

The Fiscal Year 2007 Budget:

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



Legislative Finance Division

<http://www.legfin.state.ak.us/>

The Legislative Fiscal Analyst Office 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. 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 the Executive Budget Act (AS 37.07);*
- (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. [AS 24.20.231]*

Legislative Finance Budget System. The system tracks budget transactions and provides comparative reports for committees and subcommittees. In addition, the system is used to produce the Governor's budget request books, the general appropriations bills, Conference Committee reports and a breakdown of the capital budget by House district.

LEGISLATIVE FINANCE DIVISION FISCAL ANALYST/BUDGET ASSIGNMENTS

Fiscal Analyst	Agency/Assignment	Phone
Rob Carpenter	Transportation & Public Facilities, Revenue, Capital Budget Coordinator, Revenue Analysis	465-5413
Anna Kim	Health and Social Services, Labor & Workforce Development, Natural Resources, Fiscal Notes	465-5410
Amanda Ryder	Commerce, Community & Economic Development, Fish & Game, Operating Budget Coordinator, Statewide Issues, Supplemental Budget, Fund Tracking	465-5411
David Teal	Governor, Legislature, Fiscal Summary	465-3002
Danith Watts	Administration, Education & Early Development, Environmental Conservation, University of Alaska	465-5435
Kevin Worley	Courts, Corrections, Law, Public Safety, Military & Veterans' Affairs	465-5432

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Introduction

As required by law, the Governor released his FY07 budget proposal to the public and the legislature on December 15, 2005. The Legislative Finance Division prepared this Overview of the Governor's proposal and "subcommittee books" for each agency in accordance with AS 24.20.211-.231.

As in FY06, the Governor submitted a separate bill "making appropriations for state aid to public schools, the state boarding school, centralized correspondence study, and transportation of pupils." All K-12 Foundation Program and Pupil Transportation support was removed from the normal operating budget bill submitted on December 15.

Reports prepared by Legislative Finance combine the K-12 bill with other operating appropriations (in the operating bill and operating portion of the Mental Health bill) so that year-to-year comparisons are meaningful. Similarly, the Legislative Finance capital reporting system combines the capital bill and capital portions of the Governor's Mental Health bill.

Evaluating the Governor's Budget

The bottom line on the Governor's budget is:

- general fund spending of \$3.6 billion (up \$540 million from FY06);
- other state spending (including Permanent Fund transfers) of \$2.7 billion; and
- federal spending of \$2.9 billion.

Minimum requirements for meaningful evaluation of a budget include examining revenue and comparing proposed spending with spending in the previous year. This information is provided in the fiscal summary on page 6.

The fiscal summary has no significant differences from the numbers presented by OMB. There are, however, substantial differences in presentation. As the budget becomes increasingly complicated by appropriations that span multiple fiscal years, comparisons of annual spending become more difficult to interpret. Legislative Finance revised the format of its fiscal summary in an attempt to clarify Alaska's fiscal situation. A step-by-step tour of the fiscal summary follows. The focus is on general funds; the same analysis applies to other funds. (References in parentheses are to line numbers on the fiscal summary.)

1. The starting point is the FY06 budget as it was on June 30, 2005—the way the legislature left it at the end of last session (with the exception of vetoes totaling less than \$1 million). Authorization to spend was \$2.56 billion and the expected surplus was \$100 million. These numbers match the Spring 2005 fiscal summary. (lines 20 and 21, FY06)
2. Oil prices during FY06 have been about \$16/bbl higher than projected, providing an additional \$1.15 billion in revenue. (line 23)
3. The amount of available money also increased by transfers of FY05 money to FY06—mostly for K-12 education (\$417 million (line 24)) but some for other purposes (mostly gas pipeline, \$42 million (line 25))—but this money was also spent in FY06 (lines 28 and 29) so has no net impact on calculation of the surplus/deficit.
4. The bottom line for FY06 is that the 2006 legislative session starts with a surplus of \$1.2 billion. (line 32)

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5. The Governor proposes using the FY06 surplus as follows:
 - a. **\$240 million for supplemental appropriations** (no details are available yet, but some of this appears to be for FY07 purposes rather than for true supplementals) (line 30 plus line 34)
 - b. **\$565 million for FY07 K-12 education** (line 35)
 - c. **\$400 million for gas pipeline ownership** (no details yet)) (line 36).
6. The Governor's spending plan would leave a surplus of \$40 million (assuming the oil forecast for the remainder of FY06 is correct). (line 38)

Several legislative proposals to spend a portion of this \$1.2 billion surplus have already surfaced. An analysis of the Governor's FY07 budget may, however, put a damper on discussions of what to do with the surplus. The Governor's presentation of the budget may give the impression that his spending plan (up well over \$500 million from FY06) results in an FY07 surplus of \$84 million. But there are complications to that bottom line caused by transfers between fiscal years.

7. Ignoring transfers across fiscal years (that is, **focusing only on FY07 revenue and the Governor's proposed spending for FY07**) the Governor's budget shows an **FY07 deficit of \$424 million**. (line 21)
8. With anticipated supplemental appropriations, the deficit goes to \$481 million. (line 32)
9. **The Governor proposes balancing the budget by using \$565 million of FY06 money to fund K-12 education in FY07**. (line 35)
10. Doing so would give an FY07 surplus of \$84 million. (line 38)
11. Line 31 shows the Governor's proposed GF increase from FY06 is just over \$540 million.

In summary: There is a one-time surplus of \$1.2 billion in FY06, but nearly half of the surplus would be required to close the deficit built into the Governor's FY07 budget.

A deficit is the result of both revenue and expenditures. The State has little control over current revenue, so budget deliberations tend to focus on expenditures. The fiscal summary provides a big picture of the budget and the state's fiscal situation, but little detail on where/how money is used. Agency summaries (operating budget on page 11 and capital budget on page 50) provide a quick look at the Governor's proposed budget compared to FY06 spending. Greater detail is available in the discussion of the operating budget (page 9) and the agency write-ups beginning on page 55, and subcommittees will want to review the detailed agency books available in the Finance Committee rooms.

Major increases in the Governor's general fund operating budget include:

- a. \$144 million for Health and Social Services
- b. \$89 million for K-12 education
- c. \$77 million for debt service and fund capitalization
- d. \$45 million for DOT&PF
- e. \$42 million for the University

Several other agencies also show substantial increases, bringing total agency increases to \$482 million. Note that the \$482 million figure is obtained by removing the \$150 million transfer

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across fiscal years (in the Public Education Fund, which is used for K-12 education), thus increasing the \$332 million total shown in the report to \$482 million.

Of this \$482 million, \$72 million is for salary, benefit and risk management increases (which are, arguably, unavoidable). Please see the "Operating Budget" section in this Overview for a discussion of how best to compare budgets across fiscal years.

The Governor's proposed general fund capital budget is \$432 million, which is \$93 million higher than last year.¹ Two projects—extending the railroad to Canada, and building a Juneau access road—account for \$95 million. As usual, state match requirements, primarily for transportation, water and wastewater projects, exceed \$100 million (reaching \$133 million in FY07). Other major capital items using state funds include:

- \$44 million for grants to municipalities;
- \$23 million for Information Technology projects;
- \$17 million for the Roads to Resources Program;
- \$17 million for various grants to named recipients; and
- \$10.5 million for the Parks Highway

Other Issues

When media attention is focused on "what shall we do with our millions of dollars?" it can be easy to overlook the fact that the surplus is not nearly enough to sustain the Governor's proposed level of spending in the long term. As noted above, the Governor's FY07 operating budget shows a deficit of nearly \$500 million (before transfers across fiscal years). **Unless higher-than-expected oil prices during FY07 generate a surplus to carry forward into FY08, a draw from the Constitutional Budget Reserve Fund is likely to be required in FY08.**

While reports prepared by Legislative Finance and OMB are designed to help legislators and the public understand and evaluate the budget, reports do not illustrate some issues as clearly as may be needed. Issues that are easily missed in reports include the following:

- OMB's reports on the Governor's operating bills omit a **\$90 million increase resulting from a proposed change to the base student allocation** (from the current \$4,919 to \$5,352 in FY07). OMB shows the increment as a fiscal note (for a bill that has not yet been submitted) in the fiscal summary, but does not report the cost in operating reports. Because the K-12 bill makes the appropriation contingent upon passage of a bill increasing the base student allocation, the fiscal note for such a bill would be zero. **Legislative Finance shows the cost of the proposed increase in the base student allocation as an increment in all reports.**
- Capital reports show projects funded with **\$89 million in tobacco bond proceeds**. Bonds are always difficult to analyze because reports show bond proceeds as immediate receipts, but cannot show the future impact of debt retirement. Tobacco bonds are

¹ A careful reader may note that the operating increase of \$482 million plus the capital increase of \$93 million sums to \$575 million, which is \$35 million more than the amount shown in the fiscal summary. The difference is due to a choice of columns compared. The fiscal summary shows that the FY06 budget contains carryforward from FY05. Similar carryforward can be expected in FY07, but it will not appear until after the end of FY06. The best comparison of FY06 spending to FY07 spending is obtained by removing the carryforward from the FY06 budget. This is done in the "FY06 base" column, which is the basis of comparison in Legislative Finance's agency summary reports.

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particularly tricky because they involve a lost revenue stream rather than payments for debt service. Sale of the bonds will reduce future cash flow to the state, which may increase the demand for general funds to supplant the missing tobacco money. The point here is not to imply that the bonds are a bad idea, but to emphasize that the potential general fund impact of the proposed bond sale cannot be seen in budget reports.

- The Governor proposes a **\$20 million deposit of Alaska Student Loan Corporation (ASLC) receipts into the Education Loan fund**. Because the deposit would not be available for student loans, ASLC regards this appropriation as a return of capital to the state, just as certain bond proceeds from FY05 and FY06 were characterized. OMB reports reflect this transaction as an internal transfer of funds rather than as income received by the state and then deposited to the education loan fund. By obscuring the character of the deposit, this method obscures the choice facing the legislature. That is, this “return of capital” is revenue that could be used to supplant general fund appropriations for capital projects or other spending priorities. There is no issue here if the legislature decides that funding this endowment (with what is, in essence, general funds) is the best use of the money.
- **Salary adjustments submitted by the Governor may use a disproportionate share of general funds**. Most salary adjustments (for health, retirement and contractual increases) are in proportion to the funding used in the personal services line, but some programs (the Marine Highway System and the Sport Fisheries Division of Fish and Game, for example) substitute general funds for other fund sources. This method of presenting the budget is problematic because:
 - Salary adjustments tend to be accepted on a statewide basis and many subcommittees do not focus on which funding sources are used; and
 - Subcommittees tend to focus on *general fund* increment requests. An increment request for nongeneral funds may receive less scrutiny than an increment using general funds.

Legislative Finance placed most salary adjustments (and risk management increments) in the FY07 adjusted base column exactly as they were received from OMB. **The legislature may wish to examine this issue before instructing subcommittees to accept the adjusted base column as the starting point for budget deliberation.**

Several issues are significant by their absence from the budget. In some cases, the Governor has made public statements regarding his intent to address an issue. In other cases, Task Forces or legislative committees are addressing the issue. Issues that have not yet been addressed in detail by the Governor but that are likely to be important this session include the following:

- **The Governor's operating and capital bills do not contain language authorizing a draw from the Constitutional Budget Reserve Fund (CBR)**. In recent years, the Governor's budget has relied on language allowing access to the Constitutional Budget Reserve Fund to meet the requirement of AS 37.07.020(c). That statute states that proposed expenditures may not exceed estimated revenue for the fiscal year. Although the FY07 budget shows a surplus (after transfers) of \$84 million, that surplus would be eradicated if oil were \$2/bbl less than projected.
- **The \$5.7 billion unfunded liability of state and local governments and school district retirement systems is not addressed in the Governor's budget bills**. The Governor's increment for K-12 education includes a required increase in the school district contribution rate, and rate increases are built into agency budgets, but there is no action to reduce the unfunded liability with money other than the amounts required for

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contribution rate increases. The House Ways and Means Committee has been examining this issue during the interim.

- **A legislative Task Force has been studying a change to the geographic differential used to allocate money to school districts, but the Governor has not addressed the issue.** The potential cost of the proposal exceeds \$90 million annually.
- **The Governor addressed the need for Community Assistance in public statements, but his proposals are not completely incorporated in the budget bills.** The Governor proposed using the Capital Income Fund for this purpose; that fund source is not used for any purpose in the Governor's budget.

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State of Alaska Fiscal Summary

(\$ millions)

	FY06 Authorized				FY07 Governor's Budget				GF Change
	GF	Federal	Other	Total	GF	Federal	Other	Total	
REVENUE (Excludes Permanent Fund Earnings)									
1 Unrestricted General Fund Revenue (1)	2,664.0		330.2	2,664.0	3,139.3		89.3	3,139.3	
2 Bond Proceeds and Other Borrowing (2)			114.9	330.2			105.2	105.2	
3 Corporate Dividends (3)			(59.9)	(59.9)			(31.9)	(31.9)	
4 Retained Corporate Dividends (3)			880.3	7,894.0			1,058.9	3,952.7	
5 Federal and Other Funds		2,787.8				2,893.8			
6 Total Revenue	2,664.0	2,787.8	1,265.5	6,717.3	3,139.3	2,893.8	1,221.3	7,254.4	
APPROPRIATIONS									
7 Operating									
8 Agency Operations (Non-Formula) & RPLs	2,225.5	1,683.2	1,022.4	4,931.0	3,131.4	1,800.7	1,039.1	5,971.1	
9 Formula Programs (4)	1,310.8	825.2	1,362.1	3,498.1	1,509.7	845.8	1,448.8	3,804.3	
10 Debt Service	1,257.5	816.0	148.6	2,222.1	1,445.9	915.0	109.8	2,470.7	
11 Fund Capitalization	53.1	8.0	241.2	302.4	74.7	9.7	243.3	327.7	
12 New Legislation	(396.0)	33.9	15.3	(346.8)	73.3	30.1	40.1	143.5	
13 Duplicated Authorization (5)			(744.8)	(744.8)	27.8	0.0	(802.9)	(802.9)	
14 Capital									
15 Project Appropriations & RPLs (Revised Programs)	338.7	1,102.0	238.7	1,679.4	432.1	1,093.1	182.3	1,707.5	93.4
16 Mental Health Projects	332.2	1,102.0	198.1	1,632.3	429.1	1,093.1	109.5	1,631.8	
17 Projects Funded with Debt Proceeds	6.5	0.0	5.6	12.1	3.0	0.0	3.9	6.9	
18 Duplicated Authorization (5)			308.2	308.2	0.0	0.0	212.4	212.4	
19 Total Authorization (unduplicated)	2,564.2	2,785.1	1,261.0	6,610.4	3,563.5	2,893.8	1,221.3	7,678.7	
20 Surplus (Draw From CBR) at Session End	99.8				(424.2)				
ADJUSTMENTS TO REVENUE									
21 Fall Revenue Forecast (increase of \$15.84/bbl) (1)	1,145.7			1,145.7					
22 Public Education Fund used in Subsequent Fiscal Year (6)	416.8			416.8	3.4			3.4	
23 Other Carryforward from FY05 (6)	41.5	0.9	4.5	47.0					
24 Total Revenue	4,268.1	0.9	4.5	4,273.5	3,142.7	0.0	0.0	3,142.7	(1,125.4)
ADJUSTMENTS TO AUTHORIZATION									
25 Public Education Fund used in Subsequent Fiscal Year (6)	416.8			416.8					
26 Other Carryforward from FY05 (6)	41.5	0.9	4.5	47.0					
27 Supplemental Placeholder	60.0			60.0	60.0	0.0	0.0	60.0	
28 Total Authorization (unduplicated)	3,082.6	2,786.0	1,265.5	7,134.2	3,623.5	2,893.8	1,221.3	7,738.7	540.9
29 Revised Surplus (Draw From CBR)	1,185.5				(480.9)				
Governor's Proposed Uses of the Surplus									
30 Supplemental Appropriations (7)	180.0			180.0					
31 Public Education Fund to be used in FY07	565.0			565.0	(565.0)			(565.0)	
32 Gas Pipeline Ownership (7)	400.0			400.0					
33 Total Authorization (unduplicated)	4,227.6	2,786.0	1,265.5	8,279.2	3,058.5	2,893.8	1,221.3	7,173.7	
34 Revised Surplus (Draw From CBR)	40.5				84.1				
Permanent Fund Dividends									
35 Deposits to Permanent Fund Principal		1.7	610.0	610.0		0.0	795.0	795.0	
36 Capital Income Fund			30.0	30.0			691.0	691.0	
37 TOTAL WITH PERMANENT FUND	4,227.6	2,787.8	2,806.5	9,821.9	3,058.5	2,893.8	2,735.3	8,687.7	

Notes:

(1) Revenue assumptions are from the Fall 2005 Revenue Sources Book. The oil forecast is .865 million barrels per day at \$57.30 per barrel in FY06 and .843 mbd at \$49.20 per barrel in FY07.

(2) Money borrowed for FY06 projects and debt service includes \$62.1 million in revenue bonds, \$138 million in Airport bonds, \$20.4 million in COPs, \$85 million in ASLC bonds and \$20 million in line of credit. The FY07 budget includes \$89.3 million in funding from securitization of the tobacco settlement revenue stream, which reduces future revenue.

(3) Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are subtracted.

(4) FY06 appropriations for formula programs exclude \$416 million FY05 capitalization of the Public Education Fund (line 26) that was used for K-12 education in FY06. That amount reduces fund capitalization (on line 14) by \$416 million. FY07 appropriations for formula programs exclude \$565 million of FY06 capitalization of the Public Education Fund. That amount is shown on line 37.

(5) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided.

(6) Money appropriated in one fiscal year for use in later fiscal years shows as offsetting adjustments to revenue and authorization.

(7) The Governor has not yet provided details on how this money is to be used.

State of Alaska Fiscal Summary

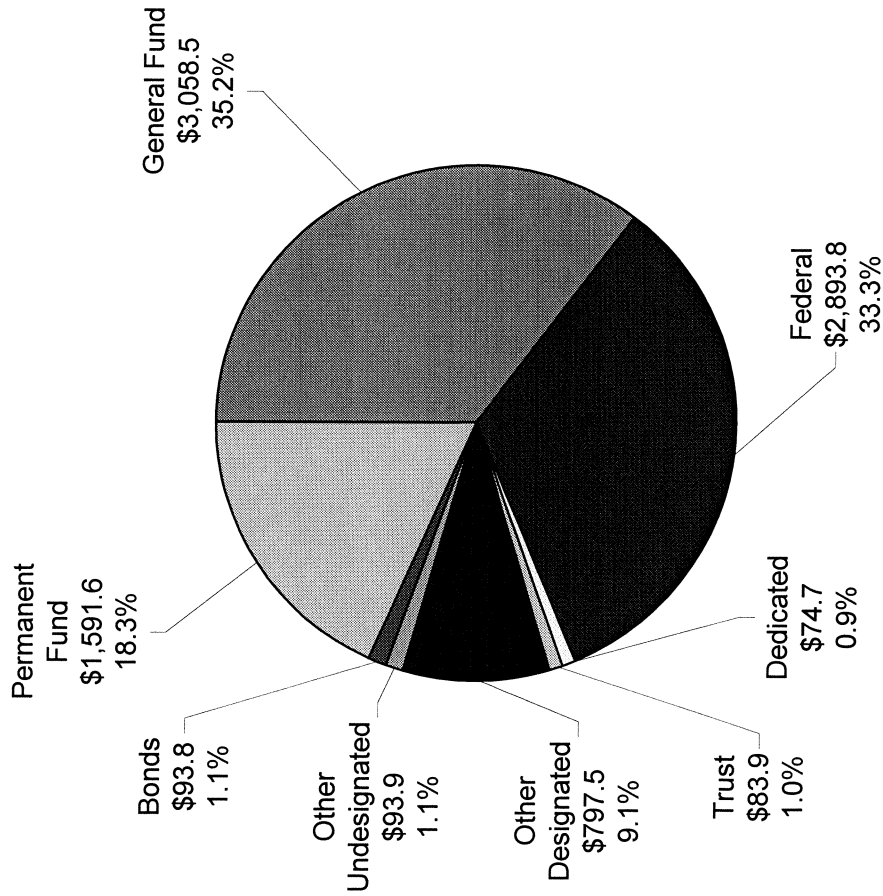
(\$ millions)

Constitutional Budget Reserve and Permanent Fund Account Balances					
	Constitutional Budget Reserve	Permanent Fund			
		Permanent Fund Total	Principal	Earnings Reserve	Unrealized Gains
FY06 Beginning Balance	2,185.1	29,961.0	24,647.0	1,440.0	3,874.0
Settlements	20.0	-	-	-	-
Net Earnings/Dedicated Revenues	76.0	2,822.0	579.0	1,966.0	277.0
Permanent Fund Inflation Proofing	-	-	901.0	(901.0)	-
Transfer to Capital Income Fund	-	(28.0)	-	(28.0)	-
Permanent Fund Dividend Payout	-	(610.0)	-	(610.0)	-
Transfer (to)/from General Fund	40.5	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY06 Projected Ending Balance	2,321.6	32,147.0	26,127.0	1,869.0	4,151.0
Net Additions to Account Balance	136.5	2,186.0	1,480.0	429.0	277.0
FY07 Projected Beginning Balance	2,321.6	32,147.0	26,127.0	1,869.0	4,151.0
Settlements	20.0	-	-	-	-
Net Earnings/Dedicated Revenues	112.3	2,874.0	466.0	2,049.0	359.0
Permanent Fund Inflation Proofing	-	-	691.0	(691.0)	-
Transfer to Capital Income Fund	-	(28.0)	-	(28.0)	-
Permanent Fund Dividend Payout	-	(795.0)	-	(795.0)	-
Transfer (to)/from General Fund	84.1	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY07 Projected Ending Balance	2,538.0	34,198.0	27,284.0	2,404.0	4,510.0
Net Additions to Account Balance	216.4	2,051.0	1,157.0	535.0	359.0
Permanent Fund information is from the APFC November 2005 financial projections					
CBR information is from the Fall 2005 Revenue Sources Book					

State of Alaska Fiscal Summary

FY07 Operating & Capital Budgets
Unduplicated Appropriations by Category

(\$ millions)



Definitions of Funds

General Fund expenditures include general fund match, general fund program receipts, general fund mental health, and "pure" general fund expenditures.

Permanent Fund expenditures include inflation proofing deposits into the fund, dividends and administrative costs. They also include special deposits to the fund and use of earnings as appropriated by the legislature.

Federal expenditures include all federal funds received and spent by the State. Federal funds typically can be used only for the specific purposes for which they are received.

Dedicated expenditures as provided for in the Constitution include expenditures by the School Fund (cigarette tax), Public School Fund, Second Injury Fund, Fisherman's Fund and the Fish and Game Fund.

Trusts include the Alaska Advance College Tuition Savings Fund, the Alyeska Settlement Fund, the Mental Health Trust, the Exxon Valdez Oil Spill Restoration Fund and several funds associated with public employee retirement systems.

Other Undesignated includes all non-federal, non-general fund codes that are not designated for a specific purpose by statute.

Other Designated includes all non-federal, non-general fund codes that are designated for a specific purpose by statute.

Bonds includes proceeds of bonds for which debt service payments will not appear in future budgets.

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Operating Budget

The fiscal summary provides a “big picture” of the budget, including revenue, debt, transfers, new legislation and capital projects. This section of the Overview focuses on the operating budget.

Comparisons between FY06 and FY07 budgets are complicated by appropriations that cross fiscal years.

- The Governor proposes appropriating \$565 million of the FY06 general fund surplus to support the FY07 K-12 operating budget. Without adjustment, this transfer would understate the true cost of the FY07 budget by this amount.
- In addition, the FY06 Management Plan (MP) contains more than \$60 million of “one-time” general fund appropriations. Although similar items will be included in the FY07 budget, they will not appear in reports until after the beginning of FY07. This overstates the size of the FY06 budget when comparing FY06 and FY07.

To simplify comparisons, **Legislative Finance created a FY06 Base column**, which removes one-time items from the FY06 Management Plan and **offers the best “apples-to-apples” comparison of budgets for different fiscal years.**

For example, a traditional comparison between the Department of Administration's FY06 Management Plan and the FY07 operating budget request shows a decline of \$5.4 million.

FY06 Management Plan (GF only):	\$76,682.5	Includes \$18.4 million of GF for local government PERS/TRS costs and \$500.0 of other GF one-time items
FY07 Budget Request	<u>\$71,299.3</u>	
FY06 MP to FY07 Budget	(\$5,383.2)	Traditional comparison shows a decrease

A comparison between **the FY06 Base column and the FY07 budget** request shows a \$13.1 million increase.

FY06 Management Plan (GF Only)	\$76,682.5	
Less One-time items	(\$18,890.0)	Removes items that distort budget comparisons
Plus 07 Transfers	\$363.1	Adds FY07 net zero transfers statewide
equals FY06 Base	<u>\$58,155.6</u>	
FY06 Base to 07 Budget	\$13,143.7	An “apples-to-apples” comparison shows an increase in this budget (not a decrease of \$5.4 million)

The following Agency Summary tables compare the FY06 Base budget with the Governor's FY07 budget. The Governor's budget includes salary adjustments and risk management cost increases that are considered “unavoidable” and that the legislature may wish to accept or reject as a group. These FY07 increases are in the FY07 Adjusted Base column. The Governor's column also includes program increments that the legislature may wish to consider on an individual basis.

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Details on the two types of transactions included in the FY07 Adjusted Base column are:

FY07 Salary Adjustments

The following three types of salary adjustments total of \$101.2 million (\$63 million of GF):

- **FY07 Wage Increases for Bargaining Units and Non-Covered Employees**—contractual salary increases (varies by bargaining unit from 0-6%, but generally 2%). These total \$30.8 million statewide (\$20.2 million GF/ \$10.6 Federal Receipts and Other Funds);
- **FY07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees**—employer health insurance cost increases of \$15 per employee. The statewide total is \$13.5 million (\$8.9 million GF/\$4.6 million Federal Receipts and Other Funds); and
- **FY07 Retirement Systems Cost Increases**—five percent employer cost increase in FY07 for retirement systems for a total cost of \$56.9 million (\$33.9 GF/\$23.0 Federal Receipts and Other Funds).

The Governor submitted \$22.6 million of GF salary, retirement, and benefit increments (\$33.6 million total) for the University. Legislative Finance's FY07 Adjusted Base column includes only those increments that correspond to the above three costs. Approximately \$3.5 million in University GF salary adjustments were excluded from adjusted base and show as increments in the Governor's column.

FY07 Risk Management Increments

Over \$13 million (\$9.4 million GF) is requested in the FY07 Governor's Request for Risk Management. For the first time in many years, the Division of Risk Management budgeted "the true cost of risk," which will enable other state agencies to leverage funds other than general funds to pay for these costs. Since FY90, over \$100 million has come out of other fund sources to compensate for annual risk management deficits—mostly from the Catastrophe Reserve Account or from direct supplemental appropriations. In recent years, these annual shortfalls have ranged from a low of \$1.9 million in FY00 to a high of \$17.6 million in FY03. When risk management "under-collects" from agencies and fills the deficit with state funds, federal and other fund participation is lost.

Rather than appearing as a single increase in the Department of Administration (DOA) (for subsequent allocation to other agencies), risk management increments occur throughout other agencies. In DOA, the increments appear as Inter-Agency Receipts.

The University of Alaska is not represented in the FY07 Risk Management increments. Although the Board of Regents requested a \$600.0 increase for Risk Management/Insurance Fees (\$200.0 GF/\$400.0 Other Funds), it was not included in the FY07 Governor's Request.

Please see the agency narratives for details on significant issues in each agency's budget. Note that Agency Summary reports include duplicated fund sources, while the fiscal summary removes these items from the operating portion of the budget.

