The Fiscal Year 2020 Budget:

Legislative Fiscal Analyst's Overview of the Governor's Request

Legislative Finance Division

www.legfin.akleg.gov

The Legislative Finance Division has a professional, non-partisan staff that provides general budget analysis for members of the legislature and specifically supports the Legislative Budget and Audit Committee and the House and Senate standing finance committees. Each fiscal analyst is assigned agency areas of responsibility. Per AS 24.20.231 the duties of the office are to:

(1) analyze the budget and appropriation requests of each department, institution, bureau, board, commission, or other agency of state government;
(2) analyze the revenue requirements of the state;
(3) provide the finance committees of the legislature with comprehensive budget review and fiscal analysis services;
(4) cooperate with the Office of Management and Budget in establishing a comprehensive system for state budgeting and financial management as set out in AS 37.07 (Executive Budget Act);
(5) complete studies and prepare reports, memoranda, or other materials as directed by the Legislative Budget and Audit Committee;
(6) with the governor's permission, designate the legislative fiscal analyst to serve ex officio on the governor's budget review committee;
(7) identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction; and
(8) not later than the first legislative day of each first regular session of each legislature, conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095.

LEGISLATIVE FINANCE DIVISION
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Introduction

The Legislative Finance Division typically spends the weeks just before legislative sessions preparing material designed to help legislators make budget/policy decisions. Gubernatorial transition years often force an abbreviated analysis of the Governor's budget proposal. FY20 is no exception; Governor Dunleavy has clearly stated that the December 15 budget is a placeholder that will lose relevancy during the amendment process as his policies and priorities replace those of Governor Walker.

The Legislative Finance Division reviews items contained in appropriation bills; we avoid discussion of campaign promises and press releases, just as we avoid speculation regarding the reception budget proposals might receive in the legislature. That policy leaves few specific budget items to analyze at this time.

The December 15 budget submitted by Governor Dunleavy for FY20 is identical to the budget Governor Walker released in late November with two exceptions:

1. the December budget contains a $1.6 billion unallocated reduction; and
2. the November budget proposed permanent fund dividends (PFDs) of $1,800 per citizen while the December budget increased that amount to approximately $3,000. The estimated cost of paying PFDs at Governor Dunleavy's proposed level is $1.944 billion, just over $920 million more than was paid out in FY19.

In addition to reviewing appropriation bills, the Legislative Finance Division analyzes revenue projections and both the short- and long-term fiscal outlook. We find the Fall 2018 revenue forecast to be reasonable. The November forecast released by the Walker administration was based on information gathered in early October, when prices had recently jumped from the mid $70 range to the mid $80 range. The price forecast— $77 for FY19 and $75 for FY20—appears unreasonably optimistic in retrospect, and the Dunleavy administration quickly revised prices downward to match those projected in the Spring: $68 for FY19 and $64 for FY20.

Barely a month later, some might claim the revised revenue forecast is also optimistic—if oil remains at the current level (in the mid $50 range) for the remainder of FY19, the average price for the year would be near the $63 level forecast last Spring. The implication of unexpectedly low current prices is that the FY20 revenue forecast may be optimistic. We have neither the data nor expertise to challenge the many assumptions—Alaska production, world supply and demand, capital expenditures, tax credits, etc.—that generate the Department of Revenue's forecast. As in the past, we will use the official revenue forecast in our two-year fiscal summary—see page 10—and in our long-term fiscal model.

The fiscal model uses revenue and expenditure forecasts to project budget surpluses/deficits through FY28. It also generates projections for dividends and balances of the permanent fund and various reserve accounts. The model is ready to produce scenarios to help analyze policy/spending/revenue options.

There is, however, one huge caveat regarding model output: the model's long-term expenditure plan was prepared by the Walker administration. The Governor is required by AS 37.07.020(b) to submit a ten-year expenditure plan to the legislature. If the Dunleavy administration intends to change the path of expenditures, the Governor must provide a new spending plan that reflects the fiscal future he envisions.

A lack of formal spending plans—both for FY20 and the long-term—limits our ability to provide comprehensive fiscal analysis of the Governor's intentions. It does not, however, preclude discussion of Alaska's fiscal situation. We can discuss a few issues that will help readers grasp linkages between budget/policy decisions and the State's fiscal future.

Alaska's fiscal situation

Casual observers of the fiscal landscape may conclude that everything appears much as it has for years: spending exceeds revenue and the legislature will argue inconclusively about whether new revenue is needed to fill the deficit and discuss how—and how much—spending should be cut. In the end, draws from reserves will fill the deficit and everyone will hope for higher oil prices in the future.

More astute observers see a landscape very unlike the past and wonder how casual observers can fail to conclude that we live in different fiscal world.

Spending in excess of revenue is not a small, temporary problem; we have faced multi-billion dollar deficits for six consecutive years and projections show continued large deficits. Legislators and citizens have lived with deficits for so long—with no ill effects—that they justifiably ask "Why are deficits a problem?"

The fiscal impact of deficits has been hidden by our ability to draw from reserves. When deficits can be filled by budget language that simply fills the deficit regardless of revenue or expenditure levels, no other action is required. When revenue sets no limit on expenditures, is it any wonder that some people believe expenditures spun out of control? Yet deficits persist and life goes on. The conclusion is that deficits are not a problem as long as savings balances are able to fill them for many years into the future.

We no longer live in that fiscal world. Using the constitutional budget reserve fund (CBR) to fill massive, persistent deficits has depleted reserves. Because the CBR has insufficient money to continue filling deficits, we can no longer ignore deficits. In the long-term, revenue and expenditures must balance.

How can we balance the budget?

The passage of SB26 (during the 2018 legislative session) was a huge step toward balancing the budget. Alaska has traditionally relied upon oil production—almost exclusively—as a source of revenue. Traditional revenue sources cover about one-third of expenditures (excluding unallocated reductions) in the December 15 budget. Under SB26, a percentage of the market value of the permanent fund contributes to revenue.

The contribution is massive; at $2.9 billion, the FY20 payout from the permanent fund exceeds the $2.3 billion expected from traditional sources. Yet, in the absence of additional revenue or reductions from FY19 spending, a $1.6 billion deficit remains.

How to fill deficits is a policy decision

With the depletion of reserve balances, Alaska has only the standard tools other states use to bring the budget into balance. The tools are:

1. increasing revenue and
2. reducing expenditures.

Some would include borrowing as a tool on the revenue side, but borrowing does not offer a long-term solution. Some would add shifting costs to local governments or to citizens as a tool on the expenditure side. But there is a distinction between shifting a problem and solving a problem.

Alaska was fortunate to have a third budget-balancing tool: using reserves to fill deficits. We used the tool very effectively—meaning we saved a good portion of surpluses and then drew money from reserves when oil revenue could not balance the budget. Establishing a large reserve balance was not an accident, we knew that reserves are essential when revenue is volatile.

The constitutional budget reserve fund (CBR) is not empty, but years of drawing money means the fund can serve only as a shock absorber that allows us to avoid the painful process of mid-year budget reductions in response to unanticipated revenue shortfalls. It can no longer serve as a tool to address massive long-term deficits.

Increasing revenue is an effective way to address long-term deficits, but is generally not an effective tool if the time horizon is short. It often takes a year or more to implement tax changes. Further, if the Governor and/or the legislature insist that tax increases are off the table, then the only remaining budget-balancing tool is reducing expenditures.

Decision time—where can cuts occur?

The correct answer—anywhere the legislature and Governor agree upon—is not very helpful. It may be more practical to paraphrase Willie Sutton, who—when asked by a journalist why he robbed banks—replied “Because that’s where the money is.” In our case, the lesson may be that we have to cut where the money is.

The blue bars in Figure 1 show where Alaska spends its unrestricted general funds (UGF). The red bars show how much money would be available for various expenditure items if cuts were the only tool used to balance the budget. Takeaway points include:

1. Permanent fund dividends are the largest single expenditure item, consuming 37% of projected revenue.
2. Adding departments that oversee the two big formula programs—K-12 education and Medicaid—brings expenditures to 86% of revenue.
3. If items were eliminated (from smallest to largest, with the exception of capital projects and statewide items) to produce a balanced budget, there would be no money available for any agencies except those that oversee K-12 education and Medicaid.
4. Eliminating unrestricted general funds in agencies (as indicated by “missing” red bars) to balance the budget would reduce total UGF expenditures by about 25%.
5. The figure describes a hypothetical situation that is intended only to show the relative size of spending on various items. In the real world, cuts to criminal justice agencies—and many other items—could not legally occur as shown.

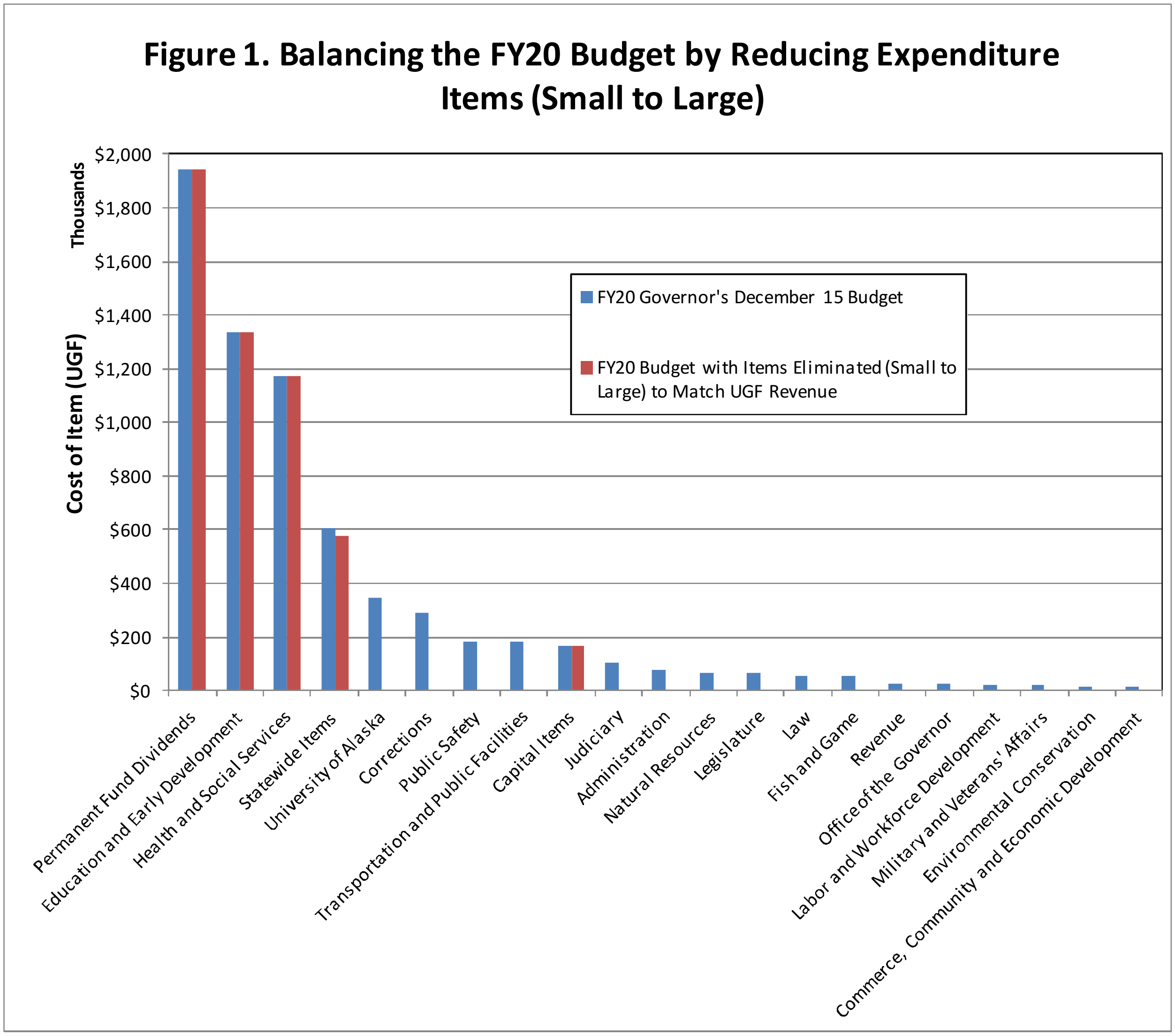
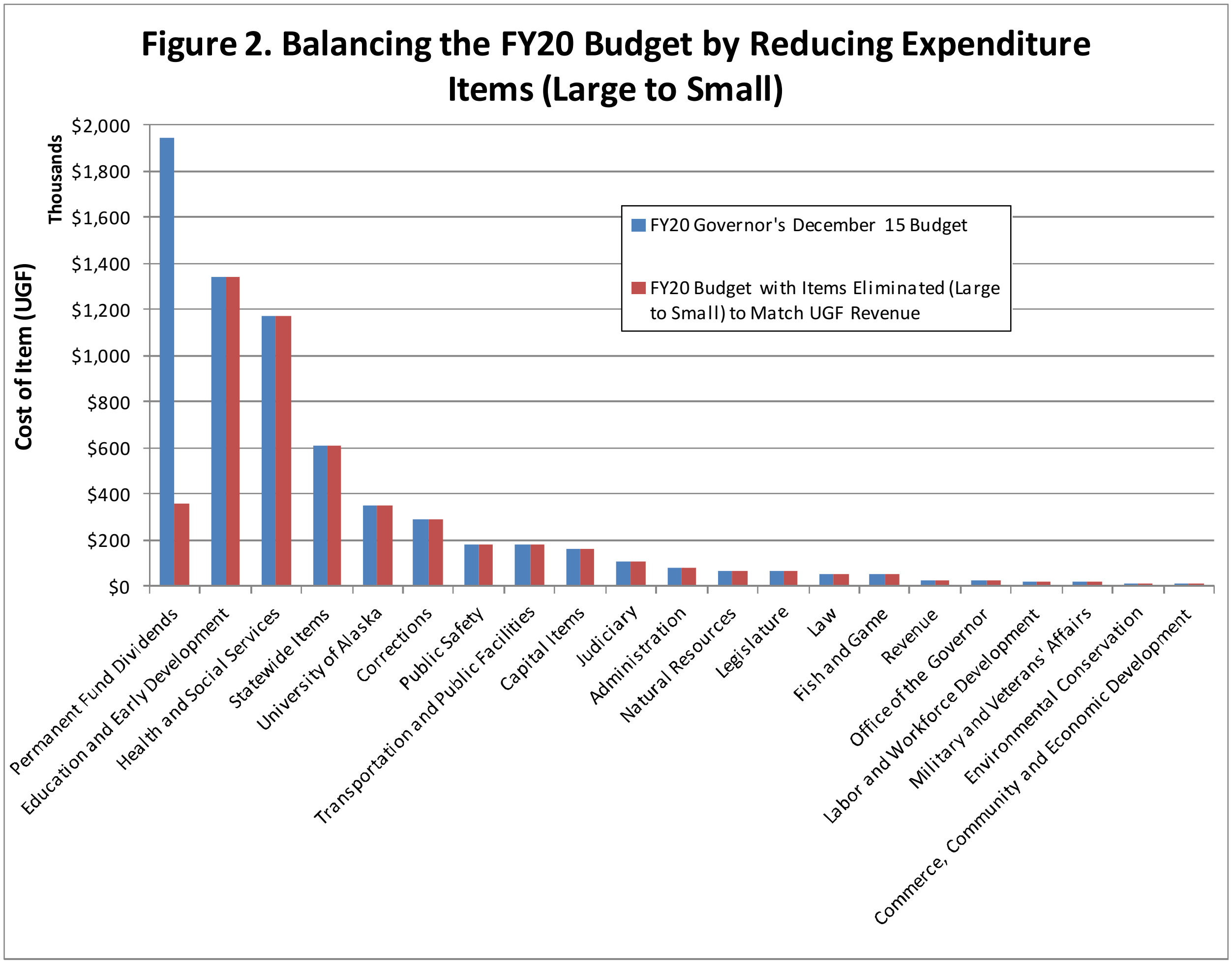


Figure 2 uses the same data, but balances the budget by cutting items from largest to smallest. The major points are:

1. If dividends were eliminated and all other items were funded as requested on December 15, there would be a budget surplus of about $300 million; and
2. As the largest single expenditure, dividends are sure to be a fundamental topic during any discussion of cutting enough money to balance the budget.



