

ALASKA · STATE · CAPITOL

Budget 102 Training

Legislative Finance Division

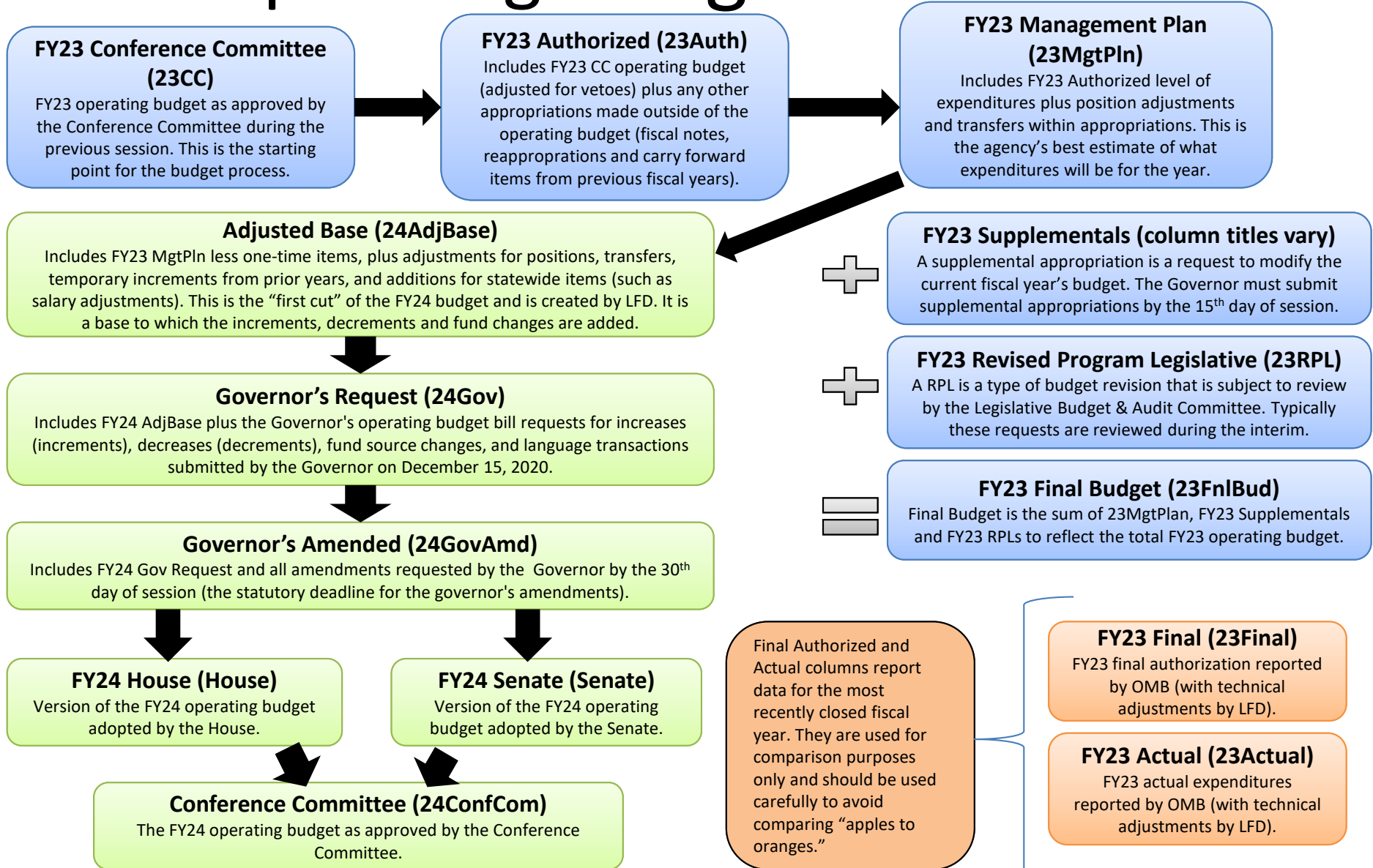
January 20, 2022

Goal of this Presentation

- Provide legislators and staff with detailed budget information
- Understand advanced budget topics such as:
 - Detailed Operating Budget process
 - Budgeted positions and vacancy factor
 - Fiscal notes
 - Revised Programs Legislative (RPLs)
 - Constitutional Budget Reserve mechanics
 - Permanent Fund basics
 - Constitutional and statutory appropriation limits

Note: This is not a discussion of the fiscal situation or revenue options.

