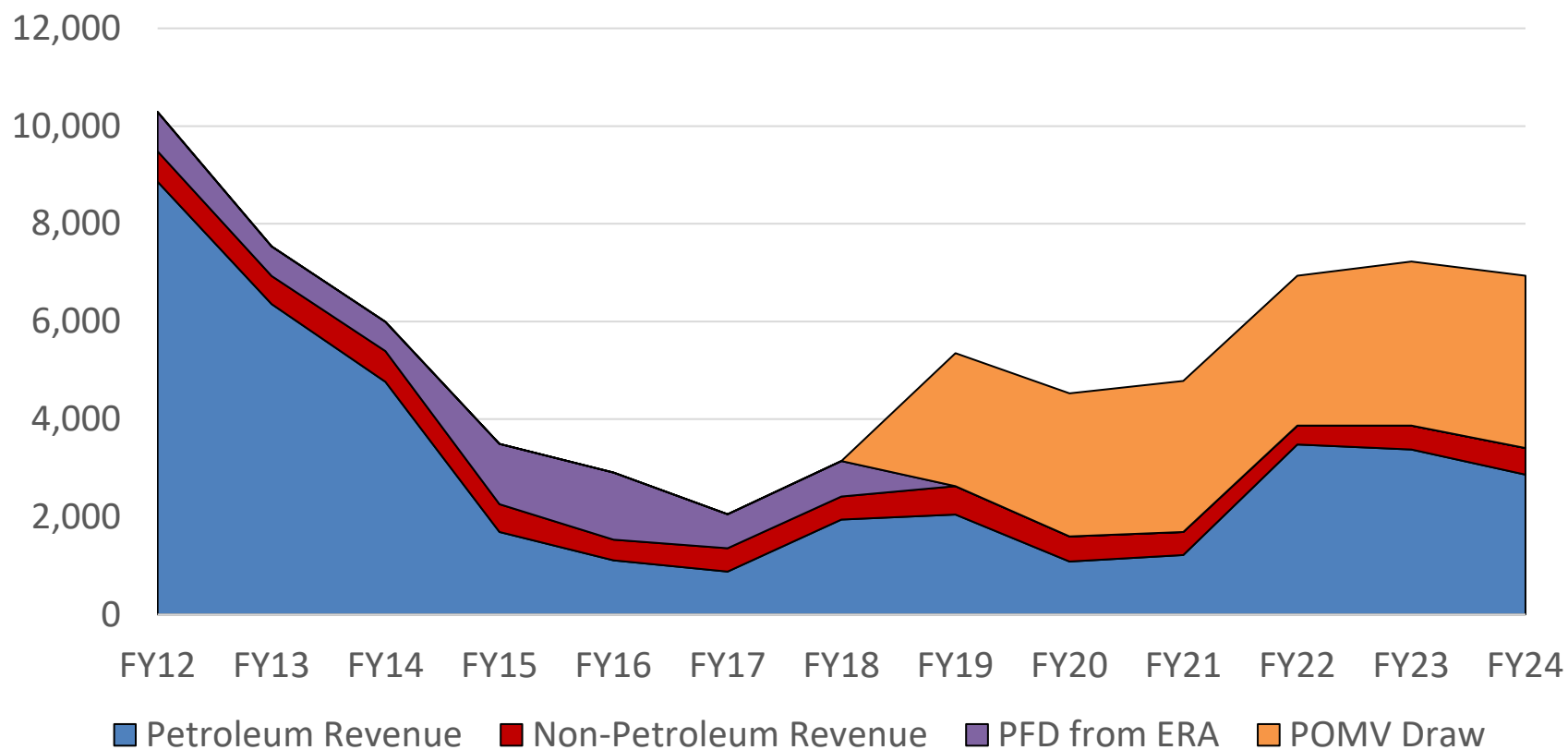
(\$20.00)

Fiscal Outlook (cont.)