In addition to summaries of agency budgets, this section of the Overview contains discussions of position changes, duplicated fund sources and details of debt obligations.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Agency Summary - FY 2007 Operating Budget - All Funds									
Agency	05 Actual	06 CC	06 MgtPln	06 Base	Adj Base	Gov	Change from 06 Base to Gov		
Administration	212,290.2	228,951.8	250,296.6	231,706.7	236,344.0	268,549.3	36,842.6	15.9 %	
Commerce, Community and Economic Development	103,232.3	134,647.3	142,957.4	137,350.0	139,640.6	151,636.2	14,286.2	10.4 %	
Corrections	183,824.7	196,083.2	196,180.8	195,840.8	201,655.8	212,101.2	16,260.4	8.3 %	
Education and Early Development	1,028,977.4	248,510.5	1,137,183.7	1,136,269.3	1,137,626.2	1,226,965.7	90,696.4	8.0 %	
Environmental Conservation	50,767.4	57,342.0	58,576.8	58,558.9	60,761.1	62,108.4	3,549.5	6.1 %	
Fish and Game	128,067.4	155,149.2	156,202.0	155,930.1	161,400.3	171,448.4	15,518.3	10.0 %	
Office of the Governor	21,101.9	17,058.9	21,430.3	17,670.3	18,459.2	22,066.4	4,396.1	24.9 %	
Health and Social Services	1,666,248.2	1,800,415.8	1,804,149.7	1,802,566.7	1,817,520.7	2,007,957.8	205,391.1	11.4 %	
Labor and Workforce Development	133,097.9	156,646.9	158,542.2	158,371.2	162,564.8	175,515.5	17,144.3	10.8 %	
Law	58,116.6	58,219.6	69,107.1	60,929.1	63,614.1	64,169.1	3,240.0	5.3 %	
Military and Veterans Affairs	35,676.0	41,019.5	41,195.4	40,832.3	42,073.7	44,129.1	3,296.8	8.1 %	
Natural Resources	167,220.6	114,638.3	130,671.7	115,619.5	120,247.8	121,712.7	6,093.2	5.3 %	
Public Safety	110,370.1	125,884.5	126,222.4	125,793.9	132,185.2	137,501.9	11,708.0	9.3 %	
Revenue	163,564.6	183,061.0	195,539.0	186,059.7	190,024.8	207,259.4	21,199.7	11.4 %	
Transportation & Public Facilities	400,380.5	432,035.4	435,610.6	432,448.9	454,988.0	495,324.5	62,875.6	14.5 %	
University of Alaska	599,038.0	713,725.8	714,302.3	713,977.3	740,211.4	781,546.5	67,569.2	9.5 %	
Alaska Court System	61,401.6	64,483.3	66,423.1	66,398.8	69,204.3	72,419.2	6,020.4	9.1 %	
Legislature	37,305.7	44,253.3	50,574.2	50,574.2	52,508.3	52,601.0	2,026.8	4.0 %	
Debt Service	249,968.7	300,782.1	302,374.1	302,374.1	302,374.1	327,701.1	25,327.0	8.4 %	
Fund Capitalization	1,352,883.8	1,580,055.4	1,610,055.4	1,610,055.4	1,610,055.4	1,657,524.4	47,469.0	2.9 %	
Public Education Fund	416,838.1	-	2,692.4	(414,145.6)	(414,145.6)	(565,000.0)	(150,854.4)	36.4 %	
Total - Operating Budget	7,180,371.7	6,652,963.8	7,670,287.2	7,185,181.6	7,299,314.2	7,695,237.8	510,056.2	7.1 %	
General Funds	2,850,971.1	1,750,821.1	2,683,880.8	2,206,685.9	2,279,087.1	2,538,578.3	331,892.4	15.0 %	
Federal Receipts	1,532,804.3	1,660,347.5	1,679,927.3	1,678,641.5	1,690,589.9	1,800,659.2	122,017.7	7.3 %	
Other	2,804,146.9	3,241,795.2	3,306,479.1	3,299,854.2	3,329,637.2	3,356,000.3	56,146.1	1.7 %	

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Agency Summary - FY 2007 Operating Budget - General Funds									
Agency	05 Actual	06 CC	06 MgtPln	06 Base	Adj Base	Gov	Change from 06 Base to Gov		
Administration	52,475.4	55,734.6	76,682.5	58,155.6	59,920.7	71,299.3	13,143.7	22.6 %	
Commerce, Community and Economic Development	7,477.0	8,558.6	12,977.2	8,889.8	9,139.3	12,238.2	3,348.4	37.7 %	
Corrections	158,917.4	169,945.7	169,893.3	169,703.3	175,329.4	183,423.8	13,720.5	8.1 %	
Education and Early Development	797,461.0	36,282.3	891,696.9	890,916.9	891,436.5	979,904.3	88,987.4	10.0 %	
Environmental Conservation	12,692.0	13,600.8	14,481.3	14,463.4	15,399.6	17,695.0	3,231.6	22.3 %	
Fish and Game	28,239.7	33,222.0	33,992.0	33,720.1	38,361.4	43,932.4	10,212.3	30.3 %	
Office of the Governor	19,661.3	15,984.6	19,645.2	16,574.2	17,339.9	20,541.9	3,967.7	23.9 %	
Health and Social Services	578,259.0	609,263.3	608,356.0	607,379.5	616,683.6	751,319.1	143,939.6	23.7 %	
Labor and Workforce Development	13,871.5	15,565.0	15,863.8	15,863.8	16,718.8	24,487.7	8,623.9	54.4 %	
Law	35,347.6	33,300.0	42,515.6	35,360.9	37,052.7	37,775.6	2,414.7	6.8 %	
Military and Veterans Affairs	9,748.9	12,678.6	12,829.8	12,466.7	13,150.0	14,195.8	1,729.1	13.9 %	
Natural Resources	96,164.2	54,393.6	68,483.5	55,144.7	58,198.0	62,736.3	7,591.6	13.8 %	
Public Safety	84,273.7	94,502.8	94,800.9	94,396.9	100,360.2	104,501.9	10,105.0	10.7 %	
Revenue	12,649.3	9,963.3	18,520.8	10,607.1	11,160.9	11,437.3	830.2	7.8 %	
Transportation & Public Facilities	103,210.3	166,643.3	169,809.7	166,648.0	178,649.0	211,315.7	44,667.7	26.8 %	
University of Alaska	229,747.2	245,367.2	245,443.7	245,368.7	264,421.2	287,089.4	41,720.7	17.0 %	
Alaska Court System	58,765.9	62,061.1	64,000.9	63,976.6	66,782.1	69,772.3	5,795.7	9.1 %	
Legislature	36,571.0	43,617.2	49,866.2	49,866.2	51,800.3	51,919.3	2,053.1	4.1 %	
Debt Service	2,736.0	51,953.1	53,145.1	53,145.1	53,145.1	74,706.8	21,561.7	40.6 %	
Fund Capitalization	95,864.6	18,184.0	18,184.0	18,184.0	18,184.0	73,286.2	55,102.2	303.0 %	
Public Education Fund	416,838.1	-	2,692.4	(414,145.6)	(414,145.6)	(565,000.0)	(150,854.4)	36.4 %	
TOTAL OPERATING BUDGET	2,850,971.1	1,750,821.1	2,683,880.8	2,206,685.9	2,279,087.1	2,538,578.3	331,892.4	15.0 %	

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Position Comparison

The Governor's FY07 Operating Budget request adds 339 permanent full-time (PFT) positions to the FY06 Base. In addition, 185 PFTs were added during FY06 to the number authorized by the legislature, so the total increase from the authorized level is 524.

AS 39.25 establishes the system of personnel administration within the state and describes the governor's authority to create and appoint positions within the executive branch. Positions (i.e. Position Control Numbers – PCNs) do not necessarily equate to the number of actual employees. More than one person can fill a single PCN, and many PCNs are vacant.

Position Summary Report Permanent Full-Time Positions Only				
Agency	06Base	Gov	Change from 06Base to Gov	% Change from 06Base to Gov
Administration	980	997	17	1.7%
Commerce, Community and Economic Development	502	514	12	2.4%
Corrections	1,460	1,470	10	0.7%
Education and Early Development	298	298	-	0.0%
Environmental Conservation	503	517	14	2.8%
Fish and Game	867	879	12	1.4%
Office of the Governor	147	155	8	5.4%
Health and Social Services	3,206	3,295	89	2.8%
Labor and Workforce Development	894	914	20	2.2%
Law	530	531	1	0.2%
Military and Veterans Affairs	291	291	-	0.0%
Natural Resources	767	769	2	0.3%
Public Safety	805	816	11	1.4%
Revenue	846	848	2	0.2%
Transportation & Public Facilities	2,962	2,990	28	0.9%
University of Alaska	3,869	3,967	98	2.5%
Alaska Court System	693	708	15	2.2%
Legislature	240	240	-	0.0%
Total - All Agencies	19,860	20,199	339	1.7%

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Non-Duplicated State Funding

Traditionally, comparisons of the Governor's operating budget have been made using two "Agency Summary" reports—a report comparing *total funds* (includes all federal, general, and other funds) and a report comparing only *general funds*.

This Overview includes a third report comparing differences in *non-duplicated state funding*. Over the years, several fund sources have moved from the general funds (GF) group to the "other funds" group. Although transferring funding from GF to the Other fund group does not affect total spending, it does make it more difficult to see the true level of state spending.

The *State Funds* report shows all non-duplicated funds except federal receipts. Duplicate counting occurs when money is appropriated more than once. For example, an appropriation of general funds may be used to capitalize the Debt Retirement fund, and money in the Debt Retirement Fund may then be appropriated to pay debt service. Appropriations from the Debt Retirement Fund are classified as "duplicated." Reports using this fund group will not match the appropriations bill because the appropriations bill includes duplicated appropriations.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Agency Summary - FY 2007 Operating Budget - State Funds (Non-Duplicated)									
Agency	05 Actual	06 CC	06MgtPIn	06 Base	Adj Base	Gov	Change from 06 Base to Gov		
Administration	89,291.8	98,571.3	119,706.1	101,145.2	103,977.7	115,871.6	14,726.4		14.6 %
Commerce, Community and Economic Development	60,595.7	76,999.0	83,558.2	78,700.8	80,511.6	84,470.5	5,769.7		7.3 %
Corrections	166,097.7	178,624.7	178,722.3	178,382.3	184,056.6	192,187.4	13,805.1		7.7 %
Education and Early Development	820,404.4	48,950.5	916,720.7	915,940.7	916,905.7	1,005,604.8	89,664.1		9.8 %
Environmental Conservation	17,395.6	20,335.7	21,534.5	21,516.6	22,575.0	24,745.1	3,228.5		15.0 %
Fish and Game	64,286.5	75,743.1	76,624.1	76,352.2	81,237.2	91,436.5	15,084.3		19.8 %
Office of the Governor	20,558.9	16,695.3	20,363.0	17,291.2	18,063.1	21,265.1	3,973.9		23.0 %
Health and Social Services	675,190.5	725,862.6	725,147.9	723,993.5	733,768.7	824,598.7	100,605.2		13.9 %
Labor and Workforce Development	35,416.1	40,463.5	42,245.3	42,074.3	43,338.7	51,929.7	9,855.4		23.4 %
Law	38,864.3	37,039.5	47,293.8	39,115.8	40,876.2	41,586.6	2,470.8		6.3 %
Military and Veterans Affairs	9,930.9	13,375.7	13,526.4	13,163.3	13,846.6	14,892.4	1,729.1		13.1 %
Natural Resources	119,309.0	84,718.6	100,228.7	85,664.7	89,714.8	92,577.8	6,913.1		8.1 %
Public Safety	88,617.1	100,581.9	100,893.7	100,489.7	106,553.6	110,817.2	10,327.5		10.3 %
Revenue	116,742.6	131,815.0	142,433.8	134,353.1	136,360.9	151,707.9	17,354.8		12.9 %
Transportation & Public Facilities	268,394.7	286,430.9	289,686.2	286,524.5	301,544.9	341,303.5	54,779.0		19.1 %
University of Alaska	430,116.6	499,691.8	500,268.3	499,943.3	524,149.7	555,739.3	55,796.0		11.2 %
Alaska Court System	58,939.2	62,636.7	64,576.5	64,552.2	67,357.7	70,322.6	5,770.4		8.9 %
Legislature	36,571.0	43,617.2	49,866.2	49,866.2	51,800.3	51,919.3	2,053.1		4.1 %
Debt Service	157,457.4	175,745.2	176,937.2	176,937.2	176,937.2	186,336.6	9,399.4		5.3 %
Fund Capitalization	1,322,703.8	1,543,445.9	1,573,445.9	1,573,445.9	1,573,445.9	1,627,425.3	53,979.4		3.4 %
Public Education Fund	416,838.1	-	2,692.4	(414,145.6)	(414,145.6)	(565,000.0)	(150,854.4)		36.4 %
Total - Operating Budget	5,005,852.7	4,261,344.1	5,246,471.2	4,765,307.1	4,852,876.5	5,091,737.9	326,430.8		6.9 %
General Funds	2,850,971.1	1,750,821.1	2,683,880.8	2,206,685.9	2,279,087.1	2,538,578.3	331,892.4		15.0 %
Other	2,162,750.8	2,510,523.0	2,562,590.4	2,558,621.2	2,573,789.4	2,553,159.6	(5,461.6)		-0.2 %

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Debt Obligations

The state's debt obligations² for FY07 total \$261.2 million. These obligations include required debt service on state capital project debt and discretionary debt reimbursement to non-state entities (i.e., school debt and capital project reimbursements to municipalities).

GO Bonds

Required debt service for state general obligation bonds is \$45 million. Series 2003A (schools/university) is expected to be repaid by 2024 requiring approximately \$31 million per year. Series 2003B (roads/harbors) is expected to be repaid by 2014, requiring nearly \$14 million per year (\$11.6 million from the Debt Retirement Fund and \$1.9 million from bond premiums). Series 2003B bonds also include GARVEE transportation bonds that can be repaid with up to 90% federal highway funds. As proposed by the governor, the federal share is 72%. Alaska negotiated a schedule with the FHWA whereby the earnings on the bond proceeds (and the bond premium received at time of sale) would be maximized during the early years. As bond earnings decline, due to a declining balance, the federal share will increase. In the later years the federal portion will exceed the 90% customary maximum.

Certificates of Participation (COPs)

Debt Service requirements for certificates of participation (COPs) total \$13.2 million. COPs for the Fairbanks Virology Lab, authorized by SB 73 (Ch 7, FSSLA 05), were issued in October and add approximately \$2.3 million in annual debt service (\$2.6 million for FY07). This was offset as payments for the Spring Creek Correctional Center terminate in FY07. Additionally, the Treasury Division bundled and refinanced several COPs under favorable interest rates. Projected savings are expected to be \$135,000 per year for a total savings of \$1.2 million. The Atwood Building and the Anchorage Jail were also refinanced, with projected savings totaling \$3.2 million over 15 years.

Airport Bonds

Outstanding International Airport Revenue Bonds of \$417 million require over \$30 million in annual debt service. An additional \$288 million of bonding authority was granted in SB 153 (Ch 28, SLA 2005). The Treasury Division expects to close a deal in March totaling nearly \$270 million and adding an additional \$30 million to the debt service requirement. The governor's capital budget includes airport projects using \$123 million of these new bond proceeds.

Municipal Debt Reimbursement

School Debt Reimbursement is budgeted at \$94 million--\$67 million from the Debt Retirement Fund and \$27 million from the School Fund. This is full funding for reimbursement of anticipated eligible debt. This is a net increase of approximately \$7.5 million over FY06. An additional \$192 million of reimbursement authorization was granted in SB 73 (Ch 7, FSSLA 05) last session. Municipalities have until October 31, 2006 to gain voter and Department of Education approval for access to the new reimbursement authorization. The cost of continued full funding for the program will exceed \$100 million dollars in the next few years.

² In this context, state debt obligations refer to debt issued by the state, or on behalf of the state, for capital projects. It excludes any debt issued by state corporations or the university used for programmatic functions. Although most debt service paid by the state is subject to appropriation, some is more discretionary than others.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Port, harbor and power project debt reimbursement authorized under HB 528 (Chapter 115, SLA 2002) is proposed at \$10.2 million. A total of \$103 million of reimbursement was authorized in 2002.

Sport Fish Hatchery Bonds

Senate Bill 147 (CH 94, SLA05) authorized the issuance of \$69 million in bonds for construction and renovation of sport fishing facilities. The bonds are to be secured by a surcharge applied to sport fishing licenses. These bonds have yet to be issued and there is some debate as to the intended use of the surcharge.

The bill states that the surcharge “shall be allocated to sport fishing facilities” and “may be pledged to pay the principal and interest on revenue bonds.” The language “shall be allocated to sport fishing facilities” has some arguing that the surcharge can be used to pay facility operating costs. Others, however, believe the intent was to fully utilize the surcharge for retiring debt. The legislature may wish to clarify its intent on this matter. The governor’s budget uses \$350,000 of the surcharge for hatchery operations as well as \$5.8 million for debt service.

AHFC/NTSC and ASLC Capital Project Bonds

Several times in recent years, the Alaska Housing Finance Corporation (AHFC) has issued debt on behalf of the state. The current outstanding balance of this debt is \$172.2 million. The annual debt service on these bonds has been withheld from the annual dividend paid to the state by AHFC. This, in effect, makes the payment of this debt service “off budget” because the state incurs a reduction in revenue rather than making an appropriation. The amount retained by AHFC for debt service dropped from \$60 million in FY06 to \$32 million in FY07. Debt service in FY08 will drop an additional \$20 million, bringing the annual dividend reduction down to \$12 million.³

Similar diversion of revenue occurs with debt issued on behalf of the state by the Northern Tobacco Securitization Corporation (NTSC). In 2000 and 2001, the state sold 80% of the annual revenue stream (approximately \$16.8 million of the \$22.5 million available) from the Tobacco Master Settlement Agreement to NTSC. The state used the proceeds for capital projects. The debt service on the bonds issued by NTSC is paid for with the tobacco settlement revenue diverted from the state.

Likewise, the Alaska Student Loan Corporation has issued substantial capital project bonds on behalf of the state. Debt service on these bonds is paid from their operating revenues, which affects the state indirectly. Instead of reducing their annual dividend to the state by the amount of the required debt service, the corporation shows the costs of debt retirement in their statement of net income. Since the dividend is based on net income, the state indirectly pays a portion of the debt service via reduced dividends.

Proposed New Debt

The governor has built \$89.25 million of new tobacco settlement bonding into his capital budget. The market for these bonds has improved considerably since the initial authorization and additional funding can be captured from this revenue stream by refinancing of the current debt. Debt service on these bonds will divert future tobacco settlement revenue from the state to the NTSC.

³ Please see the analysis of the Operating Language Sections for further discussion of the AHFC dividend.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Debt Summary Table				
(thousands)	FY06	FY07Gov	06 to 07	Comments
Alask Debt Retirement Fund (ADRF)				
Capitalization				
General Funds	45,784.1	61,029.8	15,245.7	
Federal Receipts	8,043.1	9,719.5	1,676.4	
Investment Loss Trust Funds	77.8	12.7	(65.1)	
Municipal Bond Bank Receipts (Earnings)	250.0	250.0	-	
AHFC Dividend	18,854.6	23,441.7	4,587.1	
AIDEA Dividend	8,812.0	16,649.5	7,837.5	
ASLC Dividend	3,100.0	1,900.0	(1,200.0)	
ASLC Bonds	22,000.0	-	(22,000.0)	
Bond Interest - Series 2003A (Misc. Earnings)	3,720.3	5,384.7	1,664.4	
Bond Interest - Series 2003B (Misc. Earnings)	1,196.9	1,943.2	746.3	
Total	111,838.8	120,331.1	8,492.3	
Cashflow				
Beginning Balance (6/30/05)	16,094.0	2,878.0	(13,216.0)	
Capitalization	111,838.8	120,331.1	8,492.3	
Total Available	127,932.8	123,209.1	(4,723.7)	
Prior Year Appropriations	(9,632.1)	-	9,632.1	
Current Yr. Appropriations	(115,422.7)	(123,208.9)	(7,786.2)	
Available balance	2,878.0	0.2	(2,877.8)	
DEBT SERVICE/ REIMBURSEMENT				
ADRF Debt Payments				
GO Bonds -Schools/Roads (Series 2003A)	31,772.1	31,463.7	(308.4)	
GO Bonds -GARVEES (Series 2003B)	9,241.0	11,662.6	2,421.6	
Certificates of Participation (COPs)	13,782.1	13,147.6	(634.5)	
Fairbanks Virology Lab	-	2,649.0	2,649.0	
DEC Environmental Health Lab	1,388.5	1,368.9	(19.6)	
API Replacement	1,647.0	1,636.4	(10.6)	
Palmer Airport Fire Facility	762.1	-	(762.1)	
Spring Creek Correctional Facility	3,959.8	874.2	(3,085.6)	
Soldotna DOT Maintenance Facility	640.0	-	(640.0)	
Anchorage Health Lab	2,373.2	-	(2,373.2)	
Fairbanks Courthouse	2,913.5	-	(2,913.5)	
2005A Refunding	-	6,594.1	6,594.1	
Trustee Fees	98.0	25.0	(73.0)	
School Debt Reimbursement	59,463.5	66,935.0	7,471.5	
Administrative Systems Replacement	400.0	-	(400.0)	
AMHS Vessel Overhaul	764.0	-	(764.0)	
Subtotal	115,422.7	123,208.9		
Other Debt Payments (including GF)				
GO Bonds -Schools/Roads (Series 2003A)	96.8	51.7	(45.1)	GO Bond Premium and Interest
GO Bonds -GARVEES (Series 2003B)	4,543.3	1,859.5	(2,683.8)	GO Bond Premium and Interest
International Airport Revenue Bonds	33,125.9	33,136.8	10.9	IARF and PFC's
Clean Water Fund Bonds	1,630.0	1,539.3	(90.7)	ACWF Receipts
Drinking Water Fund Bonds	1,105.0	1,075.3	(29.7)	ADWF Receipts
COP's - Atwood Building	3,549.4	3,467.1	(82.3)	GF
School Fund - School Debt Reimbursement	27,000.0	27,000.0	-	School Fund
Fish and Game Revenue Bonds	-	5,821.5	5,821.5	Sport Fish License Surcharge
GF - Capital Project Reimbursement (HB 528)	3,634.1	10,209.9	6,575.8	GF
Anchorage Jail (Capital Lease)	5,275.1	5,091.8	(183.3)	GF
AHFC State Capital Project Bonds	59,895.4	31,935.0	(27,960.4)	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	16,900.0	16,800.0	(100.0)	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	156,755.0	137,987.9	(18,767.1)	
TOTAL DS/ Reimbursement	272,177.6	261,196.8	(10,980.9)	
Not included in OMB Summary				

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Although the Governor submitted a separate bill appropriating funds for K-12 support, OMB and Legislative Finance combined the bills for reporting purposes. Language sections of both bills are reviewed below.

Language Sections of the Governor's FY07 Education Budget

* **Section 1.** The sum of \$310,781,900 is appropriated to the public education fund (AS 14.17.300) for the following purposes from the following sources in the amounts stated:

PURPOSE	ALLOCATION
Distribution to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17 for the fiscal year ending June 30, 2007	\$256,074,700
Transportation of pupils under AS 14.09.010 for the fiscal year ending June 30, 2007	54,707,200
FUND SOURCE	AMOUNT
General fund	\$278,032,900
Federal impact aid for K-12 schools	20,791,000
Public school trust fund (AS 37.14.110)	11,958,000

Section 1 appropriates FY07 funding to the Public Education Fund for distribution to school districts in FY07.

Legislative Fiscal Analyst Recommendation: Nongeneral fund sources should be appropriated (in section 1 of the operating budget) directly to the K-12 formula. There is no reason to have federal impact aid or public school trust funds flow through the Public Education Fund prior to distribution to school districts.

* **Sec. 2.** The sum of \$565,000,000 is appropriated from the general fund to the public education fund (AS 14.17.300) for distribution, along with the remaining balance of the public education fund on June 30, 2006, estimated to be \$3,352,600, to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17 for the fiscal year ending June 30, 2007.

Section 2 appropriates \$565 million of the \$1.2 billion FY06 general fund surplus to the Public Education Fund for distribution to school districts in FY07.

* **Sec. 3.** The sum of \$90,198,400 is appropriated from the general fund to the public education fund (AS 14.17.300) for distribution to school districts, to the state boarding school, and for centralized correspondence study under AS 14.17 for the fiscal year ending June 30, 2007.

Section 3 is an FY07 appropriation to the public education fund to pay for a \$433 per pupil increase in the student base allocation (from the current \$4,919 to \$5,352).

Legislative Fiscal Analyst Comment: OMB's fiscal summary shows this increment on the "New Legislation" line. Because the K-12 bill makes the appropriation contingent upon passage of a bill increasing the base student allocation (see section 4), the fiscal

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note for such a bill would be zero. Legislative Finance shows the cost of the proposed increase in the base student allocation as an increment in all reports.

* **Sec. 4.** Section 3 of this Act takes effect only if a bill increasing the base student allocation used in the formula for state financing of public education is passed by the Twenty-Fourth Alaska State Legislature in 2006 and is enacted into law.

This section makes the appropriation in section 3 contingent upon passage of a bill.

Legislative Fiscal Analyst Comment: *The language does not specify what change in the formula is required to trigger the contingency, so the amount appropriated is not necessarily related to the cost of the potential formula change.*

* **Sec. 5.** The appropriations made by secs. 1 - 3 of this Act are to capitalize a fund and do not lapse.

* **Sec. 6.** Section 2 of this Act takes effect June 30, 2006.

* **Sec. 7.** If sec. 3 of this Act takes effect under sec. 4 of this Act, it takes effect July 1, 2006.

* **Sec. 8.** Sections 1 and 4 of this Act take effect July 1, 2006

Language Sections of the Governor's FY07 Operating Budget

Section Deleted; appeared in FY06 Operating Budget

LEGISLATIVE INTENT. 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, 2006. Further, it is the intent of the legislature that positions authorized by the legislature are the full number of positions necessary to fulfill the duties and responsibilities of each agency. The office of management and budget shall submit a position report to the Legislative Budget and Audit Committee each calendar quarter. The report must describe positions created by each agency during the preceding three months and the fund source used to pay for each new position.

Legislative Fiscal Analyst Comment: *In past years, several appropriations were traditionally underfunded and needed an annual supplemental. In recent years the legislature has taken steps to reduce the need for these types of supplemental appropriations.*

Section Deleted; appeared in FY06 Operating Budget

COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services due to reclassification of job classes during the fiscal year ending June 30, 2006.

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 reclassification of 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. 4.** ALASKA AEROSPACE DEVELOPMENT CORPORATION. Corporate receipts of the Alaska Aerospace Development Corporation received during the fiscal year ending June 30,

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2007, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Development Corporation for operations during the fiscal year ending June 30, 2007.

Legislative Fiscal Analyst Comment: *This section is intended to maximize the AADC's ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner.*

This section provision limits legislative fiscal oversight of the Alaska Aerospace Development Corporation by allowing the corporation to spend all AADC receipts received from any source during FY07. Note, however, that

(1) the corporation is legally separate and independent from the state and has a board of directors charged with overseeing corporate activity,

(2) two legislators are ex officio members of the AADC board of directors, and

(3) AADC must submit a full operational and financial report to the legislature by the third day of each regular session of the legislature.

Funding: *The estimated impact of this section is zero. The appropriations to AADC in section 1 have been sufficient historically.*

* **Sec. 5.** ALASKA CHILDREN'S TRUST. The portions of the fees listed in this section that are collected during the fiscal year ending June 30, 2007, are appropriated to the Alaska children's trust (AS 37.14.200):

(1) fees collected under AS 18.50.225, less the cost of supplies, for the issuance of 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.

This provision appropriates (to the Alaska Children's Trust) net receipts collected during FY07 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates.

The Alaska Children's Trust was created by Chapter 19, SLA 88. The legislature appropriated \$6 million from the investment loss trust fund to the principal of the Trust in Chapter 123, SLA 96. 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.

Funding: *OMB projects \$43.1 net proceeds from the sale of certificates/plates.*

* **Sec. 6.** ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that the net income from the second preceding fiscal year will be available in fiscal year 2007. During fiscal year 2007, the board of directors anticipates that, contingent upon passage by the Twenty-Fourth Alaska State Legislature in 2006, and enactment into law, of a bill changing the formula for calculating the amount of the dividend paid to the state by the Alaska Housing Finance Corporation, \$86,616,678 will be available for payment of debt service, appropriation in this Act, appropriation for capital projects, and transfer to the Alaska debt retirement fund (AS 37.15.011).

