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Alaska Fiscal Update for Alaska Municipal League

December 6, 2023

Legislative Finance Division

Outline

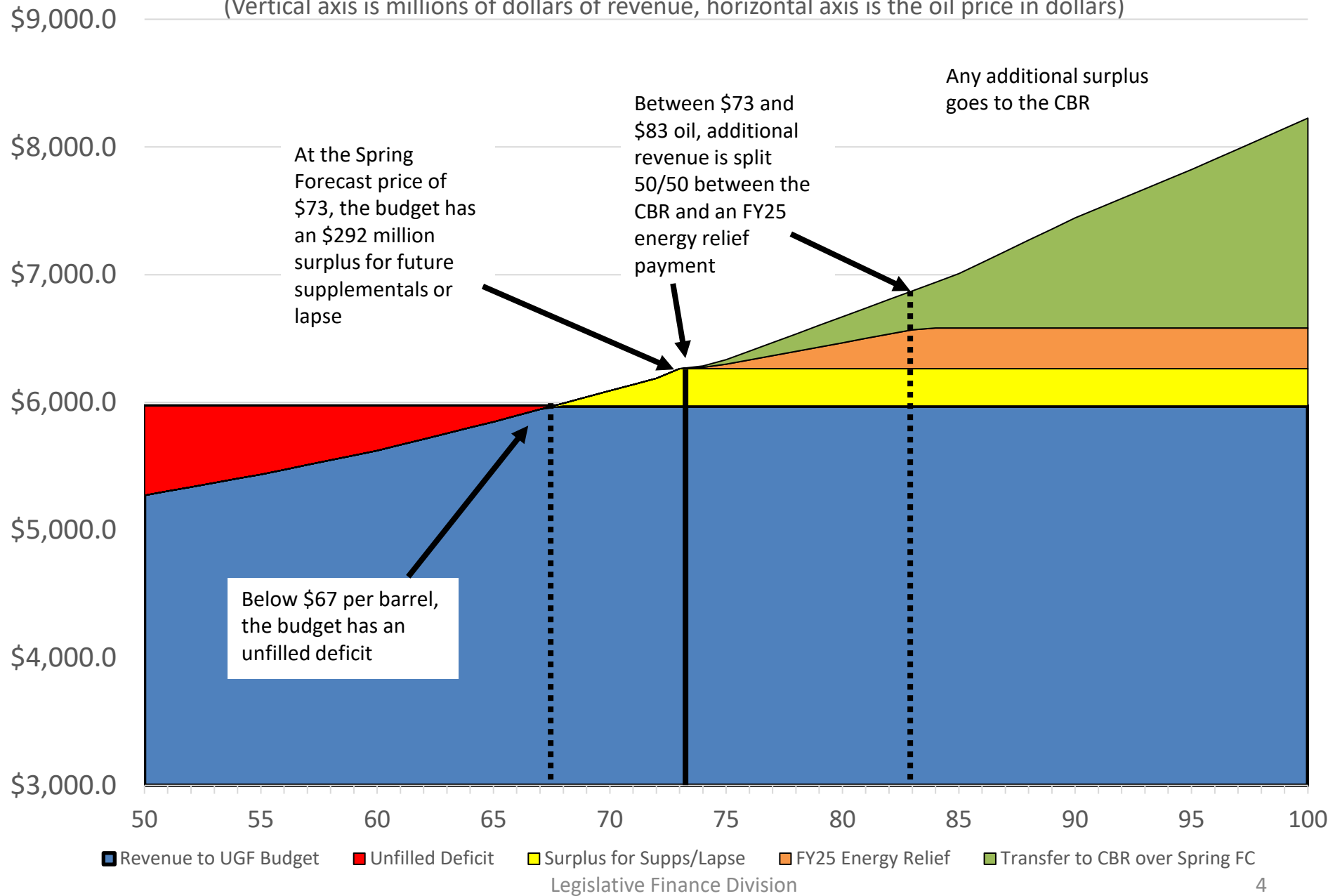
- FY24 Budget Highlights
- FY24 Fiscal Picture
- Looking Ahead to FY25

FY24 Budget Highlights

- FY24 budget fully funds School Debt Reimbursement (\$67.2 million) and REAA Fund deposit (\$27.9 million).
 - In the FY22 supplemental budget, the legislature appropriated \$220.8 million to pay back past vetoed School Debt Reimbursement and \$84.0 million to make up past vetoed REAA Fund deposits.
- FY24 K-12 Formula funded to statutory level with \$87.5 million outside the formula (for a 2.3% increase in total funding over FY23).
- Governor vetoed \$30 million Community Assistance Fund deposit, so FY25 distribution will drop from \$30 million to \$20 million (enough to pay base with minimal per capita payments).
- \$359.8 million UGF capital budget includes \$19.6 million for school major maintenance (enough for top five projects on the list), \$5.5 million for Harbor Matching Grant Fund (enough for top two projects and partial funding of a third), \$5 million to the Denali Commission for match for federally-funded infrastructure projects, and numerous smaller grants to local governments for specific projects.