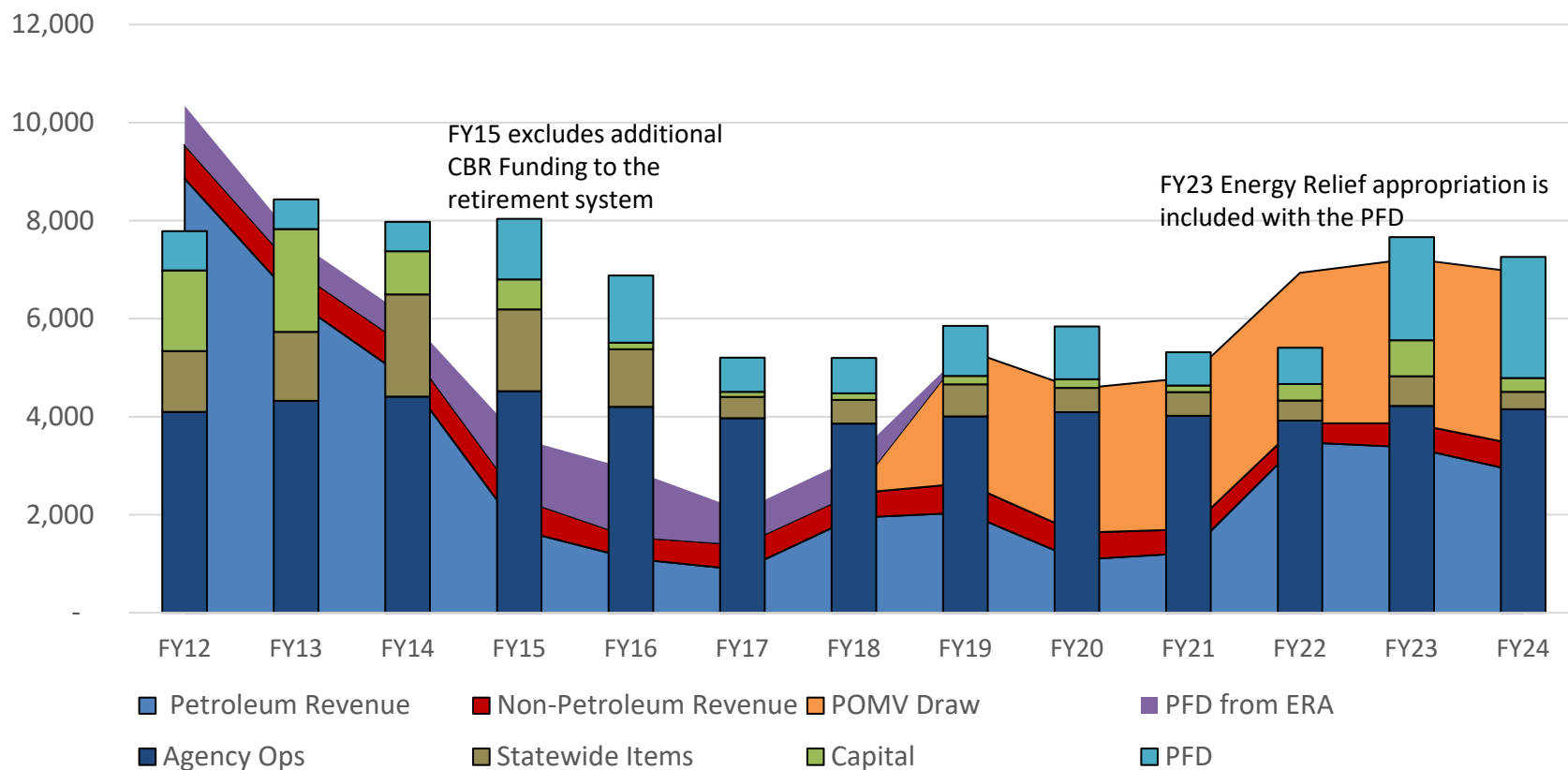
Fiscal Outlook (cont.)

UGF Revenue, FY12 - FY24
(\$millions)