Subsection a *clarifies the amount of corporate receipts that will be made available to the state as an FY07 dividend payment.*

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Legislative Fiscal Analyst Comment: In 2003, HB 256 (Ch 76, SLA 03) specified that AHFC's annual dividend would be a percentage of net income of the corporation. For FY07, the formula states that the dividend will be the lesser of \$103 million or 95% of AHFC's FY05 net income.

A dividend of \$86.6 million is contingent upon passage of a bill to change the formula for calculation of the dividend. AHFC supports the change, which responds to changes in accounting standards implemented since the formula was originally drafted. The modification would calculate dividends as envisioned in the original legislation. The Governor's budget implicitly assumes the formula is revised.

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2007, will be retained by the Alaska Housing Finance Corporation for the following purposes 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) \$20,234,450 for debt service on the bonds authorized under sec. 10, ch. 130, SLA 2000;

(3) \$2,592,558 for debt service on the bonds authorized under ch. 2, SSSLA 2002;

(4) \$8,107,958 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection b informs the legislature that AHFC will retain \$31.9 million of the dividend to pay debt service on various AHFC-financed capital projects authorized by past legislatures. This leaves \$54.7 million (\$11.5 million more than in FY06) for the legislature to spend as it wishes. Subsection b makes no appropriations.

(c) After deductions for the items set out in (b) of this section, the remainder of the amount set out in (a) of this section is used for the following purposes in the following estimated amounts:

(1) \$23,441,712 for debt service;

(2) \$31,240,000 for capital projects.

Subsection c informs the legislature that the Governor is requesting \$23.4 million for debt service and \$31.2 million for capital projects. This subsection is informative only; these appropriations are made elsewhere in the operating and capital budgets.

(d) 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, 2007, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection d appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire dividend specified in subsection a.

(e) 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 fiscal year 2007 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

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receipts among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan program (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) in accordance with procedures adopted by the board of directors.

Subsection e appropriates certain FY07 receipts of the AHFC to the corporation and allocates those receipts to the AHFC revolving loan fund, housing assistance loan fund, and 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 reports. Corporate operating costs are appropriated in section 1.

(f) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan program (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) under (e) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2007, for housing loan programs not subsidized by the corporation.

(g) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan program (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) under (e) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2007, for housing loan programs and projects subsidized by the corporation.

Legislative Fiscal Analyst Recommendation: Per January 3, 2006 discussions with AHFC staff, reference to the housing assistance loan program should be deleted from subsections e, f and g.

(h) The sum of \$30,000,000 is appropriated from federal receipts to the Alaska Housing Finance Corporation for housing assistance payments under the Section 8 program for the fiscal year ending June 30, 2007.

Subsections f, g, and h appropriate certain FY07 corporate receipts to various housing programs. These amounts establish lending limits for the year. The limits are unchanged from FY06.

* **Sec. 7. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$16,649,500 has been declared available by the Alaska Industrial Development and Export Authority board of directors for appropriation as the fiscal year 2007 dividend from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

(b) After deductions for appropriations made 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, 2007, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated annual AIDEA corporate "dividend" to the state will be \$16.6 million (the FY06 dividend was \$8.8 million). 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. This year's dividend is the maximum available by law.

Funding: This subsection makes no appropriations.

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt

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Retirement Fund. Section 17 of the Governor's proposed operating budget appropriates the entire \$16.6 million to the Debt Retirement Fund.

*** Sec. 8. ALASKA PERMANENT FUND CORPORATION.** (a) The amount authorized under AS 37.13.145(b) for transfer by the Alaska Permanent Fund Corporation on June 30, 2007 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 administrative and associated costs for the fiscal year ending June 30, 2007.

(b) After money is transferred to the dividend fund under (a) of this section, the amount calculated under AS 37.13.145 to offset the effect of inflation on the principal of the Alaska permanent fund during fiscal year 2007 is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund.

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during fiscal year 2007 is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

(d) The income earned during fiscal year 2007 on revenue from the sources set out in AS 37.13.145(d) is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection a appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY07 (as calculated on the last day of the fiscal year) will be used to pay PFDs in FY08 and associated costs throughout FY07.

Funding: The projected amount of dividend transfer for FY07 is \$795 million, including administrative and associated costs. Administrative and associated costs for FY07 are reflected in section 1 of the budget. They include the cost of operating the PFD Division, hold-harmless provisions that affect people served by the Department of Health & Social Services and "cost recovery" programs in various departments.

Subsection b is an "inflation proofing" provision, which transfers money from the Earnings Reserve Account to principal.

Funding: The Governor's projected amount of inflation proofing for FY07 is \$691 million.

Subsection c appropriates 25% of mineral lease rentals, royalties, royalty sales, etc. to the principal of the Permanent Fund as required by constitution or statute.

Funding: These deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports. The Permanent Fund projects that dedicated deposits will be \$466 million during FY07.

Subsection d appropriates FY07 earnings received as a result of the State v. Amerada Hess to the Alaska Capital Income Fund. This fund was established last year; income from FY05 and FY06 was used for capital projects.

Funding: The Permanent Fund Corporation's November 2005 estimate of earnings from State v. Amerada Hess is \$28 million. None of that money is appropriated in the Governor's operating or capital bills, which is consistent with his public statement of intent to use the money for a community assistance program.

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* **Sec. 9. ALASKA STUDENT LOAN CORPORATION DIVIDEND.** (a) The sum of \$1,900,000 has been declared available by the Alaska Student Loan Corporation board of directors for appropriation as the fiscal year 2007 dividend.

(b) After deductions for appropriations made 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, 2007, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated FY07 Student Loan Corporation dividend to the state will be \$1.9 million, which is \$1.2 million less than the \$3.1 million paid in FY06.

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. Section 17 of the Governor's proposed operating budget appropriates the entire \$1.9 million to the Debt Retirement Fund.

Legislative Fiscal Analyst Comment: *The dividend reduction is due primarily to a decline in education loan interest income. Factors contributing to reduced income include loan consolidation (higher rate loans being consolidated at substantially lower interest rates) and an increase in the number of loans qualifying for borrower benefits (provided through interest rate reductions and credits). This year's dividend is calculated as 35 percent of 2005's net income, which is the maximum percentage allowed by law. The total 2005 borrower benefits provided were approximately \$3.9 million, which decreased the 2005 dividend by \$1.4 million (35 percent of the benefit).*

* **Sec. 10. ALASKA STUDENT LOAN CORPORATION EDUCATION LOAN FUND.** (a) The amount of loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2007, is appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

Subsection a appropriates origination fees charged on student loans to the origination fee account within the student 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 annually by the corporation. It is currently set at 3%. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.*

(b) The sum of \$20,000,000 is appropriated from Alaska Student Loan Corporation receipts to the education loan fund (AS 14.42.210).

Subsection b appropriates \$20 million of corporate receipts to the education loan fund, where it will serve as an endowment with future earnings used for financial aid grants.

Legislative Fiscal Analyst Comment: *The ASLC regards this appropriation, because of the resulting restricted use of the assets to a non-loan purpose, as a return of capital to the state, as certain bond proceeds from FY05 and FY06 were characterized. ASLC intends to return remaining state capitalization of about \$40 million (after this action) to the state in FY08 or FY09.*

OMB reports reflect this transaction as an internal transfer of funds rather than as income received by the state and then deposited to the education loan fund. By obscuring the character of the deposit, this method obscures the choice facing the legislature. That

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is, a "return of capital" is revenue that could be used to supplant general fund appropriations for capital projects or other spending priorities. There is no issue here if the legislature decides that funding this endowment is the best use of money that is, in essence, general funds.

*** Sec. 11. CHILD SUPPORT SERVICES.** (a) The minimum amount of program receipts received during the fiscal year ending June 30, 2007, by the child support services agency that is required to secure the federal funding appropriated for the child support enforcement program in sec. 1 of this Act is appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2007.

(b) Program receipts collected as cost recovery for paternity testing administered by the child support services agency, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(f), are appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2007.

Subsection a permits an unspecified amount of program receipts collected by the CSSD to be spent to capture the Federal Receipts appropriated in section 1.

Funding: Although federal incentive payments (which can be used to match other federal receipts) have declined as other states have improved performance, the estimated impact of this section is zero.

Subsection b appropriates (to CSSD) receipts collected to recover the costs of paternity testing.

Funding: The department estimates that paternity testing will generate \$43.0 in program receipts.

*** Sec. 12. DISASTER RELIEF AND FIRE SUPPRESSION.** (a) Federal receipts received for disaster relief during the fiscal year ending June 30, 2007, are appropriated to the disaster relief fund (AS 26.23.300).

(b) The sum of \$3,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300).

(c) Federal receipts received for fire suppression during the fiscal year ending June 30, 2007, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2007.

Subsection a is standard language appropriating federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

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

Subsection b capitalizes the Disaster Relief Fund with \$3 million of general funds as a cushion against future disasters.

Subsection c appropriates an unspecified amount of federal receipts received for fire suppression to the Department of Natural Resources.

Funding: A \$2 million federal receipts estimate for fire suppression has been used for several years.

*** Sec. 13. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT.** The sum of \$300,000 is appropriated from the general fund to the Department of Education and Early

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Development, school finance and facilities, for operating costs related to a lawsuit for the fiscal year ending June 30, 2007.

This is one-time funding to cover legal and expert services costs of the Moore vs. State lawsuit.

*** Sec. 14. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as described in AS 44.21.045(b), Exxon Valdez oil spill trust receipts described in AS 37.05.146(b)(4), and receipts of the Alaska Fire Standards Council described in AS 37.05.146(b)(5) that are received during the fiscal year ending June 30, 2007, 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).

(b) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2007, exceed the estimates appropriated by this Act, the appropriations from state funds for the affected program may be reduced by the excess if the reductions are consistent with applicable federal statutes.

(c) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2007, fall short of the estimates appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection a lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit Committee. There is no substantive change from FY06 (the word "described" is inserted in place of "defined" in several places).

Subsection b is standard language that permits state authorization to be reduced if unanticipated money is received for projects funded by general funds. There is no formal process for tracking potential reductions.

Subsection c is standard language that automatically limits authorization of federal and other receipts to the amount actually received.

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. Legislative Finance places no dollar value on appropriations in this section.

*** Sec. 15. FISH AND GAME ENFORCEMENT.** (a) To increase enforcement of the fish and game laws of the state, the amount deposited in the general fund during the fiscal year ending June 30, 2006, from criminal fines, penalties, and forfeitures imposed for violation of AS 16 and its implementing regulations and from the sale of forfeited property or alternative damages collected under AS 16.05.195, including interest earned, is appropriated to the fish and game fund (AS 16.05.100).

(b) Appropriations totaling the estimated amount of the deposits described in (a) of this section and the remaining unexpended and unobligated balances from prior year transfers for these purposes, including interest earned by those prior year transfers, are made in sec. 1 of this Act to the Department of Public Safety and the Department of Law for increased enforcement, investigation, and prosecution of state fish and game laws. If the amounts of the deposits and unexpended and unobligated balances, including interest, fall short of the estimates appropriated in sec. 1 of this Act, the amounts appropriated to the Department of Public Safety and the Department of Law from the fish and game fund as set out in sec. 1 of this Act are reduced proportionately.

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Subsection a specifies that FY06 collections of fines, penalties and forfeitures for criminal violations of fish and game laws, along with associated interest, are appropriated to the Fish and Game Fund.

Legislative Fiscal Analyst Comment: *Interest earnings were appropriated in the FY05 supplemental bill, but the inclusion of interest in operating language is new for FY07.*

Funding: *Estimated FY06 collections addressed by this section are \$897.3, including interest of about \$7,700.*

Subsection b references appropriations made in section 1 to the Departments of Law and Public Safety. It appropriates all past collections (plus interest) that exceed past expenditures and reduces appropriations if available funds are less than the amounts appropriated in section 1.

Funding: *Appropriations of FY06 collections (\$1,176.0) appear in section 1. Appropriations exceed revenue from collections by about \$275.0.*

Legislative Fiscal Analyst Comment: *These fines are general fund program receipts that arguably should not go through the F&G fund on their way to the departments of Law and Public Safety. The inclusion of past interest adds to the confusion; the proposed language is unclear on the issue of whether it appropriates interest earned on prior year unobligated balances or on the full amount of past collections. Given that appropriations from the fund in FY07 are \$1,176.0 (well above the \$897.3 estimated collections), there are two implications; either*

1) past interest makes up the \$275.0 revenue shortfall, or

2) appropriations made in section 1 will be pro-rated by up to 25 percent.

Legislative Fiscal Analyst Recommendation: *Delete references to interest earned, which complicate an already complex cash flow. Consider eliminating the flow through the F&G fund in favor of appropriating funds directly to the departments of Law and Public Safety. The latter option has no impact on total general fund appropriations.*

*** Sec. 16. FISHERMEN'S FUND.** If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060(a)) exceeds the estimates appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2007.

This section will allow benefit payments to exceed the amount appropriated in section 1. This section was added in FY06 because FY05 benefit payments nearly exceeded authorization. This language ensures that expenditure authorization will be sufficient to pay benefits required by law.

*** Sec. 17. FUND TRANSFERS.** (a) The following amounts are appropriated to the debt retirement fund (AS 37.15.011):

(1) the sum of \$5,384,700 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2003A general obligation bonds;

(2) the sum of \$9,719,500 from federal receipts for state guaranteed transportation revenue anticipation bonds, series 2003B;

(3) the sum of \$1,943,200 from Alaska accelerated transportation projects fund bond proceeds for state guaranteed transportation revenue anticipation bonds, series 2003B;

(4) the sum of \$61,029,800 from the general fund;

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- (5) the sum of \$12,700 from the investment loss trust fund (AS 37.14.300);
- (6) the sum of \$250,000 from miscellaneous earnings from earnings of the reserve fund or of the unreserved investment earnings of the Alaska Municipal Bond Bank;
- (7) the sum of \$23,441,712 from the Alaska Housing Finance Corporation fiscal year 2007 dividend;
- (8) the sum of \$16,649,500 from the Alaska Industrial Development and Export Authority fiscal year 2007 dividend;
- (9) the sum of \$1,900,000 from the Alaska Student Loan Corporation fiscal year 2007 dividend.

Subsection a is summarized below.

Total Capitalization of the Debt Retirement Fund			
Subsec	Fund Source	FY07 Debt Service	Details
1	Misc Earnings	5,384.7	Earnings on bond proceeds of the Series 2003A GO Bonds
2	Federal Receipts	9,719.5	Federal receipts to pay Series 2003B GO Bonds
3	Misc Earnings	1,943.2	Earnings on bond proceeds of the Series 2003B GO Bonds
4	General Funds	61,029.8	
5	ILTF	12.7	
6	Muni Bond Bank	250.0	
7	AHFC Dividends	23,441.7	
8	AIDEA Dividend	16,649.5	
9	ASLC Dividend	1,900.0	
	Total Deposits	120,331.1	

Legislative Fiscal Analyst Recommendation: An effort should be made to ensure that all fund transfers are included in this bill. Legislative Finance has traditionally avoided arguments regarding dedicated revenue by including language capitalizing all funds except those with revenue dedicated under the Constitution. The Tobacco Use Education and Cessation Fund and the Workers' Compensation Guaranty Fund (and perhaps a few other funds) have no appropriation capitalizing them. Legislative Finance and Legal Services believe that statutory language specifying that a fund is comprised of money from certain sources does not take the place of annual appropriations.

(b) The following amounts are appropriated to the election fund required by the federal Help America Vote Act:

- (1) the sum of \$100,000 from federal receipts;
- (2) interest earned on amounts in the election fund required by the federal Help America Vote Act.

Subsection b(1) and (2) appropriate \$100,000 in federal receipts from the Help America Vote Act and interest earned to the election fund.

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(c) The sum of \$13,515,000 is appropriated from the general fund to the power cost equalization and rural electric capitalization fund (AS 42.45.100).

(d) The sum of

(1) \$5,000,000 is appropriated from federal receipts to the power cost equalization endowment fund (AS 42.45.070);

(2) \$5,000,000 is appropriated from the general fund to the power cost equalization endowment fund (AS 42.45.070); if the federal receipts under (1) of this subsection are less than \$5,000,000, the amount appropriated from the general fund in this paragraph is reduced to an amount equal to the amount of federal receipts under (1) of this subsection.

(e) The amount necessary to provide the sum appropriated from the power cost equalization and rural electric capitalization fund (AS 42.45.100) by sec. 1 of this Act, after any appropriations made to that fund during the fiscal year ending June 30, 2007, are taken into account, is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the power cost equalization and rural electric capitalization fund. However, in accordance with AS 42.45.085(a), the amount appropriated by this subsection may not exceed seven percent of the market value of the power cost equalization endowment fund, determined by the commissioner of revenue to be \$11,881,870, minus amounts appropriated during the fiscal year ending June 30, 2007, for reimbursement of the costs set out in AS 42.45.085(a)(2) and (3).

Subsections (c) and (e) capitalize the PCE Fund with \$13.5 million in general funds and 7 percent of the PCE Endowment (\$11.7 million). This fund capitalization provides the \$25.2 million needed to fully fund the PCE appropriations made in section 1.

Subsection (d) appropriates \$5 million of federal funding and \$5 million of general funds directly to the PCE Endowment.

Legislative Fiscal Analyst Comment: There is no state match requirement for the \$5 million in federal funds--the \$5 million general funds appropriation simply increases the endowment's principal. Historical issues surrounding PCE are complex and include:

- ***The PCE Endowment is insufficient to support the level of funding calculated by statutory formula.***
- ***Appropriating 7% of the endowment market value (for annual PCE grants) can erode the endowment and may increase future GF funding requirements for the program.***
- ***Funding the program strictly with endowment payout would require an endowment market value of \$360 million to fund grants at \$25.2 million. At the end of November 2005, the balance of the endowment was \$177.3 million (down from \$186.4 at this time last year).***

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	FY05*	FY06	FY07	06-07 Change
Operating Budget				
PCE Program	15.7	18.7	25.2	6.5
TOTAL	15.7	18.7	25.2	6.5
PCE Fund Capitalization				
General Funds	2.2	2.5	13.5	11.0
NPR-A Funds (Federal)	-	5.2	-	-5.2
PCE Endowment	11.4	11.5	11.7	0.2
Total	13.6	19.2	25.2	6.0
PCE Endowment				
Federal Funds	-	-	5.0	5.0
General Funds	-	-	5.0	5.0
Total	0.0	0.0	10.0	10.0
*FY05 funding includes FY04 supplemental funding of \$2.2 million of GF & \$2.2 million of PCE Endowment funding appropriated to support FY05 Grants				

(f) The sum equal to 25 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2006, that is appropriated to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program during fiscal year 2006, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2006, and that lapses into the National Petroleum Reserve - Alaska special revenue fund is appropriated to the principal of the Alaska permanent fund from the National Petroleum Reserve - Alaska special revenue fund.

Subsection (f) (per AS 37.05.530(g)) appropriates twenty-five percent of the lapsing balance of grants to the permanent fund. No lapsing balance is anticipated.

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

(g) The sum equal to 0.5 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2006, that is appropriated to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program during fiscal year 2006, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2006, and that lapses into the National Petroleum

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Reserve - Alaska special revenue fund is appropriated to the public school trust fund (AS 37.14.110) from the National Petroleum Reserve - Alaska special revenue fund.

Subsection (g) (per AS 37.05.530(g)) appropriates one half percent of the lapsing balance of grants to the Public School Trust Fund. No lapsing balance is anticipated.

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

(h) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 on or before August 31, 2006, that is appropriated to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program during fiscal year 2006, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2006, that lapses into the National Petroleum Reserve - Alaska special revenue fund, and that is not appropriated under (f) and (g) of this section is appropriated to the power cost equalization and rural electric capitalization fund (AS 42.45.100) from the National Petroleum Reserve - Alaska special revenue fund.

Subsection (h) (per AS 37.05.530(g)) appropriates the lapsing balance remaining after (f) and (g) to the PCE Fund to fund the PCE Program. No lapsing balance is anticipated.

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

(i) The following revenue collected during the fiscal year ending June 30, 2007, is appropriated to the fish and game fund (AS 16.05.100):

(1) receipts from the sale of crewmember fishing licenses (AS 16.05.480(a)) that are not deposited into the fishermen's fund under AS 23.35.060;

(2) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15));

(3) fees collected at boating and angling access sites described in AS 16.05.050(a)(6) and managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement;

(4) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)); and

(5) fees collected for sanctuary access permits (AS 16.05.050(a)(15)).

Subsection (i) appropriates revenue generated by the named licenses and fees into the Fish and Game Fund. Appropriations from this revenue source use the Fish and Game Nondedicated Receipts fund code (1194) to differentiate these appropriations (which are essentially GF appropriations) from the dedicated portion of the Fish and Game Fund.

(j) The sum of \$9,175,900 is appropriated to the Alaska clean water fund (AS 46.03.032) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$1,529,300
Federal receipts	7,646,600

(k) The sum of \$10,023,000 is appropriated to the Alaska drinking water fund (AS 46.03.036) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$1,070,500
Federal receipts	8,352,500
General fund match	600,000

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Subsections (j) and (k) provide money to develop sewer and water systems in Alaska communities. Money for the various projects is appropriated from the Clean Water and Drinking Water Funds in the capital budget. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match for federal money.

(l) 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) 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, 2006, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2006, estimated to be \$8,500,000, from the surcharge levied under AS 43.55.300.

Subsections (l) is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY06 collections from the 3 cent per barrel surcharge on oil produced in the state.

Funding: The projected balance of subsection (l)(1) is \$2.7 million (the oil and hazardous substance release prevention mitigation account).

(m) 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) 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, 2006, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2006, from the surcharge levied under AS 43.55.201.

Subsections (m) is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY06 collections from the 2 cent per barrel surcharge on oil produced in the state.

Funding: The projected balance of the mitigation account that will be transferred under this section is zero. The surcharge mentioned in subsection (2) has not been triggered for several years.

(n) The sum of \$5,821,500 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 Department of Fish and Game, division of sport fish, Alaska fish and game revenue bond redemption fund (AS 37.15.770).

Subsection (n) transfers the amount collected under the surcharge on sport fish licenses (created by SB 147 (Ch 94, SLA 05)) from the sport fish enterprise account, where the revenue is deposited, to the bond redemption fund. The transfer is for payment of debt service on bonds authorized for hatchery construction. As both funds are subfunds of the Fish and Game Fund, this section has no fiscal impact; it is an attempt to preempt legal issues associated with the fisheries revenue bonds.

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(o) The sum of \$11,962,600 is appropriated from the general fund to the Alaska senior care fund (AS 47.45.360).

*** Sec. 18. INSURANCE AND BOND CLAIMS.** (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 during the fiscal year ending June 30, 2007.

(b) The amounts received in settlement of claims against bonds guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of wells, are appropriated to the agency secured by the bond for the fiscal year ending June 30, 2007, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

(c) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2006, and money deposited in that account during the fiscal year ending June 30, 2007, is appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)) for the fiscal year ending June 30, 2007, for expenditure by the Department of Natural Resources under AS 37.14.820(a).

***Subsection a** references the statute that allows up to \$5 million to be swept from lapsing general fund appropriations for 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.*

Legislative Fiscal Analyst Comment: *This subsection 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.*

Legislative Fiscal Analyst Comment: *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 appropriation by the legislature; and 2) judgment legislation. Delays that could occur with legislative remedies would create difficult financial situations in situations that require immediate action.*

Funding: *This provision has no FY07 fiscal impact; it allows money appropriated elsewhere to be swept into the reserve account but does not increase total appropriations.*

Subsection b is standard language that appropriates claims against bonds for land reclamation to the agencies that will direct the reclamation.

Funding: *The Department of Natural Resources estimates the impact of this section to be \$100,000.*

Subsection c authorizes an internal transfer of funds from the income account to the operating account, where it is available for DNR to spend with no further appropriation.

Funding: *Although the estimated amount of the transfer is over \$800,000, the agency estimates the amount needed for mine reclamation expenditures is about \$250,000.*

Legislative Fiscal Analyst Comment: *OMB shows no appropriation for this transfer because they characterize it as internal to the Mine Reclamation Trust Fund. This treatment understates expenditures of the state by the amount that DNR will spend on mine reclamation. Legislative Finance suggests that projected expenditures of \$250,000 be reflected in budget reports.*

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* **Sec. 19. NATIONAL FOREST RECEIPTS.** 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 June 30, 2007, under AS 41.15.180(j) is appropriated as follows:

(1) up to \$170,000 is appropriated to the Department of Transportation and Public Facilities, commissioner's office, for road maintenance in the unorganized borough;

(2) the balance remaining 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, 2007, 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, 2007.

Subsection 1 appropriates \$170.0 of National Forest Receipts to DOT&PF for road maintenance in the unorganized borough.

Subsection 2 appropriates any remaining balance 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 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.

Legislative Fiscal Analyst Comment: 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 of funds has not been made. Appropriating money from this fund before the end of the year conflicts with rules regarding distribution of the funds. The appropriation appears to be designed to spend federal receipts before they lapse and would be spent as general funds. However, the section also changes the potential purpose of the appropriation. Lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Section 19 takes money that would otherwise be spent in unorganized areas and appropriates it to local governments.

* **Sec. 20. RETAINED FEES AND BANKCARD SERVICE FEES.** (a) The amount retained to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2007, is appropriated for that purpose to the agency authorized by law to generate the revenue.

(b) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2007, is appropriated for that purpose 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.

This language addresses the need to appropriate vendor compensation that is not directly appropriated by the state for 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 sale. It also applies to several programs in the Department of Administration, Department of Natural Resources and the Trial Courts.

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

* **Sec. 21. SALARY AND BENEFIT ADJUSTMENTS.** (a) The operating budget appropriations made in sec. 1 of this Act, and in sec. 1 of the Act making appropriations for the state's integrated comprehensive mental health program, 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 terms for the fiscal year ending June 30, 2007, of the following collective bargaining agreements:

- (1) Alaska Public Employees Association, for the Confidential Unit;
- (2) Alaska Public Employees Association, for the Supervisory Unit;
- (3) Alaska State Employees Association, for the General Government Unit;
- (4) Marine Engineers Beneficial Association, representing licensed engineers employed by the Alaska marine highway system;
- (5) Public Employees Local 71, for the Labor, Trades and Crafts Unit;
- (6) Inlandboatmen's Union of the Pacific, representing the unlicensed marine unit;
- (7) International Organization of Masters, Mates, and Pilots, for the Masters, Mates, and Pilots Unit;
- (8) Public Safety Employees Association, representing regularly commissioned public safety officers;
- (9) Alaska Vocational Technical Center Teachers' Association - National Education Association, representing employees of the Alaska Vocational Technical Center.

(b) The operating budget appropriations made to the University of Alaska in this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2007, for university employees who are not members of a collective bargaining unit and for implementing the monetary terms of the collective bargaining agreements including the terms of the agreement providing for the health benefit plan for university employees represented by the following entities:

- (1) Alaska Higher Education Crafts and Trades Employees;
- (2) Alaska Community Colleges' Federation of Teachers;
- (3) United Academics;
- (4) United Academics-Adjuncts.

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

Funding: *This section is not an appropriation. It specifies that various salary adjustments are funded with money appropriated in section 1.*

* **Sec. 22. SALMON ENHANCEMENT TAX.** The salmon enhancement tax collected under AS 43.76.010 - 43.76.028 in calendar year 2005 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce,

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Community, and Economic Development for payment in fiscal year 2007 to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These “pass through” amounts are excluded from Legislative Finance reports on the operating bill.

* **Sec. 23. SECOND INJURY FUND.** If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the estimates appropriated in sec. 1 of this Act, the amount necessary to make those benefit payments is appropriated from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2007.

This section will allow benefit payments to exceed the amount appropriated in section 1. This section was added FY06 because FY05 benefit payments nearly exceeded authorization. This language ensures that expenditure authorization will be sufficient to pay benefits required by law.

