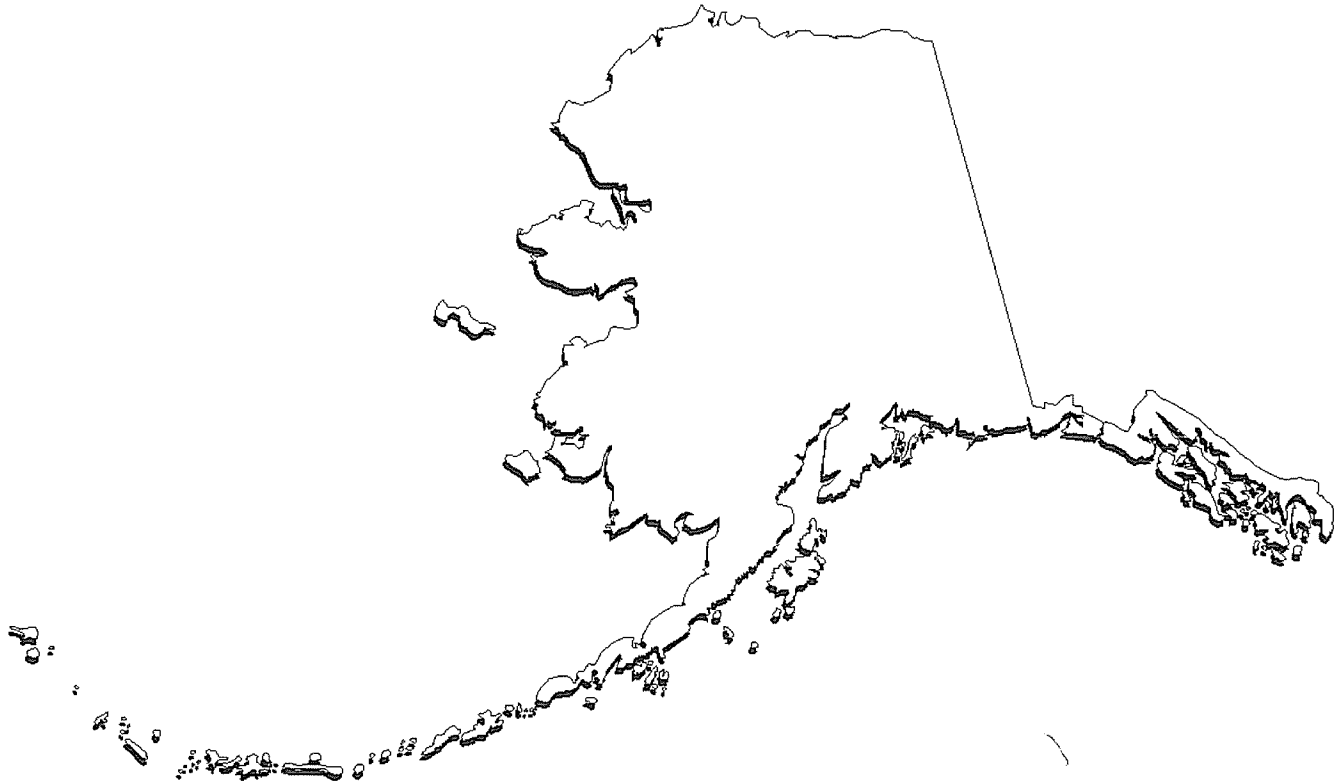


# The Fiscal Year 2012 Budget:

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

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*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.

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## TABLE OF CONTENTS

<b>Introduction.....</b>	<b>1</b>
<b>Fiscal Summary.....</b>	<b>4</b>
<b>Operating Budget.....</b>	<b>9</b>
Agency Summary – FY12 Operating Budget – All Funds .....	11
Agency Summary – FY12 Operating Budget – General Funds Group .....	12
Positions: Authorized Count, Vacancy Factors, and Legislative Control.....	13
Language Sections of the Governor's FY12 Operating Budget .....	19
<b>Debt Summary .....</b>	<b>52</b>
<b>Capital Budget.....</b>	<b>55</b>
Capital Budget Summary Table .....	62
Language Sections of the Governor's FY12 Capital Budget .....	63
<b>Department of Administration .....</b>	<b>69</b>
<b>Department of Commerce, Community, and Economic Development.....</b>	<b>75</b>
<b>Department of Corrections .....</b>	<b>81</b>
<b>Department of Education and Early Development.....</b>	<b>87</b>
<b>Department of Environmental Conservation .....</b>	<b>93</b>
<b>Department of Fish and Game.....</b>	<b>99</b>
<b>Office of the Governor.....</b>	<b>105</b>
<b>Department of Health and Social Services .....</b>	<b>109</b>
<b>Department of Labor and Workforce Development .....</b>	<b>117</b>
<b>Department of Law .....</b>	<b>123</b>
<b>Department of Military and Veterans Affairs.....</b>	<b>129</b>
<b>Department of Natural Resources .....</b>	<b>133</b>
<b>Department of Public Safety .....</b>	<b>139</b>
<b>Department of Revenue.....</b>	<b>145</b>

**TABLE OF CONTENTS**  
(Cont.)

<b>Department of Transportation and Public Facilities.....</b>	<b>151</b>
<b>University of Alaska.....</b>	<b>157</b>
<b>Alaska Court System .....</b>	<b>163</b>
<b>Alaska Legislature .....</b>	<b>169</b>



## Introduction

As required by law, the Governor released his FY12 budget proposal to the public and the legislature by December 15, 2010. 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.