Figures 1 and 2 are intended not only to show the range of outcomes associated with budget reductions, but also to highlight the difficulty of balancing the budget via reducing spending for agency operations. Other than Education and HSS, expenditure of unrestricted general funds in agencies comprises 23% of total expenditures and no individual agency accounts for more than 5% of total spending. As a basis of comparison, the budget deficit is equivalent to 24% of expenditures.

As a practical matter, balancing the budget with cuts alone requires cutting where the money is: dividends, K-12 and Medicaid. The choices are divisive, and decisions are certain to be difficult.

How much the legislature spends on dividends—or anything else—is a policy decision

When it comes to appropriations, the legislature must follow the constitution. However, the power of appropriation supersedes statute. For example, if a law were to increase the Base

Student Allocation (generally known as the BSA, which is a primary factor in determining K-12 spending) in each of the following three years, appropriations for K-12 spending might not increase. The changes to the BSA would occur, but the legislature is not required to fully fund the statutory formula. Similarly, the law provides a formula for permanent fund dividends (PFDs), but the legislature can appropriate any amount it chooses. That conclusion is not personal opinion; it is the ruling of the Alaska Supreme Court (*Wielechowski v State*, August 2017).

So why bother with statutory formulas? Accepting the guidance provided by law means sitting legislators don't have to argue every year about how much to spend on programs like education, Community Assistance, retirement contributions and power cost equalization. Statutory guidance makes it less likely that the Governor/legislature will shift costs from the State to local governments, businesses or to the people. In short, statutory guidance makes it easier to adopt a budget and plan for the future.

Arguments supporting statutory guidance prompt questions: We have statutory guidance on PFDs, so why argue about the amount paid as dividends? Why doesn't the legislature simply pay the amount determined by statute? Alternately, if the legislature is not going to follow statutes, why doesn't the legislature change the statutes?

Answering those questions can lead to discussion of complex issues like individual versus common rights to Alaska's resource wealth, distribution of income, and the extent to which the people of Alaska understand the fiscal situation. While we do not deny the importance of those issues, we tend to see the situation in terms of mathematical relationships.

There is a dollar-for-dollar trade-off between dividends and revenue, dividends and deficits, and dividends and government services

For those who doubt that dividends affect deficits, or that there is a dollar-for-dollar trade-off between dividends and government services, just look at the math. To simplify, let's assume the annual POMV (percent of market value, per SB26) payout from the permanent fund earnings reserve account (ERA) is $3 billion. If $1 billion goes to dividends, then $2 billion is available for government services. Let's also assume that the budget is balanced in those circumstances. If dividends take $2 billion of the payout from the ERA, then there is only $1 billion left as revenue to the general fund and we face a $1 billion deficit. In the absence of additional revenue, government services must be reduced by $1 billion.

To say that increasing dividends takes money from education or other government services would reveal a biased perspective. It is just as accurate to say that spending money on government services takes money from dividends. It is fair to say that dividends compete with government services for available revenue. It is also fair to say that the competition during the

FY20 budget process is likely to be fierce, particularly if oil prices remain low and use of savings to balance the budget is minimal. In those circumstances, a FY20 deficit is possible/probable.

Reexamining the availability of budget-balancing tools

Legislators face numerous difficult choices. Perhaps the most difficult choice will be the selection of tools to balance the budget. Enhancing revenue is a difficult path, made more difficult because Alaskans are not accustomed to paying the cost of government.

Elementary math shows that cutting expenditures is also a difficult path, particularly when public expectations and legal requirements to provide essential state services and protect economic stability are considered.

The easy path is to balance the budget by drawing money from the permanent fund earnings reserve account (ERA), just as we used to draw money from the constitutional budget reserve fund (CBR). The dangers of this path may not be apparent until we have taken it for a few years.

Before choosing this path, Alaskans should consider the following scenario:

1. Drawing more from the ERA than envisioned under statutory guidelines reduces the real value of the permanent fund.
2. Lower permanent fund balances reduce future earnings and reduce both dividends and the payout to the general fund.
3. Reduced payout to the general fund increases deficits, which cause ever-increasing draws from the ERA.
4. The ERA goes the way of the CBR, shrinking to the point that a poor investment year leaves no money for either dividends or a payout to the general fund.

While legislators always face decisions that shape Alaska’s future, the decisions they face this year are as tough and pivotal as any they are ever likely to make. The Legislative Finance Division offers our fiscal model and budget expertise to help legislators make informed decisions.

Published Analysis

The Legislative Finance Division typically publishes “subcommittee books” and narratives that are intended to help legislators understand the Governor’s budget proposals. Reports presenting the December 15 budget submittal are posted on our website, but we do not intend to publish subcommittee materials until the Governor submits amendments.

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State of Alaska Fiscal Summary--FY19 and FY20 (Part 1)

($ millions)

		FY19 Management Plan						FY20 Governor (December 15)						Change in UGF	
		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	$	%
1	**REVENUE**	5,510.3	1,035.3	6,545.6	744.0	3,807.0	11,096.6	5,271.1	931.7	6,202.8	721.7	3,783.2	10,707.7	(239.2)	-4.3%
2	Unrestricted General Fund Revenue (Fall 18 Forecast) **(1)**	2,772.0	-	2,772.0	-	-	2,772.0	2,264.9	-	2,264.9	-	-	2,264.9	(507.1)	-18.3%
3	Additional Royalties *(Non-additive in FY19)* **(2)**	*79.0*	-	*79.0*	-	-	*79.0*	73.1	-	73.1	-	-	73.1		
4	Permanent Fund POMV Payout (5.25%)	2,723.0						2,933.1						210.1	7.7%
5	*for Public Services* **(3)**	*1,699.5*	-	-	-	-	-	*989.1*	-	*989.1*	-	-	*989.1*	*(710.4)*	*-41.8%*
6	*for Dividends* **(3)**	*1,023.5*	-	*1,023.5*	-	-	*1,023.5*	*1,944.0*	-	*1,944.0*	-	-	*1,944.0*	*920.5*	*89.9%*
7	Carryforward, Repeals, and Reappropriations **(4)**	15.3	32.7	48.0	2.0	0.5	50.6	-	-	-	-	-	-		
8	Restricted Revenue **(5)**	-	1,002.5	1,002.5	742.0	3,806.5	5,551.0	-	931.7	931.7	721.7	3,783.2	5,436.6		
	APPROPRIATIONS														
9	**TOTAL OPERATING APPROPRIATIONS**	5,593.4	895.0	6,488.5	665.9	2,672.4	9,826.8	4,993.9	839.7	5,833.6	678.8	2,719.7	9,232.1	(599.5)	-10.7%
10	**Total Agency Operations**	3,955.1	822.6	4,777.8	612.3	2,644.4	8,034.5	2,443.1	793.0	3,236.1	632.4	2,683.2	6,551.7	(1,512.0)	-38.2%
11	**Agency Operations (Excludes Unallocated Reduction)**	3,955.1	822.6	4,777.8	612.3	2,644.4	8,034.5	4,070.2	793.0	4,863.2	632.4	2,683.2	8,178.8	115.1	2.9%
12	Agency Operations (Non-Formula)	1,870.0	771.5	2,641.6	580.8	929.9	4,152.2	1,942.1	741.9	2,683.9	606.0	959.2	4,249.2	72.0	3.9%
13	K-12 Foundation and Pupil Transportation (Formula)	1,269.9	-	1,269.9	23.7	20.8	1,314.4	1,289.8	-	1,289.8	18.5	20.8	1,329.1	19.9	1.6%
14	Medicaid Services (Formula)	661.2	0.9	662.1	7.3	1,591.1	2,260.4	683.0	0.9	683.9	7.9	1,603.4	2,295.3	21.8	3.3%
15	Other Formula Programs	154.0	50.2	204.2	-	101.5	305.7	155.3	50.2	205.5	0.0	99.8	305.3	1.3	0.9%
16	Revised Programs Legislatively Approved (RPLs)	-	-	-	0.6	1.2	1.8	-	-	-	-	-	-		
17	*Vetoes (non-additive)*	-	*0.5*	*0.5*	-	-	*0.5*	-	-	-	-	-	-		
18	*Duplicated Authorization (non-additive)* **(6)**	-	-	-	*778.9*	-	*778.9*	-	-	-	*863.3*	-	*863.3*		
19	**Executive Branch-Wide Unallocated Reduction (7)**	-	-	-	-	-	-	(1,627.1)	-	(1,627.1)	-	-	(1,627.1)		
20	**Statewide Items**	1,638.3	72.4	1,710.7	53.6	27.9	1,792.2	2,550.8	46.7	2,597.5	46.4	36.5	2,680.3	912.5	55.7%
21	**Current Fiscal Year Appropriations**	1,638.3	72.4	1,710.7	53.6	27.9	1,792.2	2,550.8	46.7	2,597.5	46.4	36.5	2,680.3	912.5	55.7%
22	Debt Service	200.0	39.8	239.8	47.2	5.2	292.3	215.5	16.5	232.1	40.2	5.2	277.5	15.5	7.8%
23	Fund Capitalizations	143.7	32.1	175.8	6.4	22.7	204.9	83.3	30.2	113.5	6.2	31.2	150.9	(60.4)	-42.0%
24	*Community Assistance*	*4.0*	*30.0*	*34.0*	-	-	*34.0*	-	*30.0*	*30.0*	-	-	*30.0*	*(4.0)*	-100.0%
25	*Oil & Gas Production Tax Credits* **(8)**	*100.0*	-	*100.0*	-	-	*100.0*	-	-	-	-	-	-	*(100.0)*	-100.0%
26	*REAA School Fund*	*39.7*	-	*39.7*	-	-	*39.7*	*39.4*	-	*39.4*	-	-	*39.4*	*(0.3)*	-0.7%
27	*Other Fund Capitalization*	*0.0*	*2.1*	*2.1*	*6.4*	*22.7*	*31.2*	*43.9*	*0.2*	*44.1*	*6.2*	*31.2*	*81.5*	*43.9*	
28	Permanent Fund Dividends	1,023.5	-	1,023.5	-	-	1,023.5	1,944.0	-	1,944.0	-	-	1,944.0	920.5	89.9%
29	State Payments to Retirement Systems	271.1	-	271.1	-	-	271.1	307.9	-	307.9	-	-	307.9	36.8	13.6%
30	*Vetoes (non-additive)*	-	*0.5*	*0.5*	-	-	*0.5*	-	-	-	-	-	-		
31	*Duplicated Authorization (non-additive)* **(6)**	-	-	-	*752.7*	-	*752.7*	-	-	-	*18.4*	-	*18.4*		
32	**TOTAL CAPITAL APPROPRIATIONS**	154.9	112.8	267.7	78.1	1,134.6	1,480.4	165.4	76.6	242.0	43.0	1,063.5	1,348.4	10.6	6.8%
33	**Current Fiscal Year Appropriations**	147.8	112.8	260.6	76.8	1,134.6	1,472.0	165.4	76.6	242.0	43.0	1,063.5	1,348.4	17.6	11.9%
34	Project Appropriations	147.8	112.8	260.6	76.8	1,109.6	1,447.0	165.4	76.6	242.0	43.0	1,063.5	1,348.4		
35	Revised Programs Legislatively Approved (RPLs)	-	-	-	-	25.0	25.0	-	-	-	-	-	33.0		
36	*Duplicated Authorization (non-additive)* **(6)**	-	-	-	*37.4*	-	*37.4*	-	-	-	*33.0*	-	*33.0*		
37	**Supplemental Appropriations (Capital)**	7.0	-	7.0	1.3	-	8.4	-	-	-	-	-	-		
38	Capital Projects (net of Duplication)	7.0	-	7.0	1.3	-	8.4		-	-		-	-		
39	*Duplicated Authorization (non-additive)* **(6)**	-	-	-	-	-	-	-	-	-	-	-	-		
40	*Money on the Street (includes all fund sources)* **(9)**	*154.9*	*112.8*	*267.7*	*115.5*	*1,134.6*	*1,517.8*	*165.4*	*76.6*	*242.0*	*76.0*	*1,063.5*	*1,381.4*	*10.6*	*6.8%*
41	**Pre-Transfers Authorization** (unduplicated)	5,748.3	1,007.8	6,756.1	744.0	3,807.0	11,307.2	5,159.3	916.3	6,075.6	721.7	3,783.2	10,580.5	(589.0)	-10.2%
42	***Pre-Transfer Fiscal Surplus/ (Deficit)***	*(238.0)*	*Revenue Covers*		*95.9%*	*of Appropriations*		*111.8*	*Revenue Covers*		*102.2%*	*of Appropriations*			
43	**Fund Transfers (10)**	29.8	27.4	57.2	-	-	57.2	126.7	15.4	142.1	-	-	142.1	96.9	324.9%
44	**Current Fiscal Year Transfers**	29.8	27.4	57.2	-	-	57.2	126.7	15.4	142.1	-	-	142.1	96.9	324.9%
45	Alaska Capital Income Fund	28.0	-	28.0	-	-	28.0	37.8	-	37.8	-	-	37.8	9.8	35.0%
46	Alaska Housing Capital Corporation	(21.8)	-	(21.8)	-	-	(21.8)	-	-	-	-	-	-	21.8	
47	Alaska Marine Highway Fund	8.7	-	8.7	-	-	8.7	-	-	-	-	-	-	(8.7)	
48	Renewable Energy Fund	-	14.0	14.0	-	-	14.0	-	-	-	-	-	-		
49	Other Fund Transfers	14.9	13.4	28.3	-	-	28.3	15.8	15.4	31.2	-	-	-		
50	Perm Fund Royalties Beyond 25% Dedication **(2)**	-	-	-	-	-	-	73.1	-	73.1	-	-	-		
51	Perm Fund Inflation Proofing to Principal from the ERA	942.0	-	942.0	-	-	942.0	2,348.6	-	2,348.6	-	-	2,348.6		
52	Perm Fund Inflation Proofing from ERA to Principal	(942.0)	-	(942.0)	-	-	(942.0)	(2,348.6)	-	(2,348.6)	-	-	(2,348.6)		
53	**Post-Transfers Authorization** (unduplicated)	5,778.1	1,035.3	6,813.4	744.0	3,807.0	11,364.4	5,286.0	931.7	6,217.7	721.7	3,783.2	10,722.6	(492.1)	-8.5%
54	***Post-Transfer Fiscal Surplus/ (Deficit) (11)***	*(267.8)*	*Revenue Covers*		*95.4%*	*of Appropriations*		*(14.9)*	*Revenue Covers*		*99.7%*	*of Appropriations*			

State of Alaska Fiscal Summary--FY19 and FY20 (Part 1)

($ millions)

		FY19 Management Plan						FY20 Governor (December 15)						Change in UGF	
		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	$	%
	FISCAL YEAR SUMMARY														
55	**Total Revenue**	**5,510.3**	**1,035.3**	**6,545.6**	**744.0**	**3,807.0**	**11,096.6**	**5,271.1**	**931.7**	**6,202.8**	**721.7**	**3,783.2**	**10,707.7**	**(239.2)**	**-4%**
56	**Total Appropriations**	**5,778.1**	**1,035.3**	**6,813.4**	**744.0**	**3,807.0**	**11,364.4**	**5,286.0**	**931.7**	**6,217.7**	**721.7**	**3,783.2**	**10,722.6**	**(492.1)**	**-9%**
57	*Agency Operations*	*3,955.1*	*822.6*	*4,777.8*	*612.3*	*2,644.4*	*8,034.5*	*2,443.1*	*793.0*	*3,236.1*	*632.4*	*2,683.2*	*6,551.7*	*(1,512.0)*	*-38%*
58	*Statewide Items*	*1,638.3*	*72.4*	*1,710.7*	*53.6*	*27.9*	*1,792.2*	*2,550.8*	*46.7*	*2,597.5*	*46.4*	*36.5*	*2,680.3*	*912.5*	*56%*
59	*Capital*	*154.9*	*112.8*	*267.7*	*78.1*	*1,134.6*	*1,480.4*	*165.4*	*76.6*	*242.0*	*43.0*	*1,063.5*	*1,348.4*	*10.6*	*7%*
60	*Transfers*	*29.8*	*27.4*	*57.2*	*0.0*	*0.0*	*57.2*	*126.7*	*15.4*	*142.1*	*0.0*	*0.0*	*142.1*	*96.9*	*325%*
61	**Fiscal Surplus/ (Deficit)**	***(267.8)***						***(14.9)***							

Notes:

January 10, 2019

(1) The Department of Revenue's Fall 2018 oil forecast for FY19 is 0.541 mbd at $67.96 per barrel; the FY20 forecast is 0.545 mbd at $64.00 per barrel.