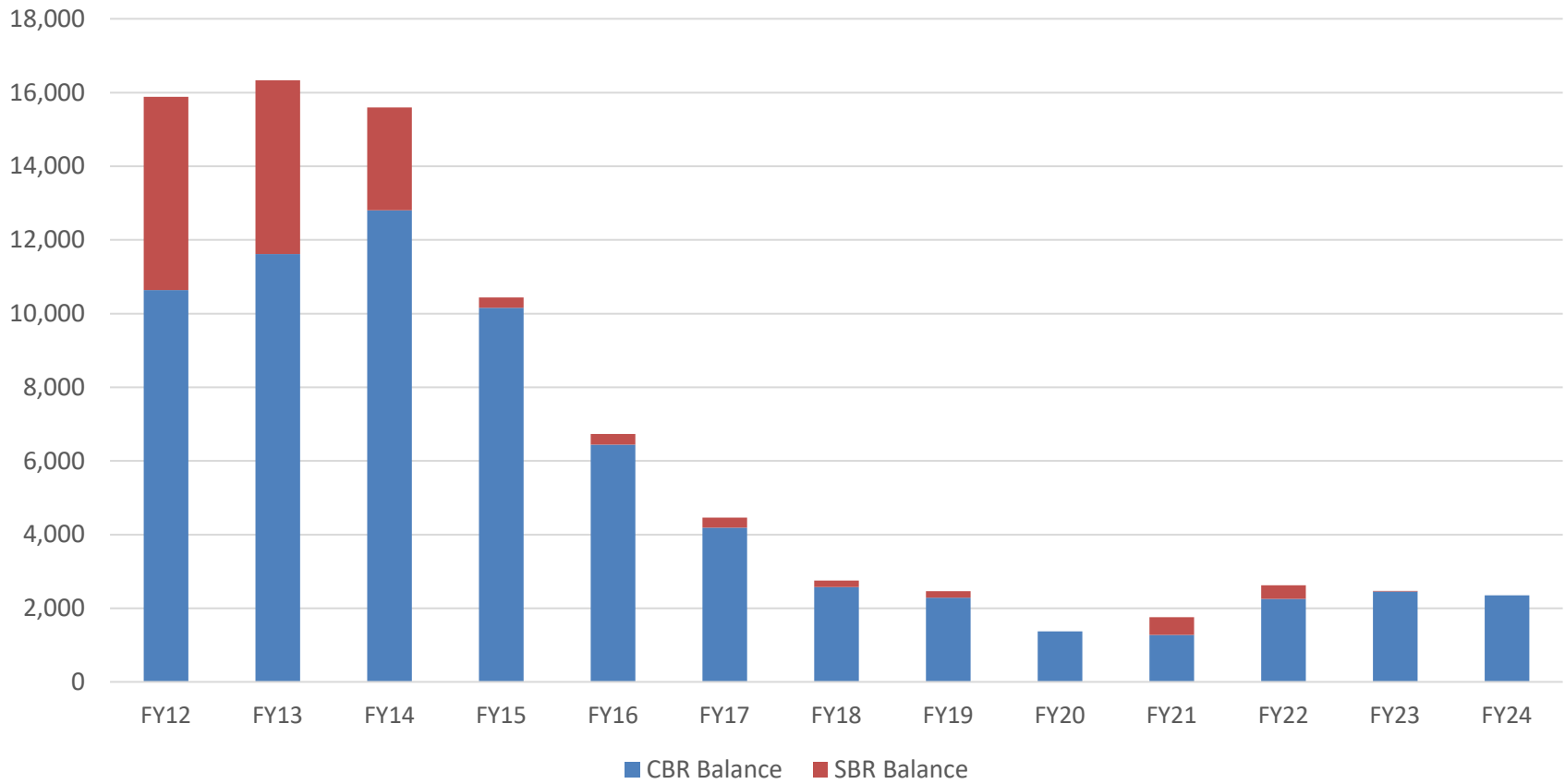
Fiscal Outlook (cont.)

UGF Budget & Revenue, FY12-F24 Governor's Budget
(\$millions)



Fiscal Outlook (cont.)

Savings Balances, FY12-24 Governor's Budget
(\$ 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 FY24 Adjusted Base for agency operations, the FY23 capital budget as the base for FY24. Since all statewide items were fully funded in FY23, they also both include full funding of statewide items. The only difference in FY24 is the PFD.
- **Current policy** assumes a 50/50 PFD plus an energy relief payment. 50/50 PFD (50% of POMV draw) would be \$1.76 billion, paying about \$2,700 per recipient. Adding a \$420.1 million energy relief payment would result in a total distribution of about \$3,350 per recipient.
- **Current law** assumes a statutory PFD.
 - That is projected to be about \$2.47 billion, paying about \$3,800 per recipient.

LFD's Budget Baselines (Cont.)

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

LFD's Budget Baselines (Cont.)

Statewide Items Detail		
	Current Policy	Current Law
School Debt Reimbursement	53.6	53.6
Other Debt Service	94.5	94.5
State Retirement Payments	140.3	140.3
REAA Fund Capitalization	27.9	27.9
Community Assistance	30.0	30.0
Oil and Gas Tax Credits	42.7	42.7
Statewide Items Total	389.0	389.0

LFD's Budget Baselines (Cont.)

