

OFFICE OF GOVERNOR MIKE DUNLEAVY

FY2027 Budget Overview and 10-Year Plan

Office of Management and Budget

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Statutory Requirement

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 forty percent 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 2027 Budget and Outlook

Oil prices are down, costs of goods are up, and Alaskans are feeling it. Alaska's fiscal future and the math problem of balancing the budget is not new to the political or public landscape; this issue has been debated for over a decade. Some believe there is no deficit, but the Legislature has continued to balance the last several years' budgets using funds that come from accounts that fund things such as the Permanent Fund Dividend. Governor Dunleavy is focused on outlining a permanent solution to the State's annual budget shortfalls and putting the state on track for a more prosperous future. Instead of debating how the State will pay for the budget every year, the focus should be on making meaningful changes to secure long-term stability for Alaska's future.

Alaska's budget is funded mostly through oil revenues and earnings from the Permanent Fund. Oil prices have dropped to a low range of \$60 per barrel, meaning the State has less than what was forecasted earlier in the current year. Oil prices have fallen, resulting in less revenue. Less revenue, combined with a reliance on oil, makes Alaska's budgeting process very unstable and unpredictable.

Governor Dunleavy is proposing a budget for Fiscal Year (FY) 2027 that continues to prioritize Alaskan families through K-12 education, public safety, as well as provides for a statutory Permanent Fund Dividend ensuring Alaskans' benefit from the state's natural resource wealth. The FY2027 budget is considered a base budget and keeps spending in check while focusing on core services to Alaskans.

Even with a budget that has limited increases, it requires a \$1.5 billion draw from the State's savings to balance the budget. Currently, the Constitutional Budget Reserve Fund balance is

approximately \$3 billion; drawing down savings is not a sustainable plan, nor is reducing the Permanent Fund Dividend year after year to pay for government.

This 10-Year plan demonstrates the stressed fiscal situation Alaska is in. Leading up to the next legislative session, Governor Dunleavy will be proposing a long-term, sustainable fiscal plan that reverses the course of Alaska's fiscal health by fostering economic growth, opportunity, and prosperity. This fiscal plan will not be a "tax and spend" approach, but one that transforms Alaska into a competitive choice that attracts new residents and businesses.

The fiscal plan will include the following aspects:

- Creating a business climate that brings new investment and good jobs;
- Developing new opportunities to make the most out of the state's natural resources;
- Ensuring key projects such as the Alaska Liquified Natural Gas project continues to move forward;
- Growing the Permanent Fund;
- Putting measures in place to make sure any growth of State government is small and responsible; and
- Creating a pro investment environment to ensure Alaska can compete for investment capital.

Implementing a fiscal plan that protects the Permanent Fund Dividend, creates jobs, prevents depleting our savings, while diversifying and growing the economy, will leave a better Alaska for our children.

Accompanying the release of Governor Dunleavy's proposed long-term, sustainable fiscal plan, an updated 10-year plan will also be released.

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.

Revenue Assumptions

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 \$62 per barrel and a production forecast of 517,800 barrels per day, total unrestricted revenue from traditional sources is forecast to be \$2.2 billion in FY2027.

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 FY2027 is \$4.0 billion. The Department of Revenue anticipates total unrestricted general fund revenue will be \$6.2 billion in FY2027.

Elements of the State Budget

Operating Budget

The FY2027 operating budget continues the Dunleavy administration's effort to contain the cost of government services, limiting agency growth to less than eleven percent since FY2019. Carefully considered investments have allowed the State to save considerable money in payment of core obligations like debt and retirement, while still providing essential services to Alaskans.

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 17 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 and Outdoor Recreation 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 education 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 school 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 are not 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 maintain the existing 25-year layered amortization methodology that was implemented in 2018, following the published actuarial analysis.

Fund Capitalizations & Transfers

Deposits to the rural school construction fund are included based on a formula driven by reimbursement of school bond debt. Alaska continues to see an increase in disasters across the

state; therefore, an additional deposit is being requested as a supplemental for FY2026 and FY2027.