### Alaska's Fiscal Situation

Alaskans in general, and legislators in particular, can consider themselves fortunate. Unemployment is nearly double the norm in many regions of the country, and states that rely on income and/or sales taxes for the majority of their revenue are under intense fiscal pressure. Many states face program cuts, furloughs and layoffs. Some have resorted to writing IOUs instead of paying cash, while some have reduced or eliminated "required" contributions to pension plans. The effects of a recession linger long after economists declare it to be over. For many states, FY12 threatens to be even more challenging than FY11.

Meanwhile, Alaska's experience with the national recession is relatively mild. Thanks to

- Alaska's heavy reliance on oil revenue,
- the strength of oil prices during the recession,
- the absence of a significant real estate bubble (more accurately, of a bursting bubble),
- unemployment rates that have not followed the rest of the country's rapid increases, and
- State spending, particularly capital spending, that has supported the economy,

Alaska was able to build cash reserves to a level that is inconceivable to other states. As shown in part 2 of the fiscal summary (page 8), Alaska is expected to have over \$14 billion in savings accounts as we enter FY12. That is sufficient to last about two years with no revenue.

Naturally, no one expects revenue to fall to zero, but there *are* concerns about long-term oil production declines, volatile oil prices, the pace of gasline development, the huge projected costs of public pension plans, Medicaid and other expenditure increases that may not be sustainable. Reserves, and the earnings on them, undoubtedly improve the state's ability to face an economic future that may be less rosy than the present, but the State's huge reserves and the current high price of oil tend to steal the headlines and sweep problems under the rug.

On a cash flow basis, **FY11 shows a general fund surplus of nearly \$50 million** (see line 36 of the fiscal summary on page 4). After transfers to other funds (most of which were spent) there is a projected deficit of about \$15 million in FY11 (line 47).

Projected general fund revenue for FY12 is up nearly \$330 million (with oil at \$83/bbl) (line 1). However, the Governor's proposed general fund appropriations are up from \$6.1 billion to \$6.5 billion, a \$400 million (or 6.6%) increase (line 35). Before consideration of transfers, **the Governor's FY12 budget has a cash flow deficit of \$25 million** (line 36). The Governor proposes to fill this deficit by pulling (a net of) \$310 million from savings (line 37).

Some words of caution are in order: plus or minus \$50 million is insignificant when dealing with the fiscal summary. If current high (near \$90/bbl) oil prices are sustained, FY11 revenue could be several hundred million dollars higher than projected. The January pipeline shut-down could reduce revenue by \$100 million or more. No one can say with certainty whether FY11 will show a surplus or deficit when the books close. What is certain is that the level of supplemental spending that occurred last year (over \$600 million, mostly for capital projects) cannot be supported by available cash flow at this time.

Because projecting oil revenue is so speculative, Legislative Finance prefers sensitivity charts (like those on pages 6 and 7) to a revenue estimate based on a specific oil price. As the FY11 chart shows, if oil remains at

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

the current year-to-date price of \$82.29 per barrel through the end of the year, the FY11 surplus would be about \$600 million before transfers and before adjusting for the pipeline shutdown.

The FY12 sensitivity chart shows that the Governor's budget will be balanced if oil sells at about \$83/bbl. The rapid increase in the breakeven price of oil, \$64 in FY10, \$77 in FY11 and \$83 in FY12, should be cause for concern. The rapid rise in breakeven price is due (primarily) to a combination of increasing spending and declining oil production from producing wells.

Retirement system funding is a second major cause for concern. Projections indicate the State will need to pay about \$100 million more to retirement systems each year, reaching a peak of \$1.4 billion annually in about ten years.

### **The Governor's Budget**

The following discussion is based on the fiscal summary, Alaska's "budget on a page." Parenthetical references refer to line numbers in the summary beginning on page 4. The fiscal summary is broken into four sections. This review focuses on general funds, not because other funds are unimportant, but because the difference between unrestricted general fund spending and unrestricted general fund revenue defines the fiscal surplus/gap.

- 1. Agency Operations (line 8)** refers to money appropriated/requested to operate all public agencies. It may be the best expression of public perception of "the budget" and includes money for K-12 education (line 11) and other formula programs like Medicaid (line 12) as well as all non-formula operating costs (line 10). The Governor's request is up \$166.8 million (3.8%) from FY11. Roughly half of that amount is for non-formula agency operations and half for formula programs (mostly Medicaid). Please see the discussion beginning on page 9 for more details on operating budget increases.

There are no obvious places here for significant budget reductions. In fact, the legislature may find it difficult to remain below the Governor's request, particularly if a reduction in the Medicaid matching rate is not extended. (The rate, often referred to as "FMAP," was lowered as part of the federal stimulus package.) Alaska's FY12 share of Medicaid payments will increase by \$120 million or more if the FMAP rate returns to normal for FY12. The Governor's assessment of this issue, and reason for not requesting general funds for this purpose, may be correct: The fiscal picture for so many states is so grim that the federal government is likely to extend enhanced FMAP rates in order to avoid stalling the economic recovery.

