

# **OFFICE OF GOVERNOR MIKE DUNLEAVY**

## **FY2025 Budget Overview and 10-Year Plan**

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**Office of Management and Budget**

**December 14, 2023**

## Statutory Requirement

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Alaska Statute 37.07.020(b) requires the Governor to publish a 10-year fiscal outlook that balances sources and uses of funds while providing for essential State services and protecting the economic stability of the state. The 10-year plan reflects the Governor's vision of Alaska's fiscal future given the information available today. This plan incorporates official financial forecasts for revenue and expenditures where possible and makes informed assumptions where published data is not otherwise available.

This discussion, and associated 10-year budget projections, focuses on the expenditure of unrestricted general fund revenues or appropriations from undesignated reserves. While this represents roughly half of the entire State budget, the unrestricted general fund portion of the budget is the most discretionary, and more importantly, is most subject to the fiscal instabilities requiring policy consideration. A budget surplus or deficit is measured by a comparison of unrestricted general fund revenue against unrestricted general fund expenditures. Expenditures of other revenue types (e.g., federal grants, licensing fees, constitutionally dedicated fund sources, etc.) are generally level to revenue.

## Fiscal Year 2025 Budget and Outlook

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Governor Dunleavy is proposing a budget for Fiscal Year (FY) 2025 that prioritizes affordable housing, food, childcare, and energy for Alaskan families, as well as continued investments in education, and public safety. The FY2025 budget provides for a statutory Permanent Fund Dividend ensuring Alaskan's benefit from the state's natural resource wealth. The proposed budget demonstrates the Governor's vision for continued stability in government operations to maintain services and programs that Alaskans rely upon.

As detailed in the assumptions listed below there is significant uncertainty inherent in any attempt to project over a 10-year forecast period. A review of the 10-year plans published by the Office of Management and Budget (OMB) in prior years would show far different views of the future than what ultimately came to pass. Revenue projections can scarcely predict geopolitical events like war or pandemics, and expenditure projections based solely on inflation ignore the ever-changing needs of Alaskans that are thoroughly debated through the budget process.

The volatility of oil revenues, which makes up 80 percent of the State's traditional revenues, has been a significant fiscal challenge for most of the state's history. To accommodate this volatility, the State has established a number of budget stabilization funds. In years of high revenue surpluses, deposits are made into these funds to ensure there are resources available to mitigate the impact low oil prices could otherwise have on government services.

With oil prices continuing to be highly volatile coupled with unprecedented rises in inflation, Governor Dunleavy's focus remains steadfast on reducing the growth of State government while maintaining services to Alaskans while creating long-term stability in the delivery of government services, without an imposition on Alaskan residents or businesses. Careful

consideration of expenditures is prudent when weighing the impacts and future needs of Alaska.

## **Revenue Assumptions**

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The Department of Revenue, in conjunction with the Department of Natural Resources, produces official forecasts of all State revenue sources. The Fall Forecast is used for the development of the budget for the coming year. It is important to note that a level of uncertainty is inherent when making predictions on the stock market, oil prices, or future economic activity.

Based on a price forecast of \$76 per barrel and a production forecast of 463,800 barrels per day, total unrestricted revenue from traditional sources is forecast to be \$2.95 billion in FY2025.

An important source of State revenue is the structured draw from the Permanent Fund earnings reserve account, frequently referred to as a percent of market value (POMV) draw. Senate Bill 26, passed in 2018, created the statutory framework to draw up to five percent of the average value of the previous five years of the Permanent Fund. The statutory Permanent Fund draw for FY2025 is \$3.6 billion.

The Department of Revenue anticipates total unrestricted general fund revenue will be \$6.48 billion for the current fiscal year and \$6.30 billion in FY2025. The department's long-term revenue forecast assumes stable oil prices near \$70 per barrel and 7.20 percent annual Permanent Fund returns resulting in revenues of between \$6.3 billion and \$7.3 billion annually during the forecast period.