(2) In both FY18 and FY19, the operating budget appropriated only the Constitutionally mandated 25% of royalties to the Permanent Fund, resulting in an increase of $55 million in UGF revenue in FY18 and $79 million in FY19. FY18 and FY19 revenue figures include the amount above 25% as unrestricted revenue. The Governor's FY20 budget appropriates the full statutory royalty calculation to the Permanent Fund. However, the portion of royalties non-mandatorily deposited in the Permanent Fund should always be counted as UGF revenue regardless of its disposition. The fiscal summary shows the royalty amounts over 25% as UGF revenue being deposited into the Permanent Fund on line 50.

(3) The FY19 operating budget appropriated 5.25% of the Permanent Fund's market value from the Earnings Reserve Account to the general fund. Of this $2.7 billion, the amount necessary to pay a dividend of $1,600 per recipient was appropriated to the dividend fund; the remaining $1.7 billion is available for public services. The Governor's FY20 Budget transfers $1.9 billion from the ERA to the Dividend Fund for full statutory Dividends. Revenue for public services is the difference between the Statutory 5.25% POMV and the full dividend transfer amount.

(4) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY20 will be unknown until the close of FY19. Reappropriations to operating budget funds are counted as UGF revenue.

(5) Restricted revenue equals spending for each category. Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose. Other funds have stricter restrictions on usage, and federal funds originate from the federal government and typically can be used only for a particular purpose.

(6) Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.

(7) The Governor used an unallocated reduction as a placeholder for reductions that will be identified in the amendment process.

(8) The fiscal note to HB 331 (Ch. 33, SLA 2018) included a $100 million appropriation to the Oil and Gas Tax Credit Fund, effective only if legal issues prevent bonds from being issued, and a $27 million appropriation for debt service. It also included a $738 million appropriation of bond proceeds, which is counted under duplicated funds.

(9) Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

(10) The post transfer deficit for FY19, estimated to be $267.8 million, will be drawn from the Constitutional Budget Reserve Fund.

(11) "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.

State of Alaska Fiscal Summary-- FY19 and FY20 (Part 2)

($ millions)

Approximate Balances of Reserve Accounts

	FY19				FY20			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund Principal -- Market Value (no appropriations allowed)	**46,202.0**	**962.0**	**0.0**	**47,164.0**	**47,164.0**	**2,833.0**	**0.0**	**49,997.0**
Undesignated Reserves	**19,028.3**	**3,992.2**	**3,992.6**	**21,444.2**	**21,444.2**	**3,986.6**	**5,358.9**	**20,071.9**
Total Excluding Permanent Fund	**2,579.9**	**203.2**	**331.6**	**2,452.2**	**2,452.2**	**228.6**	**52.9**	**2,627.9**
Constitutional Budget Reserve Fund (cash)	2,360.1	176.2	267.8	2,268.5	2,268.5	190.8	14.9	2,444.4
Statutory Budget Reserve Fund	172.4	-	-	172.4	172.4	-	-	172.4
Alaska Housing Capital Corporation Fund	22.0	-	21.8	0.2	0.2	-	-	0.2
Alaska Capital Income Fund	26.0	27.0	42.0	11.0	11.0	37.8	38.0	10.8
Permanent Fund Earnings Reserve Account	**18,864.0**	**3,789.0**	**3,661.0**	**18,992.0**	**18,992.0**	**3,758.0**	**5,306.0**	**17,444.0**
Designated Reserves	**1,491.0**	**1,318.0**	**1,388.9**	**1,420.1**	**1,420.1**	**1,352.1**	**1,357.7**	**1,414.6**
Alaska Higher Education Investment Fund	**344.3**	19.9	23.5	**340.7**	**340.7**	19.8	21.1	**339.4**
Community Assistance Fund	**90.0**	34.0	34.0	**90.0**	**90.0**	30.0	30.0	**90.0**
Power Cost Equalization Endowment	**1,056.7**	21.1	88.4	**989.4**	**989.4**	59.4	63.6	**985.2**
Reserves (Excluding Permanent Fund Principal)	**20,519.2**	**5,310.2**	**5,381.5**	**22,864.3**	**22,864.3**	**5,338.7**	**6,716.5**	**21,486.5**
Unrestricted General Fund Appropriations				5,778.1				5,212.9
Years of Reserves (Reserves/UGF Appropriations)				3.96				4.12

Operating Budget Language

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Language Sections of the Governor's FY20 Operating Budget

DELETED SECTION: Legislative Intent Regarding Supplemental Appropriations

It is the intent of the legislature that the amounts appropriated by this Act are the full amounts that will be appropriated for those purposes for the fiscal year ending June 30, 2019.

> **Legislative Fiscal Analyst Comment:** In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The purpose of this deleted section was to emphasize that supplemental operating appropriations are expected to be limited to needs that are truly unanticipated. Similar supplemental intent language has been retained in recent Governor's budget requests.
>
> This (deleted) language is intended to resolve the conflict between two operating budget philosophies: "manage your program to fit your budget" and "spend as much as you believe is necessary to run your program."

Sec. 4. COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services because of reclassification of job classes during the fiscal year ending June 30, 2020.

> **Legislative Fiscal Analyst Comment:** This section was added by the legislature several years ago in response to agency requests for supplemental appropriations to cover the costs of reclassifying selected job classes that the legislature was not informed of in advance. The section clarifies that the cost of reclassifying positions is to be absorbed in an agency's existing budget.

Sec. 5. ALASKA AEROSPACE CORPORATION. Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2020, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations for the fiscal year ending June 30, 2020.

Section 5 is intended to maximize the Alaska Aerospace Corporation's (AAC) ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner.

Funding: In FY20, the estimated impact of this section is zero. In recent years, general fund appropriations to AAC were reduced and ultimately eliminated in FY16. There are no changes to the level of authorization requested in the FY20 Governor's budget.

Sec. 6. ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that $38,995,000 of the adjusted change in net assets from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2020.

Subsection (a) is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the State as a return of capital (commonly called a dividend). The amounts available for dividends in FY17, FY18 and FY19 were $25.9 million, $30.5 million and $29.4 million, respectively.

Legislative Fiscal Analyst Comment: The statutory dividend is the lesser of $103 million or 75% of the Alaska Housing Finance Corporation's (AHFC) change in net assets in the most recently completed fiscal year [AS 18.56.089(c)]. AHFC's net income declined precipitously after 2008 due to a declining market share as federal mortgage programs offered mortgages at low rates.

(b) The Alaska Housing Finance Corporation shall retain the amount set out in (a) of this section for the purpose of paying debt service for the fiscal year ending June 30, 2020, in the following estimated amounts:
(1) $1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;

(2) $7,212,000 for debt service on the bonds described under ch. 1, SSSLA 2002;

(3) $3,788,000 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection (b) makes no appropriation; it informs the legislature that AHFC will retain $12 million of the FY20 dividend in order to pay debt service on three capital projects for which AHFC issued debt on behalf of the State, as authorized by past legislatures—leaving $26,995,000 of the dividend available for appropriation.

(c) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2020, is appropriated to the general fund.

Subsection (c) appropriates any unappropriated portion of the dividend to the general fund. After subtracting the debt service listed in subsection (b), the net dividend is $26,995,000. The Governor's request spends $13.35 million of the dividend for capital projects, leaving a $13,645,000 appropriation to the general fund.

Legislative Fiscal Analyst Comment: The entire net dividend ($27 million) is identified as unrestricted general fund revenue. However, the language in subsection (c) allows AHFC to retain (and invest) dividends until the money is required to cover expenses associated with capital projects funded by dividends. Investment earnings contribute to the bottom line of AHFC.

> While appropriating the entire net dividend to the general fund would allow investment earnings to accrue to the general fund rather than to AHFC, the corporation has successfully argued for retention of the current method of accounting for dividends.

(d) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during the fiscal year ending June 30, 2020, and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under procedures adopted by the board of directors.

Subsection (d) appropriates certain FY20 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

Funding: The corporate receipts used for purposes other than operating costs do not appear in the bill summary or in Legislative Finance Division reports. Corporate operating costs are appropriated in section 1.

(e) The sum of $800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2020, for housing loan programs not subsidized by the corporation.

(f) The sum of $30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2020, for housing loan programs and projects subsidized by the corporation.

Subsections (e) and (f) appropriate bond proceeds and arbitrage earnings to various housing programs.

> **Legislative Fiscal Analyst Comment:** Because AHFC has statutory authority to issue bonds and transfer arbitrage earnings to its loan programs, subsections (e) and (f) could be removed. However, they do no harm and are informative. The amounts are not reflected in reports prepared by the Legislative Finance Division.

Sec. 7. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. The sum of $10,285,000, which has been declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088, for

appropriation as the dividend for the fiscal year ending June 30, 2020, is appropriated from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060), and the sustainable energy transmission and supply development fund (AS 44.88.660), to the general fund.

Section 7 informs the legislature that the anticipated annual Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the State will be $10.3 million. Dividends for FY17, FY18 and FY19 were $6.3 million, $12.3 million and $4.8 million respectively. By statute (AS 44.88.088), the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. The FY20 AIDEA dividend is 31 percent of the base year statutory net income.

Sec. 8. ALASKA PERMANENT FUND.

(a) The amount authorized under AS 37.13.145(b) for transfer by the Alaska Permanent Fund Corporation on June 30, 2019 is appropriated from the earnings reserve account (AS 37.13.145) to the dividend fund (AS 43.23.045(a)) for the payment of permanent fund dividends and for administrative and associated costs for the fiscal year ending June 30, 2020.

Subsection (a) appropriates approximately $1.944 billion from the Earnings Reserve Account (ERA) to pay dividends and associated expenses in FY20. This equals 66% of a statutory 5.25% total payout from the ERA and will provide a dividend of about $3,000 per person.

Legislative Fiscal Analyst Comment: The fiscal summary shows this transfer from the Earnings Reserve Account (ERA) as unrestricted general fund revenue.

Legislative Fiscal Analyst Recommendation: Add “estimated to be $1,944,000,000” after June 30, 2019.

(b) The amount required to be deposited under AS 37.13.010(a)(1) and (2), estimated to be $394,600,000, during the fiscal year ending June 30, 2020, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

Subsection (b) identifies an amount of oil revenue that goes into the Permanent Fund. Because the constitution mandates that at least 25% of royalties be deposited in the Permanent Fund, that dedicated revenue flows directly to the Permanent Fund. Dedicated deposits to the Permanent Fund are excluded from general fund revenue and from appropriations reported by the Legislative Finance Division. Arguably, appropriation of dedicated revenue is not necessary, but it does no harm and the language is informative.

Legislative Fiscal Analyst Comment: The $394.6 million identified includes $6.4 million that is dedicated to the Public School Trust Fund. The amount in this section should be $388.2 million. In addition to minimum mandated deposits under AS

37.13.010(a)(1), subsection (a)(2) calls for an additional 25% of royalties from oil fields newer than 1979 to be deposited in the Permanent Fund. The non-mandated deposits (estimated to be $69.4 million in FY20) may require an appropriation. During FY18 and FY19, non-mandated deposits were not appropriated to the Permanent Fund; the money appeared as general fund revenue.

(c) The income earned during the fiscal year ending June 30, 2020, on revenue from the sources set out in AS 37.13.145(d), estimated to be $27,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection (c) appropriates FY19 earnings associated with the *State vs. Amerada Hess* settlement (that are held within the Permanent Fund) to the Alaska capital income fund. The capital income fund was established in FY05 and, per Ch. 88 SLA2018, is designated for capital deferred maintenance projects.

Legislative Fiscal Analyst Comment: The *Amerada Hess* settlement resulted in the creation of a "fenced off" portion of the Permanent Fund that was intended to ensure that Alaska juries would not be personally affected (via PFDs) by lawsuits involving revenue to the Permanent Fund.

(d) The sum of $2,933,084,121, calculated under AS 37.13.140(b), less the amount appropriated in (a) of this section, is appropriated from the earnings reserve account (AS 37.13.145) to the general fund.

The statutory 5.25% POMV payout is $2.9 billion in FY20. Subsection d appropriates $989.1 million (or 34% of the POMV payout) from the Earnings Reserve Account to the general fund to fund state services. Subsection (a) appropriates **$1.944 billion for dividends.**

Legislative Fiscal Analyst Comment: The fiscal summary shows this transfer from the Earnings Reserve Account (ERA) as unrestricted general fund revenue.

(e) The amount calculated under AS 37.13.145(c), after the appropriations made in (a) and (d) of this section, estimated to be $943,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund to offset the effect of inflation on the principal of the Alaska permanent fund for the fiscal year ending June 30, 2020.

Subsection (e) makes FY20 inflation proofing transfers (estimated to be $943 million) from the earnings reserve account to principal.

New Subsection: Inflation-Proofing for FY16-FY18

(f) The sum of $1,404,564,942, calculated under AS 37.13.145(c) to offset the effect of inflation on the principal of the Alaska permanent fund during the fiscal years ending

June 30, 2016, June 30, 2017, and June 30, 2018, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund.

Subsection (f) makes inflation proofing transfers, totaling $1.4 billion, from the earnings reserve account to the principal for FY16-FY18.

Legislative Fiscal Analyst Comment: From FY16 through FY18, no earnings from the ERA were appropriated to the corpus of the Permanent Fund for inflation proofing. The $1.4 billion of "missing" inflation proofing money has remained in the Earnings Reserve Account, where it has been available for appropriation.

Sec. 9. DEPARTMENT OF ADMINISTRATION. (a) The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2020.

Subsection (a) references the statute that allows up to $5 million to be swept from lapsing general fund appropriations into the catastrophe reserve account. It appropriates funds from the catastrophe reserve account to the Department of Administration to obtain insurance, establish reserves for the self-insurance program, and to satisfy claims or judgments arising under the program.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to expend funds from the state insurance catastrophe reserve account described in AS 37.05.289(a). The language may not be necessary, but it does no harm.

The catastrophe reserve account sweeps lapsing general fund appropriations annually to maintain a balance not to exceed $5 million. If these funds were not available, two opportunities would remain for meeting catastrophic situations: 1) supplemental appropriations by the legislature; and 2) judgment legislation. Delays that could occur with legislative remedies would cause difficulty in situations that require immediate action.

(b) The amount necessary to fund the uses of the working reserve account described in AS 37.05.510(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2020.