The Governor's budget also contains no new increases for K-12 education. Given that most school districts throughout the state face a fiscal crisis as costs rise and federal stimulus funding fades, there is certain to be pressure to increase education funding. Increasing normal K-12 funding requires legislation, which the Governor did not include in his budget request.

- 2. Statewide Operations (line 16)** refers to appropriations that are typically not reviewed by operating budget subcommittees. The Governor's request is up \$122 million (11.5%) from FY11. Most of these items, debt service, retirement system costs and petroleum tax credits, may be considered nondiscretionary.

The \$38 million increase in debt service (line 18) is attributable to the sale of general obligation bonds approved by voters.

The estimate of required deposits to the tax credit fund (line 20) may be understated. The appropriation for tax credits is automatically adjusted to equal the amount claimed. To date in FY11, deposits are \$430 million. The Governor's estimate for all of FY12 is \$400 million.

Actuarially required contributions to retirement systems increased by \$122 million from FY11 to FY12 (line 22). The amount is determined by the State's actuarial consultants, and is projected to increase rapidly in the near future.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

3. **Capital Appropriations (line 26)** include capital projects and a \$160 million deposit to the Alaska Gasline Inducement Act (AGIA) reimbursement fund. The Governor's \$722 million general fund request is \$112 million (18%) more than the FY11 capital budget adopted by the legislature.

The legislature typically adds a substantial amount to the Governor's capital request. Capital spending is also highly dependent on the fiscal situation—spending goes up when revenue is high. As discussed earlier, the amount of FY11 surplus is unclear at this point, but is likely to be less than the \$680 million supplemental appropriations for FY10. For FY12, projections show a small deficit before withdrawing from savings accounts.

For more details on the capital budget, please see the discussion beginning on page 55.

4. **Transfers (line 37)** is the portion of the fiscal summary that requires the most explanation. The transfers section records money that passes from one fund to another without leaving the treasury. Although transfers are not considered spending, because money is transferred *within* the treasury, they require an appropriation and they affect the surplus/deficit because transfers of general funds change the amount that is available for other purposes.

A positive number indicates a deposit to a fund (typically *from* the general fund). A negative number (such as the \$295.4 million in the FY12 UGF column on line 41) indicates an effective transfer *to* the general fund. In this case, the \$295 million withdrawal from the Alaska Housing Capital Corporation account, a savings account the legislature created with a \$300 million general fund deposit in FY07, is spent directly in the capital budget. That is simply a short-cut for transferring the money back to the general fund, then using general funds for the projects funded directly from the savings account.

As shown in the fiscal summary (line 36), the Governor's proposed budget spends \$25 million more than the projected amount of revenue. The Governor proposes both deposits to and withdrawals from savings accounts. The net withdrawal of \$310 million UGF (line 37) results in a projected FY12 surplus of \$284 million (line 47).

### **Further Analysis**

Although the fiscal summary provides a concise statement (and comparison) of projected revenue, appropriations and the size of the anticipated surplus or deficit, it has the limitation of being short on explanation. This *Overview* contains more detailed discussions of the proposed FY12 budget:

- Agency summaries (operating budget on pages 11 & 12 and capital budget beginning on page 62) provide a quick comparison of the Governor's proposed budget with FY11 spending.
- Greater detail is available in the discussions of the operating budget (and subtopics) and the agency write-ups beginning on page 67.

Subcommittee members will want to review the detailed agency books available in the Finance Committee rooms.



# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

## State of Alaska Fiscal Summary--FY11 and FY12 (\$ millions)

	FY11 Management Plan					FY12 Governor's Request					Change in GF				
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%	
<b>REVENUE</b> (Excludes Permanent Fund Earnings) (1)	5,395.2	770.1	6,165.3	537.4	3,145.6	9,848.3	5,732.4	760.8	6,493.2	494.4	2,901.6	9,889.2	327.9	5.3%	
Unrestricted General Fund Revenue (Fall 2010) (2)	5,371.8	-	5,371.8	-	-	5,371.8	5,743.9	-	5,743.9	-	-	5,743.9	-	-	
Reappropriation and Carryforward (3)	21.4	0.6	22.0	0.9	144.8	167.7	-	-	-	-	-	-	-	-	
Corporate Dividends (4)	1.9	-	1.9	-	-	1.9	(11.5)	-	(11.5)	-	-	(11.5)	-	-	
Designated General Fund Revenue (5)	-	769.5	769.5	-	-	769.5	-	760.8	760.8	494.4	2,901.6	760.8	-	-	
Other State Funds and Federal Receipts	-	-	-	536.5	3,000.8	3,537.4	-	-	-	-	-	3,396.0	-	-	
<b>APPROPRIATIONS</b>															
<b>TOTAL OPERATING APPROPRIATIONS</b>	4,797.9	706.7	5,504.6	442.4	2,134.9	8,082.0	5,066.2	726.7	5,792.9	449.5	2,071.8	8,314.3	288.3	5.2%	
<b>Agency Operations</b>	3,761.6	685.5	4,447.1	390.1	2,089.0	6,926.1	3,909.2	704.6	4,613.9	408.3	2,028.7	7,050.9	166.8	3.8%	
Current Fiscal Year Appropriations (Includes Fiscal Notes)	3,711.6	685.5	4,397.1	390.1	2,089.0	6,876.1	3,859.2	704.6	4,563.9	408.3	2,028.7	7,000.9	166.8	3.8%	
Agency Operations (Non-Formula)	1,991.5	633.1	2,624.6	385.9	1,059.8	4,070.3	2,060.5	648.1	2,708.5	405.5	919.2	4,033.3	84.0	3.2%	
K-12 Formula and Pupil Transportation	1,114.3	10.7	1,125.0	-	23.5	1,148.5	1,124.7	12.4	1,137.0	-	23.5	1,160.5	12.0	1.1%	
Other Formula Programs	605.8	41.7	647.5	2.8	973.6	1,623.9	674.1	44.2	718.3	2.8	1,086.0	1,807.2	70.9	10.9%	
Revised Programs Legislatively Approved	-	-	-	1.4	32.1	33.5	-	-	-	-	-	-	-	-	
Duplicated Authorization (non-additive) (6)	-	-	-	657.2	-	657.2	-	-	-	681.9	-	681.9	-	-	
Supplemental Operating Appropriations	50.0	0.0	50.0	0.0	0.0	50.0	50.0	0.0	50.0	0.0	0.0	50.0	-	0.0%	
<b>Statewide Operations</b>	1,036.4	21.2	1,057.6	52.4	45.9	1,155.8	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%	
Current Fiscal Year Appropriations	1,036.4	21.2	1,057.6	52.4	45.9	1,155.8	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%	
Debt Service	171.5	21.2	192.7	52.4	12.4	257.4	208.8	21.6	230.4	41.1	13.0	284.6	37.7	19.6%	
Local Government Support	60.0	-	60.0	-	-	60.0	60.0	-	60.0	-	-	60.0	-	0.0%	
Oil & Gas Investment Tax Credits	430.0	-	430.0	-	-	430.0	400.0	-	400.0	-	-	400.0	(30.0)	-7.0%	
Other Fund Capitalization	11.6	0.0	11.6	-	33.5	45.1	7.5	0.4	7.9	0.0	30.2	38.1	(3.6)	-31.5%	
Direct Appropriations to Retirement	357.6	-	357.6	-	-	357.6	479.5	-	479.5	-	-	479.5	121.9	34.1%	
Resource Rebate	4.5	-	4.5	-	-	4.5	1.2	-	1.2	-	-	-	(4.5)	-100.0%	
Judgments, Claims and Settlements	1.2	-	1.2	-	-	1.2	-	-	-	-	-	-	-	0.0%	
Duplicated Authorization (non-additive) (6)	-	-	-	19.9	-	19.9	-	-	-	20.9	-	20.9	-	-	
<b>TOTAL CAPITAL APPROPRIATIONS</b>	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%	
Current Fiscal Year Appropriations	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%	
Project Appropriations & RPLs (Revised Programs)	407.3	59.6620	466.9	85.5	1,010.7	1,563.2	531.7	30.0	561.6	36.1	829.7	1,427.5	94.7	20.3%	
Fund Capitalization	142.4	0.0	142.4	0.0	0.0	142.4	160.0	0.0	160.0	0.0	0.0	160.0	17.6	12.4%	
Projects Funded with General Obligation Bonds (non-additive)	0.0	0.0	0.0	397.2	0.0	397.2	0.0	0.0	0.0	0.0	0.0	0.0	-	-	
Projects Funded with Other Debt Proceeds (non-additive)	0.0	0.0	0.0	29.6	0.0	29.6	0.0	0.0	0.0	0.0	0.0	0.0	-	-	
Capital Velves (non-additive)	(100.3)	(25.3)	(125.5)	(6.4)	(0.3)	(132.2)	0.0	0.0	0.0	0.0	0.0	0.0	-	-	
Duplicated Authorization (non-additive) (6)	0.0	0.0	0.0	459.7	0.0	459.7	0.0	0.0	0.0	74.3	0.0	74.3	-	-	
Money on the Street (includes all fund sources) (7)	549.7	59.7	609.3	545.2	1,010.7	2,165.3	691.7	30.0	721.6	110.5	829.7	1,661.8	112.3	18.4%	
<b>Pre-Transfers Authorization (unduplicated)</b>	5,347.6	766.4	6,114.0	527.9	3,145.6	9,787.5	5,757.9	756.6	6,514.5	485.7	2,901.6	9,901.8	400.6	6.6%	
<b>Pre-Transfers Surplus/Deficit</b>	47.6	0.9%	0.9% of UGF Revenue	-	-	-	(25.5)	-0.4%	-0.4% of UGF Revenue	-	-	-	-	-	-

January 11, 2011

Notes: (1) Although Permanent Fund earnings may be appropriated for any purpose, the legislature traditionally excludes them from the definition of available revenue. Appropriations of Permanent Fund earnings are reported in lines 48-51 of the summary. Permanent Fund earnings and balance information is reported in part 2 of the fiscal summary.

(2) The Department of Revenue's December 2010 oil forecast for FY11 is 0.616 mbd at \$77.96 per barrel; the FY12 forecast is 0.622 mbd at \$82.67/bbl.

(3) Carryforward is money that was appropriated in a prior year that is made available for spending in FY11 via multiyear appropriations or reappropriations. FY12 carryforward will be unknown until the close of FY11.