## **Elements of the State Budget**

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### *Operating Budget*

The FY2025 operating budget continues the Dunleavy administration's effort to contain the cost of State government limiting agency growth to five percent since FY2019. Carefully considered fiscal policy interventions have allowed the State to save considerable money in payment of core obligations like debt and retirement, while still providing essential services to Alaskans. These savings have been used to reinforce the State's support of public protection, education, and economic development. Even with record levels of inflation (eight percent) this administration has invested resources in addressing Alaskan's needs such as affordable housing, food, childcare, and energy relief.

The operating budget authorizes State agencies across all branches of government to make expenditures supporting day-to-day functions for a fiscal year, which runs from July 1 through June 30. The operating budget is frequently reported in two major categories: agency operations, which includes the cost of operating each executive branch department, the University of Alaska, the Legislature, and the Judiciary; and statewide operations, which includes the budget for non-department specific expenditures like retirement system payments, State debt obligations, and transfers between State funds.

### *Agency Operations*

There are several ways to analyze in detail the budget for agency operations, including by department, by expenditure line item, or revenue detail, but for the purposes of the 10-year plan fiscal projections, a broader analysis of major cost drivers is more appropriate.

Agency budgets for all 16 executive branch departments, the University of Alaska, the Legislature, and the Judiciary can be categorized into formula and non-formula spending. Formula spending is typically less discretionary due to State or federal statute and is driven by public demand via enrollment or population. Non-formula spending is not determined by a statutory calculation or formula based on participation but is still linked to statutory or even constitutional requirements.

### *Non-Formula*

An example of a non-formula program is the commercial fisheries management program within the Department of Fish and Game. Expenditures for the program are not driven by a statutory formula, measure of catch volume, or participation in fisheries; rather, it is driven by a constitutional and statutory obligation to manage natural resources for the maximum sustained benefit of all Alaskans. Another example is the Division of Parks within the Department of Natural Resources. The budget for this division is not directly tied to the number of visitors to the State parks, rather it is determined by analysis of the cost to maintain and operate park facilities and restrooms in a safe, clean, and consistent manner.

Cost changes to a non-formula program can often be made through budgetary action; however, more significant changes may require statutory change.

### *Formula*

Formula programs make up more than half of the agency operating budget and are defined by their formulaic cost structure. Statutory rules, often with corresponding federal code, dictate eligibility rules, a cost basis, or some other formula that provides for a specified payment. For example, the K-12 formula program sets a cost level, called the base student allocation, that is then applied to regional and demographic factors, as well as student counts to determine the payment to a given district. Another example is the Medicaid program, which has set criteria of income and assets to determine the eligible population and sets criteria for eligible services and reimbursement rates. The State's cost of the Medicaid program is based on the level of consumption of eligible services by eligible Alaskans.

While statutes are subject to available appropriation, meaningful cost changes to formula programs require statutory change, and some formula programs require federal action to implement significant change.

### *Non-Agency Spending*

Often referred to as 'statewide items,' non-agency spending reflects expenditures like debt or payments for public employee retirement funds that aren't direct services to Alaskans but are still obligations of the State. Projected expenditures in these items commonly come from publicly verifiable expert sources.

### *Debt*

The State debt projection includes the Department of Revenue's payment schedules based on current outstanding debt. The Department of Education and Early Development publishes the statutory payment schedule for State assistance for municipal debt for school construction. Overall debt payments are projected to continue to taper as historical debt service obligations are fully paid.

### *Retirement*

Projected payments to the retirement system made by the State on behalf of other public employers to finance the retirement system's unfunded liability are produced by an actuarial firm hired by the Alaska Retirement Management (ARM) Board. The retirement projections in the 10-year plan assume that the ARM Board will follow the published actuarial analysis.

### *Fund Capitalizations & Transfers*

Previously, the largest item in the fund capitalization category was the statutory payment for oil and gas tax credits owed by the State. The State has retired these debts as of FY2024. Deposits to the rural school construction fund are included based on a formula driven by reimbursement of school bond debt. The disaster relief fund (DRF) received a large deposit in FY2022, which was followed by conversion of a prior disaster to federal funding. As a result, the DRF did not require a deposit in FY2023 or FY2024; however, for FY2025, a \$5 million deposit is necessary to maintain a healthy balance in the event of unexpected disasters. Unrestricted general fund transfers are anticipated to be minimal in the out years.