FY24 Current Policy and Current Law Scenarios		
UGF Revenue	6,935.3	6,935.3
	Current Policy	Current Law
Agency Operations	4,096.7	4,096.7
Statewide Items	389.0	389.0
Capital Budget	735.8	735.8
Subtotal	5,221.5	5,221.5
PFD	2,183.1	2,470.9
Total Budget	7,404.6	7,692.4
Surplus/(Deficit)	(469.3)	(757.1)

Governor's FY24 Budget Compared to Baselines

Governor's Budget versus LFD Baselines					
UGF Revenue	6,935.3	6,935.3	6,935.3		
	Current Policy	Current Law	Governor	Difference from Current Policy	Difference from Current Law
Agency Ops	4,096.7	4,096.7	4,151.5	54.8	54.8
Statewide Items	389.0	389.0	359.0	(30.0)	(30.0)
Capital Budget	735.8	735.8	276.4	(459.4)	(459.4)
Subtotal	5,221.5	5,221.5	4,786.9	(434.5)	(434.5)
PFD	2,183.1	2,470.9	2,470.9	287.8	-
Total Budget	7,404.6	7,692.4	7,257.8	(146.7)	(434.5)
Pre-Transfer Deficit	(469.3)	(757.1)	(322.5)		

Governor's FY24 Budget (Cont.)

- Includes statutory PFD payment in FY24.
- Agency Operations is \$54.8 million (1.3%) above LFD baseline.
- Fully funds statewide items other than Community Assistance.
- Pre-transfer deficit of \$322.5 million is filled with a combination of ARPA revenue replacement (\$10.6 million), drawing from FY23 forward-funding of K-12 (\$114.1 million), and the SBR (\$19.8 million) and CBR (\$178.3 million)
- Governor did not submit supplementals on December 15 (they are due on the 15th day of session) but includes an \$85 million placeholder in the OMB fiscal summary. Note that LFD does not include a similar placeholder, so FY23 figures in our fiscal summary are pre-supplementals.
 - If FY23 forward-funding is used to close the FY24 deficit, any FY23 UGF supplemental appropriation has the effect of increasing the FY24 deficit.

Governor's FY24 Budget (Cont.)

Short Fiscal Summary - Governor's Budget (UGF Only)			
	FY23	FY24	Comparison
Revenue	7,239.5	6,935.3	(304.2)
Agency Operations	4,220.8	4,151.5	(69.3)
Statewide Items	1,025.8	359.0	(666.8)
Capital	735.1	276.4	(458.7)
Subtotal	5,981.8	4,786.9	(1,194.8)
Permanent Fund Dividend	1,680.3	2,470.9	790.6
Total Budget	7,662.0	7,257.8	(404.2)
Pre-Transfer Surplus/(Deficit)	(422.5)	(322.5)	
ARPA Revenue Replacement	(186.6)	(10.6)	
Draw from SBR	(350.3)	-	
K-12 Net Deposit (Draw)	114.1	(114.1)	
Other Fund Transfers	0.3	0.3	
Post-Transfer Surplus/(Deficit)	-	(198.1)	

Governor's FY24 Budget (Cont.)

- UGF Agency Operations are \$54.8 million (1.3%) above LFD baseline:
 - (\$20.9) million UGF (net zero all funds) by utilizing Higher Education Fund for scholarship programs and WWAMI
 - \$20.7 million UGF increase to Medicaid formula
 - \$18.1 million for utilization and inflation changes, \$2.6 million to expand postpartum coverage. 12/29 federal FMAP phaseout will change this number at GovAmend.
 - No K-12 funding outside the formula, but funds to statutory level including \$30 BSA increase authorized in 2022 session (HB 114)
 - \$6.4 million UGF in other increases from HB 114 fiscal notes
 - \$7.5 million increases to institutions in Corrections, but \$7.5 million decrease in projected health care costs
 - \$6.2 million for DOH for tuberculosis and congenital syphilis elimination plans

Governor's FY24 Budget (Cont.)

- Statewide Items total \$359.0 million:
 - School Debt Reimbursement, REAA Fund Capitalization, State Assistance to Retirement funded at statutory levels
 - Oil and Gas Tax Credits funded with an estimated \$42.7 million to purchase remaining credits
 - FY23 appropriation would have been sufficient at Spring Forecast price but leaves that amount unpaid based on the Fall Forecast price
 - No appropriation to Community Assistance Fund (leaving \$60.0 million balance, for a distribution in FY25 of \$20.0 million)

Governor's FY24 Budget (Cont.)

