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BUDGET AND PROGRAM PLANNING
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Executive Budget 2025 Biennium – Summary of Inflation Factors

- State expenditures have not been immune to the **inflationary environment that took hold in the summer of CY 2021** and is only now beginning to taper.
- **The State consumes goods and services that have seen significant run-up in prices** due to large supply-demand imbalances tied to the economic shocks that started at the beginning of CY 2020.
- Much of this **surge in inflation is not reflected in FY 2023 budgeted expenditures** and was not inherently in the starting base for the 2025 biennium budget at the beginning of the budget development.
- The Governor’s Office of Budget & Program Planning (OBPP) identified the need to make **inflationary adjustments**, beyond the status quo of the past several biennia, to **certain elements** of the Governor’s 2025 biennium budget that were most acutely affected by inflation
- These inflation factors were developed for second-level accounts in the **Operating Expenses (62000) account grouping**. In FY 2022 these expenditures totaled \$1.719 billion (all funds).
- The **factors are based on actual trends** for all relevant funds and accounts¹ as recorded in SABHRS from FY 2010 through FY 2022. The historical series was separated into two periods: pre-pandemic (FY 2010 - FY 2019) and pandemic (FY 2019 - FY 2022). Average **compound annual growth rates (CAGR) were calculated for the expenditure subgroups for each period**. Expenditure growth during the pandemic period above the observed trend during the pre-pandemic period was classified as “extraordinary” growth.

Inflation Factors for 62000 Operating Expense Second Level Accounts - 2025 Biennium			
Lvl 2 Acct	Acct Title	Projected FY 2024	Projected FY 2025
62100	Other Services	5.30%	7.06%
62200	Supplies & Materials	14.36%	14.24%
62300	Communications	5.90%	6.57%
62700	Repair & Maintenance	12.87%	16.06%

¹ Holding accounts and significant non-budgeted (often fiduciary accounts or other accounting entries) were excluded. An example of this type of account would be 62879 “Fiduciary Fund Deduction NB”.

**Compound Annualized Growth Rate Trends for Adjusted 62000 (Operating Expense)
Second Level Accounts - FY 2010 - FY 2022**

Acct #	Acct Title	Trend 2010-2019	Recent 2019-2022	"Extraordinary" Growth	Full Period 2010-2022	FY 2010-2022
						Expenditure Weights
62100	Other Services	1.76%	3.53%	1.77%	2.20%	0.5543
62102	Consult & Prof Svcs	1.40%	14.15%	12.74%	3.50%	
62117	Board & Room	2.90%	0.06%	-2.83%	2.11%	
62125	Highway Construction	0.89%	-3.48%	-4.37%	0.00%	
62200	Supplies & Materials	-0.13%	7.12%	7.24%	1.64%	0.0493
62300	Communications	0.67%	3.28%	2.62%	1.31%	0.0341
62700	Repair & Maintenance	3.19%	8.03%	4.84%	4.38%	0.0440
Weighted Average		1.91%	4.24%	2.33%	2.49%	1.0000