### *Capital Improvement Plan*

This budget proposes a capital budget that funds required State match and several targeted State-funded projects combined totaling \$305.2 million of unrestricted general funds leveraging \$2.87 billion in federal funding.

As of November 7, 2023, funding from the Infrastructure Investment and Jobs Act (P.L. 117-58) provided Alaska with \$2.06 billion in grants and contracts. Of this, State of Alaska agencies have received \$1.26 billion. Most of this funding, \$1.12 billion, has been for Transportation programs and, more specifically, Highway Planning and Construction (\$1.03 billion). The out years of the 10-year plan assume the level of match needed to support federal programs and include capacity for necessary deferred maintenance and emergent capital priorities.

### **Projecting Future Expenditures**

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One method for projecting future expenditure changes in non-formula State spending is to use a projection of a common inflation metric, like the Consumer Price Index (CPI), which is a measure of the cost of goods purchased by the normal consumer published by the federal Bureau of Labor Statistics. An analysis of historical trends, however, does not indicate a strong correlation between CPI and State government spending. Expenditure trends are aligned with the availability of revenues and the policies of incumbent administrations. History has shown that as excess revenues become available, whether through policy changes or natural volatility, programs are expanded or added and deposits to savings are made. When revenues fall,

administrations and legislatures make the challenging, but necessary, policy decisions to prudently curtail State spending and carefully withdraw from savings when necessary.

While inflation rates can provide a guide to aspects of the budget sensitive to prices, such as commodities or bargained salaries, they do not provide any accounting for the policy decisions that have a far greater impact on the overall State budget. A blind application of inflation implies that future legislatures and administrations, when managing to the projected revenue, would not take prudent actions in managing expenditures.

Absent other policy intervention to address the issue, status-quo revenue projections and the unprecedented degree of revenue volatility, do not provide the ability for significant expansion of government services outside those that can be accommodated through savings. However, in anticipation of solutions to this persistent issue, OMB has applied a 1.5 percent escalation rate to future years for any expenditure category that does not have an officially available schedule of out-year costs. This assumption provides room in forecasted expenditures for policy interventions by future administrations or legislatures but avoids overstating projected expenditures over those that can be naturally accommodated in projected revenues.

The state is vast, with great natural resource wealth and significant opportunity on the horizon with emerging technologies and other developments. With the current structure of the State budget, it is expected that some combination of new revenue measures and reductions in spending to balance expenditures to revenue will be necessary. In recent years, policy makers have contemplated new revenue measures, budget reductions, and changes to the permanent fund dividend program. That conversation will continue as the State works to address its structure fiscal issues.

## 10-Year Fiscal Outlook

Table 1 - Uses Of Funds (amounts in millions)