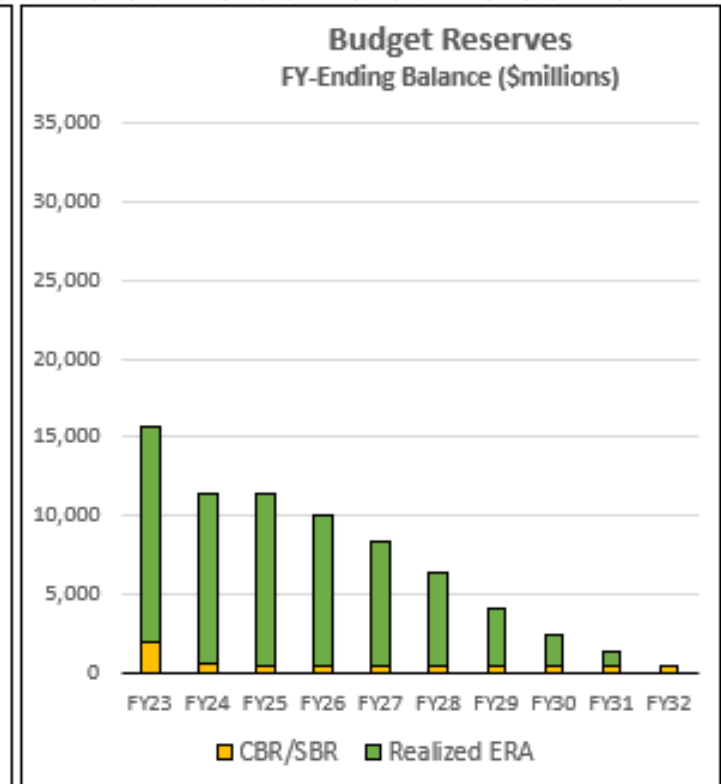
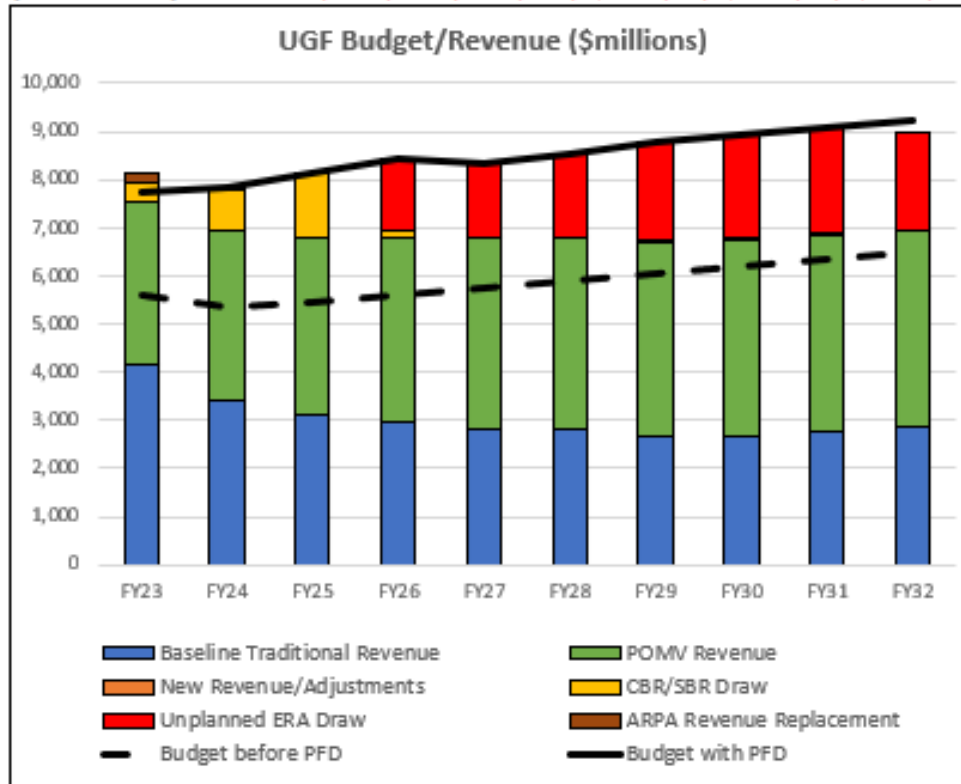
- Capital Budget totals \$276.4 million UGF, \$2.1 billion all funds:
 - \$125.8 million UGF for DOTPF federal match
 - \$25.0 million UGF for Village Safe Water match
 - \$25.0 million for AEA projects
 - \$23.6 million for AHFC programs
 - \$14.2 million UGF for DPS
 - \$12.1 million UGF for DNR, including \$4.4 million for Parks
 - \$10.0 million for statehood defense (previously this item has been funded with multi-year operating appropriations)
 - \$10.0 million for UA drone program (previously this item has been funded with a multi-year operating appropriation)
 - \$29.3 million for deferred maintenance, all from the Alaska Capital Income Fund (DGF)
 - No use of AMHS IJA funds, leaving ~\$150m unspent after allowable operating appropriations
 - These funds have a 20% match rate if used for capital, so maximizing these funds would require about \$30 million UGF
 - This may come in future amendments, as DOTPF is currently awaiting a federal response on its application for these funds