Operating Budget Process



Note: The operating budget includes both the operating and mental health appropriation bills.

Budget Subcommittees

- Each agency's budget is analyzed by a subcommittee in each body
 - The subcommittee chair is a Finance Committee member
 - Membership is made up of non-Finance members
- Subcommittee are not bound by the Uniform Rules
- Subcommittee are confined to the numbers section of the budget
- The subcommittee process is set by the Finance co-chairs and can change from year to year
 - The co-chair responsible for the Operating Budget will send out a memo outlining that body's process

Budgeted Positions

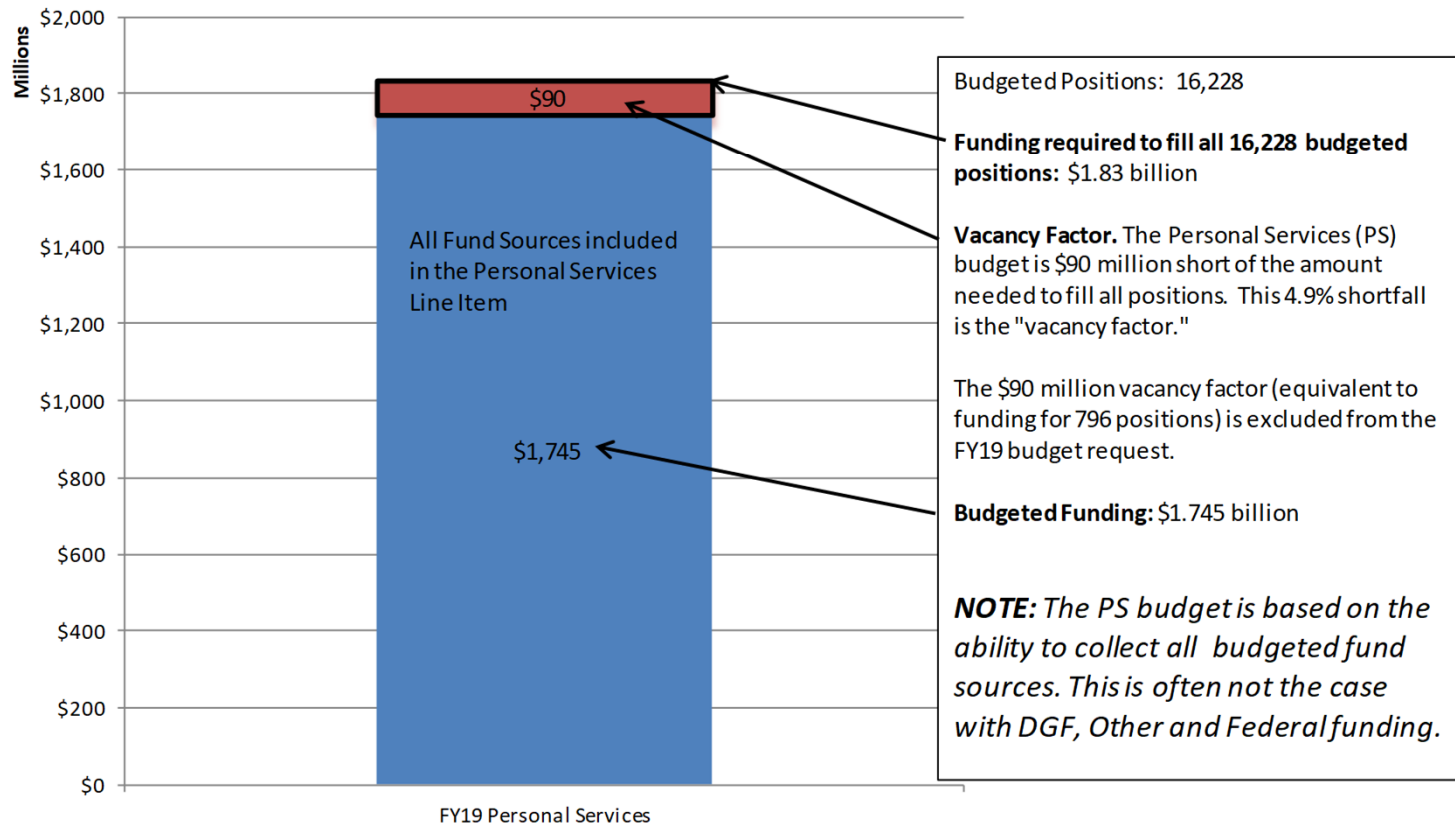
- Positions do not appear in budget bills, but are tracked in reports by OMB and LFD
 - OMB's budget books include position details and organizational charts for the Governor's budget
- Legislature has limited control over positions – the executive branch can add or delete positions at will
- Deleting a Position Control Number (PCN) does not mean the position will go away

Vacancy Factors

- Positions are intentionally underfunded to account for turnover
- Budgeted Funding = Cost of Filling All Positions – Vacancy Factor
- OMB guidelines indicate this should be between 0% and 7%, depending on the number of employees in a component
- In times of shrinking budgets, agencies often must hold positions open to meet their vacancy factor. Currently, recruitment and retention issues have caused vacancy rates to exceed the vacancy factor.