Fiscal Year 2025 10-Year Outlook											
Uses of Funds	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Permanent Fund Dividend Transfer	881.5	2,303.7	2,499.7	2,199.7	2,272.5	2,575.3	2,751.9	2,824.9	2,899.8	2,977.2	3,057.1
Per capita PFD (dollars)	\$1,312	\$3,429	\$3,720	\$3,274	\$3,382	\$3,833	\$4,096	\$4,205	\$4,316	\$4,431	\$4,550
<b>Unrestricted General Fund Expenditures</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>FY2032</b>	<b>FY2033</b>	<b>FY2034</b>
<b>Agency Operations</b>	<b>4,411.7</b>	<b>4,321.8</b>	<b>4,386.6</b>	<b>4,452.4</b>	<b>4,519.2</b>	<b>4,587.0</b>	<b>4,655.8</b>	<b>4,725.6</b>	<b>4,796.5</b>	<b>4,868.4</b>	<b>4,941.5</b>
Agency Formula	2,209.0	2,065.9	2,096.9	2,128.3	2,160.2	2,192.6	2,225.5	2,258.9	2,292.8	2,327.2	2,362.1
<i>K-12 Formula</i>	1,315.9	1,195.0	1,213.0	1,231.2	1,249.6	1,268.4	1,287.4	1,306.7	1,326.3	1,346.2	1,366.4
<i>Medicaid</i>	700.0	703.9	714.5	725.2	736.1	747.1	758.3	769.7	781.2	793.0	804.9
<i>Other Formula</i>	193.1	166.9	169.4	171.9	174.5	177.1	179.8	182.5	185.2	188.0	190.8
Agency Non-Formula	2,202.7	2,255.9	2,289.7	2,324.1	2,358.9	2,394.3	2,430.2	2,466.7	2,503.7	2,541.3	2,579.4
<b>Unrestricted General Fund Expenditures</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>FY2032</b>	<b>FY2033</b>	<b>FY2034</b>
<b>Statewide Items</b>	<b>346.8</b>	<b>365.0</b>	<b>368.6</b>	<b>379.1</b>	<b>393.7</b>	<b>388.4</b>	<b>388.6</b>	<b>380.2</b>	<b>392.5</b>	<b>381.7</b>	<b>369.5</b>
Debt	147.5	138.1	123.6	116.1	115.0	105.4	100.0	85.3	91.5	75.2	55.2
<i>General Obligation Bonds</i>	67.9	67.7	65.0	63.0	62.9	62.7	62.6	50.6	60.5	50.4	50.3
<i>Lease/purchase</i>	3.3	3.3	3.3	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0
<i>Capital lease</i>	16.2	16.2	16.2	16.2	17.6	17.6	17.6	17.6	17.6	17.6	0.0
<i>Certificates of Participation</i>	2.9	2.9	2.9	2.9	2.9	2.9	0.0	0.0	0.0	0.0	0.0
<i>University of Alaska and Municipal</i>	3.6	3.6	2.8	2.6	2.2	0.9	0.9	0.4	0.0	0.0	0.0
<i>School bond debt (UGF portion)</i>	53.6	44.4	33.4	28.1	26.1	21.3	18.9	16.7	13.4	7.2	4.9
Retirement	140.3	186.3	222.9	238.4	255.0	261.6	268.3	275.6	283.3	291.7	300.5
<i>PERS</i>	37.9	59.1	80.0	80.2	93.2	95.9	98.6	101.7	105.1	108.9	112.9
<i>TRS</i>	98.8	123.4	139.1	154.3	157.9	161.7	165.7	169.8	174.0	178.6	183.3
<i>JRS</i>	2.6	2.4	2.4	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.8
<i>EPORS</i>	1.0	1.3	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5
Fund Capitalizations & Transfers	59.0	40.6	22.1	24.6	23.7	21.4	20.3	19.3	17.7	14.8	13.8
<i>Oil and Gas Tax Credits</i>	28.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Disaster Relief Fund</i>	0.0	5.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
<i>Regional Ed. Attendance Area Fund</i>	27.9	27.0	21.8	19.3	18.4	16.1	15.0	14.0	12.4	9.5	8.5
<i>Other</i>	2.7	8.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Supplementals	78.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating Budget</b>	<b>4,831.5</b>	<b>4,686.8</b>	<b>4,755.2</b>	<b>4,831.5</b>	<b>4,912.9</b>	<b>4,975.3</b>	<b>5,044.4</b>	<b>5,105.8</b>	<b>5,189.0</b>	<b>5,250.2</b>	<b>5,311.0</b>
<b>Capital Budget</b>	<b>364.8</b>	<b>305.2</b>	<b>309.8</b>	<b>314.4</b>	<b>319.1</b>	<b>323.9</b>	<b>328.8</b>	<b>333.7</b>	<b>338.7</b>	<b>343.8</b>	<b>349.0</b>
<b>Total General Fund Appropriations</b>	<b>5,196.3</b>	<b>4,992.0</b>	<b>5,065.0</b>	<b>5,145.9</b>	<b>5,232.0</b>	<b>5,299.3</b>	<b>5,373.2</b>	<b>5,439.5</b>	<b>5,527.7</b>	<b>5,594.0</b>	<b>5,659.9</b>