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

- LFD modeling baseline grows the current (FY23) budget with inflation and all statewide items are funded to statutory levels (this includes the PFD)
- With these baseline assumptions, deficits increase from about \$900 million in FY24 to \$2.3 billion in FY32, draining the CBR in FY26
- The Governor's 10-Year Plan makes several policy changes relative to the baseline that reduce the deficit, but still shows deficits each year that would drain the CBR in FY27 absent new revenue
- The Governor includes new revenue targets increasing from \$300 million in FY24 to \$900 million in FY27+, with no specified source

LFD Baseline Model

Surplus/(Deficit)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
(\$millions)	(178)	(884)	(1,331)	(1,674)	(1,555)	(1,767)	(2,051)	(2,179)	(2,248)	(2,300)



Effective POMV	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Draw Rate	5.00%	5.00%	5.00%	7.08%	7.00%	7.18%	7.54%	7.66%	7.72%	7.45%

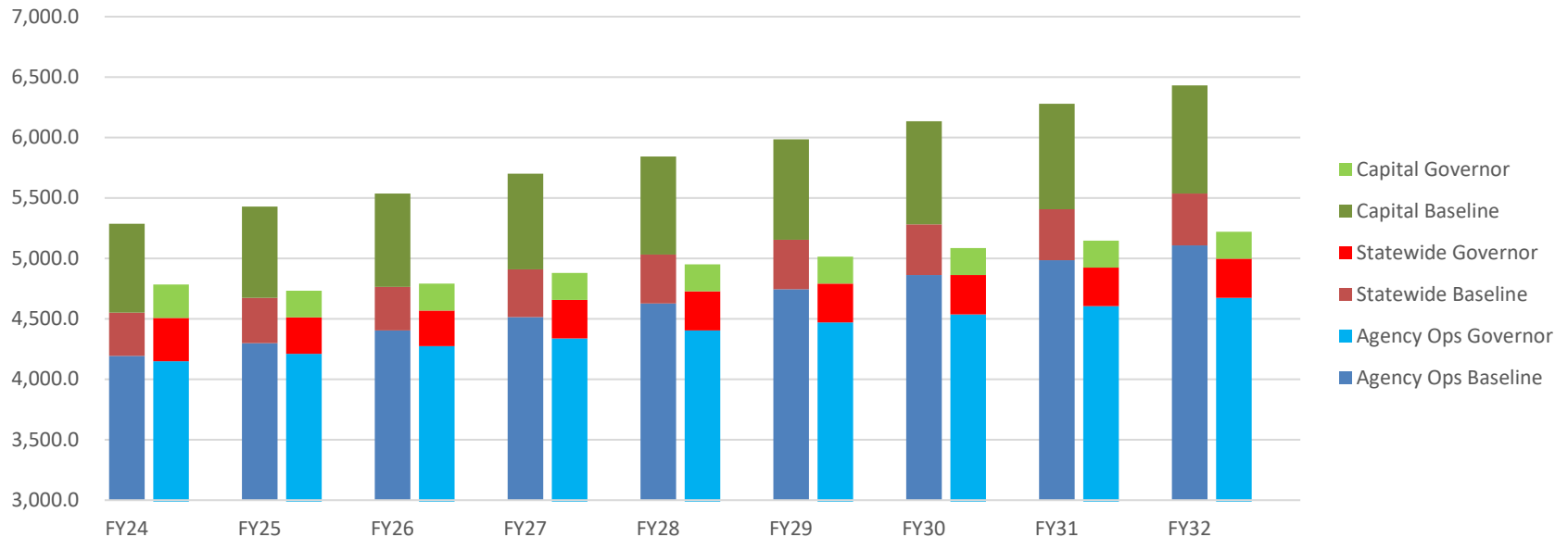
Long-Term Outlook and Governor's 10-Year Plan (Cont.)