Vacancy Factors (cont.)

FY 19 EXECUTIVE BRANCH PERSONAL SERVICES LINE FUNDING SUMMARY* All Funds



*Excludes Personal Services Costs for the University, Judiciary and Legislature and the Alaska Marine Highway System.

Vacancy Factors (cont.)

- Hollow receipt authority can cause a much higher vacancy factor than the budget shows

| Pioneer Homes FY19 Personal Services Funding Sources | Pre-Vacancy (Full Cost of Filling All Positions) | Less Vacancy Factor | Post-Vacancy (Money Requested in the Budget) | Realized Revenue / Budgeted Funding (Based on FY17) | Projected Available Funding (Based on FY17) | Additional Forced Vacancy |
|---|---|---------------------------|---|--|---|------------------------------|
| 1002 Federal Receipts | 1,062,790 | (15,434) | 1,047,356 | 98% | 1,031,071 | (16,525) |
| 1004 General Fund Receipts | 14,681,811 | (213,219) | 14,468,592 | 100% | 14,468,592 | - |
| 1005 General Fund/Program Receipts | 13,488,811 | (195,893) | 13,292,918 | 91% | 12,076,509 | (1,234,335) |
| 1007 Interagency Receipts | 4,953,948 | (71,945) | 4,882,003 | 59% | 2,901,393 | (2,009,798) |
| 1037 General Fund/Mental Health | 16,266,957 | (236,239) | 16,030,718 | 100% | 16,030,718 | - |
| 1108 Statutory Designated Program Receipts | 436,147 | (6,334) | 429,813 | 72% | 311,091 | (120,472) |
| Total PCN Funding | 50,890,464 | (739,064) | 50,151,400 | | 46,819,374 | (3,381,129) |
| Vacancy Factor | | | (739,064) | | (4,120,193) | |
| | | | | | | |
| Vacancy Factor Percent | | | 1.45% | | 8.00% | |
| Required Vacant Months | | | 102 | | 567 | |
| Full Time Position Equivalent | | | 8 | | 47 | |

Fiscal Notes

Article II, Section 13 of the Alaska Constitution states “Every bill shall be confined to one subject unless it is an appropriations bill or one codifying, revising, or rearranging existing laws. Bills for appropriations shall be confined to appropriations.”

An appropriation must occur in an appropriation bill.
A bill cannot mix a substantive bill and an appropriation bill.

- Substantive bills with fiscal impacts generate fiscal notes that explain that impact. These fiscal notes travel with the bills.
- At the end of session, fiscal notes from legislation that has passed or is likely to pass are added to an appropriation bill.
- Fiscal notes are generally prepared by the affected agencies and are approved by OMB and the Governor’s Legislative Office (GLO). They are then sent to the legislature.
- LFD reviews fiscal notes for accuracy and occasionally drafts fiscal notes on behalf of the finance committees.

Fiscal Notes (continued)

Fiscal Note

State of Alaska
2019 Legislative Session

| | |
|---------------------|------------------|
| Bill Version: | SCS CSHB 49(FIN) |
| Fiscal Note Number: | 21 |
| (S) Publish Date: | 5/13/2019 |

Identifier: HB049SCSCS(FIN)AM-DOA-OPA-5-13-19
Title: CRIMES; SENTENCING;DRUGS;THEFT;
REPORTS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (S) Finance

Department: Department of Administration
Appropriation: Legal and Advocacy Services
Allocation: Office of Public Advocacy
OMB Component Number: 43