* **Sec. 24. SHARED TAXES AND FEES.** The amount necessary to refund to local governments their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated to the Department of Revenue from the general fund for payment in fiscal year 2007:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Fisheries business tax (AS 43.75)	2006
Fishery resource landing tax (AS 43.77)	2006
Aviation fuel tax (AS 43.40.010)	2007
Electric and telephone cooperative tax (AS 10.25.570)	2007
Liquor license fee (AS 04.11)	2007

Funding: These “pass through” amounts are excluded from Legislative Finance reports on the operating bill.

* **Sec. 25. STATE 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, 2007, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes.

Subsection a appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year.

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

(b) The amount required to be paid by the state for principal and interest on all issued and outstanding state-guaranteed bonds is appropriated from the general fund to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2007, for payment of principal and interest on those bonds.

Subsection b appropriates general funds to pay principal and interest on state-guaranteed bonds (veterans mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The only purpose of the state general obligation pledge is to gain tax-exempt status for the bonds. 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.

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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 sum of \$31,463,626 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

(d) The sum of \$51,661 is appropriated to the state bond committee from State of Alaska general obligation bonds, series 2003A bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2007, for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

Subsections c and d *appropriate \$31.5 million from the debt retirement fund and \$51,661 from bond premiums and interest, respectively, to pay debt service on series 2003A general obligation bonds. The bonds were authorized by the voters in 2002 for construction of schools and university facilities.*

(e) The sum of \$11,662,591 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B.

(f) The sum of \$1,859,547 is appropriated to the state bond committee from state-guaranteed transportation revenue anticipation bonds, series 2003B bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2007, for payment of debt service and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B.

Subsections e and f *appropriate \$11.7 million from the debt retirement fund and \$1.9 million from premiums and interest, respectively, to pay debt service on series 2003B state guaranteed transportation revenue anticipation bonds. The bonds were authorized by voters in 2002 for road and harbor construction/renovation.*

Legislative Fiscal Analyst Comment: *Although these bonds were issued with a GO pledge by the state, they are more appropriately defined as GARVEE bonds. The majority of the debt service is paid using eligible federal-aid highway formula funding coupled with a state matching component.*

(g) The sum of \$33,136,800 is appropriated to the state bond committee for the fiscal year ending June 30, 2007, for payment of debt service and trustee fees on outstanding international airports revenue bonds from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430)	\$31,136,800
Passenger facility charge	2,000,000

Subsection g *appropriates funding for payment of debt service and fees on outstanding international airport revenue bonds.*

(h) The sum of \$1,539,300 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565) 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 during the fiscal year ending June 30, 2007.

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(i) The sum of \$1,075,300 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565) 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 during the fiscal year ending June 30, 2007.

Subsections h and i appropriate the interest earnings of the clean water and drinking water fund to their respective bond redemption funds. Both funds are capitalized annually with federal receipts for drinking and clean water loans. The federal receipts require a state match. Federal restrictions on the loan funds, however, limit the use of the principal and earnings of the funds to program loans and debt service. This section takes advantage of a loophole for attaining the state match by issuing short term bonds (secured by the assets of the loan fund). The "restricted" earnings are then used immediately to pay off the bonds. Essentially, the earnings of the funds are used as match.

(j) The sum of \$13,147,600 is appropriated from the Alaska debt retirement fund (AS 37.15.011) to the state bond committee for the fiscal year ending June 30, 2007, for trustee fees and lease payments relating to certificates of participation issued for real property.

Subsection j appropriates funds from the debt retirement fund to the state bond committee for payment of trustee fees and lease payments related to state-issued certificates of participation. Certificates of participation (COPs) are sold by the state to finance construction or purchase of state facilities. COPs represent fractional interest in the ownership of the lease payments that are paid over time by the state. Eventually, the state owns the facility outright.

Legislative Fiscal Analyst Comment: *In FY06, the favorable interest environment allowed for several COP refinancings. Both the Atwood Building and the Anchorage Jail have been refinanced to a more favorable rate with the same term. Additionally, several COPs have been combined and refinanced together. Further details will be available when the Department of Revenue's Public Debt is published in January 2006.*

(k) The sum of \$3,467,100 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2007, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage.

Subsection k appropriates \$3.5 million for obligations associated with the Atwood building. AHFC purchased the Robert B. Atwood building for approximately \$39 million in cash and then issued revenue bonds secured by the building itself and lease payments from the State. The State will own the building at the end of the lease.

(l) The sum of \$5,091,800 is appropriated from the general fund to the Department of Administration, for the fiscal year ending June 30, 2007, for payment of obligations and fees for the Anchorage Jail.

Subsection l appropriates \$5.1 million general funds to pay lease costs for the Anchorage Jail. Anchorage issued municipal bonds to pay for the construction of the Anchorage Jail, which the State leases.

Legislative Fiscal Analyst Comment: *Legislative Finance placed this appropriation in the leasing component in the Department of Administration's FY06 budget. In common language, the contract with the Municipality of Anchorage is a lease, but terms of the contract are such that Governmental Accounting Standards Board's (GASB) rule #34*

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classifies it as a Capital Lease. In simple terms, this means that a default on lease payments could affect the state's credit rating.

(m) The sum of \$93,935,000 is appropriated to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 from the following sources:

Alaska debt retirement fund (AS 37.15.011)	\$66,935,000
School fund (AS 43.50.140)	\$27,000,000

Subsection m appropriates funds 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 authorization). The amount of this appropriation is the projected need for full reimbursement.

(n) The sum of \$10,209,855 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2007, 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	\$1,413,366
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Nome (port facility addition and renovation)	127,137
(B) Matanuska-Susitna Borough (deep water port and road upgrade)	754,413
(C) Aleutians East Borough/False Pass (small boat harbor)	101,840
(D) Lake and Peninsula Borough/Chignik (dock project)	119,257
(E) City of Fairbanks (fire headquarters station replacement)	870,190
(F) City of Valdez (harbor renovations)	226,021
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle Cogeneration plant)	646,935
(B) Cordova Electric Cooperative (Power Creek hydropower station)	3,861,035
(C) Copper Valley Electric Association (cogeneration projects)	334,884
(D) Metlakatla Power and Light (utility plant and capital additions)	1,754,777

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Subsection n appropriates \$10.2 million to various state agencies for reimbursement to municipalities and public entities for debt service on projects authorized in Ch. 115, SLA 2002 (HB 528). This level of reimbursement is considerably higher than that enacted for FY06 (\$3.6 million). The level of reimbursement is discretionary.

(o) The sum of \$5,821,500 is appropriated from the Alaska fish and game revenue bond redemption fund (AS 37.15.770) to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds.

Subsection o appropriates the amount of the surcharge levied on sport fish licenses authorized under SB 147 (Ch 94, SLA 05) that would be transferred to the bond redemption fund (in Section 17 (n) of this bill) for payment of the debt service of the bonds to be issued for sport fish hatchery development.

* **Sec. 26. STATEWIDE CHARGEBACK.** The sum of \$3,557,000 is appropriated from the general fund to the Department of Administration, commissioner's office, for the fiscal year ending June 30, 2007, for the distribution to state agencies to offset the increased chargeback rates for statewide services as identified in the statewide federal cost allocation plan.

The \$3.6 million in general funds appropriated in this section will be allocated to customer agencies to pay for increased Enterprise Technology Services chargeback in FY07. Funding increases are needed for salary/benefit increases and additional staff to work on Microsoft system deployment, Voice Over Internet Protocol and Alaska Land Mobile Radio projects.

Legislative Fiscal Analyst Comment: *In theory, this method of paying for unavoidable cost increases is the best approach because it involves rate increases that will apply to fund sources other than general funds. Theory implies that I/A receipts collected from customers should exceed the amount of general funds distributed to customers. However, ETS shows a \$3,000.0 Information Services Fund increment to receive increased chargeback amounts. The legislature may wish to explore this issue.*

* **Sec. 27. STATEWIDE ELECTION COSTS.** (a) The sum of \$2,756,500 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 in the fiscal year ending June 30, 2007.

(b) The sum of \$139,000 is appropriated from the general fund to the Department of Administration, Alaska Public Offices Commission, for costs associated with the statewide primary and general elections in the fiscal year ending June 30, 2007.

Section 27 appropriates general funds to pay costs associated with 2006 statewide elections.

* **Sec. 28. UNIVERSITY OF ALASKA.** The fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2006, for the issuance of special request university plates, less the cost of issuing the license plates, are appropriated from the general fund to the University of Alaska for support of alumni programs at the campuses of the university for the fiscal year ending June 30, 2007.

Funding: *The University expects to receive about \$1,000 under this section.*

* **Sec. 29. VETERANS' MEMORIAL ENDOWMENT.** Five percent of the market value of the average ending balances in the Alaska veterans' memorial endowment fund (AS 37.14.700) for fiscal years 2004, 2005, and 2006, is appropriated 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, 2007.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Funding: *Endowment proceeds are expected to be about \$11,600. Proceeds may be used for maintenance, repair and construction of monuments to the military.*

*** Sec. 30. WORKERS' COMPENSATION BENEFITS GUARANTY FUND.** If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the estimates appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2007.

This section will allow benefit payments to exceed the amount appropriated in section 1. This section is new in FY07 and mirrors language for the Second Injury Fund and Fishermen's Fund. This language ensures that expenditure authorization will be sufficient to pay benefits required by law.

*** Sec. 31. CONSTITUTIONAL BUDGET RESERVE FUND.** (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2006 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 11100) 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 they were transferred.

(b) Unrestricted interest earned on investment of the general fund balances for the fiscal year ending June 30, 2007, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made by this section 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 in the fiscal year ending June 30, 2007, in anticipation of receiving unrestricted general fund revenue. The amount appropriated by this section may not exceed an amount equal to the earnings lost by the budget reserve fund as the result of the use of money from the budget reserve fund to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2007, in anticipation of receiving unrestricted general fund revenue.

(c) The sum of \$185,400 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Revenue, treasury division, for increased operating costs related to management of the budget reserve fund for the fiscal year ending June 30, 2007.

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

Subsection a is "sweep reversal language." *The Constitution requires that year-end general fund balances be used to repay withdrawals from the CBR. All general fund subaccounts are "swept" into the CBR; this provision reverses that action.*

Subsection b *appropriates general fund earnings to the CBR as compensation for earnings lost by the CBR as a result of draws to meet the Treasury's cash flow requirements.*

Subsection c *appropriates \$185,400 from the budget reserve fund to the Department of Revenue, Treasury Division, for investment management fees for FY07.*

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

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Legislative Fiscal Analyst Comment: *The standard section appropriating funding from the CBR to cover any shortfall in unrestricted revenue (i.e., the CBR draw) is not included in the Governor's bill.*

* **Sec. 32. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 5, 6(d), 7(b), 8(b) - (d), 9(b), 10, 12(a), 12(b), 15(a), 17, 18(c), 25(h), 25(i), 31(a), and 31(b) of this Act are for the capitalization of funds and do not lapse.

* **Sec. 33. RETROACTIVITY.** Those portions of the appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2006 program receipts or the unexpended and unobligated balance on June 30, 2006, of a specified account are retroactive to June 30, 2006, solely for the purpose of carrying forward a prior fiscal year balance.

* **Sec. 34.** Sections 28 and 33 of this Act take effect June 30, 2006.

* **Sec. 35.** Except as provided in sec. 34 of this Act, this Act takes effect July 1, 2006.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Capital Budget

The Governor's FY07 capital budget contains over \$1.7 billion in projects. This is \$54 million greater than that appropriated for capital projects in FY06. **Total state funds⁴ amount to \$614 million, of which \$432 million are general funds.**

\$171 million in state funds (\$133 million GF) is identified as match for nearly \$1 billion in federal funds. The largest programs include:

- DOTPF – Surface Transportation Program and Congressional Earmarks - \$74 million state/ \$643 federal
- DOTPF – Airport Improvement Program - \$16 million state/ \$167 million federal
- DEC - Water and Wastewater Infrastructure Projects⁵ - \$22 million state/ \$74 million federal

There has been considerable nation-wide controversy regarding the **congressional earmarks for the Knik Arm and Gravina Island bridges**. When the latest transportation act (SAFETEA-LU) was enacted in August 2005, over \$400 million in federal funding was earmarked for these two projects. A serious drawback, however, was a provision that deducted these earmarks from normal federal-aid highway formula funds. This provision would have severely reduced the level of funding available for the state's normal highway construction program. However, as a result of the national controversy over the so called "bridges to nowhere," the earmark funds were redesignated to the Surface Transportation Program. The funding is now available for programming through the normal STIP⁶ process.

The governor has made it a priority to allocate roughly \$90 million each to the Knik Arm and Gravina Island bridges from this formerly earmarked funding. Given that estimates for complete construction of the Gravina Island and Knik Arm bridges are \$300 and \$600 million respectively, the legislature may question where additional funding will come from and when it will be received.

The Governor's proposal appropriates a total of \$300 million for projects that use only general funds. Projects include:

- State of Alaska Telecommunication System (SATS) and Alaska Land Mobile Radio (ALMR) Build Out - \$7.6 million
- Voice Over Internet Protocol (VoIP) Deployment - \$15 million
- Various Grants to Named Recipients - \$17 million
- Various Grants to Municipalities - \$44 million
- DPS Crime Lab Expansion - \$4.8 million
- DOTPF Transportation Initiative - \$148 million
 - Juneau Access - \$45 million
 - Railroad Extension - \$50 million

⁴ Total state funds are net of duplicated fund sources.

⁵ Formerly Village Safe Water and Municipal Water, Sewer and Solid Waste Matching Programs

⁶ Statewide Transportation Improvement Plan also known as the STIP is the federally required planning tool to receive federal transportation funding.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

- Roads to Resources Program - \$17 million
- Parks Highway - \$10.5 million

There is considerable pressure to expand the state-funded transportation construction program. Statewide needs far exceed expected federal funding. Nation-wide, transportation infrastructure is deteriorating while revenues to the National Highway Trust Fund (which funds the Federal-Aid Highway Program) are decreasing. Most states have a state-funded program to supplement federal transportation funding programs.

Proposed new debt financing:

- The governor has built **\$89.25 million of tobacco bonds** into his bill. He has allocated this funding entirely to the **University**, of which \$34 million would be used for **facility upgrades** and \$55 million would go to complete construction of the **Integrated Science Facility** in Anchorage.
- As expected from the expanded **International Airport Revenue Bond** authorization last session, **\$123 million** in bond proceeds is allocated for construction at the two international airports. The bulk of the funding will be for a complete remodel of **Concourses A and B at the Anchorage airport** and for reconstruction of the **primary runway at the Fairbanks airport**.

Other state funded projects include:

- \$31 million of AHFC Dividends for various AHFC projects and programs; and
- \$15 million of Alaska Aerospace Development Corporation Receipts for Kodiak Launch Complex infrastructure improvements

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Language Sections of the Governor's FY07 Capital Budget

* **Sec. 4. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as defined in AS 44.21.045(b), receipts of the University of Alaska as described in AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), corporate receipts of the Alaska Aerospace Development Corporation, Exxon Valdez oil spill trust receipts as defined in AS 37.05.146(b)(4), and receipts of the Alaska Fire Standards Council under AS 37.05.146(b)(5), that exceed the amounts appropriated by this Act are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

(b) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) exceed the estimates appropriated by this Act, the appropriations from state funds for the affected program may be reduced by the excess if the reductions are consistent with applicable federal statutes.

(c) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) fall short of the estimates appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection a lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit Committee. There is no change from FY06.

Legislative Fiscal Analyst Comment: *This standard language permits requests for additional capital authorization to be submitted to the LB&A committee for approval. Similar language in the operating budget applies only to operating authorization. Operating language excludes University receipts, test fisheries receipts and corporate receipts of the Alaska Aerospace Development Corporation.*

Subsection b is standard language that permits state authorization to be reduced if unanticipated money is received for projects funded by general funds. There is no formal process for tracking potential reductions.

Legislative Fiscal Analyst Comment: *The intent of the provision is to increase authorization for a project when unexpected funding presents itself while allowing the legislature to maintain the state funds if it desires.*

Subsection c is standard language that automatically limits authorization of federal and other receipts to the amount actually received.

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. Legislative Finance places no dollar value on appropriations in this section.*

* **Sec. 5. INSURANCE CLAIMS.** The amounts to be received in settlement of insurance claims for losses and the amounts to be received as recovery for losses are appropriated from the general fund to the

- (1) state insurance catastrophe reserve account (AS 37.05.289(a)); or
- (2) appropriate state agency to mitigate the loss.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

This section allows an agency to receive insurance claim settlement payments directly from a third party. Without this provision, settlements would remain in the general fund and would not be available to offset an agency's loss without a specific appropriation.

*** Sec. 6. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM.** (a) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 by August 31, 2006, estimated to be \$4,500,000, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

Subsection a appropriates federal receipts for the National Petroleum Reserve-Alaska impact grant program.

(b) That portion of the amount appropriated by (a) of this section that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality by August 31, 2006, lapses into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) September 1, 2006.

Subsection b clarifies that, after all meritorious grants have been funded, the remaining NPR-A funding lapses in the NPR-A special revenue fund (AS 37.05.530).

*** Sec. 7. RURAL ELECTRIFICATION REVOLVING LOAN FUND; ELECTRICAL EMERGENCIES PROGRAM.** (a) Notwithstanding AS 42.45.020(g), the balance of the rural electrification revolving loan fund (AS 42.45.020) on June 30, 2006, estimated to be \$90,000, is appropriated to the Alaska Energy Authority for the electrical emergencies program.

Subsection a appropriates the balance of the Rural Electrification Revolving Loan fund to AEA before the funding lapses into the general fund. The balance consists of the loan payments made each year from the remaining loans outstanding. These loan payments totaled approximately \$330,000 annually until recently, when several loans accounting for the over 70% of the outstanding balance were paid in full. The remaining loan payments will total approximately \$90,000 until 2020, when they drop to approximately \$65,000.

(b) The sum of \$240,000 is appropriated from the general fund to the Alaska Energy Authority for the electrical emergencies program.

Subsection b supplants the "lost" loan payments (described in subsection a comments) with general funds. Previous capital appropriations for this program have been fully expended.

*** Sec. 8. LAPSE.** (a) The appropriation made by sec. 5(1) of this Act is for the capitalization of a fund and does not lapse.

(b) The appropriations made by secs. 5(2), 6(a), and 7 of this Act are for capital projects and lapse under AS 37.25.020.

*** Sec. 9.** The appropriations made by sec. 1, p. 11, lines 15 - 16, sec. 1, p. 11, line 17, sec. 1, p. 11, lines 18 - 20, and sec. 7(a) of this Act take effect June 30, 2006.

This provision makes three general fund appropriations to the Department of Fish and Game (totaling \$1.3 million) effective on the last day of FY06, meaning they are supplemental appropriations.

Legislative Fiscal Analyst Comment/Recommendation: *The Department of Fish and Game reports that section 9 should reference three projects funded with Commercial Fisheries Entry Commission (CFEC) receipts rather than three general fund projects.*

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Regardless of the projects or funding source, the Governor's capital budget reports list all projects as FY07 appropriations. Legislative Finance has matched those reports despite the contradictory language of section 9.

Given that the effective date for the projects makes money available on the last day of the fiscal year, spending FY06 money on these projects has no apparent practical advantage (because surplus CFEC receipts are traditionally carried forward into the next fiscal year). If there is reason to specify use of FY06 money, the projects should be removed from section 1 and listed individually in this section; section 1 of the bill should be limited to FY07 projects.

*** Sec. 10.** Except as provided in sec. 9 of this Act, this Act takes effect July 1, 2006.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Capital Budget Summary									
Agency	All Funds (Includes MH)				FY07 Governor by Fund Group				
	FY06 Enacted	FY07 Governor	Change 06-07		General Funds	Other State Funds	Duplicated Funds	Nonduplicated State Funds	Federal Funds
Administration	49,505,500	37,020,000	(12,485,500)		31,170,000	3,350,000	2,500,000	32,020,000	2,500,000
Community and Economic Development	196,013,968	86,417,512	(109,596,456)		43,650,900	17,380,806	500,000	60,531,706	25,385,806
Corrections	4,000,000	2,900,000	(1,100,000)		2,900,000	-	-	2,900,000	-
Education and Early Development	70,367,560	2,685,169	(67,682,391)		2,550,000	135,169	-	2,685,169	-
Environmental Conservation	107,925,000	104,883,445	(3,041,555)		29,414,521	500,000	-	29,914,521	74,968,924
Fish and Game	65,809,700	5,600,000	(60,209,700)		1,300,000	2,200,000	-	3,500,000	2,100,000
Office of the Governor	26,192,500	22,400,000	(3,792,500)		100,000	300,000	300,000	100,000	22,000,000
Health and Social Services	65,248,900	33,541,400	(31,707,500)		7,997,100	2,682,700	-	10,679,800	22,861,600
Labor and Workforce Development	2,494,000	5,451,000	2,957,000		5,451,000	-	-	5,451,000	-
Law	1,000,000	260,000	(740,000)		260,000	-	-	260,000	-
Military and Veterans Affairs	45,283,500	22,882,500	(22,401,000)		3,387,500	-	-	3,387,500	19,495,000
Natural Resources	33,413,400	28,520,700	(4,892,700)		7,556,500	5,534,200	-	13,090,700	15,430,000
Public Safety	10,975,000	15,201,439	4,226,439		9,601,439	-	-	9,601,439	5,600,000
Revenue	32,344,350	59,795,450	27,451,100		-	32,165,065	125,000	32,040,065	27,630,385
Transportation/Public Facilities	1,078,774,711	1,326,797,351	248,022,640		284,662,800	168,961,700	140,045,500	313,579,000	873,172,851
University of Alaska	132,059,500	95,100,000	(36,959,500)		550,000	92,550,000	-	93,100,000	2,000,000
Alaska Court System	4,875,000	1,550,000	(3,325,000)		1,550,000	-	-	1,550,000	-
Total - Capital Budget	1,926,282,589	1,851,005,966	(75,276,623)		432,101,760	325,759,640	143,470,500	614,390,900	1,093,144,566
General Funds	338,740,658	432,101,760	93,361,102						
Other State Funds	1,075,942,535	1,093,144,566	17,202,031						
Federal Receipts	511,599,396	325,759,640	(185,839,756)						

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Comprehensive Integrated Mental Health Program

The Alaska Mental Health Trust Authority (Authority) administers the Mental Health Trust established in perpetuity. The Authority has a fiduciary responsibility to enhance and protect the Trust and to provide leadership in advocacy, planning, implementation, and funding of a comprehensive integrated mental health program (CIMHP) to improve the lives and circumstances of its beneficiaries. **The trust's beneficiaries include:**

- People with mental illness;
- People with developmental disabilities;
- People with chronic alcoholism;
- People with Alzheimer's disease and related dementia; and
- People with traumatic brain injury.

The Trust

The Mental Health Lands Trust Settlement reconstituted the trust established by the Alaska Mental Health Enabling Act of 1956 with trust land totaling approximately 930,000 acres. **The settlement required the state to:**

- provide a cash payment of \$200 million into a newly created mental health trust fund;
- establish a Trust Authority;
- return the principal of the trust fund to the Authority; and
- perpetually use the income of the trust to pay for trust administration costs and ensure improvements and continuation of the integrated, comprehensive mental health program.

Chapter 6, SLA 1994 appropriated \$200 million to the mental health trust fund from the following sources:

Mental health trust income account	\$33,000.0
DNR mental health trust income in the general fund	\$11,700.0
Proceeds from sale of DNR land sale contract portfolio	\$25,000.0
Budget reserve fund	\$130,300.0

This appropriation was finalized after the superior court of the State of Alaska made its final determination that the state had satisfied its obligation to reconstitute the Mental Health Trust.

Management of the Trust: The Permanent Fund Corporation manages the trust principal, the Mental Health Trust Lands Office (Dept. of Natural Resources) manages the land, and the Mental Health Trust Authority (Dept. of Revenue) and its Board make recommendations for program funding.

A unique provision of the settlement grants the Authority the power to spend mental health trust income without legislative approval. This provision does not, however, remove the legislature from spending decisions. Most funding programmed by the authority is allocated to state agencies that require legislative authorization to expend the funds. This maintains the legislature's involvement.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

The Mental Health Budget

Separate Appropriation Bill: AS 37.14.001 establishes the responsibilities and authority for management of the Mental Health Trust. The statute requires the Governor to submit a separate appropriation bill limited to appropriations for the state's integrated comprehensive mental health program. If appropriations in the bill submitted by the Governor differ from those proposed by the Authority, or the bill approved by the legislature differs from the bill submitted by the Governor, the bills must be accompanied by a report explaining the reasons for the differences.

The Mental Health Trust generates revenue from the investment earnings on the \$200 million trust, land sale/lease proceeds, and land use royalties. Mental Health Trust income, identified in the appropriation bill as MHTAAR or Mental Health Trust Authority Authorized Receipts, provides approximately \$10 million per year for CIMHP funded programs and mental health trust administrative costs. Other state funds and federal funding are typically included in the CIMHP. These might include general funds, AHFC Dividend funds, and Alcohol and Other Drug Abuse Treatment & Prevention Funds.

The Authority uses two approaches to request funding for the CIMHP.

1. The MHTAAR fund source is allocated by the Authority after reviewing projects with committed funds. The Authority considers requests approved by relevant beneficiary boards and departments, and then submits a list of projects and funding proposals to the Governor. MHTAAR funding is not based on prior year appropriations.
2. The allocation of state funding is similar to the process that applies to other state funds; state agency operating requests show adjustments to appropriations made the previous fiscal year and capital requests are typically independent of prior year appropriations.

In April 2004, the Trustees approved four focus areas for the FY06/FY07 budget cycle, with the goal of affecting significant system changes in the following four areas:

- Affordable, Appropriate Housing for Trust Beneficiaries;
- Bring the Kids Home;
- Justice for Persons with Disabilities; and
- Trust Beneficiary Group Initiatives

Mental Health Funding: The Trust Authority sources of income for annual spending include:

- a percentage of net asset value of the Trust Fund Corpus (Principal);
- lapsed funds from prior year;
- income from the Trust's account in the treasury; and
- income from rents, fees, purchase contract interest, and 15% of timber sales from the Trust Land Management.

The Trust spends a percentage of its total cash assets each year. This "payout" percentage was 3.5% from 2000 through 2005. The Trust voted to increase the FY06 payout to 3.75%, and voted for an FY07 payout of 4.0%.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Statewide Total Appropriations for Mental Health Programs

	FY02	FY03	FY04	FY05	FY06 Enacted	FY07 Gov
State-Controlled	130,990.9	133,999.9	117,388.9	111,554.1	114,437.6	136,447.2
MH Trust	11,936.6	10,224.7	9,846.0	10,056.5	11,566.1	12,060.9
Total Operating	142,927.5	144,224.6	127,234.9	121,610.6	126,003.7	148,508.1
State-Controlled	2,125.0	1,300.0	3,785.3	3,300.0	9,049.2	7,200.0
MH Trust	4,170.0	3,313.0	3,352.1	4,080.0	3,100.0	2,650.0
Total Capital	6,295.0	4,613.0	7,137.4	7,380.0	12,149.2	9,850.0

The net increase in operations from FY06 is nearly \$23 million. Below are significant single allocation changes:

Department of Health and Social Services

Pioneer Homes	\$822.4
AK Fetal Alcohol Syndrome Program	\$500.0
Behavioral Health Medicaid Services	\$4,115.3
Behavioral Health Grants	\$2,575.0
Community Action Prevention & Intervention Grants	\$5,550.0
Services for the Severely Emotionally Disturbed Youth	\$1,859.5
Alaska Psychiatric Institute (API)	\$1,729.7
Senior Community Based Grants	\$2,849.4
Children's Medicaid Services	\$1,830.0

The state-controlled appropriations are based on a collaborating effort between the Executive and Legislative branches, as well as the Trust. Funding is based on priorities at the time, program outcomes, and previous year's appropriations.

