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# **Fiscal Position with Governor's Budget Amendments**

Senate Finance Committee  
February 21, 2023  
Legislative Finance Division

# Outline

- Responses from 2-7-23 Meeting
- Updated Fiscal Summary – GovAmend
- FY23 and FY24 Oil Price Sensitivity and Outlook

# Responses to Questions from February 7 Meeting

Senator Kiehl asked about the percentage of Minnesota's budget reserve compared to its budget, and Senator Bishop asked about Minnesota's current budget status.

- In 2022, the Minnesota Management and Budget recommended a reserve level of 4.8% of the biennium's budget, or \$2.7 billion (or about 9.6% of the budget on an annual basis). That is in addition to a separate cash flow account that has a target balance of \$350 million.
- By comparison, OMB's \$2 billion recommendation is equal to 27.1% of the Governor's FY24 UGF budget, and LFD's estimate of \$3 billion to apply the Minnesota calculation to Alaska is 40.1% of the Governor's FY24 UGF budget.
- In December 2022, Minnesota Management and Budget estimated that the state would have a surplus of \$17.6 billion available in the FY24-25 biennium (including additional amounts left from the FY22-23 biennium).

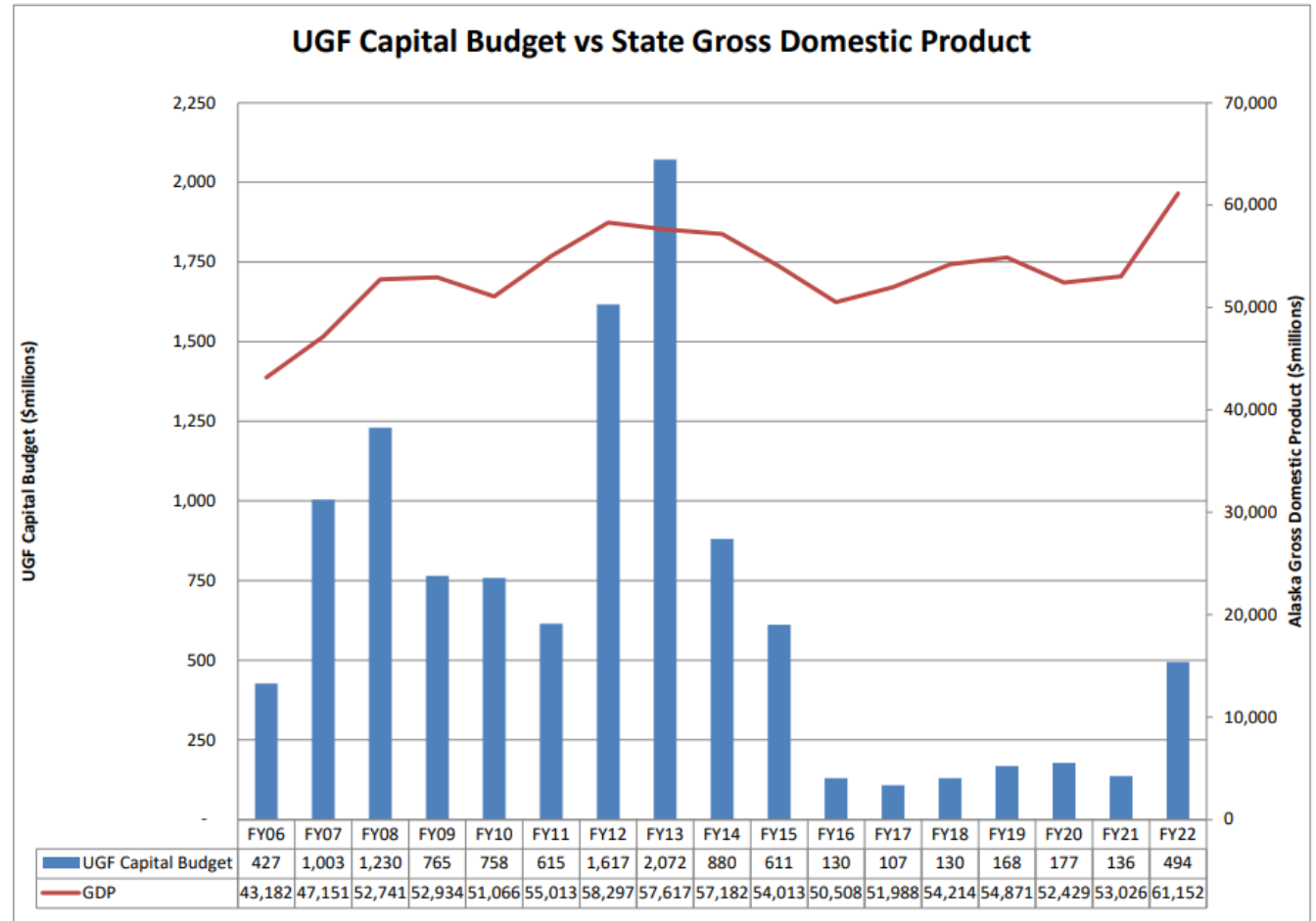
# Responses to Questions from February 7 Meeting (cont.)