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

| | FY2020 Appropriation Requested | Included in Governor's FY2020 Request | Out-Year Cost Estimates | | | | |
|------------------------|--------------------------------------|--|-------------------------|--------------|--------------|--------------|--------------|
| | FY 2020 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
| OPERATING EXPENDITURES | | | | | | | |
| Personal Services | 558.5 | | 558.5 | 558.5 | 558.5 | 558.5 | 558.5 |
| Travel | 12.1 | | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 |
| Services | 117.3 | | 117.3 | 117.3 | 117.3 | 117.3 | 117.3 |
| Commodities | 6.8 | | 6.8 | 6.8 | 6.8 | 6.8 | 6.8 |
| Capital Outlay | | | | | | | |
| Grants & Benefits | | | | | | | |
| Miscellaneous | | | | | | | |
| Total Operating | 694.7 | 0.0 | 694.7 | 694.7 | 694.7 | 694.7 | 694.7 |

Fund Source (Operating Only)

| | | | | | | | |
|---------------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|
| 1004 Gen Fund (UGF) | 694.7 | | 694.7 | 694.7 | 694.7 | 694.7 | 694.7 |
| Total | 694.7 | 0.0 | 694.7 | 694.7 | 694.7 | 694.7 | 694.7 |

Positions

| | | | | | | | |
|-----------|-----|--|-----|-----|-----|-----|-----|
| Full-time | 5.0 | | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Part-time | | | | | | | |
| Temporary | | | | | | | |

Change in Revenues

| | | | | | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|
| None | | | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimated SUPPLEMENTAL (FY2019) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2020) cost: 0.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? No
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version/comments:

Updated analysis to reflect the Senate Finance committee substitute.

Only the appropriation for the current year (the far-left column) goes into the fiscal note section of the bill.

Out-year changes are incorporated in the Adjusted Base in subsequent years.

Each fiscal note covers a single allocation. One bill may have many fiscal notes.

Revised Program Legislative (RPLs)

- AS 37.07.080(h) sets out a process for increasing some appropriation items outside of session
- The Governor must submit RPLs – they cannot come from the legislature
- RPLs are submitted to the Legislative Budget and Audit Committee (LB&A) for review
 - LB&A approval allows for the spending to begin immediately
 - If LB&A rejects an RPL, the Governor may proceed anyway 45 days later

RPLs (continued)

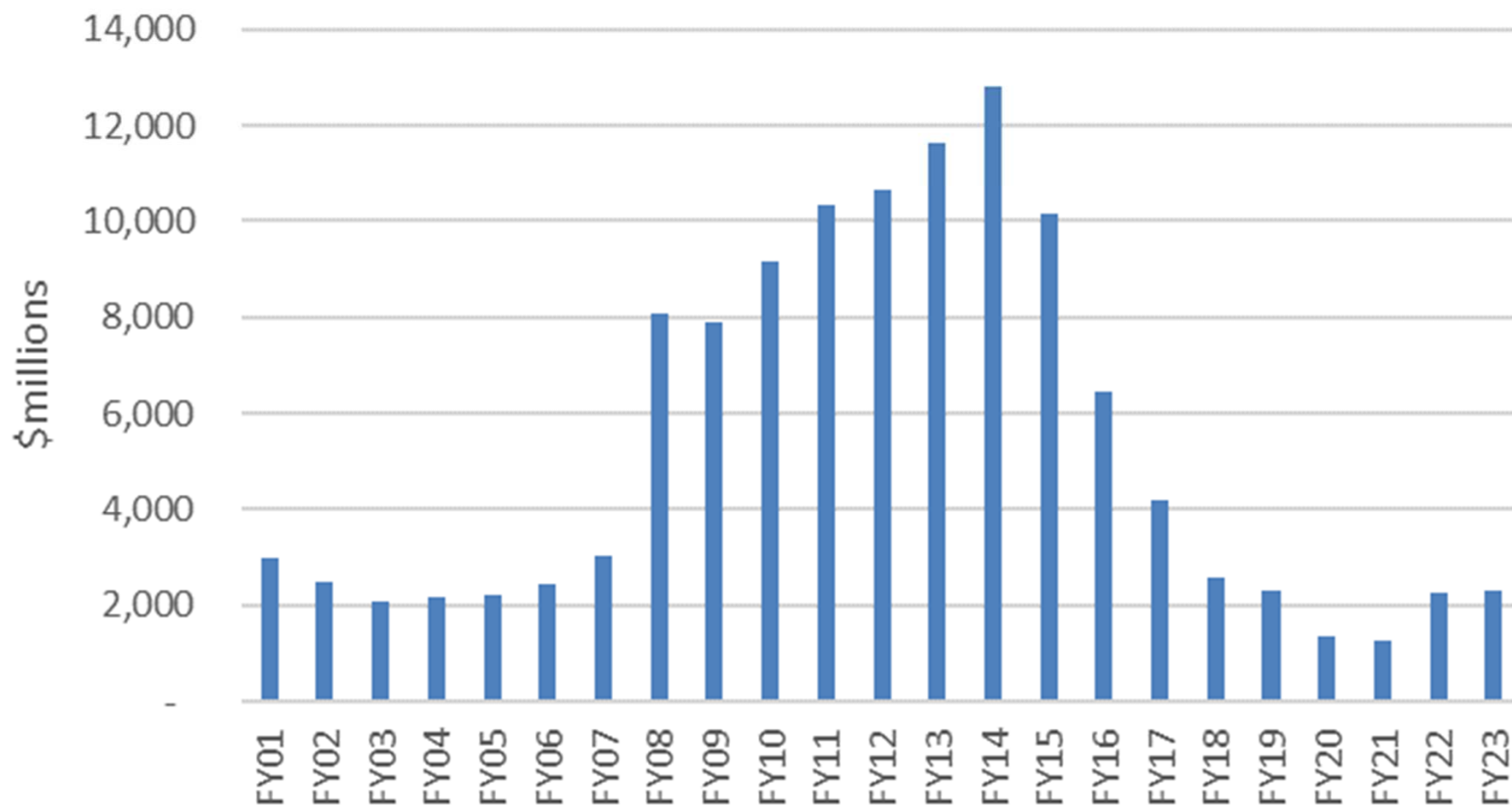
- Since the Governor may proceed with or without the LB&A committee, the process is fundamentally advisory rather than binding
- In FY20/21, the RPL process was used heavily for COVID-19 relief funds
- In FY22 and FY23, the legislature limited the RPL process through the appropriation language in the budget
 - In FY23, these limitations prevent the RPL process from being used for certain flexible federal funds or for RPLs over \$10 million