Subsection (b) appropriates funds from the working reserve account to the Department of Administration to pay leave cash-out, terminal leave, unemployment insurance contributions, workers compensation, and general liability claims.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

The Department of Administration's projected need for FY19 is $46.3 million ($4 million higher than FY18 actual expenditures of $42.3 million). However, DOA thinks this may be high because it based the FY19 projection on a 3-year average and FY16 and FY17 were substantially higher than FY18. DOA recommends using the same projection ($46.3 million) for FY20. If accurate, the departments will need to absorb an additional $4 million in FY19 and FY20.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to expend funds from the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.

The working reserve account consists primarily of money appropriated to agencies (for the listed purposes) as a portion of personal services costs. The Department of Administration allocates money from each agency to the working reserve account as part of the payroll process. If the amount in the account is insufficient to cover expenses, the Department of Administration may sweep lapsing personal services appropriations in order to cover expenses.

(c) The amount necessary to have an unobligated balance of $5,000,000 in the working reserve account described in AS 37.05.510(a) is appropriated from the unencumbered balance of any appropriation enacted to finance the payment of employee salaries and benefits that is determined to be available for lapse at the end of the fiscal year ending June 30, 2020, to the working reserve account (AS 37.05.510(a)).

Subsection (c) appropriates funds from the working reserve account to the Department of Administration to pay leave cash-out, terminal leave, unemployment insurance contributions, workers compensation, and general liability claims.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to scoop lapsing balances to the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.

(d) The amount necessary to have an unobligated balance of $10,000,000 in the group health and life benefits fund (AS 39.30.095), after the appropriations made in (b) and (c) of this section, is appropriated from the unencumbered balance of any appropriation that is determined to be available for lapse at the end of the fiscal year ending June 30, 2020, to the group health and life benefits fund (AS 39.30.095).

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to the Group Health and Life Benefits Fund, but it does not increase total appropriations.

Legislative Fiscal Analyst Comment: In FY17, the Governor requested a deposit of $20 million UGF into the Group Health and Life Benefits Fund. The fund balance was declining rapidly due to an increase in insurance claims and was anticipated to be exhausted by the end of FY17. The legislature appropriated $7.5 million UGF into the fund and accepted non-UGF increments associated with increasing employer rates for AlaskaCare members.

More recent changes in employer and employee rates will increase the balance of the fund. The Division of Retirement and Benefits' benefit consultant (Segal) indicates that there is sufficient funding for FY20.

(e) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be $150,000, is appropriated to the Alaska Oil and Gas Conservation Commission for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2020.

Subsection (e) permits the Alaska Oil and Gas Conservation Commission (AOGCC) to collect on a performance bond, should that action become necessary.

Legislative Fiscal Analyst Comment: AOGCC reported some difficulty in working with an operator during FY13 and requested the language as a precautionary measure. Until FY13, similar language was not considered necessary because there was little concern that reclamation efforts would be required. Similar language in section 18(c) applies to the Department of Natural Resources.

(f) If the amount necessary to cover plan sponsor costs, including actuarial costs, for retirement system benefit payment calculations exceeds the amount appropriated for that purpose in sec. 1 of this Act, after all allowable payments from retirement system fund sources, that amount, not to exceed $500,000, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2020.

Subsection (f) appropriates general funds to pay for costs of retirement system benefit calculations that exceed the $246.0 appropriated to the Department of Administration in section 1.

Legislative Fiscal Analyst Comment: The pension and retiree health plans are trust funds and must adhere to federal and state rules regarding benefit trusts. The rules make a clear distinction between expenses that are for the benefit of the plan participants and expenses that are for the benefit of the plan sponsor. The expenses that benefit the plan sponsor are called settlor expenses or costs. Costs that benefit the plan sponsor cannot be paid for by retiree health trust funds as these expenses are for the benefit of the plan sponsor.

Similar language was added in FY19.

(g) The amount necessary to cover actuarial costs associated with bills introduced by the legislature, estimated to be $0, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2020.

> **Subsection (g)** appropriates general funds in FY20 to pay for actuarial costs associated with bills introduced by the legislature. As with settlor expenses, trust funds cannot be used for costs that do not benefit the trustees.

Sec. 10. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund on June 30, 2020, under AS 41.15.180(j) is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2020, to be allocated among the recipients of national forest income according to their pro rata share of the total amount distributed under AS 41.15.180(c) and (d) for the fiscal year ending June 30, 2020.

> **Subsection (a)** appropriates any remaining balance of National Forest Receipts to be paid as grants to local governments in the unorganized borough.

> **Legislative Fiscal Analyst Comment:** National Forest Receipts consist of national forest income received by the Department of Commerce, Community and Economic Development (DCCED) for the portion of national forests located within the unorganized borough. By law, 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.
>
> AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution has not been made.
>
> Under AS 41.15.180(j), lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection (a) takes money that would otherwise be spent in unorganized areas within the unorganized borough and appropriates it to local governments within the unorganized borough.

(b) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2020.

Subsection (b) is an open-ended appropriation intended to ensure that all federal funding received for the National Forest Receipts program is disbursed expeditiously to communities.

Funding: The estimated impact of this section is zero. The $600,000 appropriated in section 1 for this program is expected to be sufficient.

Legislative Fiscal Analyst Comment: Although the National Forest Receipts program was scheduled to sunset in FY08, the program continued to be reauthorized for several years. In FY17, the Secure Rural Schools program was not extended by Congress so National Forest Receipt Payments reverted to the original distribution formula of about $600,000.
Historical National Forest Receipt (NFR) and Secure Rural Schools (SRS) revenue levels are:

- FY10 - $18,590,500
- FY11 - $15,857,600
- FY12 - $15,381,800
- FY13 - $13,878,300
- FY14 - $12,173,600
- FY15 - $11,668,100
- FY16 - $9,871,300
- FY17 - $533,453
- FY18 - $9,383,529
- FY19 estimate - $8,914,353
- FY20: estimate - $600,000 (NFR $600.0, SRS not yet reauthorized federally)

Legislative Fiscal Analyst Recommendation: Retain subsections (a) and (b) despite the outlook for FY20. If there is no program, the language does no harm; if the program is reauthorized, Alaska will be ready to distribute money to communities.

(c) If the amount necessary to make payments in lieu of taxes for cities in the unorganized borough under AS 44.33.020(a)(20) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make those payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2020.

Subsection (c) is intended to ensure that all federal funding received for the Payment in Lieu of Taxes (PILT) program is disbursed to communities expeditiously.

Funding: The estimated impact of this section is zero. The $10.4 million appropriated in section 1 for this program should be sufficient.

(d) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2018, estimated to be $9,200,000, and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2020, to qualified regional associations operating within a region designated under AS 16.10.375.

> **Funding:** These "pass-through" amounts (estimated to be nearly $9.2 million) are excluded from Legislative Finance Division reports on the operating bill.

(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2018, estimated to be $2,850,000, and deposited in the general fund under AS 43.76.380(d), is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2020, to qualified regional seafood development associations for the following purposes:

(1) promotion of seafood and seafood by-products that are harvested in the region and processed for sale;

(2) promotion of improvements to the commercial fishing industry and infrastructure in the seafood development region;

(3) establishment of education, research, advertising, or sales promotion programs for seafood products harvested in the region;

(4) preparation of market research and product development plans for the promotion of seafood and their by-products that are harvested in the region and processed for sale;

(5) cooperation with the Alaska Seafood Marketing Institute and other public or private boards, organizations, or agencies engaged in work or activities similar to the work of the organization, including entering into contracts for joint programs of consumer education, sales promotion, quality control, advertising, and research in the production, processing, or distribution of seafood harvested in the region;

(6) cooperation with commercial fishermen, fishermen's organizations, seafood processors, the Alaska Fisheries Development Foundation, the Fishery Industrial Technology Center, state and federal agencies, and other relevant persons and entities to investigate market reception to new seafood product forms and to develop commodity standards and future markets for seafood products.

> **Funding:** These "pass-through" amounts (estimated to be $2.85 million) are excluded from Legislative Finance Division reports on the operating bill.

(f) The amount necessary, estimated to be $32,355,000, not to exceed the amount determined under AS 42.45.085(a), is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2020.

Subsection (f) appropriates money from the Power Cost Equalization Endowment fund to the Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As of June 29, 2018, the endowment fund balance was $1.073 billion.

Funding: Total program cost is projected to be $32.4 million in FY20 (an amount identical to FY19).

Legislative Fiscal Analyst Comment: AS 42.45.085(d) provides statutory guidelines for uses of excess earnings of the PCE Endowment fund. The amount of excess earnings is determined by subtracting anticipated PCE program costs from earnings in the most recently closed fiscal year. Of the excess earnings, 70 percent are available for appropriation as follows:

1) First, up to $30 million is allocated to the Community Assistance program,
2) Secondly, up to $25 million is allocated to Rural Energy programs.

In FY20, "excess" earnings were estimated to be $30.45 million with $30 million appropriated to the Community Assistance Fund (see section 22(f)). The bill contains no appropriation for the remaining balance of about $453.4.

(g) The amount of federal receipts received for the reinsurance program under AS 21.55 during the fiscal year ending June 30, 2020, is appropriated to the Department of Commerce, Community, and Economic Development, division of insurance, for the reinsurance program under AS 21.55 for the fiscal years ending June 30, 2020, June 30, 2021, June 30, 2022, and June 30, 2023.

Subsection (g) is an open-ended appropriation that allows FY20 federal receipts to be expended at any time through FY23.

Deleted Subsection

The sum of $300,300 is appropriated from the civil legal services fund (AS 37.05.590) to the Department of Commerce, Community, and Economic Development for payment as a grant under AS 37.05.316 to Alaska Legal Services Corporation for the fiscal year ending June 30, 2019.

This subsection is no longer needed because the funding is appropriated in section 1. The capitalization of the civil legal services fund occurs under Fund Transfers in section 23(c).

New Section

Sec. 11. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. Section 11(a), ch. 19, SLA 2018, is amended to read:
(a) The sum of $400,000 is appropriated from the municipal capital project matching grant fund (AS 37.06.010) to the Department of Education and Early Development, Mt. Edgecumbe boarding school, for the maintenance and operation of the Mt. Edgecumbe Aquatic Center for the fiscal years ending June 30, 2018, [AND] June 30, 2019, <u>and June 30, 2020</u>.

Section 11 extends the lapse date for a $400,000 appropriation for the maintenance and operation of the Mt. Edgecumbe Aquatic Center.

Legislative Fiscal Analyst Comment: The opening of the Aquatic Center was delayed so the department would like to carry forward the funding for an additional year. In addition, the FY20 budget request includes a $325.0 increment for this purpose.

Sec. 12. DEPARTMENT OF FISH AND GAME. (a) An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.76.210 during the fiscal year ending June 30, 2019, estimated to be $500,000, and deposited in the general fund is appropriated from the general fund to the Department of Fish and Game for payment in the fiscal year ending June 30, 2020, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

Funding: These "pass-through" amounts, estimated to be $500,000, are excluded from Legislative Finance Division reports on the operating bill.

(b) After the appropriation made in sec. 22(u) of this Act, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), not to exceed $500,000, is appropriated to the Department of Fish and Game for sport fish operations for the fiscal year ending June 30, 2020.

Subsection (b) appropriates up to $500,000 from the Alaska sport fish enterprise account in the fish and game fund to the Department of Fish and Game for the Division of Sport Fish operations *after* appropriations in section 22(u) for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds have occurred. [For more information on appropriations from this account, see comments under section 22(u).]

New Subsection

(c) If commercial fisheries entry commission receipts under AS 16.05.490, 16.05.530, and AS 16.43 that are received during the fiscal year ending June 30, 2020, fall short of the amounts appropriated in sec. 1 of this Act, the amount of the shortfall, not to exceed $500,000, is appropriated from the general fund.

Subsection (c) appropriates up to $500,000 of UGF if Commercial Fisheries Entry Commission (CFEC) receipts budgeted in section 1 are insufficient.

Legislative Fiscal Analyst Recommendation: Remove this language and ask the department to submit a section 1 budget amendment replacing the estimated shortfall of CFEC receipts with UGF. Section 1 wordage allows the department to carryforward unexpended CFEC receipts so any unexpended balance of CFEC receipts will be available in future fiscal years.

New Subsection

Sec. 13. DEPARTMENT OF HEALTH AND SOCIAL SERVICES. If the amount of federal receipts received during the fiscal year ending June 30, 2020, for Medicaid services are greater than the amount appropriated in sec. 1 of this Act, the additional amount of federal receipts received, estimated to be $0, is appropriated to the Department of Health and Social Services, Medicaid services, for the fiscal year ending June 30, 2020.

Subsection (b) provides an open-ended appropriation of federal receipts for Medicaid.

Legislative Fiscal Analyst Comment: Although the concerns expressed under subsection (a) may apply to open-ended appropriation of federal receipts, federal costs are generally subject to less scrutiny than state costs. The practical impact of subsection (b) may be to eliminate RPLs.

Deleted Subsections

The sum of $7,000,000 is appropriated from the Alaska comprehensive health insurance fund (AS 21.55.430) to the Department of Health and Social Services, behavioral health, designated evaluation and treatment, for hospital-based mental health care, for the fiscal years ending June 30, 2019, and June 30, 2020.

The sum of $7,000,000 is appropriated from federal receipts to the Department of Health and Social Services, Medicaid services, health care Medicaid services, for hospital-based mental health care, for the fiscal years ending June 30, 2019, and June 30, 2020.

The deleted subsections were intended to be one-time, multi-year appropriations and additional appropriations are not necessary in the FY20 budget.

Sec. 14. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. (a) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from the workers' compensation benefits guaranty fund (AS 23.30.082) to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2020.

Subsection (a) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $778,500 appropriation in section 1 is expected to be sufficient.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to make those benefit payments is appropriated for that purpose from the second injury fund (AS 23.30.040(a)) to the Department of Labor and

Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2020.

Subsection (b) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $2,851,200 appropriation in section 1 is expected to be sufficient.

(c) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from the fishermen's fund (AS 23.35.060) to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2020.

Subsection (c) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $1,396,500 appropriation in section 1 is expected to be sufficient.

(d) If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2020, exceeds the amount appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the purpose of operating the center, for the fiscal year ending June 30, 2020.

Subsection (d) provides open-ended authority to spend program receipts, thereby eliminating all questions regarding Alaska Vocational Technical Center's (AVTEC) ability to accept and spend Technical Vocational Education Program (TVEP) receipts in a timely manner.

Funding: The estimated impact of this section is zero; the $2,124,200 appropriation in section 1 is expected to be sufficient.

New Section

Sec. 15. DEPARTMENT OF LAW. The sum of $500,000 is appropriated from the general fund to the Department of Law, criminal division, criminal justice litigation, for research, analysis, reporting, and prosecution of cases involving missing or murdered indigenous women for the fiscal years ending June 30, 2020 and June 30, 2021.

Section 15 adds multi-year (FY20-FY21) funding to the Department of Law's Criminal Division budget to fund activities focused on solving cases related to missing or murdered indigenous women.

Legislative Fiscal Analyst Comment: The Department of Public Safety's FY20 budget request also added $665,200 in section 1 to fund two Criminal Justice Technicians to pursue investigations related to missing and murdered indigenous women.

Sec. 16. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS.

New Subsection

(a) If the amount of designated program receipts received during the fiscal year ending June 30, 2020, for Emergency Management Assistance Compact responses in accordance with AS 26.23.135 and 26.23.136 exceeds the amount appropriated for that purpose in sec. 1 of this act, the additional amount received, estimated to be $200,000, is appropriated to the Department of Military and Veterans' Affairs for operating expenses relating to Emergency Management Assistance Compact responses in accordance with AS 26.23.135 and 26.23.136 for the fiscal year ending June 30, 2020.

Subsection (a) adds open-ended language to DMVA's budget for statutory designated program receipts.