Senator Kiehl asked about the amount of new school debt assumed in Legislative Finance's model.

- LFD assumes that the state share of new debt would be \$7.8 million annually.
- This figure was derived by taking a 10-year average of the state share of new debt before the moratorium began in 2015, prorated for the lower reimbursement rates when the moratorium ends.
- The actual amount of new school debt will depend on current interest rates and actual utilization of the program, so this is a very rough estimate.

# Responses to Questions from February 7 Meeting (cont.)

Senator Stedman asked for the graph of the capital budget compared to oil prices to be restated as the capital budget compared to Alaska's GDP.



# Responses to Questions from February 7 Meeting (cont.)

Senator Stedman requested a sensitivity table showing the likelihood of various Constitutional Budget Reserve (CBR) balances in a single fiscal year.

The table shows the likelihood that the CBR balance at the end of FY28 exceeds a given value based on the Senate Finance Committee modeling assumptions across the three PFD scenarios. Note that these are illustrative projections which may understate potential volatility.

Likelihood of CBR Balance Exceeding a Given Amount at FY28 Year-End			
CBR Balance (\$millions)	Statutory PFD	50% of POMV to PFD	25% of POMV to PFD
500	54%	77%	99%
1,000	47%	72%	98%
2,000	37%	61%	95%
3,000	28%	51%	91%
4,000	21%	43%	84%
5,000	15%	34%	77%

# Short Fiscal Summary – Governor’s Amended Budget

	(\$ Millions) (Non-duplicated Funds)	FY23 Mgt Plan + Gov Supps	FY24 Governor	Change in UGF	
		UGF	UGF		
1	<b>Revenue</b>	<b>7,239.5</b>	<b>6,922.3</b>	<b>(317.2)</b>	<b>-4.4%</b>
2	UGF Revenue (DOR Fall 2022 Forecast)	3,865.2	3,410.1	(455.1)	-11.8%
3	POMV Draw	3,360.6	3,526.1	165.5	4.9%
4	Misc/Adjust/Non-UGF Revenue	13.7	(13.9)	(27.6)	
5	<b>Appropriations</b>	<b>7,776.3</b>	<b>7,356.6</b>	<b>(419.7)</b>	<b>-5.4%</b>
6	<b>Operating Budget</b>	<b>5,345.1</b>	<b>4,582.1</b>	<b>(763.0)</b>	<b>-14.3%</b>
7	Agency Operations	4,220.8	4,223.5	2.7	0.1%
8	Statewide Items*	1,025.8	358.6	(667.2)	-65.0%
9	Supplemental Appropriations	98.5	-	(98.5)	
10	<b>Capital Budget</b>	<b>750.9</b>	<b>303.6</b>	<b>(447.3)</b>	<b>-59.6%</b>
11	Current Year Appropriations	735.1	303.6	(431.6)	-58.7%
12	Supplemental Appropriations	15.8	-	(15.8)	
13	<b>Permanent Fund</b>	<b>1,680.3</b>	<b>2,470.9</b>	<b>790.6</b>	<b>47.1%</b>
14	Permanent Fund Dividends	1,680.3	2,470.9	790.6	47.1%
15	<b>Pre-Transfer Surplus/(Deficit)</b>	<b>(536.8)</b>	<b>(434.3)</b>		
16	Statutory Budget Reserve	(350.3)	-		
17	American Rescue Plan Act (ARPA)	(186.6)	(10.6)		
18	K-12 Forward Funding**	-	-		
19	Other Fund Transfers	0.3	7.8		
20	<b>Post-Transfer Surplus/(Deficit)</b>	<b>(0.2)</b>	<b>(431.5)</b>		