Constitutional Budget Reserve (CBR) Basics

- Article IX, §17 of the Alaska Constitution
- All money received by the State as a result of a settlement or litigation about mineral revenue (including petroleum)
- Balance can be accessed by a majority vote if the amount available for appropriation is less than the previous year's budget
- The Supreme Court in *Hickel v. Cowper* ruled that the amount available for appropriation includes the ERA, so in practice it requires a supermajority (3/4 vote) to access the CBR

CBR Basics (continued)

CBR Year-End Balance, FY01-FY23 (Projected)



CBR Basics (continued)

- Appropriations from the CBR are considering “borrowing” and cause a liability from the General Fund to the CBR
- While there is a liability, the unobligated balance of the general fund is transferred to the CBR at the end of each fiscal year as repayment – this is called the “sweep”
- This includes sub-accounts, but the Supreme Court in *Hickel v. Cowper* struck down the statute governing which funds are subject to the sweep. The sweepable funds list is now subject to interpretation

CBR Basics (continued): Sweep

- The sweep can be reversed with a supermajority (3/4) vote. The FY21 and FY22 sweeps were not reversed, the first time that has happened
- As a result, \$439.5 million was transferred from subfunds to the CBR
- In 2022, the legislature and Governor made several changes to the budget's structure to mitigate the future impact of the sweep. These included:
 - Passage of HB 322, which removed the Higher Education Investment Fund, Alaska Marine Highway System Fund, and the Vessel Replacement Fund from the sweepable list and replenishing the swept balances of those funds from the general fund
 - Switching \$34.4 million of appropriations from sweepable funds to UGF
 - Changing the timing of other appropriations to avoid impacts from the sweep

Permanent Fund Basics

Article IX, §15 of the Alaska Constitution:

“At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.”

Permanent Fund (continued)