(4) Funds made available to the state by the boards of the Alaska Industrial Development and Export Authority (AIDEA) and Alaska Housing Finance Corporation (AHFC) are included in the revenue forecast. The amounts on this line correct estimates reported in the revenue forecast.

(5) Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose.

(6) Duplicated appropriations 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. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.

(7) From an accounting perspective, unduplicated authorization is the best measure of capital spending. However, adding duplicated fund sources provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.



# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

## State of Alaska Fiscal Summary--FY11 and FY12 (\$ millions)

	FY11 Management Plan					FY12 Governor's Request					Change in GF			
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
Transfers (8)	62.2	3.7	65.9	9.5	-	75.4	(309.9)	4.2	(305.7)	8.8	-	(296.9)	(371.6)	-563.5%
Current Fiscal Year Transfers														
Designated Savings (Public Education Fund)	52.2	3.7	55.9	9.5	0.0	75.4	(309.9)	4.2	(305.7)	8.8	0.0	(296.9)	(371.6)	-563.5%
Designated Savings (Railbelt Energy Fund)	16.7	-	16.7	-	-	16.7	16.3	-	16.3	-	-	16.3	-	-
Undesignated Savings (Alaska Housing Capital Corp)	-	-	-	-	-	-	(65.7)	-	(65.7)	-	-	(65.7)	-	-
Undesignated Savings (Other)	-	-	-	-	-	-	(295.4)	-	(295.4)	-	-	(295.4)	-	-
Other Operating Transfers	10.6	3.7	14.3	9.5	-	23.8	9.9	4.2	14.1	8.8	-	22.8	-	-
Capital Power Project Fund	10.0	-	10.0	-	-	10.0	-	-	-	-	-	-	-	-
Capital Renewable Energy Fund	25.0	-	25.0	-	-	25.0	25.0	-	25.0	-	-	25.0	-	-
Post-Transfers Authorization (unduplicated)	5,409.8	770.1	6,179.9	537.4	3,145.6	9,863.0	5,448.0	760.8	6,208.8	494.4	2,901.6	9,604.8	28.9	0.5%
Post-Transfer Balance to/(from) the SBR	(14.6)	-0.3%	of UGF Revenue				284.3	5.0%	of UGF Revenue					
Permanent Fund	1,200.0	42.0	1,242.0	6.9	-	1,248.8	1,468.0	41.8	1,509.8	7.0	-	1,516.8		
Permanent Fund Dividends	695.0	-	695.0	-	-	695.0	524.0	-	524.0	-	-	524.0		
Deposits to Principal	501.0	-	501.0	-	-	501.0	922.0	-	922.0	-	-	922.0		
Other Uses of Earnings (included in op or cap budget) (9)	3.0	42.0	45.0	6.9	-	51.8	22.0	41.8	63.8	7.0	-	70.8		
Total Authorization (unduplicated)	6,606.8	770.1	7,376.9	537.4	3,145.6	11,060.0	6,894.0	760.8	7,654.8	494.4	2,901.6	11,050.8	277.9	3.8%
FISCAL YEAR SUMMARY	6,544.6	766.4	7,311.0	527.9	3,145.6	10,984.5	7,203.9	756.6	7,960.5	485.7	2,901.6	11,347.8	649.6	8.9%
Agency Operations	3,761.6	685.5	4,447.1	390.1	2,089.0	6,926.1	3,909.2	704.6	4,613.9	408.3	2,028.7	7,050.9	166.8	3.8%
Statewide Operations	1,035.4	21.2	1,056.6	52.4	45.9	1,135.1	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%
Total Operating	4,797.0	706.7	5,503.7	442.4	2,134.9	8,062.9	5,066.2	726.7	5,792.9	449.5	2,071.8	8,314.3	288.3	5.2%
Capital	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%
Appropriation of Permanent Fund Earnings	1,197.0	0.0	1,197.0	0.0	0.0	1,197.0	1,446.0	0.0	1,446.0	0.0	0.0	1,446.0	249.0	20.8%
Transfers (nonadditive)	563.2	3.7	566.9	9.5	-	576.4	(309.9)	4.2	(305.7)	8.8	-	(296.9)	(872.6)	-153.9%