FY24 Budget At Various Oil Prices

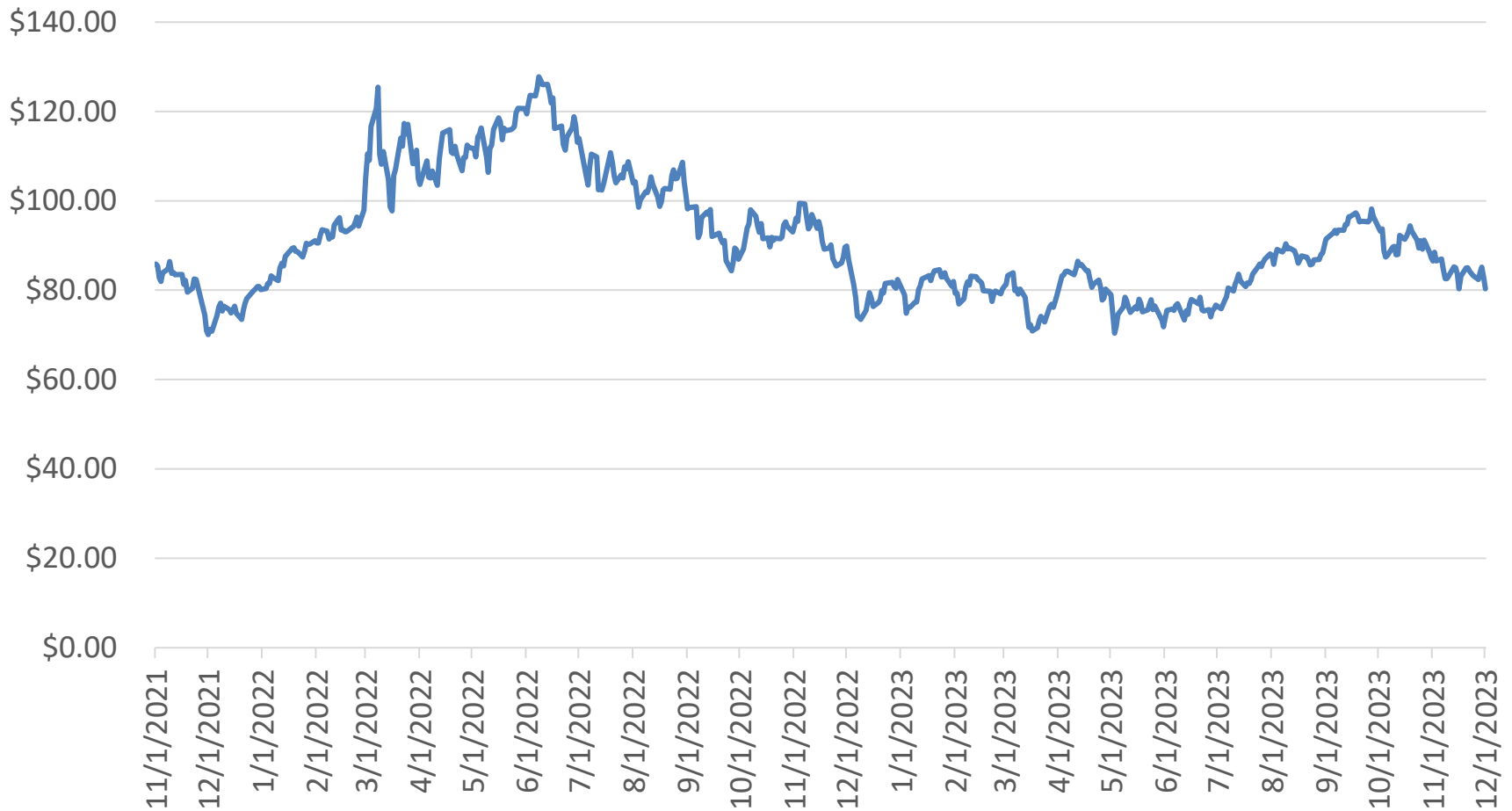
(Vertical axis is millions of dollars of revenue, horizontal axis is the oil price in dollars)



FY24 Budget at Higher Oil Prices

- At the \$73 oil price forecast, there is an estimated \$292 million post-transfer surplus.
- The first \$640 million of revenue above the Spring forecast (to about \$83 per barrel) is split evenly between the Constitutional Budget Reserve (CBR) and an FY25 energy relief payment.
 - The energy relief payment tops out at about \$500 per recipient.
- Beyond \$83, the revenue is directed to the CBR.
- Supplementals can alter this “waterfall.”

ANS Price History - November 1, 2021, to December 1, 2023



Where Are We Now?

- Oil is currently significantly above the Department of Revenue's forecast (\$87.96 average for the year as of 12/1, compared to the FY24 forecast of \$73.00).
- However, there are some negative trends:
 - Prices have gone down since a September peak to \$80.30 on December 1.
 - The futures market appears relatively flat.
 - ANS production is trending slightly below the forecast (1.7% as of 11/30).
 - Increased activity in the Willow field may reduce revenue in the short term (due to Alaska's net profits tax on petroleum).
- FY24 revenue currently appears to be roughly on pace to fully fill the "waterfall" to the energy relief payment and the CBR, but not have a significant surplus beyond that.

Looking Ahead to FY25

- DOR's Spring Forecast projected \$70 oil for FY25. As of Monday, the futures market points towards prices around \$80. The fall revenue forecast and Governor's FY25 budget are expected to be released next week.
- The FY25 POMV draw from the Permanent Fund of \$3.66 billion is based on performance through FY23 so that number is fixed.
 - However, the Permanent Fund underperformed its target return in FY23 and has had a negative return thus far in FY24.
 - There is some concern about maintaining a sufficient balance in the ERA (the spendable portion of the Permanent Fund) for future POMV draws based on recent performance.
- Several factors may create upward budget pressure in FY25, such as employee salaries (the largest union, GGU, is set for a 5% increase in FY25), retirement payments (set to increase by \$68.1 million in FY25), and other areas such as healthcare costs and education.
- Alaska's fiscal situation is still unsettled; current revenue is not sufficient to pay for the current budget and statutory PFD. The legislature has set the PFD by appropriation annually and resulted in mostly balanced budgets since the POMV draw began in FY19, but this is not a stable fiscal system.

Questions?

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