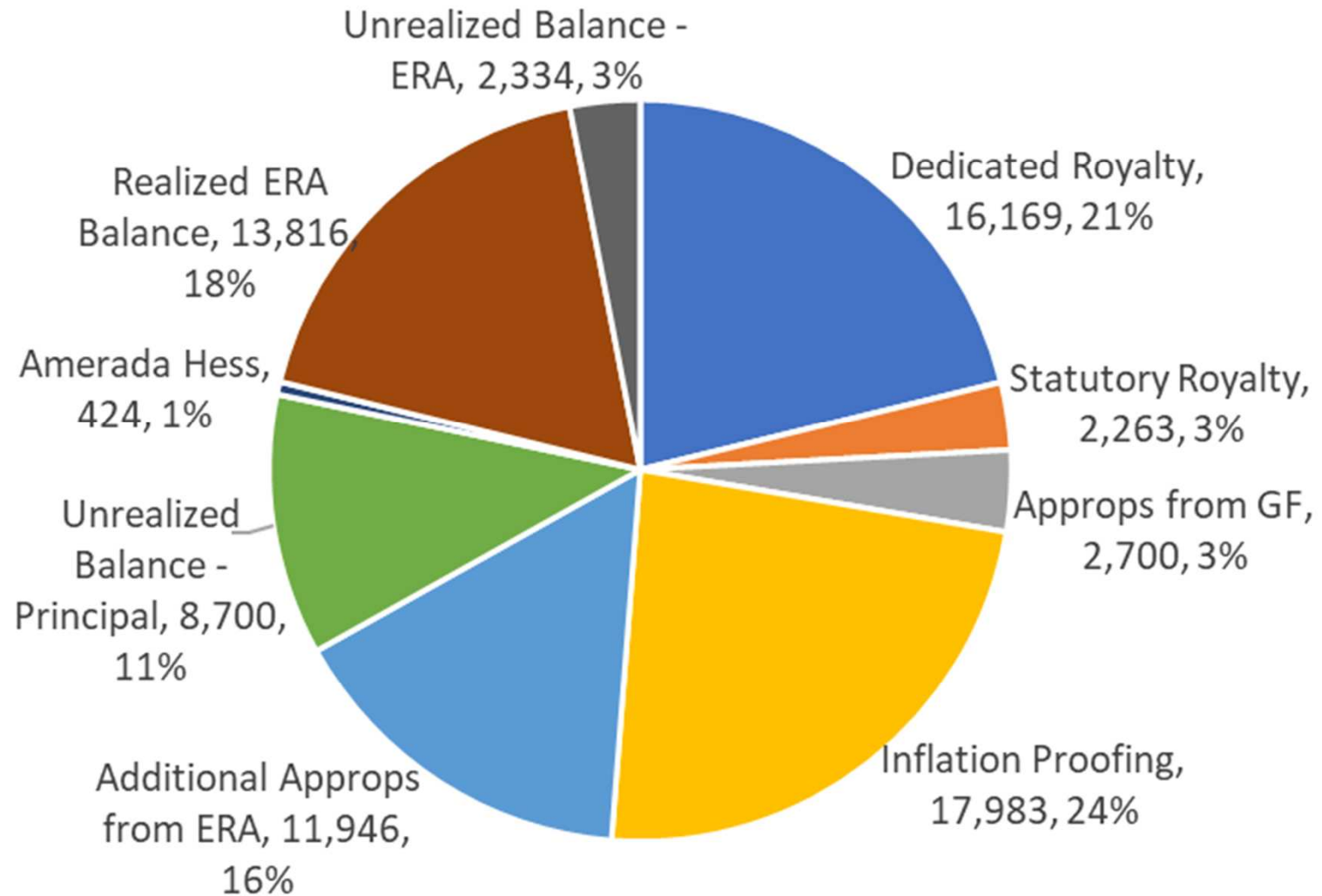
- Statutory net income from the fund, as defined in AS 37.13.140, flows into the Earnings Reserve Account (ERA)
- Statutory Net Income does not include paper gains like the rise in value of a stock unless that asset has been sold, which “realizes” the gains
- Paper gains are called “unrealized gains” and are allocated proportionally to the ERA and principal
- Statutory Net Income is used for the statutory PFD formula (50% of 23% of statutory net income over the previous five years)

Permanent Fund (continued)

- Constitution dedicates 25% of royalties to the Permanent Fund, but AS 37.13.010(a)(2) designates an additional 25% of “new” fields (leased after 1979) for the Fund
- In addition, the legislature has deposited an additional \$2.7 billion of general funds into the Principal of the Fund
- AS 37.13.045(c) sets out a formula to inflation-proof the principal from the ERA, but the legislature has appropriated more in the past

Permanent Fund (continued)

Permanent Fund Balance by Source as of 6/30/22 (\$millions)



Permanent Fund (continued)