Capital Improvement Plan

This budget proposes a capital budget that prioritizes funding required State match totaling \$156.6 million of unrestricted general funds leveraging \$1.7 billion in federal funding.

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

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 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, the OMB has applied a 2.5 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.

Challenge

The future is bright for Alaska. There is new oil coming online, great progress being made on the gasline, huge potential in minerals and forest, as well as untapped opportunity in the future of Artificial Intelligence, data, and the digital world. Coupled with the pro-development administration in Washington, D.C., and a steadfast administration in Alaska ready and willing

to unlock our great resource potential, Alaska stands ready to be the solution to a variety of energy needs within our own state, our nation, and around the globe.

Governor Dunleavy calls upon the Legislature to join him in creating and implementing a sustainable fiscal plan that moves Alaska forward to a positive and productive dialogue putting Alaskans first by growing our economy and prioritizing government services that protect and prosper our great state. Having a real, long-term fiscal plan in place will allow Alaska to take advantage of opportunities ahead.

10-Year Fiscal Outlook

Table 1 - Uses of Funds (amounts in millions)

Uses of Funds	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036
1 Permanent Fund Dividend (PFD)	685.3	2,365.9	2,429.3	2,723.8	2,855.5	2,827.6	2,861.7	2,942.8	3,025.9	3,111.2	3,199.0
2 Per capita PFD (dollars)	1,000	3,650	3,743	4,199	4,399	4,351	4,400	4,524	4,652	4,785	4,922
Unrestricted General Fund Expenditures	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036
3 Agency Operations	4,771.1	4,772.0	4,891.3	5,013.6	5,138.9	5,267.4	5,399.1	5,534.1	5,672.4	5,814.2	5,959.6
4 Agency Formula	2,296.4	2,260.1	2,316.6	2,374.5	2,433.9	2,494.7	2,557.1	2,621.0	2,686.5	2,753.7	2,822.6
5 K-12 Formula	1,347.7	1,321.3	1,354.3	1,388.2	1,422.9	1,458.4	1,494.9	1,532.3	1,570.6	1,609.8	1,650.1
6 Medicaid	756.9	746.6	765.3	784.4	804.0	824.1	844.7	865.9	887.5	909.7	932.4
7 Other Formula	191.9	192.2	197.0	201.9	207.0	212.2	217.5	222.9	228.5	234.2	240.0
8 Agency Non-Formula	2,474.7	2,511.9	2,574.7	2,639.1	2,705.0	2,772.7	2,842.0	2,913.0	2,985.9	3,060.5	3,137.0
Unrestricted General Fund Expenditures	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036
9 Statewide Items	418.5	451.6	447.5	434.5	427.7	420.0	421.3	419.2	405.9	380.8	381.0
10 Debt	110.5	118.6	116.2	107.5	100.8	87.0	82.7	76.0	56.8	28.8	24.9
11 General Obligation Bonds	61.5	60.8	60.7	60.5	60.4	48.8	48.3	48.2	48.1	25.0	24.9
12 Lease/Purchase	3.3	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Capital Lease	16.2	16.8	16.8	16.8	16.8	16.8	16.8	16.8	0.0	0.0	0.0
14 Certificates of Participation	2.9	2.9	2.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 University of Alaska and Municipal	2.8	2.6	2.6	2.2	0.9	0.9	0.4	0.0	0.0	0.0	0.0
16 School Bond Debt (UGF portion)	23.9	32.1	29.9	25.1	22.6	20.4	17.2	11.0	8.7	3.7	0.0
17 Retirement	220.0	233.9	230.5	226.5	225.5	230.6	235.6	240.7	245.7	248.7	253.8
18 Public Employees Retirement System (PERS)	79.8	75.3	75.0	74.0	74.0	77.0	80.0	83.0	86.0	88.0	91.0
19 Teachers Retirement System (TRS)	139.0	157.2	154.0	151.0	150.0	152.0	154.0	156.0	158.0	159.0	161.0
20 Elected Public Officials Retirement System	1.2	1.4	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.8
21 Fund Capitalization, Transfers and Special	88.0	99.1	100.8	100.4	101.3	102.4	103.0	102.5	103.4	103.3	102.3
22 Disaster Relief Fund	13.0	24.0	24.6	25.2	25.8	26.5	27.2	27.8	28.5	29.2	30.0
23 Regional Ed. Attendance Area Fund	17.2	19.6	19.3	16.9	15.7	14.7	13.1	10.3	8.9	6.5	3.0
24 Fire Suppression Fund	47.5	47.5	48.7	49.9	51.1	52.4	53.7	55.1	56.4	57.9	59.3
25 Other	10.3	8.0	8.2	8.4	8.6	8.8	9.0	9.3	9.5	9.7	10.0
26 Supplementals	294.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27 Total Operating Budget	5,874.9	7,589.5	7,768.0	8,171.8	8,422.1	8,515.0	8,682.1	8,896.0	9,104.2	9,306.2	9,539.6
28 Total Capital Budget	159.1	156.6	160.5	164.5	168.6	172.9	177.2	181.6	186.1	190.8	195.6
29 Total General Fund Appropriations	6,328.7	7,746.1	7,928.6	8,336.4	8,590.8	8,687.8	8,859.2	9,077.6	9,290.3	9,497.0	9,735.2