Proposed capital expenditures total nearly \$9.9 million. This is a decrease of nearly \$2.3 million from FY06. Below are some of the significant projects:

Transitional Housing for Substance Abuse	\$1.2 million
Alaska Psychiatric Institute (API) Asbestos Abatement	\$3.0 million
AHFC Homeless Assistance Program	\$2.0 million
AHFC Beneficiary and Special Needs	\$1.7 million

Section 7 of the Governor's Mental Health bill appropriates \$3 million from the general fund for costs associated with fulfilling the State's obligation related to demolition and asbestos abatement at the old Alaska Psychiatric Institute (API). The \$3 million appropriation for API is the third and final installment to pay for demolition and asbestos abatement totaling \$7 million. The project will satisfy the obligation of the state under a provision of the Lands Trust Settlement (*Weiss v. State of Alaska* 4FA-82-2208 Civil).

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Agency Narratives and Funding Summaries

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Administration				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$55,734.6			
FY06 Fiscal Notes	2,258.1			
Reappropriations	-			
Special Appropriations	20,426.9			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	(1,737.1)			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$76,682.5	\$20,947.9	37.6%	
One-time Items	(18,890.0)			1
Agency Transfers	363.1			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$58,155.6	-\$18,526.9	-24.2%	
FY 07 Salary Adjustment Increases	558.0			
FY 07 Other Salary Adjustment Increases	20.8			
FY 07 PERS/TRS Cost Increases	1,036.3			
FY 07 Health Cost Increases	58.4			
FY 07 Risk Management	91.6			
FY 07 Adjusted Base Budget (GF only)	\$59,920.7	\$1,765.1	2.3%	
FY 07 Governor's GF Increments and Decrements	11,378.6			
FY 07 Governor's Request (GF only)	\$71,299.3	\$11,378.6	19.0%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			11,378.6	
DOA Leases	3,072.6	3,147.0	74.4	
Office of the Commissioner	290.2	3,847.2	3,557.0	2
Labor Relations	973.8	1,285.8	312.0	
Retirement and Benefits	588.0	2,704.8	2,116.8	4
Leases	5,275.1	5,091.8	(183.3)	
Non-Public Building Fund Facilities	1,115.0	1,304.1	189.1	
Administration State Facilities Rent	368.4	552.6	184.2	
Elected Public Officers Retirement System Benefits	1,493.9	1,778.1	284.2	
Enterprise Technology Services	3,366.7	5,161.0	1,794.3	5
Public Broadcasting Commission	54.2	179.2	125.0	6
Satellite Infrastructure	882.3	822.3	(60.0)	
Office of Public Advocacy	14,107.7	16,007.7	1,900.0	7
Public Defender Agency	15,692.7	16,692.7	1,000.0	8
Violent Crimes Compensation Board	520.8	466.7	(54.1)	
Alaska Public Offices Commission	765.9	904.9	139.0	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	1,199.0	2,825.0	1,626.0	
Other funds (all allocations)	175,224.3	194,425.0	19,200.7	3
Total Non-General Funds (all allocations)	176,423.3	197,250.0	20,826.7	
Position Changes	1,040	1,057	17	
PFT	980	997	17	9
PPT	28	28	0	
Temp	32	32	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects HD 1-40 (GF only)		31,170.0		10
Voice Over Internet Protocol (VoIP) Deployment		15,000.0		
ETS Infrastructure Projects and WorkPlace Alaska Migration Project		5,510.5		
Emergency 911 Compliance-Coordination Project/Network Security		2,689.5		
Electronic Case Management System		350.0		
State of Alaska Telecommunications System (SATS) and Alaska Land Mobile Radio (ALMR) Build Out and Support Projects		7,620.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Administration

The mission of the Department of Administration (DOA) is to provide consistent and efficient support services to state agencies so that they may better serve all Alaskans. This is the most diverse department in state government. DOA provides statewide leadership and policy direction in the following areas:

- finance and accounting;
- payroll;
- information technology;
- human resources;
- labor relations;
- procurement;
- facility leasing and management;
- risk management; and
- employee and retiree benefits programs for state and local governments.

Direct public services are provided through the Division of Motor Vehicles, Public Defender Agency, Office of Public Advocacy, and the Office of Administrative Hearings. The department also oversees administrative functions of four independent boards and commissions (the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, the Alaska Oil and Gas Conservation Commission, and the Violent Crimes Compensation Board).

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. Funding for **increased retirement system costs of political subdivisions** was approved as a one-time appropriation in FY06. **The \$18.4 million appropriation is backed out of the base budget** in FY07 reports. Although the Governor has publicly suggested that “the state, on behalf of local governments, pay the increased retirement system contribution” in FY07, funding for this purpose does not appear in the Governor’s operating or capital budget bills. The Governor has said that he expects to spend \$38 million for retirement relief for political subdivisions in FY07.
2. The **Office of the Commissioner is requesting \$3,557.0 for Enterprise Technology Services Cost Increases that will in turn be allocated to customer agencies** to pay for increased ETS chargeback in FY07. Funding increases are needed for salary/benefit increases and additional staff to work on Microsoft system deployment, Voice Over Internet Protocol and Alaska Land Mobile Radio projects.

***Legislative Fiscal Analyst Comment:** In theory, this method of paying for unavoidable cost increases is the best approach because it involves rate increases that will apply to fund sources other than general funds. Theory implies that I/A receipts collected from customers should exceed the amount of general funds distributed to customers. However, ETS shows a \$3,000.0 Information Services Fund increment to receive increased chargeback amounts. Subcommittees may wish to explore this issue.*

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3. **Risk Management cost increases** are treated in similar fashion. For the first time in many years, the Division of Risk Management has budgeted “the true cost of risk” which will enable other state agencies to leverage funds other than general funds to pay for these costs. Rather than appearing as a single increase in DOA (for allocation to other agencies), risk management increments occur throughout other agencies. In DOA, the increments appear as I/A receipts.

Legislative Fiscal Analyst Comment: *The Department of Administration reports that all proposed chargeback rate increases were discussed with affected agencies. Risk Management cost increases are shown as Base Budget adjustments because they are “unavoidable” and the legislature may wish to accept or reject them as a group.*

4. The retirement reform act (SB 141) enacted during the 24th legislative session created a new tier in the Public Employees’ (PERS) and the Teachers’ (TRS) retirement systems effective July 1, 2006. A fiscal note was passed with that legislation providing first year funding to the Division of Retirement & Benefits in the amount of \$1,016.5 GF. Second year costs were estimated in May 2005 to be \$535.5 GF and a one-time item was appropriately reflected in the Governor’s FY07 submission for a \$481.0 reduction.

Despite the fiscal note, **DOA is now requesting a GF increment of \$2,116.8 to “ensure that the division delivers benefits in accordance with new legal requirements contained in AS 39.35.940” and “to educate employees and employers on the benefits of converting to the newly created defined contribution plan.”**

5. **Enterprise Technology Services is requesting \$1,794.3 GF for a maintenance and operations contract with Motorola for the Alaska Land Mobile Radio (ALMR)** equipment of the State of Alaska Telecommunication System (SATS) infrastructure and for personal services costs related to SATS and ALMR. Matching Federal Receipts (\$1,700.0) are also requested.
6. The **Public Broadcasting Commission has requested \$125.0 GF** in additional funding to help cover increased operating costs for non-commercial radio and television stations currently serving Alaskans. This includes the cost of local programming and production, and of replacing and refurbishing equipment and facilities. **The FY06 Conference Committee cut \$127.2 GF** from the Public Broadcasting – T.V. allocation within the Public Communications Services appropriation.
7. The **Office of Public Advocacy is requesting \$1,900.0 GF for caseload increases**. This amounts to a 15% increase in GF. Preliminary Court data shows that filings for felonies and Child In Need of Aid (CINA) cases in Anchorage and Fairbanks have increased substantially. In Alaska, roughly 80% of all criminal cases are assigned public council. According to the department, FY06 positions are already operating at maximum capacity. OPA has no control over its caseload due to court appointments.
8. The **Public Defender Agency is adding \$1,000.0 GF for caseload increases**, additional support staff of law office assistants and paralegals. The department has two goals with this increment:
 - a. To improve case results for criminal clients and reduce the number of days in jail for pre-trial clients when unnecessary for public safety, and
 - b. To improve case results for CINA clients and to reduce the number of children in state custody by 50%.
9. In FY07, the Department of Administration is reflecting an overall net increase of 17 permanent, full-time positions. The greatest change is in the Office of Public Advocacy,

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

where a combination of fiscal note additions, position adjustments and increments makes the Governor's request 24 positions above FY06.

CAPITAL BUDGET

10. In addition to operating increases, the Department of Administration's 2007 capital request is a total of \$37 million, of which **\$31.2 million is GF. All of these projects address ETS priorities.** Two other projects are proposed from Other Funds—one from the Public Building Fund for facilities projects for continued maintenance of state owned facilities. These include the State Office Building, the Alaska Office Building, the Community Building, the Douglas Island Building, the Atwood Building, the Fairbanks Regional Office Building, the Public Safety Building and the Court Plaza Building. The second non-GF project is for the Division of Motor Vehicles and is funded with Receipt Supported Services. This request is a compendium of five projects that would employ contract programmers and provide software and equipment to assist DMV update computer programming, replace the existing messaging systems, update computer presentation layers, consultant analysis and design of DMV mainframe, and purchase high speed desktop scanners.

ORGANIZATIONAL CHANGES

One structural change is noted in the Department of Administration—within the Centralized Administrative Services appropriation, funds are transferred from the Finance allocation to create the new State Travel Office allocation.

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Department of Commerce, Community & Economic Development				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$8,558.6			
FY06 Fiscal Notes	168.2			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	4,221.8			
Agency Transfers	28.6			
FY 06 Management Plan (GF only)	\$12,977.2	\$4,418.6	51.6%	
One-time Items	(4,226.8)			
Agency Transfers	139.4			
FY 06 Base Budget (GF only)	\$8,889.8	-\$4,087.4	-31.5%	
FY 07 Salary Adjustment Increases	73.7			
FY 07 Other Salary Adjustment Increases	18.7			
FY 07 PERS/TRS Cost Increases	140.5			
FY 07 Health Cost Increases	8.8			
FY 07 Risk Management	7.8			
FY 07 Adjusted Base Budget (GF only)	\$9,139.3	\$249.5	1.9%	
FY 07 Governor's GF Increments and Decrements	3,098.9			
FY 07 Governor's Request (GF only)	\$12,238.2	\$3,098.9	33.9%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			3,098.9	
Community Advocacy	4,043.3	4,407.2	363.9	2
Alaska Seafood Marketing Institute	-	2,300.0	2,300.0	1
Regulatory Commission of Alaska	-	325.0	325.0	3
DCED State Facilities Rent	384.6	494.6	110.0	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	26,543.8	28,235.9	1,692.1	
Other funds (all allocations)	103,957.5	111,162.1	7,204.6	4
Total Non-General Funds (all allocations)	130,501.3	139,398.0	8,896.7	
Position Changes	508	520	12	
PFT	502	514	12	
PPT	4	4	0	
Temp	2	2	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)	1,500.0	0.0		5
Alaska Travel Industry Association (3 projects)				
Independent Travel Marketing Campaign (HD 1-40)	1,000.0			
International Travel Trade & Marketing (HD 1-40)	250.0			
Long Range Tourism Growth (HD 1-40)	250.0			

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Department of Commerce, Community and Economic Development

The Department of Commerce, Community and Economic Development (DCCED) provides a wide range of development services to private businesses and aids in protecting the public by regulating certain industries and provides services to communities. The department

- provides general assistance and access to capital markets for businesses,
- coordinates numerous state loan programs,
- manages programs aimed at key economic sectors such as electric power generation, tourism, aerospace, mining, and fishing,
- participates in the domestic and international marketing of Alaskan products and visitor attractions,
- regulates banking, securities and corporations, insurance, occupations and public utilities,
- provides services to local governments and unincorporated communities in the form of grants and direct technical assistance, and
- administers programs offering assistance in the areas of government and financial management, utility management and power cost equalization, energy development, public planning processes, land use planning, and capital project planning.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. The agency's largest general fund operating increment is **\$2.3 million to the Alaska Seafood Marketing Institute (ASMI) to maintain (and increase) its marketing efforts**. The request will be used as follows:
 - a. **International marketing efforts will be increased with \$1 million in general funds** (which will be used to match an additional \$1.2 million in federal funds). Without this increment, ASMI will not receive the federal funds.
 - b. **\$1.3 million in general funds (and \$700,000 of federal funds from Southeast Fisheries Revitalization funding) will be used to maintain (and boost) domestic marketing efforts**. Because ASMI's revenue has declined, all but \$700,000 of this increment keeps ASMI's domestic marketing budget at status quo.
2. In order to obtain federal Environmental Protection Agency construction funds for water and wastewater projects, a community must demonstrate that it has the basic level of management capacity to operate existing and planned facilities. The purpose of the Rural Utility Business Advisory (RUBA) program is to help communities obtain the training and other assistance necessary to successfully operate their sanitation systems. A Community Advocacy **increment for \$363.9 of GF Match and \$1.1 million in federal receipts** (which more than doubles the funding for this program) is a result of discussions between EPA, DEC, and DCCED.
3. The **Regulatory Commission of Alaska (RCA) is requesting \$325,000 of general funds** to allow the State to assume the licensing of small hydroelectric power projects from the Federal Energy Regulatory Commission (FERC). State law (AS 42.45.350)

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requires that RCA implement this program and RCA believes that State regulations are beneficial because local control will give Alaskans more opportunities to use hydropower.

Until this request, the RCA has been funded entirely with its own receipts. RCA believes that a general fund request for this program is necessary because it anticipates significant difficulty if regulated utilities and pipeline companies are required to subsidize this program.

4. An increment of \$6.5 million in PCE Funding will **fund the Power Cost Equalization (PCE) formula program at \$25.2 million** and accounts for the majority of the \$7.2 million increase in other funds. This increment gives the PCE program an increase of 34.5% (up from \$18.7 million) from the FY06 Management Plan. Historically, the formula program has been short-funded and payments to utilities have been pro-rated based on the amount of funding appropriated. Although it may appear that increases in PCE program expenditures do not affect general funds, the PCE Fund is partially capitalized with general funds. For FY07, the Governor has requested that the PCE Fund be capitalized with \$13.5 million in general funds and \$11.7 million from the PCE Endowment.

The Alaska Energy Authority administers this program and, until FY05, absorbed the entire cost of the two employees working on this program. In FY05, \$66,000 of the PCE Fund was transferred from grants to pay for one of these employees. In FY07, another \$94,000 is being requested to fully cover these employees.

For more information on the Power Cost Equalization program, please see the discussion on Sections 17(c)-(h) in the "Language Sections of the Governor's FY07 Operating Budget" in this publication.

CAPITAL BUDGET

5. The Qualified Trade Association (QTA) contract is a State contract with the Alaska Travel Industry Association (ATIA) to promote tourism. Although the QTA Contract's operating appropriation remains at the FY06 level of \$5 million, **the Governor's capital budget contains three projects that give ATIA an additional \$1.5 million of general funds for marketing and long term tourism planning.**

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Corrections				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$169,945.7			
<i>FY06 Fiscal Notes</i>	188.4			
<i>Reappropriations</i>	-			
<i>Special Appropriations</i>	-			
<i>Vetoed</i>	(461.9)			
<i>Multi-Years (from prior fiscal years)</i>	190.0			
<i>Agency Transfers</i>	31.1			
<i>Miscellaneous Adjustments</i>	-			
FY 06 Management Plan (GF only)	\$169,893.3	-\$52.4	0.0%	
<i>One-time Items</i>	(190.0)			
<i>Agency Transfers</i>	-			
<i>Miscellaneous Adjustments</i>	-			
FY 06 Base Budget (GF only)	\$169,703.3	-\$190.0	-0.1%	
<i>FY 07 Salary Adjustment Increases</i>	893.0			
<i>FY 07 Other Salary Adjustment Increases</i>	71.3			
<i>FY 07 PERS/TRS Cost Increases</i>	3,553.7			
<i>FY 07 Health Cost Increases</i>	113.3			
<i>FY 07 Risk Management</i>	994.8			
FY 07 Adjusted Base Budget (GF only)	\$175,329.4	\$5,626.1	3.3%	
<i>FY 07 Governor's GF Increments and Decrements</i>	8,094.4			
FY 07 Governor's Request (GF only)	\$183,423.8	\$8,094.4	4.6%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			8,094.4	
Office of the Commissioner	1,283.7	1,313.7	30.0	
Research and Records	240.1	402.1	162.0	
Offender Habilitation Programs	1,992.4	2,583.0	590.6	4
Community Jails	5,557.4	6,115.4	558.0	1
Out-of-State Contractual	17,318.1	19,564.9	2,246.8	1
Inmate Health Care	21,604.2	23,214.2	1,610.0	5
Institution Director's Office	634.8	1,039.8	405.0	
Inmate Transportation	1,364.5	1,824.5	460.0	2
Point of Arrest	507.2	642.2	135.0	3
Anchorage Correctional Complex	15,027.6	15,828.6	801.0	6
Existing Community Residential Centers	11,233.9	11,669.3	435.4	1
Statewide Probation & Parole	10,830.0	11,490.6	660.6	7
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	4,695.6	4,695.6	0.0	
Other funds (all allocations)	21,630.8	23,981.8	2,351.0	
Total Non-General Funds (all allocations)	26,326.4	28,677.4	2,351.0	
Position Changes	1,468	1,481	13	
PFT	1,460	1,470	10	
PPT	8	8	0	
Temp	0	3	3	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		2,900.0		
Maintenance, Repair and Renovations (HD 99)		2,000.0		
Equipment Replacement (HD 99)		300.0		
Institution Closed Circuit TV System Recording (HD 99)		500.0		
Community Jails Repairs, Renovations, and Equipment (HD 99)		100.0		

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Department of Corrections

The Department of Corrections is responsible for public safety through the administration of correctional services including:

- twelve prisons and jails that provide secure incarceration and appropriate rehabilitation programs for felons and misdemeanants;
- community residential centers;
- supervision and case management of probationers and parolees in the community; and
- oversight of 15 small community jails.

Also included in the department is the Alaska Board of Parole, a quasi-judicial Board that makes all parole related decisions.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the proceeding spreadsheet.

1. As of October 25, 2005, the current out-of-state prisoner population is at 766 and the in-state population is at 108% of institutional emergency capacity. Since July 1, 2005, in-state population has exceeded 100% of capacity every day, with a high of 110%. This is 305 prisoners above emergency capacity and 413 above maximum capacity. With increased law enforcement by local and state agencies, the Department has no expectation of a decline in the offender population and anticipates placing more prisoners in the contract facility throughout the next fiscal year. This situation makes the department's request for increases in out-of-state contractual and community jails critical.

Out-of-State Contractual requests an increase of \$2,246.8 to meet increased bed costs for the Florence Arizona Contract Facility. An **increase from 760 beds to 850 beds** is necessary to partially offset the growing prisoner population and maintain offender incarceration. The increase is also related to the new price negotiated for the Florence Arizona Contract Facility. The FY06 bed rate is \$57.12 and the FY07 bed rate is currently estimated at \$59.36 per prisoner per day with an anticipated average prisoner population of 850 (revised full capacity). **The 90 bed increase does not offset the capacity requirements for emergency and maximum capacities** described above and it may be necessary to increase the contract to include a higher bed count.

The Community Jails allocation is requesting an increment of \$558.0 for a 10 percent inflationary increase. There are currently fifteen local communities operating jails providing 153 beds for offenders charged with violating state statutes. This will provide resources to enable the community jails to stabilize their infrastructure and workforce so they can continue to provide local short-term incarceration for state prisoners.

Existing Community Residential Centers requests an increment of \$750.0 to partially fund the increased contract costs associated with the eight Community Residential Centers (CRCs) that the Department currently contracts with. These CRC beds are required in order to meet the anticipated prisoner population demands. A fund source change of \$314.6 in GF will be replaced with \$314.6 of Permanent Fund Dividend Appropriations in lieu of Dividends to Criminals (PFD) due to the increased number of convicted felons and third time misdemeanants who are ineligible to receive a PFD.

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2. **Due to changes in the State of Arizona Statutes, inmate travel costs will increase by \$460.0.** The Department is now required to comply with Arizona Statutes that require each offender to be escorted back to the state. Previously, the Department purchased commercial airline tickets for non-violent and low-risk offenders and the offenders flew to Alaska unescorted.
3. **Point of Arrest requests an increment of \$135.0 to meet increased travel costs due to rising inmate population,** increase in airfares, and procedural changes within the Inmate Transportation Unit component for Arizona related travel. Point of arrest rules require the department to return inmates to the community/city of arrest. With facilities at maximum capacity, there are times that the closest facility to the community/city of arrest has no space, requiring travel from a distant facility.
4. **Offender Habilitation Programs is requesting \$565.6 to continue the Residential Substance Abuse Treatment (RSAT) programs** at the Combined Hiland Mountain Correctional Center (Women's RSAT) and Wildwood Correctional Center (Men's RSAT). Funding was previously received through an Unbudgeted Reimbursable Service Agreement (RSA) with Public Safety. This funding will initiate a Community Based Alcohol Treatment Follow-up Program at both the Combined Hiland Mountain Correctional Center and Wildwood Correctional Center.
5. **Inmate Health Care requests an increment of \$1,300.0 to meet increased costs of hospitalization, fees for medical services and supplies, as well as medical services for an increasing population.** This increment reflects the nationwide increase in health care costs and will assist the Department to maintain the required levels of medical services to incarcerated offenders.
6. **Anchorage Correctional Complex requests an increment of \$251.0 to fund three Correctional Officer IV positions** to meet necessary levels of security staffing to allow oversight on each shift. The Complex is the staging facility for inmates being transferred to out-of-state facilities. A request for **non-personal service increases of \$550.0** is to provide for daily household and institutional requirements due to the increased traffic of inmates through the complex.
7. **Statewide Probation and Parole requests an increase of \$660.6 to fund seven new Probation Officers.** Caseloads are growing due to an increasing number of prosecutions. This is a direct result of the addition of attorneys in the District Attorney's Offices in Kenai and Palmer. Four new positions will be established in Anchorage and three positions will be assigned to the Palmer area.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Education & Early Development				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$36,282.3			
FY06 Fiscal Notes	598.0			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	230.0			
Agency Transfers	11.6			
Miscellaneous Adjustments	854,575.0			
FY 06 Management Plan (GF only)	\$891,696.9	\$855,414.6	2357.7%	
One-time Items	(855,355.0)			
Agency Transfers	-			
Miscellaneous Adjustments	854,575.0			
FY 06 Base Budget (GF only)	\$890,916.9	-\$780.0	-0.1%	
FY 07 Salary Adjustment Increases	150.7			
FY 07 Other Salary Adjustment Increases	12.8			
FY 07 PERS/TRS Cost Increases	300.8			
FY 07 Health Cost Increases	19.4			
FY 07 Risk Management	35.9			
FY 07 Adjusted Base Budget (GF only)	\$891,436.5	\$519.6	0.1%	
FY 07 Governor's GF Increments and Decrements	88,467.8			
FY 07 Governor's Request (GF only)	\$979,904.3	\$88,467.8	9.9%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			88,467.8	
Foundation Program	799,606.4	881,876.7	82,270.3	1
Pupil Transportation	54,968.6	54,707.2	(261.4)	
Special Schools	7,949.3	8,265.3	316.0	3
School Finance & Facilities	1,093.5	1,737.3	643.8	4
Student and School Achievement	5,760.0	5,810.0	50.0	5
Statewide Mentoring Program	-	5,000.0	5,000.0	2
AK State Council on the Arts	567.2	654.3	87.1	6
EED State Facilities Rent	1,560.3	1,776.3	216.0	7
Archives	694.2	743.9	49.7	
Museum Operations	1,285.5	1,342.4	56.9	
WWAMI Medical Education	1,507.3	1,546.7	39.4	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	214,309.1	214,382.0	72.9	
Other funds (all allocations)	31,880.6	32,679.4	798.8	
Total Non-General Funds (all allocations)	246,189.7	247,061.4	871.7	
Position Changes	338	338	0	
PFT	298	298	0	
PPT	40	40	0	
Temp	0	0	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		2,550.0		8
Mt. Edgecumbe High School Facilities Upgrades and Repairs (HD 2)		2,500.0		
Demolition and Site Restoration, Northern Lights School (HD 6)		50.0		

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Department of Education & Early Development

The Department of Education & Early Development is committed to ensuring quality standards-based instruction to improve academic achievement for all students. The department is responsible for funding and regulating the state's K-12 schools as well as administering school debt reimbursement and grants for school construction. Core services include the following:

- Provide and evaluate a Comprehensive Student and School Assessment and Accountability System for all students and schools in Alaska that is based on student, school, educator, and culturally responsive standards and state and federal requirements;
- Develop and administer a standards and performance-based educator licensure system to ensure high quality and student achievement;
- Provide and support standards-based professional development and mentoring for Alaska's educators to ensure high quality and student achievement; and
- Secure and award state, federal, and private educational funding to school districts and other educational organizations to result in higher student achievement.

The department also houses Commissions and Boards (including the Professional Teaching Practices Commission, the Alaska State Council on the Arts and the Alaska Postsecondary Education Commission) and is responsible for Mt. Edgecumbe Boarding School, E&ED State Facilities Maintenance, and Alaska Library and Museums.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. As in FY06, the **Governor submitted a separate bill** "making appropriations **for state aid to public schools**, the state boarding school, centralized correspondence study, and transportation of pupils." All Foundation Program and Pupil Transportation support was removed from the normal operating budget bill submitted on December 15. The Office of Management & Budget, however, combined the bills for reporting purposes. Legislative Finance reports also combine the K-12 bill with other operating appropriations so that year-to-year comparisons are meaningful. OMB's presentation of the Governor's operating bills omits a **\$90,198.4 increase resulting from a proposed change to the base student allocation** (from the current \$4,919 to \$5,352 in FY07).

***Legislative Fiscal Analyst Comment:** OMB shows the increment as a fiscal note (for a bill that has not yet been submitted). Because the K-12 bill makes the appropriation contingent upon passage of a bill increasing the base student allocation, the fiscal note for such a bill would be zero. Legislative Finance shows the proposed increase in the base student allocation as an increment in all reports.*

2. A new allocation, **Statewide Mentoring Program**, is being added to the Teaching and Learning Support appropriation. Because federal earmarks will not be available for this program in FY07, the department requests an **increment of \$5 million in general funds to support mentoring for new teachers and principals**. In FY05, using federal earmarked funds, the department hired 23 mentors to work with over 360 first year teachers, plus seven coaches to serve over 70 principals. In FY06, the department hired 27 mentors to assist over 400 new hires in an effort to improve student achievement and

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

teacher retention, plus ten coaches to mentor over 100 principals. Demand for both teacher and principal mentoring has exceeded the department's resources.

3. Funding for the **Alaska Challenge Youth Academy (ACYA)** (located in the Division of Military and Veterans Affairs and funded through a Reimbursable Services Agreement) increases **\$312.8 in FY07 due to increased enrollment**. This increase brings the total budget for the ACYA to \$5,091.6.
4. The **\$643.8 general fund increase in School Finance & Facilities** is comprised of three elements:
 - a. contractual obligations to provide semiannual safety **school bus inspections** as required in AS 14.09.030. This funding was moved from the Pupil Transportation component.
 - b. payment to the Department of Administration for the **risk management** self-insurance program. This funding was moved from the foundation program.
 - c. additional funding for the **Moore vs. State lawsuit** will be required in FY07 (\$300.0). The lawsuit pertains to adequate funding levels for school districts.
5. The Student and School Achievement allocation (Teaching and Learning Support appropriation) is requesting a **\$50.0 increment to help support the efforts of the Alaska Council on Economic Education**. This non-profit partnership of leaders in business and education works to improve economic education by sponsoring college-credit courses for teachers and by producing and distributing curriculum materials for Alaska schools. The Council's goal is to ensure that every school district in Alaska offers high quality economics instruction to all students in grades K-12, either through infusion of economic concepts in the social studies, science, and math curricula or through specific economics courses. Normally, the Council relies on donations from individuals and businesses. State funding will allow the Council to provide more programs for teachers, especially those residing in rural communities.
6. The Alaska State Council on the Arts is requesting \$140.0 (**\$87.1 General Fund Match, \$52.9 Federal Receipts**) **for a new Folk Arts Initiative** and to fully meet the anticipated increase from the National Endowment for the Arts for FY07. The program is designed to preserve our nation's diverse cultural heritage by strengthening Alaska's infrastructure to support folk and traditional arts.
7. **EED State Facilities Rent** increases of \$216.0 General Funds will pay for additional archive storage space for approximately 3,300 boxes pertaining to Exxon Valdez materials (\$13.0), moving and storage of museum inventory (\$100.0), and a projected facilities rate increase for the Library at the State Office Building in Juneau (\$103.0).