Legislative Fiscal Analyst Comment: If DMVA expects to be short by $200,000, they should submit a budget amendment to add the anticipated need to section 1 of the bill and come to LB&A to request additional funding, if needed. Setting the precedent of adding open-ended language to agencies' budgets will diminish the legislature's ability to weigh in when additional funding becomes available. This language appears to be designed to bypass the RPL process and it encourages imprecise budgeting by adding "open-ended" language.

Legislative Fiscal Analyst Recommendation: Delete this subsection and add $200,000 of funding to section 1 of the bill.

(b) Five percent of the average ending market value in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2017, June 30, 2018, and June 30, 2019, estimated to be $11,185, is appropriated from the Alaska veterans' memorial endowment fund (AS 37.14.700) to the Department of Military and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2020.

Subsection (b) appropriates the payout from the endowment to the Department of Military and Veterans' Affairs. The payout may be used for maintenance, repair, and construction of monuments to the military.

Sec. 17. DEPARTMENT OF NATURAL RESOURCES. (a) The interest earned during the fiscal year ending June 30, 2020, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be $150,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2020, June 30, 2021, and June 30, 2022.

Subsection (a) appropriates the interest earned on the bond posted by Cook Inlet Energy to the Department of Natural Resources (DNR) for the purpose of the bond.

Legislative Fiscal Analyst Comment: This situation is atypical for reclamation bonding. In 2009, Pacific Energy Resources, Ltd. declared bankruptcy and abandoned the Redoubt Unit in Cook Inlet. Their bond was transferred to Department of Natural Resources (DNR) for reclamation of the site. Cook Inlet Energy (CIE) then purchased the Redoubt Unit, which meant that DNR did not need to perform further site reclamation work and that the State was holding cash from the Pacific Energy Resources bond. That cash was applied to the reclamation bond requirements imposed on Cook Inlet Energy. As a cost saving measure, the proceeds from the Pacific Energy Resources bond were retained in the general fund. This section appropriates the earnings on the bond to DNR to cover potential reclamation activity in the future.

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2020, estimated to be $30,000, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources for those purposes for the fiscal year ending June 30, 2020.

Subsection (b) appropriates money from the Mine Reclamation Trust Fund operating account to DNR for the purposes specified in AS 37.14.820 (mine reclamation activities).

Funding: The agency estimates the amount needed for mine reclamation expenditures is about $30,000. The money is spent in the Claims, Permits and Leases allocation for reclamation of land use permits and leases on state lands.

Legislative Fiscal Analyst Comment: This section may not be required but does no harm; the appropriation contained in section 23(k)—an internal transfer of funds from the income account to the operating account—appears to satisfy the appropriation requirement of AS 37.14.800(b). Once that internal transfer occurs, expenditures require no further appropriation per AS 37.14.820.

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be $50,000, is appropriated to the Department of Natural Resources for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2020.

Subsection (c) appropriates receipts associated with bonds for land reclamation to the agencies that will direct the reclamation activities.

Funding: The Department of Natural Resources estimates the impact of this section to be $50,000: $25,000 for reclamation associated with land use permits and leases on state lands in the Mining, Land and Water allocation; and $25,000 for reclamation bonds associated with timber sales on state lands in the Forest Management and Development allocation.

Legislative Fiscal Analyst Comment: Similar language in section 9(e) applies to the Department of Administration.

(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2020, estimated to be $8,500,000, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2020.

Subsection (d) appropriates an open-ended amount of federal receipts received for fire suppression to the Department of Natural Resources.

(e) If any portion of the federal receipts appropriated to the Department of Natural Resources for division of forestry wildland firefighting crews is not received, that amount, not to exceed $1,125,000, is appropriated from the general fund to the Department of Natural Resources, fire suppression preparedness, for the purpose of paying costs of the division of forestry wildland firefighting crews for the fiscal year ending June 30, 2020.

Subsection (e) appropriates unrestricted general funds to replace federal funds in the event that federal grant funding fails to fully materialize. The department supports three "Hotshot" professional firefighting crews at $375,000 each through competitive federal grants. Competition for this federal funding has increased, and this language ensures that the department can retain these crews by using general funds if Alaska does not secure federal grants.

Funding: The maximum expected impact of this section is $1,125,000 of unrestricted general funds.

New Subsection: OPEN-ENDED UGF FIRE SUPPRESSION LANGUAGE

(f) If the amount necessary for fire suppression activities for the fiscal year ending June 30, 2020, exceeds the amount appropriated for that purpose in sec. 1 of this Act, that amount, estimated to be $0, is appropriated, after notice is given by the Governor to the Legislative Budget and Audit Committee, from the general fund to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2020.

Subsection (f) is an open-ended UGF appropriation for fire suppression activities that occur in FY20. However, the language requires that DNR notify the LB&A Committee of all UGF expenditures that exceed the amount appropriated in section 1.

Legislative Fiscal Analyst Comment: Although open-ended UGF language has not been added in recent bills, similar language has been included in previous appropriation bills. The reason for the inclusion is that DNR typically expends the amount necessary, then requests authorization via supplementals and ratifications in future appropriations bills. This language would eliminate future requests for expenditures that (are likely to) occur.

Deleted Section

DEPARTMENT OF REVENUE. The amount determined to be available in the Alaska Tax Credit Certificate Bond Corporation reserve fund (AS 37.18.040) for purchases, refunds, or payments under AS 43.55.028, estimated to be $737,900,000, is appropriated from the Alaska Tax Credit Certificate Bond Corporation reserve fund (AS 37.18.040) to the Department of Revenue, office of the commissioner, for the purpose of making purchases, refunds, or payments under AS 43.55.028 for the fiscal year ending June 30, 2019.

This section was an open-ended FY19 appropriation, estimated to be $738 million, of bond proceeds to fund tax credit purchases, refunds or payments.

Legislative Fiscal Analyst Comment: A law suit seeking to prevent the sale of bonds remains active, so the impact of this section is unknown. If the bond sale is not successful, the legislature may choose to name an alternative funding source for the statutory calculation for the deposit to the tax credit fund ($168 million) for FY20. The Governor proposed no contingency funding source to purchase tax credit certificates.

Debt service payment for these bonds is estimated to be $27 million in FY20 and is included in section 20(o).

Sec. 18. OFFICE OF THE GOVERNOR. (a) The sum of $1,847,000 is appropriated from the general fund to the Office of the Governor, division of elections, for costs associated with conducting the statewide primary and general elections for the fiscal years ending June 30, 2020, and June 30, 2021.

Legislative Fiscal Analyst Comment: Beginning in FY17, the cost of holding elections every two years was divided in half to reduce volatility in the final authorized budget of the Office of the Governor while allowing for sufficient funding to conduct elections. Note that section 18 appropriates money for a two-year period, so money not spent in FY20 will be available in FY21.

New Subsection

(b) The sum of $1,000,000 is appropriated from the general fund to the Office of the Governor for redistricting planning committee, redistricting board, and division of elections redistricting costs for the fiscal years ending June 30, 2020, June 30, 2021, June 30, 2022, and June 30, 2023.

Subsection (b) appropriates $1 million of UGF for redistricting costs for FY20-FY23.

Legislative Fiscal Analyst Comment: The Alaska Constitution requires redistricting of the Alaska House of Representatives and Senate immediately following the official reporting of each decennial census of the United States. In FY20, a Redistricting Planning Committee will be formed to arrange for office space and enter into contracts necessary for the Redistricting Board to meet its Constitutional deadline to adopt one or more proposed redistricting plans within thirty days after the official reporting of the decennial census of the United States or thirty days after being duly appointed, whichever occurs last.

This four-year appropriation will enable the Redistricting Planning Committee to complete its work, the Redistricting Board to complete its process in a timely and efficient fashion, and the Division of Elections to make voter registration system modifications and notify voters of election district changes.

Sec. 19. BANKCARD SERVICE FEES. (a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2020, is appropriated for that purpose for the fiscal year ending June 30, 2020, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

Subsection (a) allows the State to compensate vendors that collect fees on behalf of the State. The provision originally addressed Fish and Game fishing, hunting, and trapping license sales in which the vendor retained a portion of the sales. It now applies to several programs in multiple departments.

Funding: These fees do not appear in the bill summary or in Legislative Finance Division reports on the grounds that the State has no effective control over the money.

(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2020, is appropriated for that purpose for the fiscal year ending June 30, 2020, to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

Subsection (b) allows credit card service providers to retain fees charged for using a credit card.

Funding: These fees do not appear in the bill summary or in Legislative Finance Division reports on the grounds that the State has no effective control over the money.

Sec. 20. DEBT AND OTHER OBLIGATIONS. (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2020, estimated to be $0, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes for the fiscal year ending June 30, 2020.

Subsection (a) appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year. This is precautionary language; revenue anticipation notes have not been issued by the State for at least 30 years.

Legislative Fiscal Analyst Comment: No notes are expected to be issued in FY20.

(b) The amount required to be paid by the state for the principal of and interest on all issued and outstanding state-guaranteed bonds, estimated to be $0, is appropriated from the general fund to the Alaska Housing Finance Corporation for payment of the principal of and interest on those bonds for the fiscal year ending June 30, 2020.

Subsection (b) appropriates general funds to pay principal and interest on state-guaranteed bonds (veteran's mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The primary purpose of the state general obligation pledge is to gain tax-exempt status for the bonds, but it also enhances the credit pledge and marketability of the bonds. The veteran's mortgage bonds have achieved the best credit rating (triple A) on their own and there have been no draws upon the State's general obligation pledge for payment. Because the bonds are general obligations of the State, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee.

Funding: The revenue stream from mortgage loans is expected to be sufficient to cover bond payments, so the expected fiscal impact of this subsection is zero; however, a potential general fund obligation exists.

(c) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2020, estimated to be $3,094,000, is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565).

(d) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2020, estimated to be $2,006,000, is appropriated from

interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565).

Subsections (c) and (d) appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts that require a state match. Federal rules do not permit investment earnings of the loan funds to be used to pay state match. However, money borrowed by the funds can be used as state match. Investment earnings in the fund are then used to pay back the borrowed funds.

These subsections avoid general fund match appropriations by taking advantage of the ability to use earnings on the funds to pay debt service. Alaska issues short-term bonds (secured by the assets of the loan fund) and uses the proceeds to meet the required federal match. The bonds are then paid off with "restricted" earnings. Effectively, earnings are used to match federal receipts.

(e) The sum of $4,517,365 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2020, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	**$1,219,025**
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Matanuska-Susitna Borough (deep water port and road upgrade)	**712,513**
(B) Aleutians East Borough/False Pass (small boat harbor)	**166,400**
(C) City of Valdez (harbor renovations)	**210,375**
(D) Aleutians East Borough/Akutan (small boat harbor)	**215,308**
(E) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	**333,193**
(F) City of Unalaska (Little South America (LSA) Harbor)	**365,695**
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	**943,676**

(B) Copper Valley Electric Association (cogeneration projects)	**351,180**

Subsection (e) appropriates $4.5 million to the University, the Department of Transportation and Public Facilities, and the Alaska Energy Authority for reimbursement of municipal or electric association debt service based on authorization in Chapter 115, SLA 2002 (HB 528).

(f) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2020, estimated to be $2,892,150, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2020.

Subsection (f) appropriates $2.9 million for trustee fees and to make payments on State of Alaska Certificates of Participation (COPs) that funded the Alaska Native Medical Center housing project [authorized in Chapter 63, SLA 2013 (SB 88)]. The Alaska Native Medical Center project is the only outstanding COP.

(g) The sum of $3,303,500 is appropriated from the general fund to the Department of Administration for the purpose of paying the obligation of the Linny Pacillo Parking Garage in Anchorage to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2020.

Subsection (g) appropriates $3.3 million for a state lease-purchase obligation facilitated by AHFC for the downtown Anchorage parking garage.

(h) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2020:

A total of $78.2 million general funds and $4.8 million federal funds are appropriated for debt service on general obligation bonds. For FY19, $78.3 million of state funding, and $4.85 million of federal receipts were budgeted.

(1) the sum of $100,084 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;

(2) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payments made in (1) of this subsection, estimated to be $7,815,116, from the general fund for that purpose;

Voters authorized $315 million of GO Bonds in 2008 for transportation projects. Series 2009A general obligation bonds were issued totaling $165 million.

Legislative Fiscal Analyst Comment: In FY12, the legislature changed the fund source for $150 million of capital projects from GO bond proceeds to general funds. The authority to issue bonds was reduced by $150 million at the same time.

In 2015, $100.6 million of the callable 2009A series was advanced refunded by Series 2015B bonds to attain $8.8 million in cost savings. The amount budgeted for FY20 will be the final debt service payment on the remainder of the non-callable 2009A bonds.

(3) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, estimated to be $2,194,004, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bond credit payments due on the series 2010A general obligation bonds;

(4) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, after the payments made in (3) of this subsection, estimated to be $4,560,935, from the general fund for that purpose;

(5) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010B, estimated to be $2,227,757, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2010B general obligation bonds;

(6) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010B, after the payment made in (5) of this subsection, estimated to be $176,143, from the general fund for that purpose;

The 2010 general election authorized issuance of $397 million in GO bonds to finance educational facilities. The Department of Revenue issued $200 million of bonds in three series in 2010, taking advantage of federal stimulus programs. Series A were issued using Build America Bonds (receiving an original 35% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds (paid off in 2015).

Legislative Fiscal Analyst Comment: All authorized bonds are not sold at the same time because IRS rules (for tax exempt status) require complete expenditure of bond proceeds within three years of bond issuance. Furthermore, in recent years there has been a cost in over-issuing bonds as bond proceeds have earned rates that are lower than the interest rate on the bonds themselves. Bonds are issued in specific series as cash is needed for projects. Sequestration subsequently reduced the federal reimbursement rates on the Series A and Series B bonds, reducing the effective subsidy to near 32.5% and 93%, respectively.

(7) the sum of $35,979 from the State of Alaska general obligation bonds, series 2012A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2012A bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A;

(8) the amount necessary, estimated to be $17,599,200, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A, from the general fund for that purpose;

Series 2012A bonds refinanced the 2003A bonds for cost savings:

2003A general obligation bonds were authorized by voters in 2002 for construction of schools and university facilities ($236.8 million) and for transportation projects ($124 million); and

Series 2003B general obligation bonds were authorized by voters in 2002 for road construction ($102.8 million).

Legislative Fiscal Analyst Comment: Although the 2003B bonds were issued with a general obligation pledge by the State, they are more appropriately referred to as GARVEE bonds. Approximately 93% of the debt service was paid using eligible federal-aid highway formula funding which was coupled with a state matching component derived from investment earnings on the borrowed money prior to expenditure that provided for the remaining 7% of debt service. The 2003B bonds were fully repaid on July 15, 2013.

(9) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, estimated to be $427,658, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2013A general obligation bonds;

(10) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, after the payments made in (9) of this subsection, estimated to be $33,181, from the general fund for that purpose;

(11) the sum of $506,545 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B;

(12) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B, after the payments made in (11) of this subsection, estimated to be $15,663,005, from the general fund for that purpose;

The remaining 2010 authorization (for educational facilities) of $197 million was used when 2013A and 2013B bonds were sold.

Legislative Fiscal Analyst Comment: The Department of Revenue issued two series of bonds to fund the balance of the 2010 Act and take advantage of the State's remaining Qualified School Construction Bond allocation. Series A were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of 100%); and Series B were issued as standard tax exempt bonds. All authorized bonds are sold at this time. Sequestration subsequently reduced the federal reimbursement rates on the Series A by 7.2 points, reducing the effective subsidy to about 93%.

(13) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2015B, estimated to be $4,721,250, from the general fund for that purpose;

Subsection 13 appropriates an estimated $4.7 million from the general fund for payment of debt service on series 2015B Bonds. The 2015B bonds refinanced a portion of the 2009A bonds for $8.8 million of savings; the non-callable 2009A bond and 2015B debt service is less in every year than the original 2009A debt service.