FY2027 10-Year Plan

Table 2 - Sources of Funds (amounts in millions)

	Sources of Funds	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036
30	Traditional UGF Revenue	2,148.3	2,218.6	2,267.0	2,264.7	2,296.1	2,382.5	2,494.4	2,617.1	2,674.9	2,720.5	2,902.0
31	Petroleum Revenue	1,425.1	1,443.7	1,473.7	1,479.0	1,493.9	1,566.1	1,668.9	1,777.2	1,823.5	1,853.3	2,014.3
32	Non-Petroleum Revenue	623.8	694.0	712.4	704.9	721.3	735.5	744.6	758.9	770.5	786.3	806.9
33	Non-POMV Investment Revenue	99.4	80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9
34	Percentage of Market Value (POMV) from ERA	3,798.8	3,996.9	4,070.0	4,224.0	4,388.0	4,554.0	4,700.0	4,834.0	4,971.0	5,111.0	5,255.0
35	Revenue Adjustments	34.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
36	Carryforward	34.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
37	Total Revenue	5,982.0	6,215.5	6,337.0	6,488.7	6,684.1	6,936.5	7,194.4	7,451.1	7,645.9	7,831.5	8,157.0
38	New Revenue Measures	0.0	0.0	1,591.6	1,847.6	1,906.6	1,751.3	1,664.9	1,626.6	1,644.4	1,665.5	1,578.1
39	Available Revenue	5,982.0	6,215.5	7,928.6	8,336.3	8,590.7	8,687.8	8,859.3	9,077.7	9,290.3	9,497.0	9,735.1
40	Deposit/(Draw)	(346.8)	(1,530.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Constitutional Budget Reserve											
41	CBR Beginning Balance	2,717.8	2,959.0	1,510.7	1,565.2	1,587.9	1,607.9	1,627.9	1,647.9	1,668.0	1,687.9	1,708.0
42	Earnings & Deposits	159.6	82.2	54.5	22.8	20.0	20.0	20.0	20.0	20.0	20.0	20.0
43	Surplus/(Draws)	(346.8)	(1,530.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
44	CBR Ending Balance	2,884.0	1,510.7	1,565.2	1,587.9	1,607.9	1,627.9	1,647.9	1,668.0	1,687.9	1,708.0	1,727.9
	<i>* CBR estimated beginning FY2027 balance from Department of Revenue- October 2025 Treasury Monthly Investment Report</i>											