CAPITAL BUDGET

8. In addition to operating increases, the department's 2007 request is \$2.7 million (\$2.6 million GF) for capital projects.
 - a. Of that amount, **\$2.5 million is attributable to Mt. Edgecumbe High School Facilities** Upgrades and Repairs (for systems initially installed in the 1940s). Targeted repairs include a boiler systems replacement for \$975,000 and various campus site utilities/maintenance, including water, sewer, electrical, roof repairs, and possible abatement issues estimated to cost \$1,651,500.

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- b. A second GF project (\$50,000) is for the **Demolition and Site Restoration at Northern Lights School**.
- c. The remaining two capital project requests (totaling \$135.2 Other Funds) are for
 - (i) the Alaska Commission on Postsecondary Education for HELMS Imaging Enhancement to implement an automated workflow and archival process for managing all paper correspondence and documents, and
 - (ii) Security and Risk Mitigation to modify ACPE's operational workspace.

ORGANIZATIONAL CHANGES

The only organizational change is the addition of a new Statewide Mentoring allocation within the Teaching and Learning Support appropriation.

Legislative Fiscal Analyst Comment: *The school debt reimbursement program is discussed in a separate section of this overview that addresses all state debt.*

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Department of Environmental Conservation				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$13,600.8			
FY06 Fiscal Notes	842.8			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	37.7			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$14,481.3	\$880.5	6.5%	
One-time Items	(17.9)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$14,463.4	-\$17.9	-0.1%	
FY 07 Salary Adjustment Increases	294.8			
FY 07 Other Salary Adjustment Increases	5.7			
FY 07 PERS/TRS Cost Increases	561.5			
FY 07 Health Cost Increases	35.7			
FY 07 Risk Management	38.5			
FY 07 Adjusted Base Budget (GF only)	\$15,399.6	\$936.2	6.5%	
FY 07 Governor's GF Increments and Decrements	2,295.4			
FY 07 Governor's Request (GF only)	\$17,695.0	\$2,295.4	14.9%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			2,295.4	
Laboratory Services	1,371.8	1,420.2	48.4	2
Drinking Water	998.5	1,845.7	847.2	3
Industry Preparedness & Pipeline Operations	-	725.0	725.0	1
Water Quality	4,857.6	5,502.4	644.8	4
Facility Construction	954.0	984.0	30.0	5
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	18,231.0	19,383.0	1,152.0	
Other funds (all allocations)	27,130.5	25,030.4	-2,100.1	1
Total Non-General Funds (all allocations)	45,361.5	44,413.4	-948.1	
Position Changes	509	523	14	
PFT	503	517	14	6
PPT	2	2	0	
Temp	4	4	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		29,415.0		7
Water and Wastewater Infrastructure Projects (HD Various)		29,165.0		
Aleutian Islands Risk Assessment (HD 37)		250.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Environmental Conservation

The Department of Environmental Conservation (DEC) is responsible for protecting human health and the environment. This agency provides the following core services:

- develops and enforces standards for protection of the environment that allow for sustainable economic growth;
- provides controls and enforcement for the prevention and abatement of pollution to the environment; and
- provides controls and enforcement to protect citizens from unsafe sanitary practices.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. In recent years, **Oil and Hazardous Response Fund revenues have been declining** due to a number of factors, not the least of which is the reduction in crude oil production from a peak of 2 million barrels per day to 930,000 barrels per day projected for FY06. Revenues to the Prevention Account of the Oil and Hazardous Substance Release Prevention and Response Fund come from a combination of cost recovery, fines, penalties and settlements, investment income, and a 3-cent surcharge against each barrel of crude oil produced in the state. Revenues have declined to the point that they can no longer sustain the division's core spill prevention, preparedness and response programs. The Industry Preparedness and Pipeline Operations allocation requests a \$725.0 switch in fund sources. Legislative Finance reflects this as a **decrement of \$725.0 from the Oil and Hazardous Response Fund and a corresponding increment in general funds**. The department believes the general funds are necessary to sustain the state's core spill prevention, preparedness and response capability. Absent general fund revenues, a 23% reduction in core programs will be necessary over the next two years, according to DEC calculations.
2. The Laboratory Services allocation requests **\$48.4 GF for the Assistant State Veterinarian**. This funding would restore a cut made by the Conference Committee in FY06. The Legislature had approved the position and \$48.5 in federal funds but did not allow the GF. Additional GF is needed to fully fund the cost of this position and to provide flexibility for assignment of responsibilities and tasks not allowed under federal grants. If the position is funded only with federal grants, the Assistant State Veterinarian will be unable to lend support for other critical activities such as response to a disease outbreak (Avian Flu) or an animal investigation. This position provides support in all of the animal-related areas as well as helping develop and revise rules and policy for animal health programs including state and federal laws and rules relating to the livestock industry, and animal health and environmental and public health rules and regulations.
3. A total increment of \$1,694.4 (**\$847.2 GFM, \$847.2 Fed**) is requested to obtain and **implement primacy for the new public drinking water system**. The Alaska Drinking Water Program is an Environmental Protection Agency delegated primacy program, receiving an annual Public Water System Supervision federal grant as the main source of funding. For the past several years, grant funding has not kept pace with increasing costs required to implement the complete program. Positions have been cut or held vacant to meet the budget, but EPA has responded by retaining partial primacy and enforcing their

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- rules over the state program. Additional staff and resources are needed to obtain and maintain full primacy. Additional federal funds are available through the Drinking Water State Revolving Fund, but the 50% match identified by this increment is required to obtain the federal funds. The department believes that state regulation of public drinking water systems will enhance their performance in protecting the public from unsafe drinking water and preventing outbreaks in regulated facilities.
4. The GF change in the **Water Quality** allocation within the Water appropriation is the net result of two transactions—both of which reflect the implementation of fiscal notes. Third year implementation of the fiscal note for HB 546 (FY05) relates to the regulation of timber-related discharges under the National Pollutant Discharge Elimination System (NPDES) and reduces the need for GF by \$28.9. Second year implementation of SB 110 (FY06) relates to the DEC regulation of wastewater and federal Clean Water Act NPDES primacy. An **increment for \$673.7 GF reflects the multi-year transition process during which program components are gradually transferred from EPA to the State**. When this process is complete, Alaska will become the 46th state to assume primacy over wastewater permitting.
 5. The **\$30.0 GF Match request** in the Facility Construction allocation within the Water appropriation is associated with a \$90.0 federal receipts increment **for remote maintenance worker funding**. Remote Maintenance Worker (RMW) grants have not been increased for several years, while fuel and other expenses continue to rise. Although federal funding is available to offset these increasing costs, a 25% state match is required. This increment will allow RMW grantees and the department to continue to provide the current level of service to communities. Funding will protect the environment and citizens from unsafe sanitary practices by maintaining grants to communities to train remote maintenance workers and sustain village utility infrastructure.
 6. Position changes from FY06 reflect an increase of 14 permanent, full-time positions. All of these are added to the Drinking Water allocation in the Environmental Health appropriation. They are required for implementation of the Alaska Drinking Water Program.

CAPITAL BUDGET

7. In addition to operating increases, the department's 2007 total capital request is \$104.9 million, including \$29.4 million GF. Of that amount, **\$29.2 million is attributable to 47 water and wastewater infrastructure projects throughout the state**. Federal and Other Funds for \$74.5 million also support those projects. In addition, federal receipts are the sole funding source for the Infrastructure, Data Exchange, Analysis and Integration project.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Fish & Game				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$33,222.0			
FY06 Fiscal Notes	308.6			
Reappropriations	134.7			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	135.5			
Agency Transfers	191.2			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$33,992.0	\$770.0	2.3%	
One-time Items	(271.9)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$33,720.1	-\$271.9	-0.8%	
FY 07 Salary Adjustment Increases	1,278.1			
FY 07 Other Salary Adjustment Increases	17.2			
FY 07 PERS/TRS Cost Increases	2,636.4			
FY 07 Health Cost Increases	161.7			
FY 07 Risk Management	547.9			
FY 07 Adjusted Base Budget (GF only)	\$38,361.4	\$4,641.3	13.7%	1
FY 07 Governor's GF Increments and Decrements	5,571.0			
FY 07 Governor's Request (GF only)	\$43,932.4	\$5,571.0	14.5%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			5,571.0	
SE Region Fisheries Mgmt.	4,498.0	5,098.0	600.0	2, 3
Central Region Fisheries Mgmt.	6,491.4	6,791.4	300.0	3
AYK Region Fisheries Mgmt.	4,388.7	4,488.7	100.0	3
Westward Region Fisheries Mgmt.	5,716.6	6,116.6	400.0	3
Headquarters Fisheries Mgmt.	5,121.8	5,821.8	700.0	2, 3
Wildlife Conservation	1,446.7	4,596.7	3,150.0	6
Boards & Advisory Committee	967.5	1,085.5	118.0	
State Subsistence	1,521.0	1,796.0	275.0	7
F&G State Facilities Rent	2,357.7	2,285.7	(72.0)	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	61,517.8	61,855.3	337.5	
Other funds (all allocations)	61,521.1	65,660.7	4,139.6	4, 5
Total Non-General Funds (all allocations)	123,038.9	127,516.0	4,477.1	
Position Changes	1,765	1,780	15	6
PFT	867	879	12	
PPT	799	802	3	
Temp	99	99	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		1,300.0		
Susitna Sockeye Escapement Estimation (HD 13-16)		1,000.0		
Field Equipment and Maintenance for Regional Wildlife Biologists (HD 1-40)		150.0		
Vessel Repair and Maintenance (HD 1-40)		150.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Fish and Game

The Department of Fish and Game (DFG) has a mandate to manage, protect, maintain, improve and extend the fish, game, and aquatic plant resources of Alaska in the interest of the economy and for the general well-being of the State. The Boards of Fisheries and Game adopt regulations to conserve and develop these resources. The commissioner and the department conduct management and research functions necessary to support these goals. The department includes the Commercial Fisheries Entry Commission, a quasi-judicial agency which promotes resource conservation and sustained yield management by regulating entry into Alaska's commercial fisheries.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Unlike most agencies, the DFG is using a disproportionate share of general funds for salary adjustments.** Most agencies calculate salary adjustments in proportion to the funding used in the personal services line. Although the agency's general fund share of the FY06 budget was 21.6%, the GF share of salary adjustments is 84.8%.

Legislative Fiscal Analyst Comment: Subcommittees may wish to explore why the department requests increments of these non-general fund sources. For example, the Sport Fish Division has 1% in general funds in its FY06 budget but is requesting 100% of its FY07 salary adjustments (\$1.4 million) in general funds. The division then requests increments totaling \$1.7 million in other funding sources (Fish and Game Funds, the recent surcharges on sport fishing licenses, and federal receipts).

This method of presenting the budget is problematic because:

- a. *Salary adjustments tend to be accepted on a statewide basis and many subcommittees do not focus on which funding sources are used; and*
 - b. *Subcommittees tend to focus on general fund increment requests. An increment request for Fish and Game funds may receive less scrutiny than an increment using general funds.*
2. **The Commercial Fisheries Division is requesting a total of \$1 million in general funds to replace federal funds from the Pacific Salmon Commission** (\$400.0 in the Southeast Region and \$600.0 in Headquarters). Although federal funding is still available, DFG states that full state funding enables its staff to focus on furthering Alaska's priorities rather than working on federal projects. The federal funding freed up by this request will be used to conduct stock assessments (\$400.0) and the biological and economic assessment projects (\$600.0) related to state interests in federal fishery management issues.
 3. In addition to the above cited \$400.0 in federal funds to be used for stock assessments, Commercial Fisheries is requesting **\$1.1 million in general funds for stock assessments across the regions**. DFG believes these stock assessments are vital to maintaining (and increasing) commercial and subsistence harvests.
 4. Most of the \$4.1 million change in other funds occurs in the Westward Region Fisheries Management allocation and in the Sport Fish Division. The Westward Region Fisheries Management allocation is requesting another **\$1.5 million in Test Fisheries Receipts to**

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

cover regulations development and increased management costs associated with the rationalization of the Bering Sea/Aleutian Islands king and tanner crab fisheries. This doubles the region's authorization for these funds (from \$1.5 to \$3 million).

5. As discussed in Note 1, **all of Sport Fish's salary adjustments are being funded with \$1.4 million in general funds while increments totaling \$1.7 million use non-general funds, including:**
 - a. \$700,000 to increase sport fish angler participation;
 - b. \$500,000 for a survey on the socio-economic aspects of recreational fishing in Alaska.
6. Most of Wildlife Conservation's \$3.1 million general funds increase is from a **\$2.9 million increment for Big Game Management and Research.** This funding will add ten new positions and will enable the division to:
 - a. conduct intensive management programs to restore depleted game populations;
 - b. assess the population status of key wildlife populations to provide the greatest allowable harvest;
 - c. inform and educate Alaskans on the role of consumptive uses in managing Alaskan wildlife populations; and
 - d. recruit and retain new hunters.
7. The **Subsistence Division is requesting another \$275.0 in general funds to restore research** for fisheries and wildlife management programs and state regulatory bodies.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Office of the Governor				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$15,984.6			
FY06 Fiscal Notes	720.6			
Reappropriations	1,697.8			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	1,233.8			
Agency Transfers	8.4			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$19,645.2	\$3,660.6	22.9%	
One-time Items	(2,931.6)			4
Agency Transfers	(139.4)			5
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$16,574.2	-\$3,071.0	-15.6%	
FY 07 Salary Adjustment Increases	294.1			
FY 07 Other Salary Adjustment Increases	-			
FY 07 PERS/TRS Cost Increases	422.7			
FY 07 Health Cost Increases	24.6			
FY 07 Risk Management	24.3			
FY 07 Adjusted Base Budget (GF only)	\$17,339.9	\$765.7	3.9%	
FY 07 Governor's GF Increments and Decrements	3,202.0			
FY 07 Governor's Request (GF only)	\$20,541.9	\$3,202.0	18.5%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			3,202.0	
Human Rights Commission	1,400.9	1,580.1	179.2	2
Executive Office	8,475.8	8,725.8	250.0	3
Elections	2,360.7	5,133.5	2,772.8	1
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	167.7	167.7	0.0	
Other funds (all allocations)	951.6	1,356.8	405.2	
Total Non-General Funds (all allocations)	1,119.3	1,524.5	405.2	
Position Changes	164	192	28	
PFT	147	155	8	
PPT	0	0	0	
Temp	17	37	20	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		100.0		
Americans with Disabilities Act Compliance Projects (HD 1-40)		100.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Office of the Governor

The Governor's Office is responsible for the operation of the executive branch of Alaska State government, with fiscal and policy duties conferred by the Alaska Constitution and statutes.

SIGNIFICANT ISSUES

The Governor's request reveals no significant changes in policy.

The following notes correspond to numbers on the preceding spreadsheet.

1. The largest increase in the Office of the Governor is a one-time item. **The Division of Elections requests an increment of \$2,756.5 to cover the costs of the 2006 general elections.** This amount is based on past costs of elections.
2. The **Human Rights Commission requests an increment of \$179.2 (and 2 positions) to address its case backlog.** The Commission lost 24% of its staff since FY03. Following a national trend, the Commission has seen a 45% increase in filings in the last year.
3. **The Executive Office requests an additional \$250.0 to promote trade and international business opportunities for Alaskans.**
4. All FY06 **funding appropriated on a one-time basis was removed** from the FY07 budget, including:
 - a. \$1.7 million in contingency funds;
 - b. \$453.8 for resource development and marketing (including ANWR);
 - c. \$480.0 for gas pipeline development; and
 - d. \$300.0 for the military Base Realignment and Closure Commission.
5. The **Commemorative Coin Commission and Statehood Celebration Commission (and \$139.4 in funding) are transferred to the Department of Commerce, Community and Economic Development** in the Governor's FY07 budget request.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Health and Social Services				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$609,263.3			
FY06 Fiscal Notes	(1,427.2)			
Reappropriations	-			
Special Appropriations	154.2			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	365.7			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$608,356.0	-\$907.3	-0.1%	
One-time Items	(976.5)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$607,379.5	-\$976.5	-0.2%	
FY 07 Salary Adjustment Increases	2,607.9			
FY 07 Other Salary Adjustment Increases	193.8			
FY 07 PERS/TRS Cost Increases	4,691.9			
FY 07 Health Cost Increases	353.9			
FY 07 Risk Management	1,456.6			
FY 07 Adjusted Base Budget (GF only)	\$616,683.6	\$9,304.1	1.5%	
FY 07 Governor's GF Increments and Decrements	134,635.5			
FY 07 Governor's Request (GF only)	\$751,319.1	\$134,635.5	21.8%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			134,635.5	
Pioneer Homes	26,334.0	29,041.3	2,707.3	10
Behavioral Health Medicaid Services	57,572.1	61,287.4	3,715.3	1,2,3,5
Behavioral Health Grants	1,691.4	3,991.4	2,300.0	6
Community Action Prevention and Intervention Grants	1,229.7	6,779.7	5,550.0	6
Services for the Severely Emotionally Disturbed Youth	4,483.2	6,603.2	2,120.0	8
Alaska Psychiatric Institute	6,793.9	8,150.9	1,357.0	
Children's Medicaid Services	4,322.3	7,080.6	2,758.3	1,8
Medicaid Services	115,431.9	190,460.3	75,028.4	1,2,3,4,5
Probation Services	10,090.7	11,125.2	1,034.5	8,11
Epidemiology	1,861.0	4,233.5	2,372.5	7
Public Health Laboratories	2,985.8	4,013.4	1,027.6	7
Senior and Disabilities Medicaid Services	101,719.3	125,181.1	23,461.8	1,2,4
Administrative Support Services	6,094.2	8,519.5	2,425.3	
Human Services Community Matching Grant	1,235.3	3,000.0	1,764.7	9
All Other Allocations below \$1 million	274,838.8	281,851.6	7,012.8	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	987,961.7	1,083,557.0	95,595.3	
Other funds (all allocations)	212,875.4	173,081.7	-39,793.7	
Total Non-General Funds (all allocations)	1,200,837.1	1,256,638.7	55,801.6	
Position Changes	3,493	3,581	88	7,8,10
PFT	3,206	3,295	89	
PPT	104	105	1	
Temp	183	181	-2	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		7,997.1		
Alaska Psychiatric Institute (Language)		3,000.0		
Immunization and Disease Registry (HD 99)		1,680.9		
Medicaid Management Information System Completion (HD 99)		1,791.2		
Other Projects less than \$1 million		1,525.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Health & Social Services

The Department of Health and Social Services (DHSS) promotes and protects the health and well being of Alaskans through the following core services:

- Providing quality assisted living in a safe environment;
- Providing an integrated behavioral health system;
- Promoting stronger families and safer children;
- Managing health care coverage for Alaskans in need;
- Encouraging self-sufficiency and providing basic living expenses for Alaskans in need;
- Addressing juvenile crime by promoting accountability, public safety, and skill development;
- Promoting independence of Alaska seniors and people with physical developmental disabilities; and
- Providing quality administrative services supporting the Department's mission.

SIGNIFICANT ISSUES

Medicaid is the nation's largest health care program, providing health and long term services to 58 million low-income pregnant women, children, people with disabilities, and seniors. Medicaid accounts for approximately 21% of state spending nationwide. According to the National Governor's Association, Medicaid spending increases during the last five years have been driven by a 40% increase in caseload and 4.5% annual increase in the health care price index.

Medicaid accounts for approximately 61% of the total budget of the DHSS agency and 16% of the State's total budget. Medicaid expenditures in Alaska, as in many states, are skyrocketing in spite of attempts at cost containment. In an effort to increase accountability, the agency reorganized the Medicaid Services appropriation in FY04, resulting in Medicaid services being spread across four appropriations: Behavioral Health, Children's Services, Health Care Services, and Senior and Disabilities Services. Discussion of Medicaid changes below may cross appropriation and allocation lines.

Alaska's **FMAP** (Federal Medical Assistance Percentage—the percentage of program expenses reimbursed by the federal government) is scheduled to fall from 57.58% to 50.16% per a deficit reduction bill that has been adopted by the Congress. According to estimates by the Federal Funds Information for States (FFIS), a group who tracks and reports on the fiscal impact of federal budget and policy decisions on state budgets and programs, the FMAP reduction would cost Alaska about **\$78 million annually. The agency's budget does not contain a general fund increment replacing this federal reduction.** The Alaska Congressional delegation is working on changes that would hold Alaska's FY2005 rate at 57.58% for two more years, but results of those efforts will not be known until Congress reconvenes in mid-January.

The following notes correspond to numbers on the preceding spreadsheet.

1. **Medicaid increments** budgeted in the allocations of Behavioral Health (BH) Medicaid Services, Medicaid Services, Children's (CS) Medicaid Services, and Senior and Disabilities Services (SDS) Medicaid Services **total \$146 million** (GF of \$44 million and \$102 in federal funds). The BH Medicaid Services growth totals \$9.5 million, Medicaid

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Services totals \$80.4 million, CS Medicaid Services totals nearly \$1 million, and SDS Medicaid Services totals \$56 million.

Legislative Fiscal Analyst Comment: *The agency's projected costs are based on prior year trends remaining constant and FMAP remaining at 57.58%. During FY06, many of the cost containment measures built into the budget were "unrealized" and have been added to the FY07 budget in Medicaid Services (nearly \$10 million total) and Senior and Disabilities Services Medicaid (\$6.5 million total).*

2. On December 8, 2003, President Bush signed into law the **Medicare Prescription Drug Improvement and Modernization Act** of 2003 (Pub. L. 108-173). This legislation, which became effective January 1, 2006, provides prescription drug benefits to seniors and those with disabilities. Alaska is offering 27 stand-alone Medicare prescription drug plans. Although the law will reduce Medicaid costs, there is a "**clawback**" measure in the federal law; states are required to repay the federal government for savings achieved as drug expenditures move from Medicaid to Medicare. The Medicaid Services allocation has requested an increment of **\$4.4 million in GF** for this purpose. In addition, increments for **Medicare premium increases for Part A and B total \$3 million (\$1.5 GFM and \$1.5 federal)**.
3. **The Fair Share Program's claim for federal reimbursement was denied** by the U.S. Ninth Circuit Court of Appeals on September 12, 2005. As a result, the agency is requesting **\$45 million dollars in GF**. The Fair Share Program was introduced in FY03 to share a portion of Medicaid payments to Tribal hospitals, which the agency claimed were excluded from federal regulations restricting payment-sharing in community hospitals

Legislative Fiscal Analyst Comment: *Nearly \$140 million in GF was used to make Fair Share payments to Indian Health Services (IHS) hospitals from FY02-FY05. The department expected to recover these payments through federal reimbursement. These anticipated revenues were booked as receivables and the associated expenditures were excluded from the amounts drawn from the Constitutional Budget Reserve Fund (CBRF). The receivables have now been written off and the payments recognized as FY05 expenditures. The result is an FY05 draw from the CBRF to fill the deficit created by the write-off.*

4. **Disproportionate Share** is the name for payment adjustments made to hospitals that serve a disproportionate number of low-income patients with special needs. These same hospitals usually provide high volumes of care to indigent patients and have limited ability to shift costs to private caseloads. Currently, the agency makes payments to the categories of IMD (institutions for mental disease) and DET (designated evaluation and treatment). An **increment of \$13,227.5 (\$6,502.6 GFM; \$6,724.9 Federal) will enable the agency to expand payments to hospitals** in other eligible categories.
5. The department requests that a **\$2.2 million shortfall in State Children's Health Insurance Program (SCHIP) in federal funds be replaced with general funds**. Federal funding for SCHIP fell by 26%, or more than \$1 billion, in FFY02 and remains under funded. A combination of federal funding reductions and rising SCHIP enrollments and expenditures prompts this request.
6. Alaska has one of the highest per capita alcohol consumption rates in the nation. The prevalence of alcohol dependence and alcohol abuse, at 14%, is twice the national average of 7% (Gallup Corp) and the suicide rate is twice the national average. Alaska Natives rates of suicide are nearly four times the national average. The **Youth Success**

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Initiative requests **\$5 million dollars in GF** and \$1 million dollars of Temporary Assistance for Needy Families (TANF) bonus money to ensure that **young Alaskans who are at risk for substance abuse and suicide** receive an array of services from statewide non-profit organizations. The **Substance Abuse Proposal** requests **\$2 million dollars of GF/MH** and \$1 million of TANF bonus money that will be used to **focus on prevention of underage alcohol use**.

7. Public Health preparedness is a priority because of the potential for bird flu and because of events following hurricanes Rita and Katrina. **To ensure Alaska's public health and emergency preparedness**, this increment funds nearly \$5.2 million dollars (**\$4.3 million in GF**, \$307.5 federal, and \$540.0 inter-agency receipts) for public health preparedness, providing infectious disease control and emergency preparedness, pandemic influenza preparedness by stockpiling antiviral drugs, creation of an immunization and disease registry, and **adds 21 new full-time positions**.
8. In FY07, the agency wishes to expand **Bring the Kids Home** efforts with approximately \$5.1 million dollars (**nearly \$3.7 in GF/MH** and nearly \$1.5 million in federal funds). The agency's continuing goal is moving children with severe emotional disturbances from out-of-state residential facilities to in-state or community-based care facilities.

***Legislative Fiscal Analyst Comment:** Nearly \$2.6 million dollars, including \$2 million from the Trusts, went to Bring the Kids Home in FY06. However, the initiative has been less successful than projected due to unfulfilled expectations regarding infrastructure and costs to provide services. This increment expands the gatekeeper functions of the regional and out-of-state placement committees to non-custody children looking for referrals to residential care.*

9. The **Human Services Community Matching Grant (HSCMG)** allocation is requesting a **GF increment of nearly \$1.8 million dollars**, authorizing grants to qualified municipalities for essential human services such as substance abuse treatment, mental health services, food and shelter for the low-income, sexual assault shelters, domestic violence treatment, rehabilitation for the physically and mentally ill, etc., bringing the allocation to a total of \$3 million GF. The increases would be allocated by population among the Municipality of Anchorage and the Matanuska-Susitna and Fairbanks North Star Boroughs. The three communities would provide a 30% match with local dollars.
10. The agency proposes increasing the **Pioneers' Homes** staffing to improve residents' safety and security at all homes and **adding 24 new full time positions**.
11. **Probation Services** is requesting additional funding to continue work on providing public safety and security through offender accountability.

CAPITAL PROJECTS

The agency is requesting total **nearly \$5 million GF** matched by \$16.7 million in federal funds for

- creation of an immunization and disease registry (\$2 million with federal matching of \$369.0)
- Medicaid management information system completion (\$1.8 million with federal matching funds of \$16.1 million).

There are four other GF projects of less than \$500.0 each for various system improvements.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Women, Infants, and Children Payment System (HD 99) requests \$6 million in federal funds to replace the WIC computer system with a web-based system and build a capacity for WIC to transition to electronic benefit transfer payments.