### Notes:

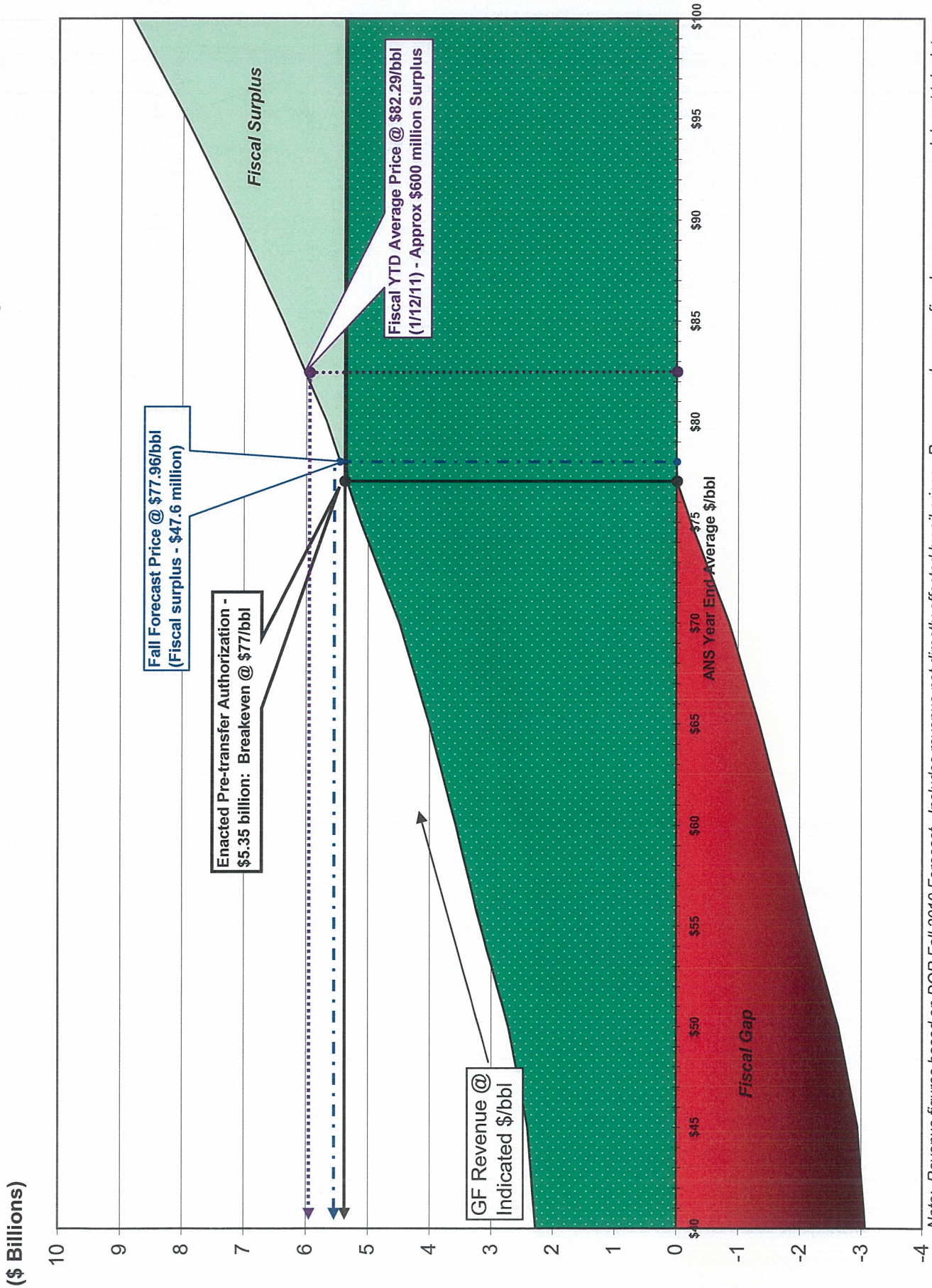
- (8) "Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For savings accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.
- (9) Amounts shown on line 51 can be considered duplicated appropriations--they are included in the operating or capital budgets above. Amounts in the UGF column indicate earnings deposited in the Capital Income Fund; amounts in the DGF column indicate costs associated with the dividend program; and amounts in the Other column reflect gross earnings of the Permanent Fund spent for purposes other than operation of the corporation.

The Governor's capital budget request includes \$19.1 million for items that Legislative Finance considers to be operating in nature. This amount has been added to agency operations (line 10) and subtracted from capital projects (line 28).