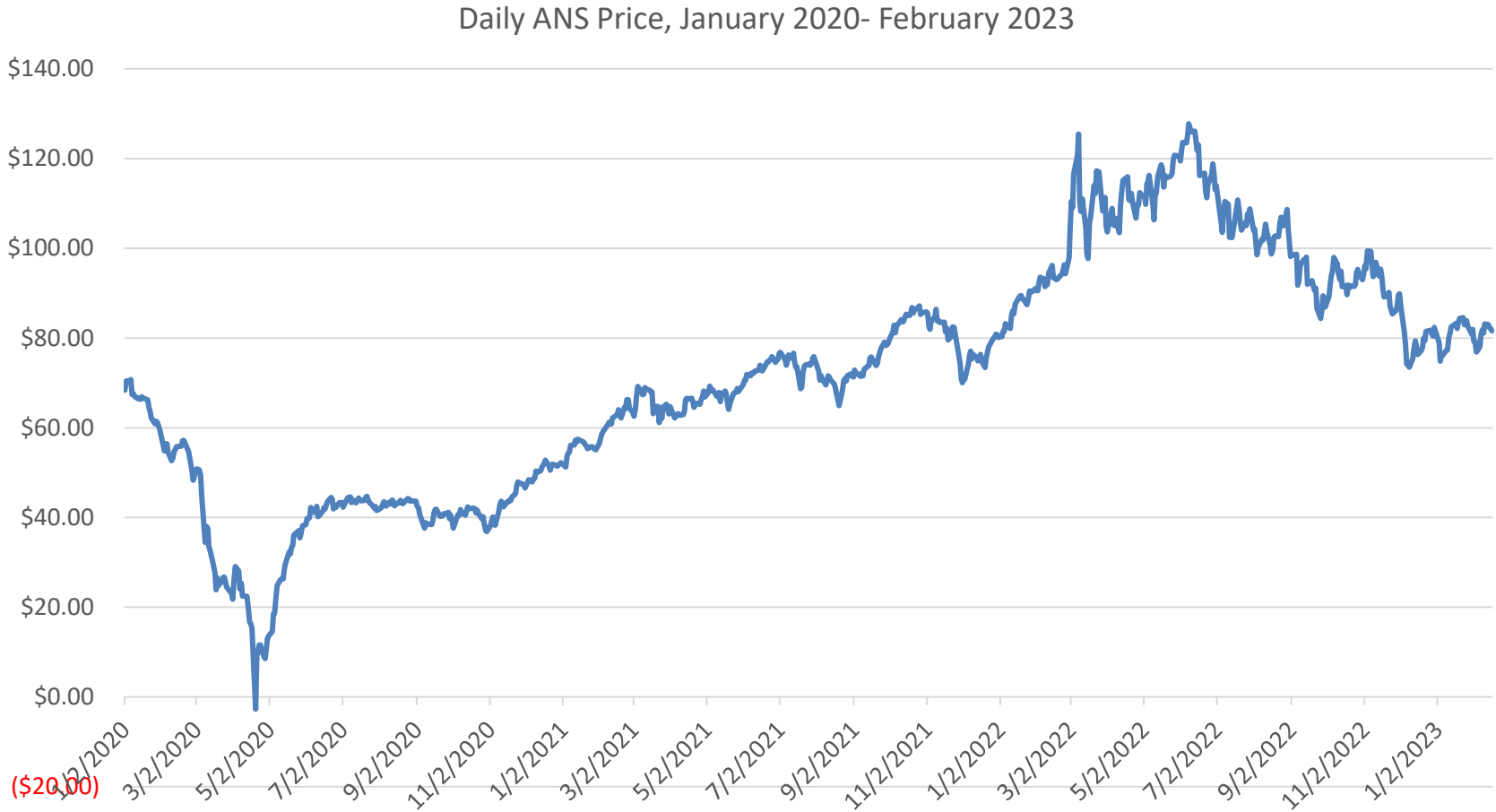
Reserve Balances (EOY)		
	FY23	FY24
SBR	19.6	0.0
CBR	2,454.4	2,121.2
ERA	10,821.5	10,956.4

February 20, 2023

\* Includes \$420.1 million FY23 Energy Relief Payment.