ORGANIZATIONAL CHANGES

Public Health Appropriation: A new allocation called Chronic Disease Prevention and Health Promotion was created (transfer of \$6,440.7 from various funding sources, along with 50 positions) to better focus on chronic disease programs and risk factors by using an integrative and collaborative approach to chronic disease.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Labor and Workforce Development				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$15,565.0			
<i>FY06 Fiscal Notes</i>	113.1			
<i>Reappropriations</i>	-			
<i>Special Appropriations</i>	-			
<i>Vetoed</i>	-			
<i>Multi-Years (from prior fiscal years)</i>	-			
<i>Agency Transfers</i>	185.7			
<i>Miscellaneous Adjustments</i>	-			
FY 06 Management Plan (GF only)	\$15,863.8	\$298.8	1.9%	
<i>One-time Items</i>	-			
<i>Agency Transfers</i>	-			
<i>Miscellaneous Adjustments</i>	-			
FY 06 Base Budget (GF only)	\$15,863.8	\$0.0	0.0%	
<i>FY 07 Salary Adjustment Increases</i>	179.7			
<i>FY 07 Other Salary Adjustment Increases</i>	206.6			
<i>FY 07 PERS/TRS Cost Increases</i>	389.6			
<i>FY 07 Health Cost Increases</i>	27.4			
<i>FY 07 Risk Management</i>	51.7			
FY 07 Adjusted Base Budget (GF only)	\$16,718.8	\$855.0	5.4%	
<i>FY 07 Governor's GF Increments and Decrements</i>	7,768.9			
FY 07 Governor's Request (GF only)	\$24,487.7	\$7,768.9	46.5%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			7,768.9	
Commissioner's Office	625.6	775.6	150.0	4
Alaska Labor Relations Agency	456.6	459.8	3.2	
Office of Citizenship Assistance	105.2	114.5	9.3	
Leasing	2,969.7	3,143.9	174.2	
Labor Market Information	762.1	867.1	105.0	4
Wage and Hour Administration	1,314.3	1,613.5	299.2	4
Occupational Safety and Health	5.1	15.1	10.0	
Adult Basic Education	1,571.1	2,571.1	1,000.0	2
Business Services	1.9	4,001.9	4,000.0	1
Alaska Vocational Technical Center Operations	3,942.2	5,548.2	1,606.0	3
Kotzebue Technical Operations Grant	-	300.0	300.0	
Client Services	3,202.3	3,314.3	112.0	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	96,045.7	98,847.8	2,802.1	5
Other funds (all allocations)	49,800.3	52,180.0	2,379.7	1
Total Non-General Funds (all allocations)	145,846.0	151,027.8	5,181.8	
Position Changes	1,021	1,054	33	3,4
PFT	894	914	20	
PPT	107	107	0	
Temp	20	33	13	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		5,451.0		
Wage and Hour Internet Application for Certified Payroll (HD 99)		228.0		
Technology for Individuals with Disabilities (HD 99)		300.0		
AVTEC Distance Training Videoconferencing Project (HD 35)		423.0		
AVTEC Dormitory Remodel (HD 35)		2,500.0		
AVTEC Facility Replacement (HD 35)		2,000.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities through the following core services:

- Resolving disputes between organized labor and public employers;
- Administering programs and funds for workers' compensation, second injury, fishermen's fund, and unemployment insurance;
- Providing labor standards and safety programs;
- Providing employment services including job centers, job referral and training, vocational rehabilitation, and vocational technical education; and
- Providing information on the current condition of the state's labor market and economy.

SIGNIFICANT ISSUES

The Department of Labor and Workforce Development relies primarily on federal funding. From the late 1990's to the present, federal funding has ranged from 60% to 70% of the agency's budget. Congress recently passed a Labor appropriation budget that reduces many workforce programs such as employment services, Workforce Investment Act (WIA) program grants, and unemployment insurance.

As a result of federal budget actions, the Governor's FY07 budget contains substantial increases in general funds as the agency attempts to mitigate federal reductions while continuing to deliver programs that ensure Alaska's workforce is well-trained and ready to fill anticipated jobs in industries such as energy, health care, and hospitality. In addition to general fund increases, the agency is accelerating efforts to procure special federal workforce development program grants.

The following notes correspond to numbers on the preceding spreadsheet.

1. **The Alaska Youth First Initiative requests \$4,000.0 in general fund resources to meet anticipated needs for construction of the gas pipeline.** The agency will partner with employers who will offer industry-based work experience to approximately 400 youth annually; develop and implement career guidance and employability skills certification with a goal of certifying approximately 1,000 youth each year as employable; and offer four-week and six-week summer industry academies for 80 youth annually. Funding will also provide instructor externships and training for 50 teachers annually using a scholarship/incentive approach for teachers to better understand high growth industry workforce standards and integrating those standards in classroom curricula. The agency will use existing staff to administer and monitor the program, and will work with the Employment and Training Services programs, through an increase in inter-agency receipts to coordinate career activities and grant allocations to state/local and private organizations.
2. **In order to provide a well-trained workforce in other industries of high demand and high growth, the agency is requesting increments of \$1 million in GF for Adult Basic Education (ABE).** Adult Basic Education funding will expand ABE services by providing nearly 80,000 hours of additional direct instruction and 21 additional teachers. Grants will be allocated on a formula funding basis.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

3. The third part of the agency's initiative to improve Alaska's workforce is reflected in a proposed expansion of **Alaska Vocational Technical Center (AVTEC) instructional programs requiring approximately \$1.6 million in GF** and \$177.0 in receipt supported services (RSS). The AVTEC will expand various programs to meet demand such as welding, maritime transportation, allied health, commercial driver's license, and facility maintenance/construction trades by providing twelve new full time positions including training coordinator and instructor, professional development and curriculum for statewide training.
4. The Governor's budget continues to focus on **Resident Hire with increments totaling approximately \$554.2 GF** for travel and special promotions, expanded data collection and data monitoring related to resident hire, and apprentice utilization. The increments include three full time positions.
5. Additional federal grants may provide \$3,000.0 for additional training opportunities in the construction, health care and hospitality industries, all considered areas of high demand and high growth. Funding is expected to focus on increasing the number of Alaskans working in targeted industries by 5%; expanding the number of local training programs targeted toward demand industries; training 30% more participants in high demand occupations and placing at least 80% who successfully complete training. The agency has applied for this grant; however, funding has not been procured and the need for this additional federal authority is uncertain.

Nearly \$3.7 million in **Reed Act federal funding** will replace reductions in federal operating grant funds in Employment and Training Services and Unemployment Insurance. Reed Act funds may be used to support operations of Employment and Training and Unemployment Insurance programs, and require specific appropriation by the legislature to be used. The money can also be used to administer the state's Unemployment Compensation law and its system of public employment offices. In FFY02, Alaska's share of \$8 billion in Reed Act allocations was approximately \$14.8 million. The money has been used to replace shrinking federal grants since 2002. The agency expects to spend the remaining balance of Reed Act funds during FY07. The Reed Act distribution will end in FY07, and the agency does not anticipate another Reed Act distribution at this time.

CAPITAL BUDGET

Capital projects requested by the agency total nearly \$5.5 million in general funds:

- Wage and Hour is requesting \$228.0 to fund programming necessary to create an internet application for the certified payroll system. This will enable contractors to file certified payroll online via a secure connection as required in Chapter 111, SLA 2003 (HB 155).
- Vocational Rehabilitation is requesting \$300.0 to help individuals with the most significant disabilities in the purchase of modifications for vehicles and homes.
- Alaska Vocational Technical Center projects totaling \$4.9 million will fund infrastructure necessary to house Alaskans as they receive training for various jobs, and provides videoconferencing training for rural Alaskans.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

ORGANIZATIONAL CHANGES

Workers' Compensation and Safety Appropriation: The Workers Compensation Appeals Commission and the Workers Compensation Benefits Guaranty Fund allocations resulted from the passage of SB 130 Workers' Compensation and Insurance (Ch. 10, FSSLA 2005). The Workers Compensation Appeals Commission was created by a transfer in from the Workers' Compensation allocation including three full time positions. The Workers Compensation Benefits Guaranty Fund is shown as an increment in the allocation's budget. The Workers Compensation Benefits Guaranty fund is composed of civil penalty payments made by employers under AS 23.30.080, income earned on investment of money in the fund, money deposited in the fund by the agency, and appropriations to the fund, if any.

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Law				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$33,300.0			
FY06 Fiscal Notes	2,069.4			
Reappropriations	350.0			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	6,741.0			
Agency Transfers	55.2			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$42,515.6	\$9,215.6	27.7%	
One-time Items	(7,154.7)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$35,360.9	-\$7,154.7	-16.8%	
FY 07 Salary Adjustment Increases	530.6			
FY 07 Other Salary Adjustment Increases	34.9			
FY 07 PERS/TRS Cost Increases	1,016.5			
FY 07 Health Cost Increases	57.0			
FY 07 Risk Management	52.8			
FY 07 Adjusted Base Budget (GF only)	\$37,052.7	\$1,691.8	4.0%	
FY 07 Governor's GF Increments and Decrements	722.9			
FY 07 Governor's Request (GF only)	\$37,775.6	\$722.9	2.0%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			722.9	
Third Judicial District: Anchorage	5,256.2	5,501.6	245.4	1
Third Judicial District: Outside Anchorage	3,195.3	3,316.3	121.0	1
Fourth Judicial District	4,084.5	4,200.9	116.4	1
Criminal Appeals / Special Litigation	2,667.8	2,674.9	7.1	
Collections and Support	635.8	637.4	1.6	
Human Services Section	4,144.1	4,170.1	26.0	
Labor and State Affairs	1,922.9	2,106.7	183.8	2
Natural Resources	857.1	878.7	21.6	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	2,740.6	2,740.6	0.0	
Other funds (all allocations)	23,820.8	23,652.9	-167.9	
Total Non-General Funds (all allocations)	26,561.4	26,393.5	-167.9	
Position Changes	539	540	1	
PFT	530	531	1	
PPT	9	9	0	
Temp	0	0	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		260.0		
Law Office Security Improvements (HD 99)		260.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Law

The Department of Law is responsible for public protection through

- prosecuting violators of state criminal laws,
- representing the state in legal actions,
- providing legal services in the resolution of tax and royalty disputes,
- enforcing unfair trade practice and antitrust laws,
- providing legal services for extraordinary proceedings such as oil and gas litigation, and
- advising state agencies in areas of legal concern including promulgating regulations and drafting legislation.

The Criminal Division protects the public by prosecuting all violations of state criminal law committed by adults and juveniles, and by placing them under appropriate controls. The Civil Division serves the interest of Alaska's citizens by providing legal counsel to the executive branch in all civil actions. The Administrative Services Division provides the core administrative services that are essential to the day-to-day operation of the department and to managing the resources of the department.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. Federal receipts for drug enforcement prosecution have declined. **The Department is requesting the following general fund increments to replace federal funds once received from the Department of Public Safety:**
 - a. \$245.4 - Third Judicial District: Anchorage
 - b. \$121.0 - Third Judicial District: Outside Anchorage
 - c. \$116.4 - Fourth Judicial District

The recently passed federal budget bill reduces funds for enforcement of drug laws. The full reduction for FY06 and FY07 will not be known until as late as March 2006. The Department of Law states that these increments are necessary to partially (or totally) offset lost federal receipts.

These grant funds paid for three attorneys, a paralegal and a law office assistant in Anchorage, one attorney in Palmer, and one in Fairbanks, plus overhead costs associated with each of these offices.

2. Labor and State Affairs is requesting an increment of \$176.4 in general funds to pay for an additional attorney to deal with discovery actions in procurement/breach-of-contract lawsuits.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Military and Veterans' Affairs				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$12,678.6			
FY06 Fiscal Notes	114.5			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	36.7			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$12,829.8	\$151.2	1.2%	
One-time Items	-			
Agency Transfers	(363.1)			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$12,466.7	-\$363.1	-2.8%	
FY 07 Salary Adjustment Increases	185.5			
FY 07 Other Salary Adjustment Increases	28.3			
FY 07 PERS/TRS Cost Increases	349.0			
FY 07 Health Cost Increases	25.0			
FY 07 Risk Management	95.5			
FY 07 Adjusted Base Budget (GF only)	\$13,150.0	\$683.3	5.3%	
FY 07 Governor's GF Increments and Decrements	1,045.8			
FY 07 Governor's Request (GF only)	\$14,195.8	\$1,045.8	8.0%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			1,045.8	
Office of the Commissioner	1,718.8	1,841.3	122.5	5
Homeland Security & Emergency Services	2,036.7	2,384.3	347.6	1,4
Local Emergency Planning Committee	-	300.0	300.0	1
National Guard Military Headquarters	748.5	837.1	88.6	
Army Guard Facilities Maintenance	2,354.1	2,942.9	588.8	2
Air Guard Facilities Maintenance	1,249.2	1,349.2	100.0	2
Alaska Military Youth Academy	1,531.6	1,285.3	(246.3)	3
Veterans' Services	744.3	780.3	36.0	
Educational Benefits	353.5	378.5	25.0	
Retirement Benefits	2,053.8	1,737.4	(316.4)	6
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	19,775.3	20,179.9	404.6	
Other funds (all allocations)	9,148.4	9,753.4	605.0	
Total Non-General Funds (all allocations)	28,923.7	29,933.3	1,009.6	
Position Changes	299	299	0	
PFT	291	291	0	
PPT	4	4	0	
Temp	4	4	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		3,387.5		
Alaska Military Youth Academy Expansion (HD 96)		500.0		
Bethel Readiness Center New Construction - Phase 3 (HD 38)		687.5		
(HD 99)		200.0		
Statewide Digital Mapping (HD 99)		2,000.0		

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Department of Military and Veterans' Affairs

The Department of Military and Veterans' Affairs (DMVA) provides relevant military forces that are fully prepared to mobilize and accomplish military missions, provide homeland defense, and respond to emergency requirements in the state or around the world. The remaining divisions of the department are responsible for

- providing emergency services,
- training for at-risk juveniles,
- coordinating veterans' assistance and programs, and
- providing support to other state and federal agencies in suppressing the use of illegal drugs.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. Funding from the Oil and Hazardous Substance Release Response Fund (OHSRRF) has been declining for a number of years, and funding is no longer sufficient to continue any of the \$582.8 DMVA received from this source in FY06. (For an explanation of why this fund is declining, see Note 1 in Agency Narrative for the Department of Environmental Conservation). Due to this decline, DMVA is requesting a replacement of \$550.3 of GF in the following allocations:
 - a. **The Office of Homeland Security and Emergency Services is requesting a replacement of \$282.8 OHSRRF with \$197.6 of general funds and \$52.7 of CIP Receipts for State Emergency Response Commission (SERC) activities.** The Agency believes this funding is critical to the emergency management and homeland security priorities of the State.
 - b. **The Local Emergency Planning Committee (LEPC) is requesting a general fund replacement for the entire \$300.0 to replace OHSRRF funding.** Funding for the LEPC has been based upon 3% of the balance of the OHSRRF.
2. **Fuel cost increments total \$1,023.2 (\$716.5 in GF, \$306.7 in federal and other funds).** These increases primarily affect the following allocations:
 - a. **Army Guard Facilities Maintenance requests an increment of \$588.8 for fuel cost increases.** Currently, the Army Guard has 273 buildings to maintain, (240 are located outside Anchorage). The outlying areas have much higher fuel costs due to higher transportation costs and other factors. Some communities are rationing fuel, which also pushes fuel costs higher. Unlike the Air Guard Cooperative, the Feds are requiring that the Army Guard Cooperative absorb this additional fuel cost.
 - b. **Air Guard Facilities Maintenance requests an increase of \$100.0 for fuel cost increases.** However, the Air Guard has a Facilities Operations & Maintenance Cooperative Funding Agreement under which federal receipts of \$300.0 will match \$100.0 of GF.
3. **Alaska Military Youth Academy (AMYA) is replacing \$274.0 of general funds with** Department of Education and Early Development (DEED) formula funding. The

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

ChalleNGe program continues to expand and is expected to continue its growth in FY07. AMYA received a GF increment for the initial first year start-up funding and, as expected, is now replacing GF with I/A receipts from DEED.

4. **The Office of Homeland Security and Emergency Services requests an increment of \$300.0 (\$150.0 GF, \$150.0 CIP) for the implementation of a new statewide preparedness initiative** to develop a comprehensive continuity of operations plan (COOP) and provide written structure for continuity of government (COG). The department received training on COOP and COG in FY05, is working on a department level COOP for inclusion into a statewide plan in FY06, and will concentrate efforts on COG in FY07.
5. **The Office of the Commissioner is requesting an increment of \$122.5 in general funds to host the Adjutant General Association of the United States Conference in Anchorage in June 2007.**
6. **Due to a revision in the non-vested active participant turnover rate, the FY07 contribution to the State of Alaska, National Guard and Naval Militia Retirement System (NGNMRS) will decrease by \$316.4.** The annual contribution will remain the same in FY08. Based on a June 30, 2004 actuarial valuation report, the NGNMRS is funded at 67.8%, up from 59.0% in FY02.

ORGANIZATIONAL CHANGES

In the FY07 request, the Alaska Land Mobile Radio (ALMR) Project is transferred from DMVA back to the Department of Administration (DOA). The ALMR was transferred from DOA to DMVA in FY06 so that DMVA could do the setup of the ALMR equipment. The setup will be completed by June 2006. Operation and billing of the ALMR is via DOA, Enterprise Technology Services (ETS).

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Department of Natural Resources				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$54,393.6			
FY06 Fiscal Notes	668.5			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	13,275.0			
Agency Transfers	146.4			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$68,483.5	\$14,089.9	25.9%	
One-time Items	(13,338.9)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$55,144.7	-\$13,338.9	-19.5%	
FY 07 Salary Adjustment Increases	790.9			
FY 07 Other Salary Adjustment Increases	39.4			
FY 07 PERS/TRS Cost Increases	1,453.3			
FY 07 Health Cost Increases	95.9			
FY 07 Risk Management	673.8			
FY 07 Adjusted Base Budget (GF only)	\$58,198.0	\$3,053.3	4.5%	
FY 07 Governor's GF Increments and Decrements	4,538.3			
FY 07 Governor's Request (GF only)	\$62,736.3	\$4,538.3	7.8%	

FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			4,538.3	
Commissioner's Office	902.0	1,152.0	250.0	1
Information Resource Management	1,798.4	2,018.4	220.0	
Oil and Gas Development	6,492.2	8,603.9	2,111.7	1
Alaska Coastal Management Program	1,421.7	1,554.7	133.0	
Claims, Permits, and Leases	6,318.2	6,734.1	415.9	3
RS2477 Assertions and Litigation	411.6	458.6	47.0	
Forest Management and Development	2,661.4	2,781.4	120.0	
Geological Development	2,368.7	2,418.7	50.0	
Parks Management	3,796.9	4,843.2	1,046.3	2
DNR Facilities Rent and Chargeback	2,196.2	2,290.6	94.4	
Fire Suppression Preparedness	12,483.0	12,533.0	50.0	

Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	16,267.4	16,282.4	15.0	
Other funds (all allocations)	45,782.4	42,694.0	-3,088.4	2,4
Total Non-General Funds (all allocations)	62,049.8	58,976.4	-3,073.4	
Position Changes	1,112	1,113	1	3
PFT	767	769	2	
PPT	256	256	0	
Temp	89	88	-1	

FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		7,556.5		
Alaska Land Mobile Radio Emergency Response Equipment Replacement for Forestry/Fire and Parks (HD 99)		1,291.5		
Oil and Gas Royalty Settlement Agreements Reopener Arbitration (HD 99)		1,000.0		
Other Projects less than \$1 million		5,265.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Natural Resources

The Department of Natural Resources develops, conserves, and maximizes the use of Alaska's natural resources consistent with public interest by providing the following core services:

- oil and gas development;
- land, water, and habitat management;
- forestry and parks management and development;
- fire preparedness and suppression; and
- agricultural development and revolving loan fund administration.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

According to the Alaska Constitution, the State is responsible for making its natural resources available for development "consistent with the public interest" and for the "maximum benefit of Alaskans." While the State awaits materialization of a gas pipeline, the agency continues working under the assumption that a pipeline construction contract will be approved under the Stranded Gas Development Act. The agency has been authorized a total of nearly \$18 million and spent/obligated nearly \$11.4 million on Stranded Gas Act, right-of-way, and other gas line activities since FY04.

The following notes correspond to numbers on the preceding spreadsheet.

1. The agency is requesting **gas pipeline increments totaling approximately \$2.3 million** in the allocations of the Commissioner's Office and Oil and Gas Development as work continues on preparation of the gas pipeline.

***Legislative Fiscal Analyst Comment:** Approximately \$2.2 million of the increments have been classified by Legislative Finance as one-time increments due to their specific relationship to gas pipeline work.*

2. Parks funding has actively moved away from GF to Other funding sources since FY04, in an effort to fund park operations from fees collected. However, the agency claims that generating park receipts to support operations and deferred maintenance has eroded the purchasing power for parks management. The agency is requesting nearly **\$1.1 million GF increment in order to maintain park operations** and reverse the trend of uncollectible receipt authority. The agency's nearly \$1.1 million increment contains not only an increment of \$1,046.3 GF, but also a reduction in CIP receipts and receipt supported services funding of \$513.4.
3. The agency is requesting a GF increment of **\$415.9 and five full-time positions to encourage increased use and development of state land by private businesses**. The Claims, Permits, and Leases allocation provides services for most state authorizations necessary for the use of state land by industries and the public. This allocation typically uses revenue generated by the development of state land to cover its costs. This increment will help alleviate the backlog of applications and expedite requests that exceed existing staff capacity.
4. The Agricultural Revolving Loan Fund (ARLF) promotes agricultural development through its agricultural loan programs. Currently, the ARLF portfolio is approximately \$27 million. However, the agency anticipates the fund's ability to provide revenue will be

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

depleted in the next two years if current trends continue. In its statement of revenues and expenses for the year ending June 30, 2005, the fund shows a net loss of \$361,000. Income from the fund is used for program-wide division of agriculture expenses. In FY07, the Governor's request in ARLF is down from adjusted base by approximately \$151.4.

CAPITAL BUDGET

Of the agency's total \$7.5 million GF capital request, \$915.0 is for projects related to gas pipeline efforts:

- With \$265.0, geological data for new North Slope exploration targets will investigate petroleum geology across the poorly-explored south-central and southeastern North Slope and evaluate potential for new exploration targets in the foothills region of the Brooks Range.
- In accordance with AS 41.08.020, the agency will spend \$350.0 for phase two of a project to assess geologic hazards and resource potential along the proposed natural gas pipeline corridor from Delta Junction to the Canadian border.
- The North Slope Foothills may hold a new target for industry players exploring for natural gas. Understanding resource potential will be funded by \$300.0 to contract for shallow coring program for one summer field season improving mapping and structural interpretation where critical questions are unanswered.

Other larger projects funded with GF include

- \$1.3 million for ALMR Emergency Response Equipment Replacement for Forestry/Fire and Parks (HD 99), and
- \$1 million for Oil and Gas Royalty Settlement Agreements Reopener Arbitration (HD 99).

Federally funded projects totaling \$10 million include: Abandoned Mine Lands Reclamation Federal Program (HD 99), Federal and Local Government Funded Forest Resource and Fire Program Projects (HD 99), and Coastal Impact Assistance Federal Program (CIAP) (HD 99).

ORGANIZATIONAL CHANGES

Parks and Recreation Management Appropriation: This appropriation has been deleted. The State Historic Preservation Program, Parks Management, and Parks and Recreation Access allocations have been moved to the Resource Development appropriation in order to provide better management of program resources and funding streams.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Public Safety				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$94,502.8			
FY06 Fiscal Notes	129.6			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	168.5			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$94,800.9	\$298.1	0.3%	
One-time Items	(404.0)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$94,396.9	-\$404.0	-0.4%	
FY 07 Salary Adjustment Increases	1,568.5			
FY 07 Other Salary Adjustment Increases	45.9			
FY 07 PERS/TRS Cost Increases	2,263.0			
FY 07 Health Cost Increases	125.3			
FY 07 Risk Management	1,960.6			8
FY 07 Adjusted Base Budget (GF only)	\$100,360.2	\$5,963.3	6.3%	
FY 07 Governor's GF Increments and Decrements	4,141.7			
FY 07 Governor's Request (GF only)	\$104,501.9	\$4,141.7	4.1%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			4,141.7	
Fire Prevention Operations	976.7	1,059.1	82.4	
Judicial Services - Anchorage	2,727.6	2,882.7	155.1	3
Rural Trooper Housing	632.5	1,228.9	596.4	2
Narcotics Task Force	651.7	1,910.6	1,258.9	1
AST Detachments	45,661.4	46,661.2	999.8	3,5
Alaska Bureau of Investigation	5,399.3	5,413.3	14.0	
AK Bureau of Alcohol & Drug Abuse	2,414.4	2,428.4	14.0	
AK Bureau of Wildlife Enforcement	12,064.9	12,113.4	48.5	
VPSO Contracts	5,436.4	5,636.4	200.0	6
Domestic Violence / Sexual Assault	2,336.2	2,394.3	58.1	
Training Academy	1,015.5	1,023.7	8.2	
Administrative Services	2,603.9	2,637.7	33.8	
Alaska Wing Civil Air Patrol	506.6	553.5	46.9	
Alcohol Beverage Control Board	1,066.7	1,106.7	40.0	
AK Public Safety Info Network	1,470.2	1,670.2	200.0	7
Alaska Criminal Records and ID	1,340.4	1,471.7	131.3	1
Laboratory Services	3,170.6	3,424.9	254.3	1,4
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	11,987.9	10,823.3	-1,164.6	
Other funds (all allocations)	19,837.1	22,176.7	2,339.6	
Total Non-General Funds (all allocations)	31,825.0	33,000.0	1,175.0	
Position Changes	833	846	13	
PFT	805	816	11	
PPT	19	19	0	
Temp	9	11	2	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		9,601.4		
Crime Laboratory Expansion (HD 99)		4,800.0		
Aircraft and Vessel Repair and Maintenance (HD 99)		1,778.2		
APSIN Redesign, Migration Phase Year 1 (HD 99)		2,000.0		
Law Enforcement Equipment Replacement (HD 99)		600.0		
Civil Air Patrol Hangar Maintenance and Improvements (HD 99)		123.3		
Facilities Maintenance, Repair, and Improvements (HD 99)		300.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Public Safety

The Department of Public Safety is Alaska's primary law enforcement agency for federal, state, and local laws. The mandate of the department is to prevent loss of life and property as a result of illegal or unsafe acts. The department

- enforces criminal laws, traffic laws, and state fish and game regulations,
- provides public protection programs for fire and traffic safety, and
- serves as the umbrella agency for the Council on Domestic Violence and Sexual Assault, the Alaska Police Standards Council, and the Alaska Fire Standards Council.

SIGNIFICANT ISSUES

The following notes correspond to the numbers on the preceding spreadsheet.