(14) the sum of $9,846 from the State of Alaska general obligation bonds, series 2016A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2016A bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A;

(15) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A, after the payment made in (14) of this subsection, estimated to be $10,945,029, from the general fund for that purpose;

(16) the sum of $1,632,081, from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2016B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016B;

(17) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016B, after the payment made in (16) of this subsection, estimated to be $9,168,044, from the general fund for that purpose;

The 2012 general election authorized issuance of $453.5 million in GO bonds to finance transportation projects. Subsections 14 through 17 appropriate an estimated $21.8 million from the general fund for the payment of debt service on series 2016A and 2016B Bond Series issued for those projects.

Legislative Fiscal Analyst Comment: Initial bonding for this authorization utilized short-term Bond Anticipation Notes (BANs) to capture the very low short-term interest rate environment. The BAN program was further used due to the uncertainty and often delayed project expenditure expectations on transportation projects, thereby avoiding the cost of having higher interest, long-dated borrowed funds idle in the project fund, and complying with IRS project expenditure requirements.

Series 2016A bonds refinanced the 2013, 2014 and 2015 BAN program with long-term financing. Series B bonds were issued in the amount of $128.3 million of par generating $155.3 million of funding leaving $110.3 million of bond authority to be issued.

New Subsection

(18) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2019A, estimated to be $5,000,000, from the general fund for that purpose;

Subsection 18 appropriates an estimated $5 million from the general fund for payment of debt service on Series 2019A Bonds.

Legislative Fiscal Analyst Comment: The 2019 issue anticipates issuing approximately $80 million of the $110 million of remaining 2012 GO Bond authorization for transportation projects. The 2019A bonds will require debt service of about $5 million per year for 20 years.

(19) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, 2015B, 2016A, 2016B, and 2019A, estimated to be $3,000, from the general fund for that purpose;

Subsection 19 appropriates an estimated $3,000 for trustee fees on all outstanding GO Bonds.

Legislative Fiscal Analyst Comment: These fees have previously been included in the debt service appropriation for each series of bonds. Trustee fees have been separated from other costs of issuing debt because they are annual costs that last for the life of the bonds. Most other costs of issuing debt are one-time costs paid at closing. That may change if rating agencies are successful in their effort to make their fees annual rather than one time.

(20) the amount necessary for the purpose of authorizing payment to the United States Treasury for arbitrage rebate on outstanding State of Alaska general obligation bonds, estimated to be $200,000, from the general fund for that purpose;

Subsection 20 appropriates money that must be remitted to the federal government when earnings on the proceeds of tax-exempt bonds exceed interest costs. This appropriation applies primarily to the extraordinarily low interest rate 2013C, 2014, and 2015 Bond Anticipation Notes. The provision is also likely to apply to the 2014A Qualified School Construction Bonds. The payment of these funds is offset by prior year investment earnings.

(21) if the proceeds of state general obligation bonds issued are temporarily insufficient to cover costs incurred on projects approved for funding with these proceeds, the amount necessary to prevent this cash deficiency, from the general fund, contingent on repayment to the general fund as soon as additional state general obligation bond proceeds have been received by the state; and

> **Subsection 21** is intended to prevent construction delays by permitting short-term borrowing from the general fund.

(22) if the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds exceeds the amounts appropriated in this subsection, the additional amount necessary to pay the obligations, from the general fund for that purpose.

> **Subsection 22** is a safety measure to ensure that the State can meet its general obligation pledge if unforeseen circumstances or miscalculations leave the appropriations in this section short of debt service requirements.

(i) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2020:

(1) the amount necessary for debt service on outstanding international airports revenue bonds, estimated to be $5,200,000, from the collection of passenger facility charges approved by the Federal Aviation Administration at the Alaska international airports system;
(2) the amount necessary for debt service and trustee fees on outstanding international airports revenue bonds, estimated to be $398,820, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bonds federal interest subsidy payments due on the series 2010D general airport revenue bonds;
(3) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after the payments made in (1) and (2) of this subsection, estimated to be $25,015,339, from the International Airports Revenue Fund (AS 37.15.430(a)) for that purpose; and
(4) the amount necessary for payment of principal and interest, redemption premiums, and trustee fees, if any, associated with the early redemption of international airports revenue bonds authorized under AS 37.15.410 - 37.15.550, estimated to be $10,000,000, from the International Airports Revenue Fund (AS 37.15.430(a)).

> **Subsection (i)** appropriates funding for payment of debt service and fees on outstanding international airport revenue bonds.

Legislative Fiscal Analyst Comment: The Alaska International Airport System (AIAS) and the State Bond Committee have been working on a multi-year and multi-prong restructuring of the AIAS revenue bond debt to lower debt service from approximately $49.5 million to $30 million annually. This reduction allows AIAS to more effectively compete with other cargo airports and reduce passenger traffic cost. Through the use of refinancing savings, the slight extension of amortization to more closely match assets' useful life, and the use of cash on hand to optionally redeem callable bonds, the goal is largely met. The i(4) appropriation of $10 million of AIAS receipts to optionally redeem bonds in fiscal year 2020 is the final action for full plan implementation.

(j) If federal receipts are temporarily insufficient to cover international airports system project expenditures approved for funding with those receipts, the amount necessary to prevent that cash deficiency, estimated to be $0, is appropriated from the general fund to the International Airports Revenue Fund (AS 37.15.430(a)), for the fiscal year ending June 30, 2020, contingent on repayment to the general fund, plus interest, as soon as additional federal receipts have been received by the state for that purpose.

(k) The amount of federal receipts deposited in the International Airports Revenue Fund (AS 37.15.430(a)) necessary to reimburse the general fund for international airports system project expenditures, plus interest, estimated to be $0, is appropriated from the International Airports Revenue Fund (AS 37.15.430(a)) to the general fund.

Subsections (j) and (k) were added to the budget beginning in FY17. The language addresses any potential cash-flow issues related to federal international airport projects and allows for temporary general fund borrowing and repayment. Subsection (j) appropriates general funds contingent upon repayment (plus interest). Subsection (k) appropriates the amount of federal receipts to repay the general fund.

(l) The amount necessary for payment of obligations and fees for the Goose Creek Correctional Center, estimated to be $16,373,288, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2020.

Subsection (l) appropriates funds to pay lease costs for the Goose Creek Correctional Center (GCCC). The State of Alaska authorized the Department of Administration to enter into a lease for GCCC with the Mat-Su Borough, and for the Borough to pledge those lease payments to a revenue bond issue, the proceeds of which built GCCC. During the term of the bonds the State leases GCCC from the Borough, and those payments pay for Borough's revenue bond debt service. At the term of the bonds the State will own the GCCC.

Legislative Fiscal Analyst Comment: In common language, the contract with the Mat-Su Borough is a lease, but terms of the contracts are such that the Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. Further, the State's future lease payments were securitized in a Matanuska Lease Revenue Bond issuance that was authorized by law. This means that a default on lease payments could affect the State's credit rating. Because of the potential impact on credit rating, the obligation is categorized as "subject to appropriation" debt.

(m) The amount necessary for state aid for costs of school construction under AS 14.11.100, estimated to be $99,820,500, is appropriated to the Department of Education

and Early Development for the fiscal year ending June 30, 2020, from the following sources:

(1) $16,500,000 from the School Fund (AS 43.50.140);

(2) the amount necessary, after the appropriations made in (1) of this subsection, estimated to be $83,320,500, from the general fund.

Subsection (m) appropriates funding for municipal school debt reimbursement. AS 14.11.100 authorizes the State to reimburse municipalities for selected bonds issued for school construction (from 60-90% of principal and interest depending on the statutory authorization).

Legislative Fiscal Analyst Comment: Full reimbursement of municipal debt requires $83.3 million from the general fund in addition to the amount available in the School Fund.

Funding: Per the DOR Fall 2018 Revenue Sources Book, FY20 cigarette tax collections (School Fund) are projected at $16.5 million, down from $17.1 million (projected) in FY19. As cigarette tax revenues decrease, the general fund portion of school debt reimbursement increases.

(n) The amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during the fiscal year ending June 30, 2020, estimated to be $6,136,800, are appropriated to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds and for early redemption of those bonds for the fiscal year ending June 30, 2020.

Subsection (n) appropriates the majority of a surcharge levied on sport fish licenses authorized under Chapter 94, SLA 2005—and appropriated to the bond redemption fund in section 22(u) and (v) of this bill—for payment of sport fish hatchery debt. Annually, up to $500,000 of the surcharge may be retained for sport fish operations. That amount is appropriated to the Department of Fish and Game in section 12(b).

The appropriation in subsection (n) typically exceeds the required debt service payments due on the bonds, allowing the bonds to be paid off ahead of schedule.

New Subsection

(o) The amount necessary, estimated to be $27,000,000, for payment of interest on bonds issued under AS 37.18.030 is appropriated from the general fund to the Alaska Tax Credit Certificate Bond Corporation.

Subsection (o) appropriates funding to pay debt service (interest only) on bonds authorized by HB 331 to the bond corporation. The estimated payment of $27 million is based on a 10-year bond issue of $745.3 million ($737.9 million plus $7.4 million financing cost) at 3.62% interest. The bond issue is proposed to be structured with interest only payments for the first two years with growing principal payments on the back end of the 10-year note.

Legislative Fiscal Analyst Comment: HB 331 authorized the creation of the Alaska Tax Credit Certificate Bond Corporation for the purpose of issuing up to $1 billion in bonds to purchase existing transferable Oil and Gas Tax Credits. The corporation will issue bonds secured solely by appropriations to cover debt service. The bond proceeds are appropriated to DOR, and the Commissioner will use the proceeds to purchase tax credit certificates.

As of 12/31/17, the balance of outstanding credit certificates amounted to $807 million with an additional $130-180 million expected to be issued before all the tax credit programs sunset. This initial appropriation of bond proceeds is the estimated maximum amount of FY19 eligible credits ($807 million) discounted at a rate of 5.12% annually.

Note: the 5.12% discount rate assumes all credit holders will comply with the additional requirements to receive the lower discounting. A 10% discount rate would be applied otherwise and the amount of bond proceeds required would be less. In reality, some blend of rates will be likely which is why the appropriation is made as the "amount necessary" but estimated to be $737.9 million. In addition, some credit holders may opt out of the program, which would reduce the bond issuance.

An appropriation not to exceed $100 million was included in the language section of the FY19 operating bill to cover two contingencies:

1) Some entities may decline to participate in the bond financing program mentioned in the previous two items. The appropriation offers those entities a means to sell some of their certificates to the State.
2) A legal challenge on the constitutionality of the bonds has precluded issuing bonds until final resolution. The Superior Court ruled in the State's favor in January, but it appears likely that the plaintiff will appeal that decision to the Supreme Court. The appropriation offers a means for the State to purchase certificates through the tax credit fund if bond proceeds are unavailable.

Assuming the State prevails in the pending legal challenge, the department believes that most (if not all) tax credit certificate holders will participate in the bond financing program.

Sec. 21. FEDERAL AND OTHER PROGRAM RECEIPTS. (a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the vaccine assessment account (AS 18.09.230), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of the highways equipment working capital fund under AS 44.68.210, and receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21) that are received during the fiscal year ending June 30, 2020, and that

exceed the amounts appropriated by this Act are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

Subsection (a) provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the Governor can increase authorization for listed fund sources without the approval of the committee.

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate.

(b) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2020, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

Subsection (b) reduces state authorization when unanticipated money is received for projects funded with state funds and when federal statutes allow a reduction of state funds. There is no formal process for tracking potential reductions.

(c) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2020, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection (c) automatically limits authorization of federal and other receipts to the amount actually received.

Sec. 22. FUND CAPITALIZATION. (a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2020, estimated to be $23,300, are appropriated to the Alaska children's trust grant account (AS 37.14.205(a)):

(1) fees collected under AS 18.50.225, less the cost of supplies, for the issuance of heirloom birth certificates;
(2) fees collected under AS 18.50.272, less the cost of supplies, for the issuance of heirloom marriage certificates;
(3) fees collected under AS 28.10.421(d) for the issuance of special request Alaska children's trust license plates, less the cost of issuing the license plates.

Subsection (a) appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY20 from sales of heirloom birth certificates, heirloom marriage certificates, and Trust license plates.

> **Legislative Fiscal Analyst Comment:** Before FY12, these receipts were deposited to principal; the Children's Trust board may now spend from the grant account without further appropriation.
>
> The Alaska Children's Trust was created by Chapter 19, SLA 1988. The legislature appropriated $6 million from the investment loss trust fund to the principal of the trust in Chapter 123, SLA 1996. The trust was established to provide a continuing source of revenue for grants to community-based programs for the prevention of child abuse and neglect. During recent fiscal years, the principal of the endowment was granted to the Friends of the Children's Trust.

(b) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2020, estimated to be $9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

Subsection (b) appropriates federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money deposited in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

Funding: A $9 million estimate for federal receipts for disaster relief has been used for several years.

(c) The sum of $2,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

Subsection (c) capitalizes the Disaster Relief Fund with $2 million of general funds.

> **Legislative Fiscal Analyst Comment:** Disasters—and their costs—are unpredictable. However, note that appropriating too little to the fund will prompt a supplemental funding request in the future. The balance of the fund as of November 2017 was about $5 million, but the November 30, 2018 earthquake is expected to consume the balance of the funds.

(d) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2019, estimated to be $0, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection (d) appropriates earnings of the Bond Bank to its earnings reserve fund.

(e) If the Alaska Municipal Bond Bank Authority must draw on the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)) because of a default by a borrower, an amount equal to the amount drawn from the reserve is appropriated from the general fund to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection (e) provides a moral obligation pledge of general funds if a default causes a draw on reserves of the bank. The intent of this section is to increase the credit rating of the bank and reduce the cost of borrowing money.

Deleted Subsection

The amount necessary to purchase tax credit certificates issued under AS 43.55.023 and 43.55.025 and to pay refunds and payments claimed under AS 43.20.046, 43.20.047, and 43.20.053 of persons that do not participate in the bond purchase program, in an amount not to exceed the assumed payment amount calculated under AS 43.55.028(l) without the discount provided in AS 43.55.028(m), as calculated under AS 43.55.028(e) for the fiscal year ending June 30, 2019, not to exceed $100,000,000 if bonds are issued and sold, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028); however, if bonds are not issued and sold for the purpose of financing purchases, refunds, and payments under AS 43.55.028 during the fiscal year ending June 30, 2019, the amount appropriated by this subsection may not exceed $100,000,000.

Legislative Fiscal Analyst Recommendation: The deleted subsection was included in the FY19 operating bill to cover two situations:

1) a proposed bond sale to purchase outstanding credit certificates failed to materialize, and
2) some certificate holders chose to opt out of the bond purchase program.

Both situations remain possible in FY20, and the legislature may wish to include similar language in FY20. Also see section 17 for an appropriation of bond proceeds to purchase credit certificates and subsection 20(o) for an appropriation to potential cover debt service on bonds.

(f) The sum of $30,000,000 is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the community assistance fund (AS 29.60.850).

Subsection (f) capitalizes the Community Assistance fund with Power Cost Equalization Endowment funds in FY20, allowing a FY21 payout of $30 million.

Legislative Fiscal Analyst Comment: The legislature revised statutory guidelines (Chapter 43, SLA 2016 (SB 196)) for using earnings of the Power Cost Equalization (PCE) Endowment fund in order to make excess earnings available for Community Assistance. If endowment earnings in the prior closed fiscal year exceed anticipated PCE program costs, then up to 70% of the difference (up to $30 million) of endowment earnings may be appropriated for Community Assistance.
FY17 endowment earnings were $112.3 million, making $30 million available for Community Assistance funding in FY19 (affecting distribution during FY20).
FY18 earnings were $76.6 million, potentially making $30 million available for Community Assistance funding in FY20 (affecting distribution during FY21).