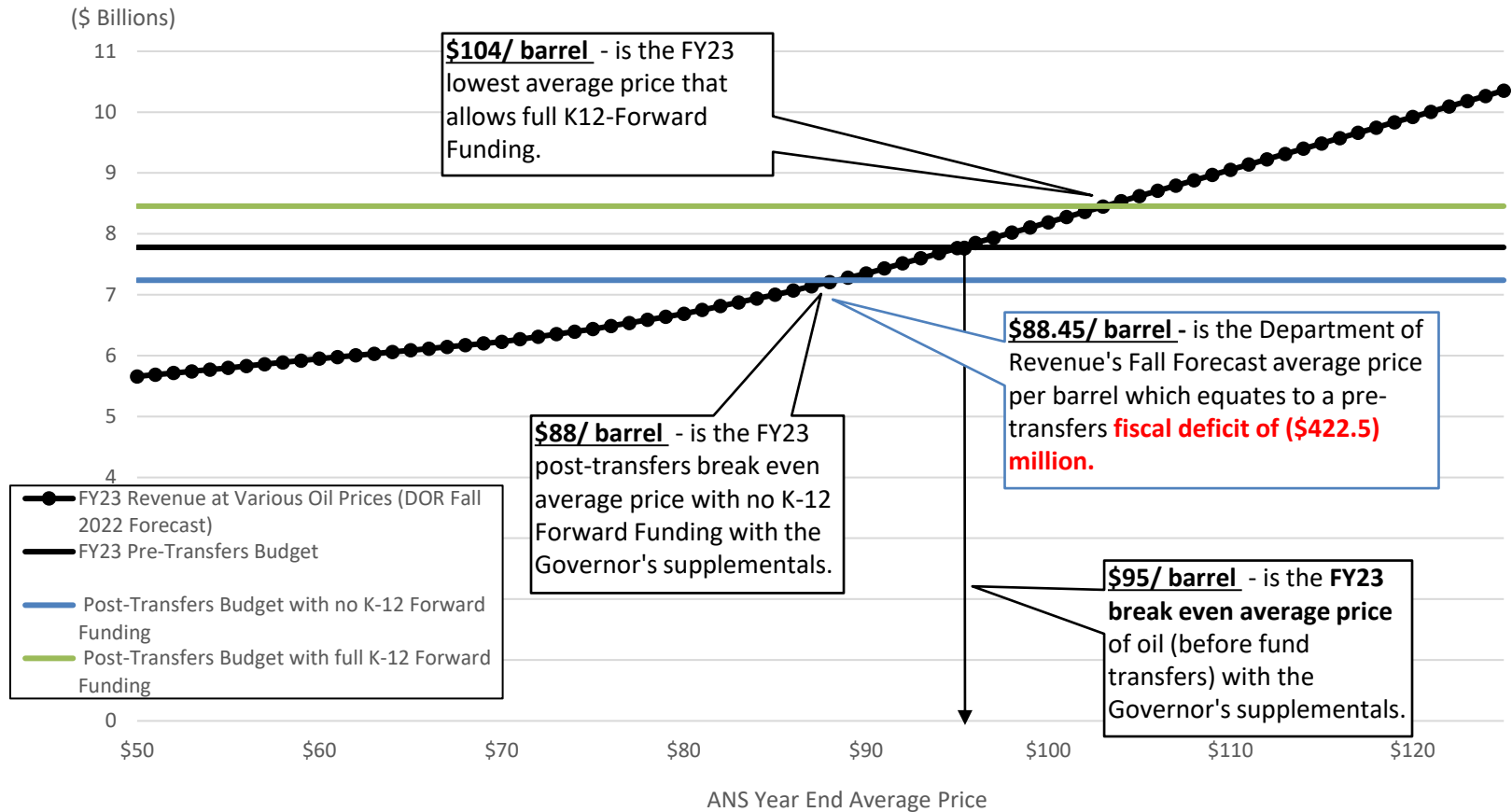
\*\* Estimated forward-funding is pro-rated to the amount available after other appropriations.