January 11, 2011



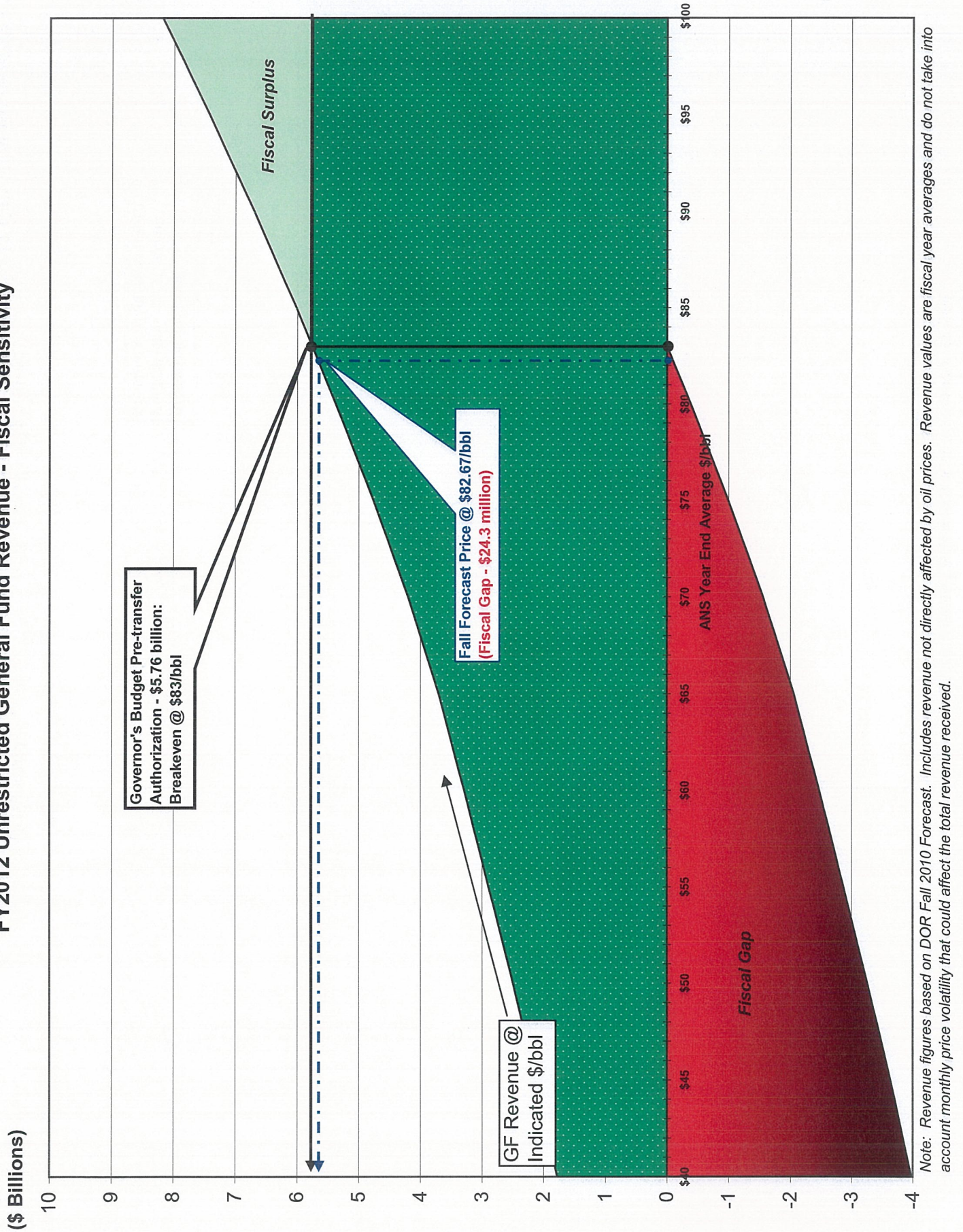
FY2011 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures based on DOR Fall 2010 Forecast. Includes revenue not directly affected by oil prices. Revenue values are fiscal year averages and do not take into account monthly price volatility that could affect the total revenue received.



FY2012 Unrestricted General Fund Revenue - Fiscal Sensitivity



State of Alaska Fiscal Summary--FY11 and FY12 (\$ millions)									
Part 2--Approximate Balances of Savings Accounts									
	FY11				FY12				
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance	
<b>Permanent Fund (no appropriations allowed)</b>	<b>31,624.0</b>	<b>1,153.0</b>	<b>0.0</b>	<b>32,777.0</b>	<b>32,777.0</b>	<b>1,645.0</b>	<b>0.0</b>	<b>34,422.0</b>	
<b>Undesignated Savings</b>	<b>11,977.2</b>	<b>1,702.0</b>	<b>1,223.6</b>	<b>12,455.6</b>	<b>12,455.6</b>	<b>2,758.6</b>	<b>1,762.4</b>	<b>13,451.8</b>	
Permanent Fund Earnings Reserve Account	1,209.8	1,190.0	1,209.0	1,190.8	1,190.8	1,865.0	1,467.0	1,588.8	
Constitutional Budget Reserve Fund (cash)	9,166.1	495.0	0.0	9,661.1	9,661.1	572.3	0.0	10,233.4	
Statutory Budget Reserve Fund	1,197.5	0.0	14.6	1,182.9	1,182.9	284.3	0.0	1,467.2	
Alaska Housing Capital Corporation Fund	360.7	14.0	0.0	374.7	374.7	15.0	295.4	94.3	
Alaska Capital Income Fund	43.1	3.0	0.0	46.1	46.1	22.0	0.0	68.1	
<b>Designated Savings</b>	<b>1,737.1</b>	<b>1,261.1</b>	<b>1,198.0</b>	<b>1,800.3</b>	<b>1,800.3</b>	<b>1,237.7</b>	<b>1,274.1</b>	<b>1,763.9</b>	
Public Education Fund	1,171.0	1,131.0	1,114.3	1,187.7	1,187.7	1,141.0	1,124.7	1,204.0	
Revenue Sharing Fund	180.0	60.0	60.0	180.0	180.0	60.0	60.0	180.0	
Railbelt Energy Fund	65.5	0.0	0.0	65.5	65.5	0.0	65.7	(0.2)	
Power Cost Equalization Endowment	320.7	70.1	23.7	367.1	367.1	36.7	23.7	380.1	
<b>Reserves (Excluding Permanent Fund Principal)</b>	<b>13,714.4</b>	<b>2,963.1</b>	<b>2,421.6</b>	<b>14,255.9</b>	<b>14,255.9</b>	<b>3,996.3</b>	<b>3,036.5</b>	<b>15,215.7</b>	
Unrestricted General Fund Appropriations				6,606.8				6,894.0	
Years of Reserves (Reserves/UGF Appropriations)				2.16				2.21	





# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

## Operating Budget

The fiscal summary provides a “big picture” of the budget, including revenue, the capital budget, statewide items, and transfers as well the operating budget. This introduction to the operating budget focuses on how to put the Governor’s FY12 operating request for individual agencies in perspective.<sup>1</sup>