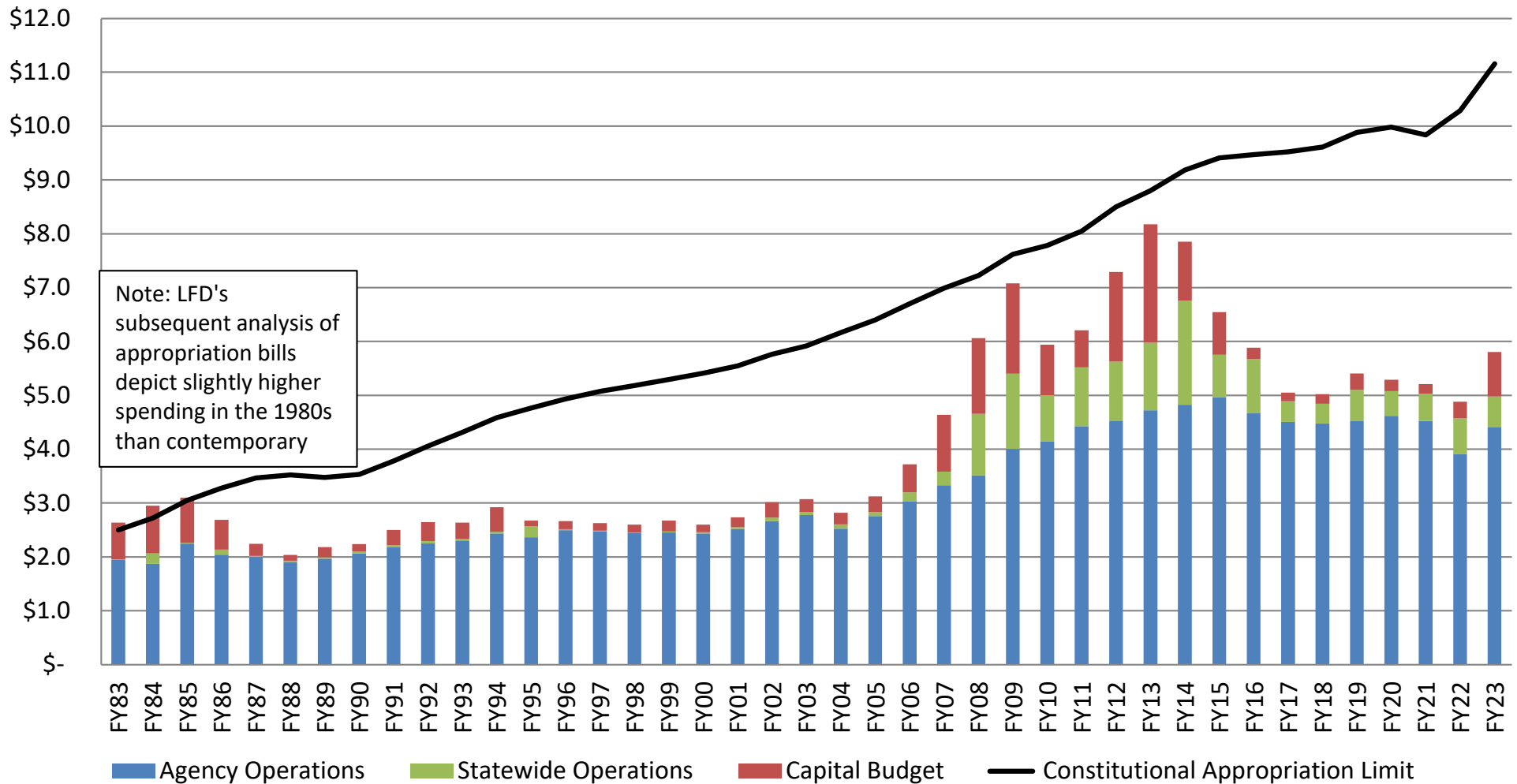
- AS 37.13.140 authorizes an annual Percent of Market Value (POMV) draw from the ERA to the General Fund
- Calculated in FY24 as 5% of the five-year average of the market value of the fund from FY18-22: \$3,526.1 million
- AS 37.13.145(f) states that total draws from the ERA for the PFD and to the General Fund may not exceed the POMV draw
- From FY16-23, the POMV appropriation has not matched the statutory calculation

Constitutional Appropriation Limit

- Established in Article IX, §16 of the Alaska Constitution
- Limits appropriations but excludes debt service, PFDs, federal funding and corporate revenue
- Limit is \$2.5 billion growing with changes to population and inflation since July 1, 1981
- Estimated to be \$11.4 billion in FY24
- Also requires that 1/3 of the limit must be reserved for capital projects

Constitutional Appropriation Limit (continued)

Constitutional Appropriation Limit (Article 9, Section 16)
and Appropriations Subject to the Limit
(\$billions)