1. Due to decreased federal funding for enforcement of drug laws, the following general fund increments are requested:
 - a. **\$958.9 - Narcotics Task Force** to replace a reduction of \$1,664.6 in federal receipts;
 - b. **\$300.0 - To continue grants for Municipal Police Drug Enforcement;**
 - c. **\$ 88.5 - Alaska Criminal Records and Identification; and**
 - d. **\$ 45.8 - Laboratory Services.**
2. **A Rural Trooper Housing increment of \$755.5 (\$596.4 GF; \$159.1 SPDR) is requested to subsidize housing costs for state troopers.** The Department currently operates thirty-seven housing units across the state—fifteen are state-owned and twenty-two are leased. In FY06, partial funding was appropriated for additional rural trooper housing units in Bethel, Emmonak, Unalakleet, Aniak, and McGrath. Twenty new leased units in Bethel will be available for occupancy in January 2006, and nine new units in Northway, Cooper Landing, Iliamna, Emmonak, Unalakleet, and McGrath will be leased.
3. As noted in the Overviews for the Departments of Law and Corrections, the number of prosecutions and prisoner transports is on the rise. To handle the increased security workload, the following general fund increments for Court Service Officers (CSOs) were requested:
 - a. **Alaska State Troopers, Detachments is requesting \$499.4** for four new CSOs in Palmer, Soldotna/Kenai, Fairbanks, and Wasilla;
 - b. **Judicial Services – Anchorage is requesting an increment of \$147.3** to add one CSO in Anchorage.
4. Three increments in Laboratory Services will allow the Crime Lab to keep pace with high demand from law enforcement agencies around the state:
 - a. **add a Criminalist III for the Alcohol/Toxicology Section (\$82.4);**
 - b. **establish a Paralegal II position to assist with crime lab operators (\$69.1);**
and
 - c. **fill a vacant Forensic Technician position (\$57.0) at the Crime Lab.**

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5. **Trooper Detachments requests an increment of \$290.9 to cover increased lease costs** in Wasilla (Mat-Su Borough), Glennallen, Ketchikan, and Anchor Point. Offices in Anchor Point and Wasilla were relocated to be more easily accessible to surrounding areas. Glennallen and Ketchikan increments are due to higher lease, maintenance and utility costs.
6. **Due to constant challenges of recruitment and retention of Village Public Safety Officers (VPSOs), the VPSO Program is seeking an increment of \$200.0** to be combined with \$200.0 of existing funding to increase base pay for VPSOs and to establish a retention bonus program based on time in service.
7. **Alaska Public Safety Information Network (APSIN) is requesting an increment of \$200.0 to provide a secure network.** This funding will allow DPS to move critical department systems to a common environment. This hosted environment will support the department's mission by ensuring users have secure and reliable access to the department's network and criminal justice data.
8. **Changes in the Department of Administration's risk management chargeback will increase costs for DPS's aircraft by \$1,220.4.** Previously, the amount charged by Risk Management was significantly lower than the actual premium. Risk management increases in all agencies are included in the adjusted base.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Revenue				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$9,963.3			
FY06 Fiscal Notes	730.9			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	7,509.7			1
Agency Transfers	316.9			
FY 06 Management Plan (GF only)	\$18,520.8	\$8,557.5	85.9%	
One-time Items	(7,913.7)			
Agency Transfers	-			
FY 06 Base Budget (GF only)	\$10,607.1	-\$7,913.7	-42.7%	
FY 07 Salary Adjustment Increases	172.1			
FY 07 Other Salary Adjustment Increases	11.2			
FY 07 PERS/TRS Cost Increases	329.8			
FY 07 Health Cost Increases	18.9			
FY 07 Risk Management	21.8			
FY 07 Adjusted Base Budget (GF only)	\$11,160.9	\$553.8	3.0%	
FY 07 Governor's GF Increments and Decrements	276.4			
FY 07 Governor's Request (GF only)	\$11,437.3	\$276.4	2.5%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			276.4	
Treasury Division	1,437.4	1,512.2	74.8	
Alaska Retirement Management Board	266.2	522.8	256.6	2
Permanent Fund Dividend Division	55.0	-	(55.0)	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	40,285.9	41,831.6	1,545.7	3
Other funds (all allocations)	138,578.0	153,990.5	15,412.5	2,4
Total Non-General Funds (all allocations)	178,863.9	195,822.1	16,958.2	
Position Changes	920	922	2	4
PFT	846	848	2	
PPT	57	57	0	
Temp	17	17	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Department of Revenue

The Department of Revenue's responsibilities include the following:

- administration and enforcement of Alaska's tax laws;
- collection, investment, and management of state funds and employee pension trust funds;
- administration and enforcement of tax and charitable gaming laws; and
- administration of the Permanent Fund Dividend Program, the Shared Taxes Program, and Child Support Services Program.

The Department of Revenue also provides administrative support to the following independent boards and corporations:

- Alaska Permanent Fund Corporation;
- Alaska Housing Finance Corporation;
- Alaska Mental Health Trust Authority;
- Alaska Municipal Bond Bank Authority;
- Alaska Natural Gas Development Authority; and
- Alaska Retirement Management Board.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Negotiations relating to a natural gas pipeline** have been a considerable challenge facing the agency. Substantial funding has already been appropriated for these negotiations. Expenses include everything from extensive legal fees to independent consultant analysis. To date, \$16.8 million has gone to the Commissioner's office and the Alaska Natural Gas Development Authority for stranded gas development. At this time, **no additional funding is being requested and approximately \$5 million remains available from prior appropriations.**
2. SB 141 last session added a **new retirement tier and reorganized the pension boards within the state.** The PERS, TRS, and the Alaska State Pension Investment Board (ASPIB) were replaced by the Alaska Retirement Management Board (ARMB). The new board has oversight of both the liabilities of the retirement system and the investment of retirement trust funds. The reorganization resulted in a net increase of \$109.2. **Additional funds (\$902.5 total, \$256.6 in general funds) are being requested in FY07 to further implement the functions of the board.**
3. The Alaska Housing Finance Corporation requests an additional \$1,016.8 of federal receipt expenditure authority for the Section 8 Voucher and Conventional Low Rent programs.
4. The Alaska Permanent Fund Corporation requests an additional \$676.9 of expenditure authority from the earnings of the Permanent Fund. **A new senior investment officer, senior accountant and increased due diligence services** are requested to maintain successful oversight and accountability of the \$30 billion fund.

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\$13.5 million of additional expenditure authority would also be used to pay for **increased management fees (relating to increased asset values) and to cover new fees associated with the expanded investment options** recently authorized in HB 215 (Ch 46, SLA05). This bill expanded the Permanent Fund's investment options from a list specified in statute to one that follows the "prudent-investor rule." This rule is a generally accepted investment practice whereby the fiduciary must act as a prudent investor would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Legislative Fiscal Analyst Comment: *The restriction of the statutory investment list was theoretically causing undue risk for the return sought. By allowing for alternative investment options, the Permanent Fund is hoping to attain a similar return with less risk to the portfolio.*

CAPITAL BUDGET

The Alaska Housing Finance Corporation has approximately \$31 million in capital projects relating to their housing programs. These projects are proposed to be funded with the corporation's annual dividend to the state. AHFC has also become the administrator of Denali Commission rural housing grant funds. AHFC received \$20 million for this purpose in an FY06 RPL and has \$17 million more built into their capital budget.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Department of Transportation and Public Facilities				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$166,643.3			
FY06 Fiscal Notes	363.2			
Reappropriations	-			
Special Appropriations	2,693.7			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	109.5			
FY 06 Management Plan (GF only)	\$169,809.7	\$3,166.4	1.9%	
One-time Items	(3,161.7)			
Agency Transfers	-			
FY 06 Base Budget (GF only)	\$166,648.0	-\$3,161.7	-1.9%	
FY 07 Salary Adjustment Increases	4,416.5			
FY 07 Other Salary Adjustment Increases	114.2			
FY 07 PERS/TRS Cost Increases	4,101.7			
FY 07 Health Cost Increases	226.7			
FY 07 Risk Management	3,141.9			
FY 07 Adjusted Base Budget (GF only)	\$178,649.0	\$12,001.0	7.1%	
FY 07 Governor's GF Increments and Decrements	32,666.7			
FY 07 Governor's Request (GF only)	\$211,315.7	\$32,666.7	18.3%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			32,666.7	
Stwd Information Systems	576.0	1,352.6	776.6	9
Central Region Facilities	4,092.9	4,645.7	552.8	1
Northern Region Facilities	6,689.8	7,258.6	568.8	1,5
Central Region Highways and Aviation	32,352.0	37,583.9	5,231.9	1,2,3,4,6
Northern Region Highways and Aviation	47,914.6	51,169.7	3,255.1	1,2,3,4,7
Southeast Region Highways and Aviation	10,414.0	11,127.6	713.6	1,2,8
Marine Vessel Operations	63,255.7	84,503.0	21,247.3	1,10,11
Other	13,354.0	13,674.6	320.6	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	3,848.9	3,833.9	-15.0	
Other funds (all allocations)	272,490.1	280,174.9	7,684.8	1,3,4
Total Non-General Funds (all allocations)	276,339.0	284,008.8	7,669.8	
Position Changes	3,502	3,540	38	
PFT	2,962	2,990	28	
PPT	534	544	10	
Temp	6	6	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		220,825.0		
Marine Highway Vessel and Terminal Overhaul and Rehab		6,000.0		
State Match		102,825.0		
Juneau Access		45,000.0		
Railroad Extension		50,000.0		
Roads to Resources		17,000.0		
Other		63,837.8		

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Department of Transportation & Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and public facilities. This includes approximately 250 state-owned airports and seaplane bases, 6,000 miles of state roads, 700 buildings ranging from maintenance shops to state office complexes, and 75 ports and harbors. In addition, the department owns and operates the Alaska Marine Highway System, serving 32 Alaska communities with connections to Bellingham and Prince Rupert. The department also owns and operates the State Equipment Fleet, which provides full maintenance support and replacement activities for all departments and state agencies, including 7,500 light and heavy duty vehicles and attachments.

SIGNIFICANT ISSUES

The high cost of petroleum products is the primary issue affecting the DOT&PF operating budget. Although substantial funding was added in FY06 (\$2.7 million GF) to address these costs, the additional amount appears to be insufficient. A **substantial supplemental request** can be expected. The governor's FY07 budget adds significant funding for these short-falls and for expanding programs, some of which has already begun in FY06.

The following notes correspond to numbers on the preceding spreadsheet.

1. High oil prices affect the agency in three primary areas: utilities (heating fuel, electricity), commodities (sand, grader blades, tire chains, asphalt, etc.) and motor fuel (gas, diesel). Additional general funds are spread throughout the FY07 budget request to address these cost increases. By category, the amounts are:
 - a. Utilities - \$1,094.9;
 - b. Commodities - \$617.2; and
 - c. Motor Fuel - \$10,347.8.

These amounts are only to maintain the program levels set forth in FY06 and do not take into account program expansion.

The Anchorage International Airport is also requesting \$742.5 of International Airport Revenue Fund authorization to address utility costs. The Fairbanks International Airport has no increment for increased utility costs.

Legislative Fiscal Analyst Comment: *The Fairbanks International Airport methodology may be a prudent way to address the impact of high oil prices. Essentially, that budget is based on what could be considered "normal" prices. Supplemental appropriations may be preferable to building abnormal amounts into a base budget, at least until a new higher trend is established.*

Additional funding requests would allow **expanded service levels**. Substantial increases include:

2. **\$543.8 general funds in Central, Northern and Southeast regions for extended hours of operation at several of the larger rural airports.** Air carriers have been requesting extended operating hours at these airports and partial funding was authorized in FY06 (\$731.2 – 75% of the FY06 request).
3. **\$1,659.2 of general funds for 272 new lane miles** added in the Central Region. Other regions have received minimal new lane miles except for additional waysides in the

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Northern Region. \$180.0 is requested for maintenance of these new waysides.

4. **\$300.0 to expand the Anti-Icing Program** in Anchorage, Mat-Su and Kenai. \$200.0 was received in FY06 for a trial run in the Mat-Su and Kenai areas.
5. **\$400.0 and 4 new positions are budgeted for the Montana Creek and Trims maintenance stations.** Due to the remoteness of these stations, a "week on, week off" model of operation is going to be utilized. This model has helped decrease turn-over in other difficult areas such as the Dalton Highway.
6. **\$800.0 for increased Anchorage snow hauling.** Although annual requests have been submitted recently, there has not been an increase for snow hauling for several years. The current amount budgeted is \$250.0. Additional funding is desired for a more intensive clean-up; sidewalks would be cleared and pedestrian traffic would be safer.
7. **\$1,500.0 for Dalton Highway increased maintenance.** \$3.5 million and 14 positions were added in FY06. This funding is desired for additional commodities and equipment costs deemed necessary for proper maintenance.
8. **\$200.0 for state harbor maintenance.** Southeast Region (SER) Highways and Aviation is attempting to establish a program for regular dock/float inspection and maintenance. There are over 40 harbors and floats in SER and there is no schedule for inspection and maintenance. This funding will be used to contract for a barge and floating crane for routine annual maintenance.
9. **\$776.6 of general funds is requested for Enterprise Productivity Rate increases in the Statewide Information Systems allocation.** Higher rates implemented in FY04 caused supplemental appropriations in FY04 and FY05. A supplemental request can be expected in FY06 also. This increment will correct this annual short-fall and alleviate the need for future supplements. This is not an unexpected cost and should be addressed in the base budget.
10. **Seventy-nine weeks of service have been added to the FY06 Alaska Marine Highway System (AMHS) operating plan.** This will cause a substantial short-fall of funding in FY06 and **generates considerable increases in the FY07 budget.** A total of \$13.8 million of additional funding is requested for FY07 to continue this operating plan. Conceivably, a similar amount will be needed as an FY06 supplemental. Coupled with the fuel needs for the Conference Committee budget level of funding (\$9 million), a total supplemental request in the range of \$25 million can be expected.

Legislative Fiscal Analyst Comment: *In FY06, the methodology for funding the AMHS was modified. Previously, general funds were deposited in the Alaska Marine Highway System Fund, where they supplemented operating revenue to provide the funds necessary for operations. From the average person's perspective, this budgeting technique obscured the fact that general funds were required for operations.*

11. **Salary adjustments for the Marine Highway System Vessel Operations** allocation use a disproportionate share of general funds. GF is approximately 60% of the Vessel Operations budget, yet the salary adjustments are nearly 100% general funds. Typically, salary adjustments are made in proportion to the funding sources used in the personal services line and adjusted, if necessary, for uncollectible receipts. However, this is not the case in Vessel Operations and these salary adjustments should be in the 60/40 proportion of GF to Marine Highway Funds.

Legislative Fiscal Analyst Comment: *The proportionate share method of adjusting salaries should be used in every agency because:*

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- a. Salary adjustments tend to be accepted on a statewide basis and many subcommittees do not focus on which funding sources are used; and*
- b. Subcommittees tend to focus on general fund increment requests. An increment request using other funds (that were available for salary adjustments) may receive less scrutiny than an increment using general funds.*

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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University of Alaska				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$245,367.2			
FY06 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	75.0			
Agency Transfers	-			
Miscellaneous Adjustment	1.5			
FY 06 Management Plan (GF only)	\$245,443.7	\$76.5	0.0%	
One-time Items	(75.0)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$245,368.7	-\$75.0	0.0%	
FY 07 Salary Adjustment Increases	3,846.6			
FY 07 Other Salary Adjustment Increases	-			
FY 07 PERS/TRS Cost Increases	7,882.0			
FY 07 Health Cost Increases	7,323.9			
FY 07 Risk Management	-			
FY 07 Adjusted Base Budget (GF only)	\$264,421.2	\$19,052.5	7.8%	
FY 07 Governor's GF Increments and Decrements	22,668.2			
FY 07 Governor's Request (GF only)	\$287,089.4	\$22,668.2	8.6%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			22,668.2	
System Reductions/Additions	2.5	5,001.0	4,998.5	
Statewide Services	12,582.8	13,365.1	782.3	
Statewide Networks (ITS)	8,273.2	8,401.6	128.4	
Anchorage Campus	79,896.5	85,064.8	5,168.3	
Kenai Peninsula College	5,401.7	6,132.4	730.7	
Kodiak College	2,349.8	2,409.2	59.4	
Matanuska-Susitna College	3,519.7	3,781.8	262.1	
Prince William Sound Community College	2,298.0	2,576.4	278.4	
Cooperative Extension Service	3,743.6	3,798.4	54.8	
Bristol Bay Campus	1,042.8	1,088.2	45.4	
Chukchi Campus	743.9	765.6	21.7	
Fairbanks Campus	89,066.5	94,475.5	5,409.0	
Fairbanks Organized Research	19,492.0	21,362.8	1,870.8	
Interior-Aleutians Campus	1,318.8	1,407.4	88.6	
Kuskokwim Campus	2,497.7	2,673.6	175.9	
Northwest Campus	1,479.8	1,548.9	69.1	
College of Rural & Community Development	4,188.2	4,724.8	536.6	
Tanana Valley Campus	3,999.0	4,479.3	480.3	
Juneau Campus	17,931.5	19,109.5	1,178.0	
Ketchikan Campus	2,105.7	2,291.0	185.3	
Sitka Campus	2,487.5	2,632.1	144.6	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	139,825.5	149,524.0	9,698.5	
Other funds (all allocations)	335,964.7	344,933.1	8,968.4	
Total Non-General Funds (all allocations)	475,790.2	494,457.1	18,666.9	
Position Changes	4,045	4,148	103	
PFT	3,869	3,967	98	
PPT	176	181	5	
Temp	0	0	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		550.0		
Small Business Development Center HD 17-32)		550.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

University of Alaska

The major goals of the University are to respond to the educational needs of all Alaskans and to enhance Alaska's economy by fostering and promoting the following:

- a high quality postsecondary educational system;
- appropriate vocational education development and training;
- advancement and extension of knowledge, learning, and culture; and
- application of new knowledge and emerging technologies to meet the needs of the state.

SIGNIFICANT ISSUES

According to the University, the program enhancements and growth priorities in the University's FY07 budget are critical to meeting the Board of Regents' goals:

- Preparing Alaskans to meet the major economic opportunities that will present themselves in future years;
- Keeping young Alaskans in state attending the University, thus preparing Alaskans to fill legacy jobs; and
- Continuing to build the unique centers of academic excellence that the University offers.

The University of Alaska Board of Regents requested \$43,592.6 in GF and \$32,206.0 in receipt authority in the following categories:

- Salary, Retirement and Other Benefits - Total \$33,557.0 (\$22,585.9 GF, \$10,971.1 non-GF)
- Utilities, Bandwidth, and Facility Costs – Total \$15,140.8 (\$7,405.9 GF, \$7,734.9 non-GF)
- Continuing Programs in State Needs - Total \$4,451.8 (\$2,951.8 GF, \$1,500.0 non-GF)

Funding in this category is focused on existing programs for health occupations, teacher education, distance education and business/public policy.

- Preparing Alaskans for New Jobs – Total \$5,649.0 (\$3,049.0 GF, \$2,600.0 non-GF)

Funding in this category would build capacity in engineering, construction/project management, mining training and other programs that are required for gas line and mining projects.

- Competitive University Research Investment – Total \$12,000.0 (\$4,000.0 GF, \$8,000.0 non-GF)

According to the University, research funding leverages \$7 externally for every dollar of state funds. This funding request is focused on bio-medical, behavioral health and Arctic related research, matching funds for specific opportunities in fisheries and transportation, and critical compliance, proposal and applied research support.

- Administrative Priorities – Total \$1,000.0 (\$600.0 GF, \$400.0 non-GF)

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

The Board of Regents submitted four administrative request priorities to the Governor. These included funding development operations, alumni relations, document imaging and IT support.

- Facilities Renewal and Replacement – Total \$4,000.0 (\$3,000.0 GF, \$1,000.0 non-GF)

The **Governor's request does not include the entire Board of Regents' proposal.** The Governor eliminated funding for Administrative Priorities and Facilities Renewal and Replacement, and reduced funding for Utilities, Bandwidth, and Facility Costs. Funding for these University priorities is spread throughout all 21 allocations contained under the singular appropriation for University of Alaska funding.

The **Governor added to the Regents' request by submitting an increment for \$5 million GF to expand the UA Scholars Program.** This program is designed to increase the number of Alaska's high school graduates who stay in Alaska for higher education. Currently, the University offers the top 10% of students in each qualified high school graduating class an \$11,000 scholarship to attend the University of Alaska. This increment, along with UA's current funding commitment, would provide the funding necessary to expand the program to offer the scholarships to the top 15% of Alaskan students and to raise the amount of each scholarship to \$14,000.

This preceding spreadsheet categorizes increments by campus. The University's budget request contains far more detail than in the past, permitting greatly enhanced reporting capabilities. Subcommittees may wish to see increments presented in a variety of ways.

In FY07, the University is reflecting an **increase of 103 positions**—adding 98 permanent, full-time and 5 part-time positions between FY06 and FY07. Of these new positions, 37 will be added to the Anchorage Campus, 28 will be added to the Fairbanks Campus and Fairbanks Organized Research, and 9 will be added in Juneau. The balance is scattered throughout the other allocations.

CAPITAL BUDGET

In addition to operating increases, the University's 2007 capital request is \$95.1 million. Securitization of the tobacco settlement revenue stream (that is, selling tobacco bonds backed anticipated payments to the state by tobacco companies) is the source of \$89.3 million of the University's capital budget.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Alaska Court System				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$62,061.1			
FY06 Fiscal Notes	1,932.2			
Reappropriations	-			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	7.6			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$64,000.9	\$1,939.8	3.1%	
One-time Items	(24.3)			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$63,976.6	-\$24.3	0.0%	
FY 07 Salary Adjustment Increases	983.4			
FY 07 Other Salary Adjustment Increases	-			
FY 07 PERS/TRS Cost Increases	1,550.6			
FY 07 Health Cost Increases	119.7			
FY 07 Risk Management	151.8			
FY 07 Adjusted Base Budget (GF only)	\$66,782.1	\$2,805.5	4.4%	
FY 07 Governor's GF Increments and Decrements	2,990.2			
FY 07 Governor's Request (GF only)	\$69,772.3	\$2,990.2	4.5%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			2,990.2	
Appellate Courts	5,126.0	5,209.0	83.0	4,8
Trial Courts	52,709.8	55,192.1	2,482.3	1,3,4,5, 6,7,8
Administration and Support	7,905.3	8,217.7	312.4	2,8
Commission on Judicial Conduct	285.9	317.5	31.6	
Judicial Council	755.1	836.0	80.9	
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	1,525.6	1,675.6	150.0	
Other funds (all allocations)	896.6	971.3	74.7	
Total Non-General Funds (all allocations)	2,422.2	2,646.9	224.7	
Position Changes	786	800	14	
PFT	693	708	15	
PPT	59	59	0	
Temp	34	33	-1	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		1,550.0		
Critical Courtroom and Case Management Technology, Phase 1 (HD 99)		1,550.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Alaska Court System

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and totally state-funded judicial system. The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity.

There are four levels of courts in the Alaska Court System, each with different powers, duties and responsibilities. The four levels of courts are the Supreme Court, the Court of Appeals, the Superior Court, and the District Court. The Supreme Court and the Superior Court were established in the Alaska Constitution. The District Court was established by state statute in 1959. The Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

The Alaska Court System budget is presented in three appropriation requests - the Alaska Court System, the Commission on Judicial Conduct, and the Judicial Council.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

Increments requested by the Court System can be placed in three categories determined by their purpose:

- Improving customer service / addressing increasing caseloads;
- Pass-through payments; and
- Salary schedule increases.

Requests for money to improve customer service or address increasing caseloads include the following:

1. **An increment of \$773.9 in general funds is requested to improve customer service and aid with increased case loads.** The Court System would like to add 12 deputy clerk positions in order to provide better customer service to growing areas of the state. The positions will be stationed primarily in Palmer, Anchorage, Kotzebue, and Barrow.
2. **Administration and Support requests \$165.8 in general funds to fund two positions in information systems and document support.** An audio technician will be responsible for setup and maintenance of recording and sound systems statewide. An information systems technical writer will develop technical manuals, training materials, and user guides for court system computer applications.
3. **To continue the Child In Need of Aid (CINA) Mediation Project, the Court System requests an increase of \$200.0.** The Court System has operated the CINA Mediation and family group conferencing program for six years. Funding for the program has come from two separate grants. One of these grants has already ended, and the remaining grant is in its final year. Funds will be used to pay for a part-time administrative assistant and to change a non-permanent dispute resolution coordinator, which was partially funded in FY06, to a permanent full-time position.
4. **The Court System also requests \$720.4 for the following costs associated with**

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

maintaining / upgrading buildings, lease costs, and equipment:

- a. \$240.4 - increased utility costs, service contract costs, and Palmer Court expansion;
- b. \$161.5 - Increased lease costs in Homer, Tok, and Nenana;
- c. \$150.0 - Bethel Court Security Screening Services;
- d. \$154.5 - Life cycle replacement of computer systems; and
- e. \$ 14.0 - Ergonomically improved furniture.

The following requests are for money that the Court will pay to jurors or court-appointed attorneys:

5. **The Court System requests an increase of \$192.0 to assist in parking reimbursement due to loss of parking spaces in the Anchorage area.** Unlike other areas within the state, jurors in the Anchorage area must pay for parking. Previously, parking was available through an agreement with the Municipality of Anchorage, but this parking area has now been committed to employees of the Atwood Building. To maintain parity with other jurors, the Court System believes it should provide parking for jurors in Anchorage and is requesting this amount to reimburse Anchorage jurors for their parking fees.
6. **To simplify pay to jurors statewide, the Court System requests an increase of \$69.0.** The Court System's new automated jury management system would need programming modifications in order to address half-day jury service. As an alternative, the Court plans to discontinue payments of \$12.50 for half-day service.
7. **An increment of \$59.5 of general funds is requested to equalize compensation of court appointed attorneys.** The Court System must provide attorneys for a small number of indigent people who are legally entitled to an attorney, but who are ineligible for services provided by the Public Defender Agency or the Office of Public Advocacy. This increment increases the compensation for attorneys who accept these appointments from \$40 per hour to \$75 per hour. The new amount is comparable to the hourly rate for the Office of Public Advocacy's contract attorneys and the amount paid to the Court System's experienced mediators and deaf interpreters. The Court System's hourly rate, which is set by court rule, has not increased since 1978. In several court locations, the Court has difficulty finding private attorneys who will accept appointments for \$40 per hour.

The court also requests a change to its salary structure that has been requested and denied several times in the past.

8. **The Court System requests a total of \$575.0 in general funds to incorporate a "G" step into its salary structure.** In accordance with AS 22.20.037(c), the Court System is required to conduct an annual salary survey to ensure that court employees receive salaries that are consistent with salaries paid to classified and partially exempt state employees in the executive branch. The Court System is not required to implement this increase but would like to remain consistent with salaries paid to the classified state employees in the executive branch.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Legislature				
All Dollars in Thousands				
		Change	% Change	See Note:
FY06 Conference Committee (GF Only)	\$43,617.2			
FY06 Fiscal Notes	1,650.2			
Reappropriations	4,562.5			
Special Appropriations	-			
Vetoed	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	36.3			
Miscellaneous Adjustments	-			
FY 06 Management Plan (GF only)	\$49,866.2	\$6,249.0	14.3%	
One-time Items	-			
Agency Transfers	-			
Miscellaneous Adjustments	-			
FY 06 Base Budget (GF only)	\$49,866.2	\$0.0	0.0%	
FY 07 Salary Adjustment Increases	590.3			
FY 07 Other Salary Adjustment Increases	-			
FY 07 PERS/TRS Cost Increases	1,206.3			
FY 07 Health Cost Increases	80.5			
FY 07 Risk Management	57.0			
FY 07 Adjusted Base Budget (GF only)	\$51,800.3	\$1,934.1	3.9%	
FY 07 Governor's GF Increments and Decrements	119.0			
FY 07 Governor's Request (GF only)	\$51,919.3	\$119.0	0.2%	
FY07 Governor's Increments, Decrements and Fund Changes	FY07 Adjusted Base Budget (GF only)	FY07 Governor's Request (GF only)	Change from FY07 Base to FY07 Governor's Request	See Note:
Allocation			119.0	
Administrative Services	9,221.6	9,314.8	93.2	1
Session Expenses	8,015.7	7,989.9	(25.8)	
Office of Victims Rights	400.0	451.6	51.6	2
Non-General Fund Agency Summary	FY07 Adjusted Base Budget	FY07 Governor's Request	Change from FY07 Base to FY07 Governor's Request	See Note:
Federal Funds (all allocations)	0.0	0.0	0.0	
Other funds (all allocations)	708.0	681.7	-26.3	
Total Non-General Funds (all allocations)	708.0	681.7	-26.3	
Position Changes	509	509	0	
PFT	240	240	0	
PPT	269	269	0	
Temp	0	0	0	
FY07 Governor's Capital Request				
Total Agency Capital Projects (GF only)		0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY07 Request

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute. In addition to the sixty members and their office staffs, the legislature includes the following appropriations and allocations:

- Legislative Budget and Audit Committee
 - Legislative Audit
 - Ombudsman
 - Legislative Finance
 - Legislature State Facilities Rent
- Legislative Council (Legislative Affairs Agency)
 - Administrative Services
 - Legal and Research Services
 - Select Committee on Ethics
 - Office of Victims Rights

The following notes correspond to numbers on the preceding spreadsheet.

1. A request for **\$92.7 GF in Administrative Services is to cover increased chargeback for computer services** provided by the Department of Administration.
2. The **Office of Victims Rights requests that \$71.9 of PFD funding be replaced with general funds**. The fund change realigns available PFD funding among the agencies that receive PFD funds to pay for services related to incarcerated offenders who are ineligible for dividends.

***Legislative Fiscal Analyst Comment:** The legislative budget traditionally appears in preliminary form in the Governor's request. The request is not reviewed by legislative leadership until late in the budget process, so does not necessarily indicate what the final budget will include. Following tradition, reappropriations of FY05 money into FY06 (\$4.6 million in general funds) remain in the FY07 request.*

ORGANIZATIONAL CHANGES

There are no significant changes requested.