Legislative Fiscal Analyst Recommendation: The appropriation should be an estimated amount. If PCE program costs are higher than projected for FY19, there may be less than $30 million available for the community assistance program per the statutory formula. The legislature may want to add language

1) backfilling any shortage of PCE funds with another fund source and
2) appropriating surplus PCE funds to rural energy programs (on a contingency basis) if PCE program costs are lower than projected.

New Subsections – Provide Estimates for FY20 K-12 Foundation and Pupil Transportation Formula Funding

(g) Section 5(c), ch. 6, SLA2018, is amended to read:

(c) The amount necessary, <u>estimated to be $1,172,603,900,</u> to fund the total amount for the fiscal year ending June 30, 2020, of state aid calculated under the public school funding formula under AS 14.17.410(b) is appropriated from the general fund to the public education fund (AS 14.17.300).

(h) Section 5(d), ch. 6, SLA2018, is amended to read:

(d) The amount necessary, <u>estimated to be $77,214,600,</u> to fund transportation of students under AS 14.09.010 for the fiscal year ending June 30, 2020, is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsections (g) and (h) update the estimates for K-12 and pupil transportation formula funding in FY20.

Legislative Fiscal Analyst Comment: This updated estimate is unnecessary, but it serves as a reminder that FY20 K-12 funding was appropriated last session with a delayed effective date.

In addition to appropriating FY19 funding for K-12, Ch 6 SLA2018 (HB287) included appropriations for the foundation program and pupil transportation for FY20, effective in FY20. HB287 also added $30 million of additional funding for FY20, to be distributed according to the foundation formula.

New Subsections - FY21 Foundation and Pupil Transportation Funding

(i) The amount necessary to fund the total amount for the fiscal year ending June 30, 2021, of state aid calculated under the public school funding formula under AS 14.17.410(b) is appropriated from the general fund to the public education fund (AS 14.17.300).

(j) The amount necessary to fund transportation of students under AS 14.09.010 for the fiscal year ending June 30, 2021, is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsections (i) and (j) appropriate funding for the statutory formula for the foundation program and pupil transportation for FY21, effective in FY21.

Legislative Fiscal Analyst Comment: These subsections continue the forward-appropriating practice found in SLA2018 (for FY20). It is not necessary to include this language, as the appropriations could be made during the 2020 session. Choosing to forward-appropriate as a regular practice is a major policy decision.

(k) The sum of $39,389,000 is appropriated from the general fund to the regional educational attendance area and small municipal school district school fund (AS 14.11.030(a)).

Subsection (k) appropriates $39.4 million to the Regional Educational Attendance Area and Small Municipal School District (REAA) School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of Kasayulie vs. State of Alaska, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 provides a remedy for perceived constitutional violations.

(l) The amount necessary to pay medical insurance premiums for eligible surviving dependents under AS 39.60.040 and the costs of the Department of Public Safety associated with administering the peace officer and firefighter survivors' fund (AS 39.60.010) for the fiscal year ending June 30, 2020, estimated to be $30,000, is appropriated from the general fund to the peace officer and firefighter survivors' fund (AS 39.60.010) for that purpose.

Subsection (l) deposits general funds into the Peace Officer and Firefighter Survivor' Fund for FY20.

Legislative Fiscal Analyst Comment: Chapter 14, SLA 2017 (HB 23) established this fund to provide payments for certain medical insurance premiums for surviving dependents of certain peace officers and firefighters who die in the line of duty.

(m) The amount received from fees assessed under AS 05.25.096(a)(5) and (6), civil penalties collected under AS 30.30.015, the sale of vessels under AS 30.30, and donations and other receipts deposited under AS 30.30.096 as program receipts during the fiscal year ending June 30, 2020, less the amount of those program receipts appropriated to the Department of Administration, division of motor vehicles, for the fiscal year ending June 30, 2020, estimated to be $58,600, is appropriated to the derelict vessel prevention program fund (AS 30.30.096).

Legislative Fiscal Analyst Comment: To address an increasing number of derelict and abandoned vessels throughout Alaska's coasts and rivers, the legislature passed SB92 during the 2018 session (CH111 SLA 2018). SB92 added a new section 23 to AS 30.30.090 that creates the derelict vessel prevention program fund. The funds do not lapse and may be used by the Department of Natural Resources to address derelict vessels and may be expended without further appropriation.

Deleted Subsection – AK Liquefied Natural Gas Project Fund

The unexpended and unobligated balance on June 30, 2018, of the in-state natural gas pipeline fund (AS 31.25.100), estimated to be $12,000,000, is appropriated to the Alaska liquefied natural gas project fund (AS 31.25.110).

> **Legislative Fiscal Analyst Comment:** AGDC assumed leadership of the AKLNG project in January 2017 for the development of the natural gas infrastructure required to move gas from the North Slope to Cook Inlet.
>
> Administrative Order 274 directs AGDC to ensure work on the Alaska Stand Alone Pipeline Project benefits the AKLNG project, making two separate funds for gasline development unnecessary.

(n) The sum of $22,400,000 is appropriated from the general fund to the Alaska liquefied natural gas project fund (AS 31.25.110).

Subsection (n) appropriates UGF to the AKLNG project fund.

> **Legislative Fiscal Analyst Comment:** In FY20, AGDC intends to advance to completion definitive gas supply agreements with BP, ExxonMobil, and ConocoPhillips, as well as commercial sales purchase agreements with LNG buyers. AGDC anticipates the Federal Energy Regulatory Commission (FERC) will finalize the Alaska LNG project Environmental Impact statement and provide final authorization to construct the integrated project. AGDC also anticipates the completion of the Engineering, Procurement, and Construction (EPC) contracts in FY20.
>
> Money appropriated to the fund does not lapse and may be spent with no further appropriation.

(o) The amount of federal receipts awarded or received for capitalization of the Alaska clean water fund (AS 46.03.032(a)) during the fiscal year ending June 30, 2020, less the amount expended for administering the loan fund and other eligible activities, estimated to be $14,822,400, is appropriated from federal receipts to the Alaska clean water fund (AS 46.03.032(a)).

(p) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska clean water fund (AS 46.03.032(a)) during the fiscal year ending June 30, 2020, estimated to be $3,088,000, is appropriated from Alaska clean water fund revenue bond receipts to the Alaska clean water fund (AS 46.03.032(a)).

(q) The amount of federal receipts awarded or received for capitalization of the Alaska drinking water fund (AS 46.03.036(a)) during the fiscal year ending June 30, 2020, less the amount expended for administering the loan fund and other eligible activities, estimated to be $7,400,000, is appropriated from federal receipts to the Alaska drinking water fund (AS 46.03.036(a)).

(r) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska drinking water fund (AS 46.03.036(a)) during the fiscal year ending June 30, 2020, estimated to be $2,000,000, is appropriated from Alaska drinking water fund revenue bond receipts to the Alaska drinking water fund (AS 46.03.036(a)).

Subsections (o), (p), (q) and (r) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See sections 20(c) and (d) for further discussion.

Legislative Fiscal Analyst Comment: In FY16, the legislature replaced specific appropriation amounts with open-ended language.

(s) The amount received under AS 18.67.162 as program receipts, estimated to be $70,000, including donations and recoveries of or reimbursement for awards made from the crime victim compensation fund (AS 18.67.162), during the fiscal year ending June 30, 2020, is appropriated to the crime victim compensation fund (AS 18.67.162).

Subsection (s) capitalizes the Crime Victim Compensation Fund with money from donations and recoveries of, or reimbursements for, awards made from the fund. The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: Chapter 112, SLA 2008 (HB 414) added language to the effect that money appropriated to the fund "may include donations, recoveries of or reimbursements for awards made by the fund, income from the fund, and other program receipts." The language of subsection (s) does not appropriate income from the fund, so income will remain in the general fund.

(t) The sum of $2,115,000 is appropriated from that portion of the dividend fund (AS 43.23.045(a)) that would have been paid to individuals who are not eligible to receive a permanent fund dividend because of a conviction or incarceration under AS 43.23.005(d) to the crime victim compensation fund (AS 18.67.162) for the purposes of the crime victim compensation fund (AS 18.67.162).

Subsection (t) capitalizes the Crime Victim Compensation Fund (CVCF) with a portion of the Restorative Justice Account (formerly known as "PFD Criminal Funds"). The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: Per AS 43.23.005(d), individuals are ineligible to receive a dividend if sentenced for or convicted of a felony or a combination of misdemeanors and a felony. With the passage of HB 216 (Ch 21, SLA 2018), funding from PFDs that would have been paid to individuals ineligible for a dividend should be used for the following purposes.

A. Provide services for and payments to crime victims and operating costs of the Violent Crimes Compensation Board;
B. Pay restitution owed to crime victims;
C. Grants to nonprofits for services for crime victims, mental health and substance abuse treatment for offenders;
D. Provide funds for the Office of Victims' Rights;
E. Provide funds to the Council on Domestic Violence and Sexual Assault for the operation of domestic violence and sexual assault programs; and
F. Reimburse some of the costs imposed on the Department of Corrections related to incarceration or probation of those individuals.

Between FY12 and FY18, PFD Criminal Funds were concentrated in only two appropriations—the Crime Victim Compensation Fund and Inmate Health Care in the Department of Corrections. The intent was to minimize the many confusing fund source changes (swapping GF and PFD Criminal Funds) caused by year-to-year volatility in the amount of available funding. In the FY20 budget, the funding is appropriated for statutory purposes to Corrections, Health and Social Services, Public Safety, the legislature, and to the Crime Victims Compensation Fund.

(u) The amount required for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2020, estimated to be $4,069,200, is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for that purpose.

(v) After the appropriations made in sec. 12(b) of this Act and (u) of this section, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), estimated to be $2,067,600, is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for early redemption of outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2020.

(w) If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) in (v) of this section are less than the amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2020, federal receipts equal to the lesser of $102,000 or the deficiency balance, estimated to be $0, are appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2020.

Several subsections appropriate funding to pay Sport Fish Hatcheries debt service, trustees fees and early redemption of the bonds. The following outlines the mechanics of the surcharge/debt service:

(1) All proceeds from a surcharge levied on sport fishing licenses are deposited into the enterprise account within the Fish and Game Fund (F&G Fund). At present, temporarily holding money associated with the revenue bonds is the only purpose of the account.

(2) **Subsection 22(u)** transfers the amount required to make the minimum required debt service payments from the enterprise account to the bond redemption account.

(3) **Subsection 20(n)** appropriates the amount necessary (estimated to be $6.14 million) from the Alaska Fish and Game Revenue Bond Redemption Fund to the State Bond Committee to pay the minimum debt service, trustee fees, and for early redemption of the sport fish hatchery bonds.

(4) Once the amount required to make the minimum debt service payment is transferred, **subsection 12(b)** appropriates the balance of the enterprise account (not to exceed $500,000) from the enterprise account to Sport Fish so it can be used for sport fish operations.

(5) **Subsection 22(v)** transfers any remaining balance in the enterprise account (including earnings) to the bond redemption account to be used for early redemption of the bonds.

(6) If proceeds from the surcharge are insufficient to make the required debt service payments, **subsection 22(w)** is intended to clarify that the department may use up to $102,000 of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds.

Funding: Total debt service appropriations are $6.1 million, appropriated in subsection 20(n). The FY20 required debt service payment is estimated to be $4.1 million, with an additional $2 million for early redemption of the bonds.

(x) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act, estimated to be $35,000, is appropriated to the election fund for use in accordance with 52 U.S.C. 21004(b)(2).

Subsection (x) allows the Election Fund to retain interest earned. The purpose of the fund is to make election administration improvements (primarily equipment and accessibility aids).

Sec. 23. FUND TRANSFERS. (a) The federal funds received by the state under 42 U.S.C. 6506a(*l*) or former 42 U.S.C. 6508 not appropriated for grants under AS 37.05.530(d) are appropriated as follows:

(1) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska) and the public school trust fund (AS 37.14.110(a)), according to AS 37.05.530(g)(1) and (2); and

(2) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska), the public school trust fund (AS 37.14.110(a)), and the power cost equalization and rural electric capitalization fund (AS 42.45.100(a)), according to AS 37.05.530(g)(3).

Subsection (a) appropriates the lapsing balance of NPR-A grants [per AS 37.05.530(g)]. No lapsing balance is anticipated.

Funding: The estimated fiscal impact of this section is zero.

Legislative Fiscal Analyst Recommendation: Remaining balances should not be appropriated to the power cost equalization and rural electric capitalization fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the power cost equalization endowment fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised. As noted, no lapsing balance is anticipated.

(b) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2020, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

Subsection (b) appropriates origination fees charged on student loans to the origination fee account within the education loan fund. The fees are intended to offset loan losses due to death, disability, bankruptcy and default.

Funding: The amount of the loan origination fee is capped by regulation at 5% and set by the corporation. The Alaska Commission on Postsecondary Education set the origination fee at 0% for FY19, and has no plans to introduce a fee in FY20. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

New Subsection

(c) The sum of $309,090, equal to 10 percent of the filing fees received by the Alaska Court System during the fiscal year ending June 30, 2019, is appropriated from the general fund to the civil legal services fund (AS 37.05.590) for the purpose of making appropriations from the fund to organizations that provide civil legal services to low-income individuals.

Per AS 37.09.17.020(j), the court shall require that 50 percent of individuals' punitive damage awards received during the previous closed fiscal year be deposited into the general fund. **Subsection (c)** appropriates 10 percent of the filing fees received by the Alaska court system in FY19. The reference should be June 30, 2018.

Legislative Fiscal Analyst Recommendation: Replace "June 30, 2019" with "June 30, 2018."

(d) The following amounts are appropriated to the oil and hazardous substance release prevention account (AS 46.08.010(a)(1)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010(a)) from the sources indicated:

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2019, estimated to be $1,200,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2019, estimated to be $7,410,000, from the surcharge levied under AS 43.55.300; and

> **Subsection (d)(1) and (2)** appropriate (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY19 collections from the four cent per barrel surcharge on oil produced in the State. Amendments effective April 1, 2006 changed the per barrel surcharge from $0.03 to $0.04.

(3) the amount collected for the fiscal year ending June 30, 2019, estimated to be $6,200,000, from the surcharge levied under AS 43.40.005.

> **Subsection (d)(3)** appropriates revenue collected by the motor fuel surcharge to the Oil and Hazardous Substance Release Prevention Account.

(e) The following amounts are appropriated to the oil and hazardous substance release response account (AS 46.08.010(a)(2)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010(a)) from the following sources:

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2019, estimated to be $700,000, not otherwise appropriated by this Act; and

(2) the amount collected for the fiscal year ending June 30, 2019, from the surcharge levied under AS 43.55.201, estimated to be $1,852,500.

> **Subsection (e)** appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY19 collections from the $0.01 per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from $0.02 to $0.01.

> **Legislative Fiscal Analyst Comment:** Per AS 43.55.221(d), the surcharge is suspended when the balance of the response account exceeds $50 million. The Commissioner of the Department of Revenue reported that the surcharge was suspended effective January 1, 2013. The surcharge was re-imposed effective July 1, 2013, and remains in place today. In the report for the quarter ending September 30, 2018, the balance was $36.9 million. The fund is not expected to exceed $50 million in FY20.

Deleted Subsection

The sum of $14,000,000 is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the renewable energy grant fund (AS 42.45.045).

Legislative Fiscal Analyst Comment: The legislature revised statutory guidelines (Chapter 43, SLA 2016 (SB 196)) for using earnings of the Power Cost Equalization (PCE) Endowment Fund in order to make excess earnings available for Community Assistance and rural energy programs. If endowment earnings in the prior closed fiscal year exceed anticipated PCE program costs, then up to 70% of the difference may be appropriated from endowment earnings for the following: up to $30 million for Community Assistance and up to $25 million for rural energy programs. Earnings in FY18 were very close to the amount needed to support the PCE and Community Assistance programs. The shortage to the Community Assistance program—or surplus available to rural energy programs—will depend on FY19 PCE program costs.