FY2025 10-Year Plan

Table 2 - Sources of Funds (amounts in millions)

Sources of Funds	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Traditional UGF Revenue	2,959.4	2,651.2	2,542.3	2,585.8	2,659.3	2,609.2	2,548.2	2,547.5	2,687.4	2,809.9	2,881.5
Petroleum Revenue	2,414.4	2,078.2	1,935.7	1,950.1	2,003.4	1,944.1	1,867.6	1,854.6	1,986.5	2,100.9	2,166.9
Non-Petroleum Revenue	454.5	485.2	518.8	547.9	568.1	577.3	592.8	605.1	613.1	621.2	626.8
<i>Investment Revenue</i>	3,616.6	3,745.0	3,847.8	3,979.8	3,964.8	4,024.8	4,090.8	4,192.8	4,299.8	4,410.8	4,527.8
Non-POMV Investment Revenue	90.5	87.8	87.8	87.8	87.8	87.8	87.8	87.8	87.8	87.8	87.8
Percentage of Market Value	3,526.1	3,657.2	3,760.0	3,892.0	3,877.0	3,937.0	4,003.0	4,105.0	4,212.0	4,323.0	4,440.0
Revenue Adjustments	41.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Carryforward</i>	41.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	6,527.0	6,308.4	6,302.3	6,477.8	6,536.3	6,546.2	6,551.2	6,652.5	6,899.4	7,132.9	7,321.5
PFD Deposit	(881.5)	(2,303.7)	(2,499.7)	(2,199.7)	(2,272.5)	(2,575.3)	(2,751.9)	(2,824.9)	(2,899.8)	(2,977.2)	(3,057.1)
<b>Available Revenue</b>	<b>5,645.5</b>	<b>4,004.7</b>	<b>3,802.6</b>	<b>4,278.1</b>	<b>4,263.8</b>	<b>3,970.9</b>	<b>3,799.3</b>	<b>3,827.6</b>	<b>3,999.6</b>	<b>4,155.7</b>	<b>4,264.4</b>
<b>Deposit/(Draw)</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>FY2032</b>	<b>FY2033</b>	<b>FY2034</b>
	449.2	(987.2)	(1,262.4)	(867.8)	(968.2)	(1,328.4)	(1,573.9)	(1,611.9)	(1,528.1)	(1,438.3)	(1,395.5)
<b>Reserve Balances</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>	<b>FY2028</b>	<b>FY2029</b>	<b>FY2030</b>	<b>FY2031</b>	<b>FY2032</b>	<b>FY2033</b>	<b>FY2034</b>
<b>Statutory Budget Reserve</b>											
SBR Beginning Balance	20.9	20.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Surplus/(Draws)	0.0	(20.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>SBR End Balance</b>	<b>20.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Constitutional Budget Reserve</b>											
CBR Beginning Balance	2,734.3	2,829.1	1,939.5	715.9	(137.6)	(1,108.5)	(2,459.1)	(4,082.2)	(5,775.7)	(7,419.3)	(9,006.0)
Earnings & Deposits	94.8	76.7	38.8	14.3	(2.8)	(22.2)	(49.2)	(81.6)	(115.5)	(148.4)	(180.1)
Surplus/(Draws)	0.0	(966.3)	(1,262.4)	(867.8)	(968.2)	(1,328.4)	(1,573.9)	(1,611.9)	(1,528.1)	(1,438.3)	(1,395.5)
<b>CBR End Balance</b>	<b>2,829.1</b>	<b>1,939.5</b>	<b>715.9</b>	<b>(137.6)</b>	<b>(1,108.5)</b>	<b>(2,459.1)</b>	<b>(4,082.2)</b>	<b>(5,775.7)</b>	<b>(7,419.3)</b>	<b>(9,006.0)</b>	<b>(10,581.6)</b>