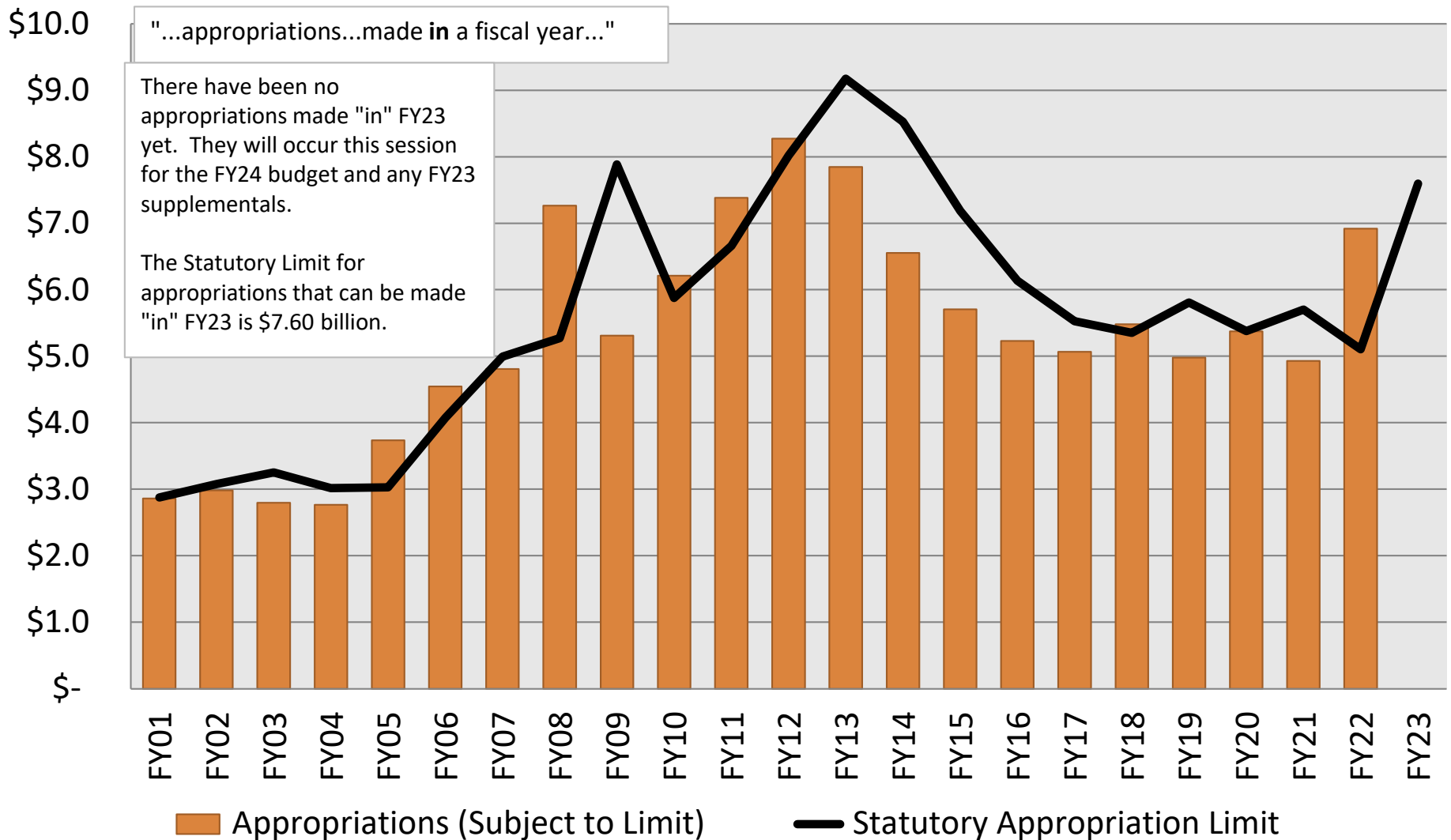


Statutory Appropriation Limit

- Established in AS 37.05.540 (b)
- Based on appropriations made *in* a fiscal year, not *for* a fiscal year – counts supplementals in the year they are appropriated, not the year they are effective
- Using similar exclusions as the Constitutional limit, limits spending growth to population plus inflation plus 5%
- Since it is in statute, it can be ignored and has been broken repeatedly

Statutory Appropriation Limit (continued)

Statutory Appropriation Limit - AS 37.05.540 (b)



Additional Resources

- LFD's Fund Code Write-ups:
<http://www.legfin.akleg.gov/FundCodes/ShowFundCodes.php>
- APFC's Performance Reports:
<https://apfc.org/our-performance/>
- DOR's Revenue Sources Books:
<http://tax.alaska.gov/programs/sourcebook/index.aspx>