Legislative Fiscal Analyst Recommendation: Retain the subsection, modified to appropriate available earnings of the PCE endowment, if any, to a rural energy program.

(f) The vaccine assessment program receipts collected under AS 18.09.220, estimated to be $12,500,000, are appropriated to the vaccine assessment account (AS 18.09.230).

Subsection (f) appropriates an estimated $12.5 million of GF/Program Receipts (from vaccine assessments) to the Vaccine Assessment Account. Legislation passed in 2014 [Chapter 30, SLA 2014 (SB 169)] established a statewide immunization program. The purpose of the program is to monitor, purchase, and distribute vaccines to providers approved by the Department of Health and Social Services who agree to provide those vaccines to state residents.

(g) The unexpended and unobligated balance on June 30, 2019, estimated to be $975,000, of the Alaska clean water administrative income account (AS 46.03.034(a)(2)) in the Alaska clean water administrative fund (AS 46.03.034) is appropriated to the Alaska clean water administrative operating account (AS 46.03.034(a)(1)) in the Alaska clean water administrative fund (AS 46.03.034).

(h) The unexpended and unobligated balance on June 30, 2019, estimated to be $700,000, of the Alaska drinking water administrative income account (AS 46.03.038(a)(2)) in the Alaska drinking water administrative fund (AS 46.03.038) is appropriated to the Alaska drinking water administrative operating account (AS 46.03.038(a)(1)) in the Alaska drinking water administrative fund (AS 46.03.038).

The Department of Environmental Conservation (DEC) has been collecting a 0.5% fee on all loans made from the clean water and drinking water funds since December 2000. The June 30, 2014 balances of the administrative funds were $7.3 million and $4.2 million for the clean water and drinking water administrative funds, respectively.

Beginning in FY15, the department began requesting what is expected to be an annual appropriation from the income account to the operating account, making money available to administer the clean water and drinking water programs. Because the appropriations in **subsections (g) and (h)** simply transfer money within the clean water and drinking water administrative funds, no transactions are shown in the budget. Appropriations from the operating accounts to allocations in DEC appear in section 1.

Funding: The Governor's budget uses $1,282.9 of Clean Water funds and $471.3 of Drinking Water funds in FY20. At the end of FY19, the balance of the Clean Water Administrative Fee Account is expected to be $5.8 million and an anticipated balance of $5.2 million in the Drinking Water Administrative Fee Account.

(i) An amount equal to the interest earned on amounts in the special aviation fuel tax account (AS 43.40.010(e)) during the fiscal year ending June 30, 2020, is appropriated to the special aviation fuel tax account (AS 43.40.010(e)).

Subsection (i) authorizes the aviation fuel tax account to retain earnings. The amount of interest earned is expected to be negligible. This appropriation is in response to an FAA requirement that all airport revenue (including earnings on revenue) be spent on the airport system.

(j) An amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2020, estimated to be $1,032,500, is appropriated to the fish and game fund (AS 16.05.100):
(1) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15)), estimated to be $500,000;

(2) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)), estimated to be $2,500;

(3) fees collected for sanctuary access permits (AS 16.05.050(a)(15)), estimated to be $130,000; and

(4) fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement authorized under AS 16.05.050(a)(6), estimated to be $400,000.

Subsection (j) appropriates revenue from a variety of sources to the Fish and Game Fund.

Legislative Fiscal Analyst Comment: Because the boating and angling access sites were constructed with F&G Funds, the federal government has indicated that facility user fees must be appropriated to the F&G Fund.

(k) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2020, estimated to be $30,000, is appropriated from the mine reclamation trust fund income account (AS 37.14.800(a)) to the mine reclamation trust fund operating account (AS 37.14.800(a)).

Subsection (k) authorizes a transfer of funds from the income account to the operating account (both within the Mine Reclamation Trust Fund), where it is available to the Department of Natural Resources for mine reclamation activity under AS 37.14.820.

Funding: The agency projects a transfer of approximately $30,000. The authorization to spend will go to the Mining, Land and Water allocation [see section 17(b)].

New Subsection

(l) The balance of the large passenger vessel gaming and gambling tax account (AS 43.35.220) on June 30, 2020, estimated to be $10,800,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection (l) appropriates the balance of the large passenger vessels gaming and gambling tax account (a UGF fund source) to the Alaska Capital Income Fund (a designated fund source).

Legislative Fiscal Analyst Comment: "Changing the flavor" of unrestricted general funds creates confusion when counting expenditures. When $10 million of UGF is deposited into a fund and is then spent as DGF, it appears as a total of $20 million of general fund expenditures.

Legislative Fiscal Analyst Recommendation: Delete this subsection and appropriate funding from the gaming and gambling tax account directly for capital projects.

Sec. 24. RETIREMENT SYSTEM FUNDING. (a) The sum of $159,055,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2020.

(b) The sum of $141,129,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2020.

(c) The sum of $5,010,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2020.

(d) The sum of $860,686 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2020.

(e) The sum of $1,881,360 is appropriated from the general fund to the Department of

Administration to pay benefit payments to eligible members and survivors of eligible members earned under the elected public officer's retirement system for the fiscal year ending June 30, 2020.

(f) The amount necessary to pay benefit payments to eligible members and survivors of eligible members earned under the Unlicensed Vessel Personnel Annuity Retirement Plan, estimated to be $0, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2020.

> **Legislative Fiscal Analyst Comment:** An actuarial valuation for the elected public officer's retirement system (subsection (e)) is not produced. Funding appears to be about $250.0 more than is required.
>
> Amounts appropriated to other retirement systems are consistent with actuarial valuations.

Sec. 25. SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the monetary terms for the fiscal year ending June 30, 2020, of the following ongoing collective bargaining agreements:

(1) Alaska State Employees Association, for the general government unit;

(2) Teachers' Education Association of Mt. Edgecumbe, representing the teachers of Mt. Edgecumbe High School;

(3) Confidential Employees Association, representing the confidential unit;

(4) Public Safety Employees Association, representing the regularly commissioned public safety officers unit;

(5) Public Employees Local 71, for the labor, trades, and crafts unit;

(6) Alaska Public Employees Association, for the supervisory unit.

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2020, for university employees who are not members of a collective bargaining unit and to implement the monetary terms for the fiscal year ending June 30, 2020, of the following collective bargaining agreements:
(1) Fairbanks Firefighters Union, IAFF Local 1324;

(2) United Academic - Adjuncts - American Association of University Professors, American Federation of Teachers;

(3) United Academics - American Association of University Professors, American Federation of Teachers.

Subsections (a) and (b) appropriate no money; they specify that various salary adjustments are funded with money appropriated in section 1. The list changes from year to year, depending on which employees are affected by salary and benefit adjustments.

Legislative Fiscal Analyst Comment: Legislative adoption of subsections (a) and (b) is equivalent to legislative approval of bargaining agreements with the listed organizations.

(c) If a collective bargaining agreement listed in (a) of this section is not ratified by the membership of the respective collective bargaining unit, the appropriations made in this Act applicable to the collective bargaining unit's agreement are adjusted proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are adjusted accordingly.

(d) If a collective bargaining agreement listed in (b) of this section is not ratified by the membership of the respective collective bargaining unit and approved by the Board of Regents of the University of Alaska, the appropriations made in this Act applicable to the collective bargaining unit's agreement are adjusted proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are adjusted accordingly.

Subsections (c) and (d) appropriate no funding; they ensure that funding is removed from the budget if collective bargaining unit agreements listed in subsections (a) and (b) are not ratified.

Sec. 26. SHARED TAXES AND FEES. (a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated from the general fund to the Department of Revenue for payment to local governments and other entities in the fiscal year ending June 30, 2020:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	**2019**	**$21,700,000**
Fishery resource landing tax (AS 43.77)	**2019**	**6,700,000**
Electric and telephone cooperative tax (AS 10.25.570)	**2020**	**4,600,000**
Liquor license fee (AS 04.11)	**2020**	**900,000**
Cost recovery fisheries (AS 16.10.455)	**2020**	**0**

Subsection (a) ensures that the Department of Revenue has the authorization to disburse taxes and fees collected on the behalf of local governments to those entities. The concept applies equally to prior year collections (fisheries receipts) and to current year receipts.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division operating budget reports.

(b) The amount necessary, estimated to be $136,600, to refund to local governments the full amount of an aviation fuel tax or surcharge collected under AS 43.40 in the proportion that the revenue was collected for the fiscal year ending June 30, 2020, is appropriated from the proceeds of the aviation fuel tax or surcharge levied under AS 43.40 to the Department of Revenue for that purpose.

Subsection (b) ensures that the Department of Revenue has the authorization to disburse the local government share of aviation fuel taxes.

Legislative Fiscal Analyst Comment: Note that the subsection specifically identifies proceeds of the aviation tax as the source of the payments.

The 40% share of aviation tax proceeds retained by the State is dedicated to airport operating and capital expenses. Fund Code 1239 – Aviation Fuel Tax was created in the 2016 session to track budgeted aviation fuel tax revenue.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division operating budget reports.

(c) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2018 according to AS 43.52.230(b), estimated to be $21,500,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2020.

Subsection (c) appropriates $21.5 million of Commercial Vessel Passenger "Head" Tax receipts to the first seven ports of call.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division reports on the operating bill.

Legislative Fiscal Analyst Comment: The legislature amended the statutes for the Commercial Vessel Passenger Head Tax effective October 31, 2010. The head tax was reduced from $46 to $34.50, with $5 shared with the first seven ports of call (previously five ports) and the Regional Impact Fund was eliminated.

The current allocation of the head tax to ports of call directs almost $25 per passenger to

Juneau and Ketchikan, which impose local head taxes that are deducted from the $34.50 state tax. That leaves about $10 per passenger to be allocated to five ports of call other than Juneau and Ketchikan. Essentially, the amount allocated to ports of call exceeds revenue for every ship with four or more ports of call (including Juneau and Ketchikan). The FY19 end-of-year balance of the Commercial Vessel Passenger Account is estimated to be $2.8 million. The Department of Revenue's 2018 Fall Revenue Forecast estimates FY20 revenue as $25 million and the pass-through amount as $21.5 million. The FY20 Governor's capital budget request includes a grant for $400.0 to the Marine Exchange of Alaska and $4 million for a dock replacement in Seward, leaving a balance of $6.3 million available for appropriation.

(d) If the amount available for appropriation from the commercial vessel passenger tax account (AS 43.52.230(a)) is less than the amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2018 according to AS 43.52.230(b), the appropriations made in (c) of this section shall be reduced in proportion to the amount of the shortfall.

Subsection (d) is intended to prorate pass-though funding to the first seven ports of call if revenue is less than the calculated amount of pass-through.

Legislative Fiscal Analyst Comment: While the need to prorate is unlikely, the section does no harm.

Sec. 27. RATIFICATION OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM. The appropriation to each department under this Act for the fiscal year ending June 30, 2020, is reduced to reverse negative account balances in amounts of $1,000 or less for the department in the state accounting system for each prior fiscal year in which a negative account balance of $1,000 or less exists.

Section 27 allows departments to use money appropriated for FY20 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

Sec. 28. CONSTITUTIONAL BUDGET RESERVE FUND. (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2019 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 1004) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which those funds were transferred.

Subsection (a) is "sweep reversal language" that restores money from funds and accounts that are swept into the constitutional budget reserve (CBR) fund at year-end. The Constitution requires that several year-end general fund and subaccount balances be used to repay withdrawals from the constitutional budget reserve (CBR) fund.

(b) The appropriations made in (a) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

Subsection (b) stipulates that appropriations made from the CBR must be approved by at least three-quarters of the members of each house of the legislature.

Deleted Subsections: CBR

(b) If, after the appropriation from the earnings reserve account (AS 37.13.145(a)) to the general fund made in sec. 9(c) of this Act, the unrestricted state revenue available for appropriation in fiscal year 2019 is insufficient to cover the general fund appropriations that take effect in fiscal year 2019 that are made in this Act, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, the general fund appropriations that take effect in fiscal year 2019 that are made in a version of HB 285 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, the general fund appropriations that take effect in fiscal year 2019 that are made in a version of HB 287 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, and the general fund appropriations that take effect in fiscal year 2019 that are made in a version of SB 142 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, the amount necessary to balance revenue and general fund appropriations that take effect in fiscal year 2019 that are made in this Act, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, the general fund appropriations that take effect in fiscal year 2019 that are made in a version of HB 285 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, the general fund appropriations that take effect in fiscal year 2019 that are made in a version of HB 287 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, and the general fund appropriations that take effect in fiscal year 2019 that are made in a version of SB 142 or a similar bill, as passed by the Thirtieth Alaska State Legislature in the Second Regular Session and enacted into law, is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(c) If, after the appropriation made in (b) of this section or the appropriation made in sec. 30(a) of this Act, the unrestricted state revenue available for appropriation in fiscal year 2019 is insufficient to cover the general fund appropriations that take effect in fiscal year 2019, the amount necessary to balance revenue and general fund appropriations, not to exceed $100,000,000, is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(d) The unrestricted interest earned on investment of general fund balances for the fiscal year ending June 30, 2019, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made in this subsection is intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for any lost earnings caused by use of the fund's balance to permit expenditure of operating

and capital appropriations made in the fiscal year ending June 30, 2019, in anticipation of receiving unrestricted general fund revenue.

Legislative Fiscal Analyst Comment: Subsection (b) provides for an open-ended draw from the CBR as needed to cover appropriations made during the 2018 session. Lack of a similar provision in the Governor's bill leaves an unfilled deficit if FY20 revenue falls short of projections.
Subsection (c) provides for a limited draw from the CBR as needed to cover up to $100 million in supplemental FY19 appropriations made during the 2019 session. Lack of a similar provision in the Governor's bill leaves an unfilled deficit in FY20 if supplemental appropriations are required.

Subsection (d) allows short-term borrowing from the CBR for cash-flow purposes. Cash flow is typically negative early in fiscal years and borrowing is required to continue government operations.

Legislative Fiscal Analyst Recommendation: Retain/modify all three subsections.

Sec. 29. LAPSE OF APPROPRIATIONS. (a) The appropriations made in secs. 6(c), 7, 8, 9(c) and (d), 20(c) and (d), 22, 23, and 24(a) - (d) of this Act are for the capitalization of funds and do not lapse.

Section 29 ensures that money deposited into various funds will not lapse at the end of FY20.

Sec. 30. RETROACTIVITY. The appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2019 program receipts or the unexpended and unobligated balance on June 30, 2019, of a specified account are retroactive to June 30, 2019, solely for the purpose of carrying forward a prior fiscal year balance.

Section 30 is standard language to ensure that revenue attached to appropriations or allocations with carryfoward language does not lapse at the end of FY19.

Sec. 31. CONTINGENCIES.
New Subsection
The appropriation made in sec. 28(a) of this Act is contingent upon an affirmative vote of three-fourths of the members of each house of the legislature.

Legislative Fiscal Analyst Comment: The language is not necessary; sections making appropriations from the CBR include language noting the requirement for a supermajority vote.

Legislative Fiscal Analyst Recommendation: Delete this section.

Sec. 32. Section 4, ch. 6, SLA 2018 takes effect July 1, 2019.

Legislative Fiscal Analyst Comment: Subsection 32 is not necessary. The July 1, 2019 effective date for the $30 million to be distributed as grants to school districts according to the ADM is included is Sec 8, CH6 SLA 2018.

Legislative Fiscal Analyst Recommendation: Delete this section.

Sec. 33. Sections 22(i) and (j) of this Act take effect July 1, 2020.

Subsection 33 provides a FY21 effective date for K-12 Foundation and Pupil Transportation funding.

Sec. 34. Except as provided in sec. 33 of this Act, this Act takes effect July 1, 2019.