- Policy changes in Governor's 10-Year Plan:
 - Agency operations grow at 1.5% in FY25+
 - PERS and TRS health care contributions are not funded (as they were not in FY23/24)
 - Does not fund Community Assistance with UGF
 - Capital budget decreases to \$276.5 million in FY24, \$220.0 million in FY25, and then grows by 1.5% per year
- Assumption Differences in LFD Model:
 - Governor assumes supplementals and lapse cancel out, LFD includes \$50.0 million placeholder
 - LFD includes a placeholder for new school debt after the moratorium ends in 2025, Governor does not

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

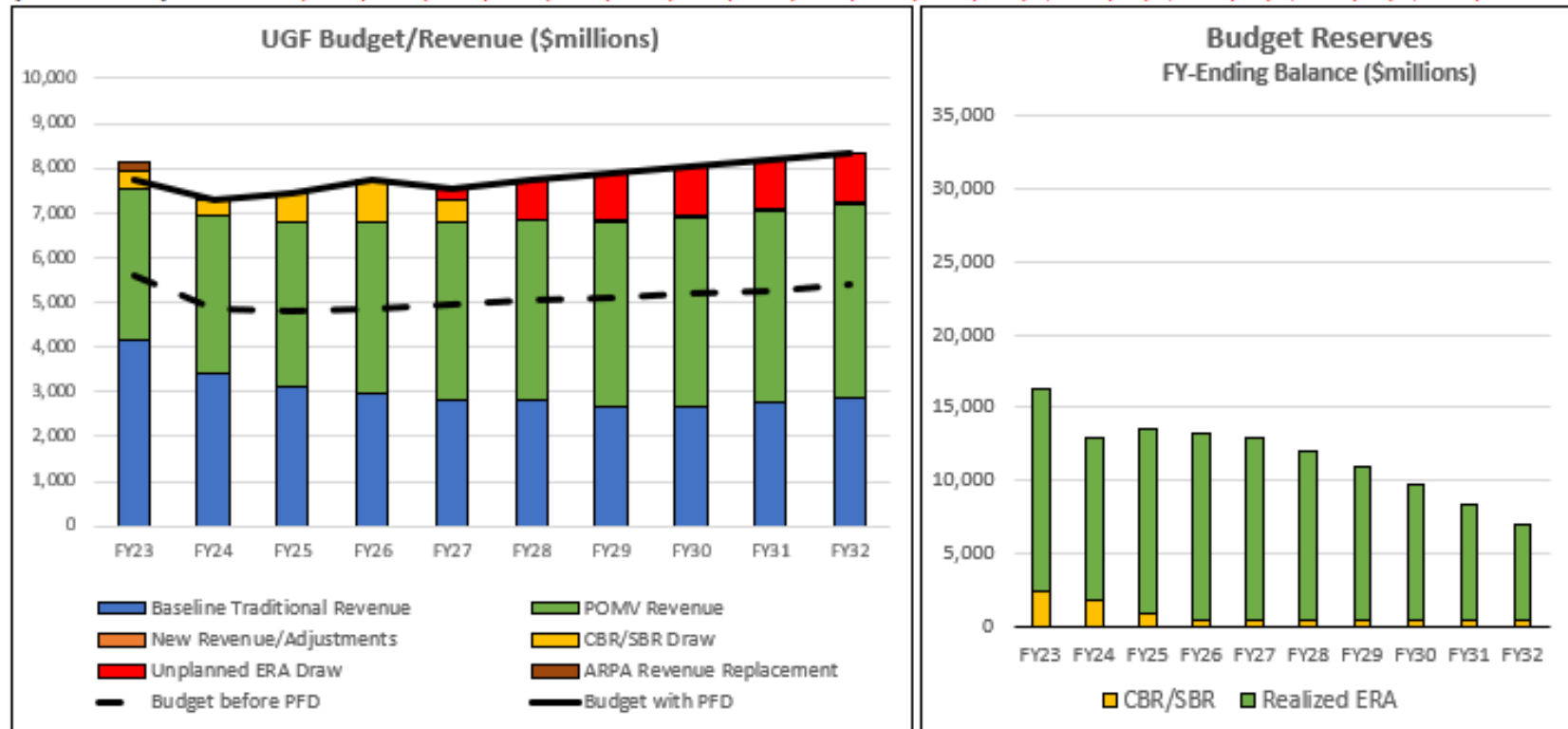
Comparison of LFD Baseline to the Governor's 10-Year Plan (\$ millions)									
	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Baseline	5,336.7	5,477.7	5,587.3	5,749.5	5,893.6	6,034.5	6,184.5	6,329.4	6,482.2
Governor	4,783.9	4,732.0	4,790.8	4,879.8	4,950.5	5,014.3	5,084.6	5,147.1	5,221.0
Difference	(552.8)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