# Oil Price Volatility Since 2020





# Fiscal Sensitivity – FY23

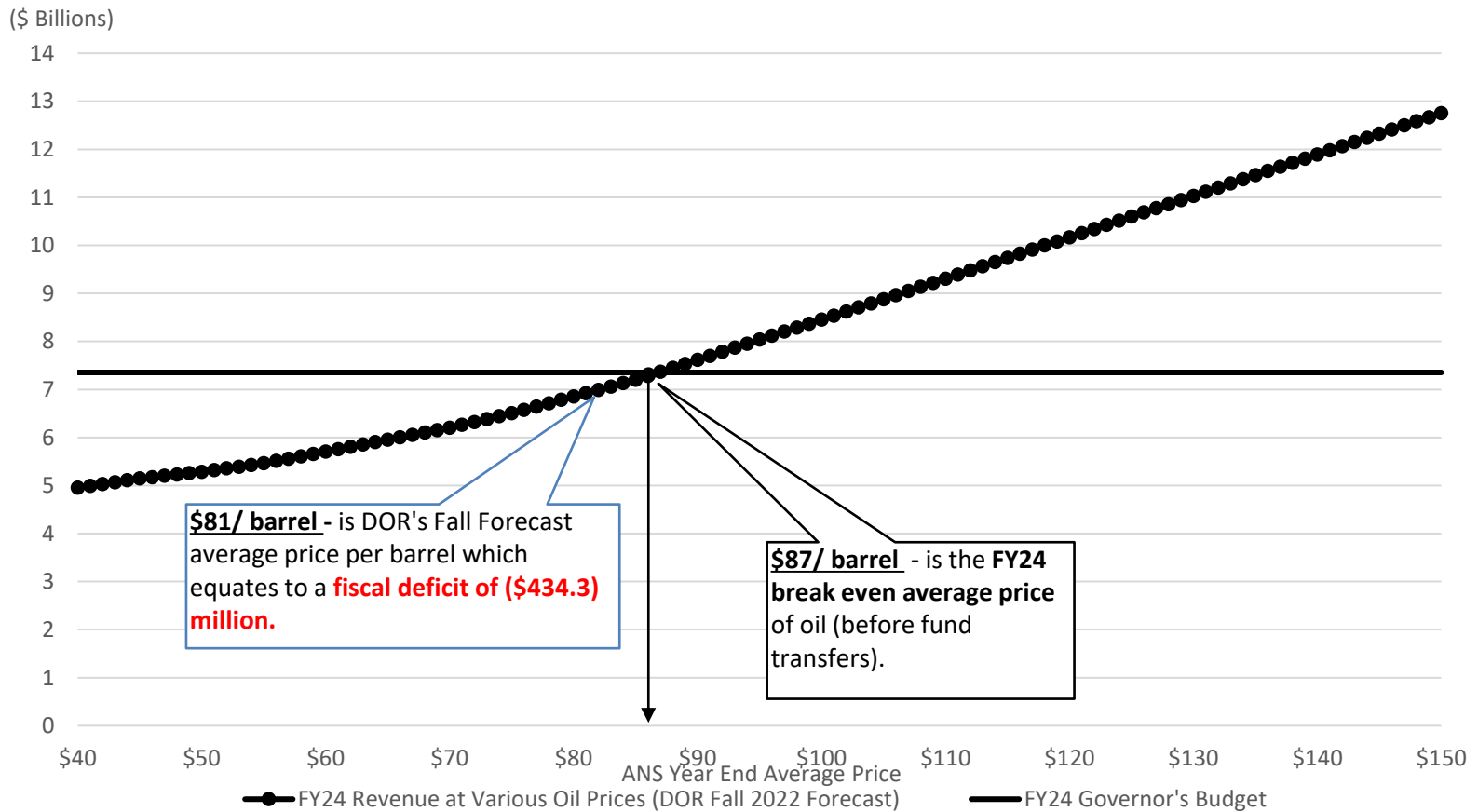


*Note: Revenue projections are based on the average price for the entire fiscal year. ANS prices averaged \$97.59 for July-November 2022. An FY23 average price of \$50.00 would require December-June prices to average \$16.01.*

# FY23 Budget Situation

- As of Friday, February 17, oil prices to date averaged \$91.72. They would need to average about \$82.70 to match the \$88.45 forecast. The price on Friday was \$79.85.
- Based on the forecast, the post-transfer deficit would be \$0.3 million with the Governor's supplementals. The FY23 budget currently has deficit-filling language from the Statutory Budget Reserve, which has a balance of about \$20 million.
- Deficits beyond the SBR balance currently have no source - the FY23 budget does not have CBR access (which would require a  $\frac{3}{4}$  vote of the legislature to add).
- Even if oil prices and production do match the forecast, there is a margin of error in revenue forecasting. \$20 million is not sufficient room to ensure that the FY23 budget is fully funded.
- If the legislature adopts the Governor's supplemental budget, it should designate a source for deficits beyond the SBR balance.

# Fiscal Sensitivity – FY24



# FY24 Budget Situation

- Governor's FY24 budget has a pre-transfer deficit of \$434.3 million.
- This includes a statutory PFD estimated to be \$2,470.9 million. However, this estimate includes \$4.6 billion of projected statutory net income in FY23. Through December, statutory net income was about \$1.0 billion. If that trend continues and the total is \$2.0 billion, the projected PFD would decrease to \$2,196.7 million.
  - That would reduce the projected FY23 deficit to \$160.1 million.
  - That would also decrease the projected payment from \$3,800 to about \$3,400 per recipient
- With no K-12 forward-funding available in FY24 after the Governor's supplementals, the FY24 deficit is made up in the Governor's budget from a combination of ARPA Revenue Replacement (\$10.6 million), the remaining SBR balance (\$19.6 million), and the CBR.

# Questions?

## Contact Information

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