Governor's 10-Year Plan Compared to LFD Baseline



Governor's 10-Year Plan, No New Revenue

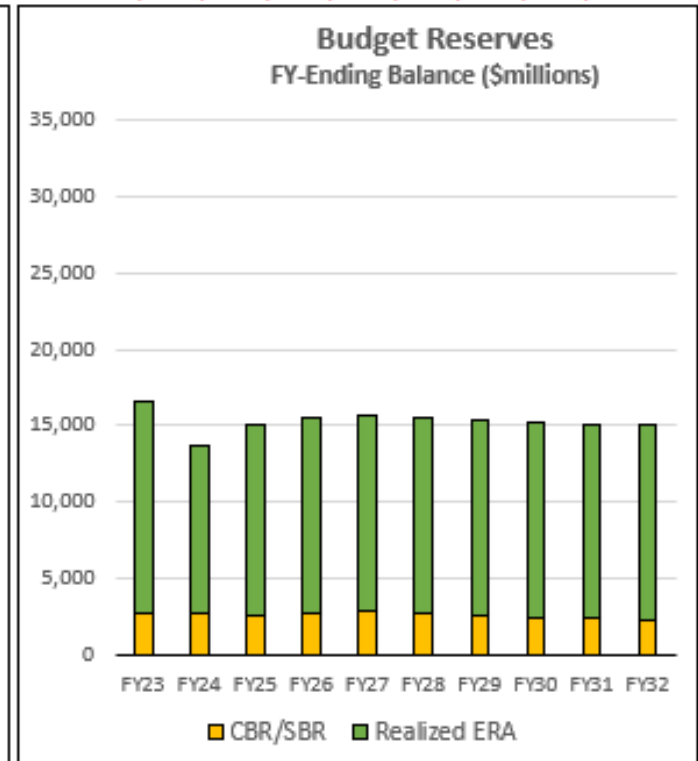
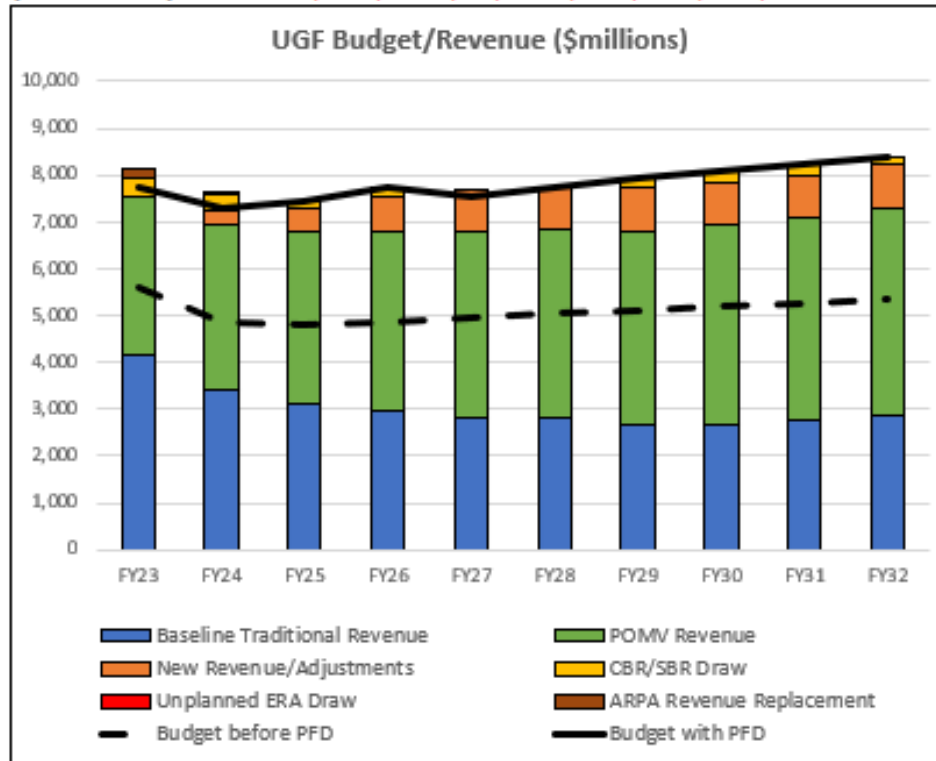
Surplus/(Deficit) (\$millions)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	(191)	(363)	(644)	(936)	(756)	(898)	(1,110)	(1,157)	(1,140)	(1,163)



Effective POMV Draw Rate	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	5.00%	5.00%	5.00%	5.00%	5.34%	6.08%	6.34%	6.37%	6.32%	6.32%

Governor's 10-Year Plan, with New Revenue (\$300-900m per year)

Surplus/(Deficit) (\$millions)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	(191)	(63)	(149)	(186)	144	3	(206)	(246)	(219)	(173)



Effective POMV Draw Rate	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31
	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

Questions?

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