Budget comparisons across fiscal years are always difficult, there are so many adjustments required to get an “apples-to-apples” comparison that a complete discussion would push the limits of the term “overview.” With that caveat, the Governor’s FY12 operating budget request could be considered, for the most part, a status quo budget. The \$4.5 billion of general funds requested for agency operations is \$189.6 million (or 4.4%) over the FY12 Adjusted Base. These increases are primarily due to the following big ticket items (please see individual agency narratives for details):

- \$62.5 million to address increased Medicaid related costs;
- \$11.6 million for increases in the K-12 education;
- \$8.3 million to fund Alaska Performance Scholarship awards;
- \$18.5 million for increased fuel costs;
- \$2.7 million in the Department of Law for Gas Pipeline Outside Counsel and Experts; and
- \$4.5 million in the University to address increased non-personal services costs.

The agency discussions in this overview serve as a starting point for subcommittee discussion, and subcommittee books provide more detailed information. Each subcommittee book compares the Governor’s request to two scenarios: FY11 Management Plan and the FY12 Adjusted Base. The advantages and disadvantages of using each of the comparisons are discussed in the paragraphs below. The following table highlights items included throughout each stage of the budget.

<b>Statewide (Excludes "Statewide Items" and "Transfers")</b>			
All Dollars in Thousands			
	<b>(GF Only)</b>	<b>Change</b>	<b>% Change</b>
<b>FY11 Conference Committee (GF Only)</b>	<b>\$4,371,121.8</b>		
FY11 Fiscal Notes	28,959.1		
CarryForward	15,947.4		
Special Appropriations	9,216.4		
Agency Transfers	-		
Reappropriations	1,550.0		
Misc Adjustments	(25,500.0)		
Vetoed	(4,242.8)		
<b>FY11 Management Plan (GF only)</b>	<b>\$4,397,051.9</b>	\$25,930.1	0.6%
One-time Items removed	(97,443.0)		
FY12 Contractual Salary and Health Increases	55,606.9		
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$4,355,215.8</b>	(\$41,836.1)	-1.0%
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	28,172.8		
FY12 Governor's GF Increments/Decrements/Fund Changes	161,393.4		
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$4,544,782.0</b>	\$189,566.2	4.4%

**FY11 Management Plan to the Governor’s request: \$147.7 million.** The Management Plan is the most accurate picture of the previous year’s budget. It incorporates appropriations that can be spent in FY11, including reappropriations and carryforward from multi-year appropriations. Management Plan excludes supplemental appropriations (because they have not yet occurred) but any FY12 supplemental appropriations that may occur are also excluded, so there is no distortion from this source.

<sup>1</sup> Although operating budget reports include “Statewide items” (such as Debt Service, Fund Capitalization, and Retirement funding), budgets for ongoing agency operations are what most people mean when they refer to “the operating budget.” Because statewide items are discussed in other places in this *Overview*, these items have been excluded from the above discussion.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

The Governor's FY12 budget, however, excludes reappropriations and carryforward from multi-year appropriations, they do not occur until year end, so comparing the FY11 Management Plan to the Governor's FY12 request tends to understate spending in FY12 relative to FY11. The amount carried forward to FY11 was about \$15.9 million.

One-time items are a far larger source of distortion. For example, \$8 million of fuel costs show in DOT&PF's Marine Vessel Fuel Management Plan, but the FY12 budget shows the fuel trigger appropriation as a branch-wide appropriation, so the FY12 budget is \$7.46 million (or 26.7 percent) below FY11 Management Plan. Distortion of this type is the reason for making comparisons from Adjusted Base. The base to Governor comparison more accurately shows a \$1.6 million increase.

**FY12 Adjusted Base to Governor's request: \$189.6 million.** The Adjusted Base attempts to reduce distortion in comparing agency budgets across fiscal years. It is the first FY12 budget scenario and can be described as the "cost of doing the same functions in FY12 as in FY11." The Adjusted Base is the starting point for subcommittee discussion of the Governor's request.

- It removes one-time appropriations, reappropriations, and carryforward of multi-year appropriations that were included in the FY11 Management Plan.
- It incorporates the FY12 nondiscretionary increases that the legislature may accept or reject on a statewide basis. If the legislature rejects these nondiscretionary increases, such as contractual salary increases, the costs of these increases will have to be absorbed by the agencies.

The FY12 Adjusted Base includes increases for the salary adjustments below:

- **Contractual Wage and Health Insurance Increases for Bargaining Units** – Negotiated agreements for covered employees for contractual salary increases (which vary by bargaining unit) and increased health insurance costs add \$81.8 million statewide (\$45.9 million UGF, \$9.7 million DGF, \$16.7 million Federal Receipts, and \$9.5 million in Other State Funds).

The **Governor's column** includes program increments and fund source changes that the legislature may wish to consider on an individual basis. Note that the concept of Adjusted Base is useful only for agency operating budgets. Savings deposits and statewide items, debt service, fund transfers, retirement contributions, etc., are not budgeted on an incremental basis and are not reviewed by subcommittees.

The following summary tables make the comparisons discussed above. Note that Agency Summary reports include duplicated fund sources, while the fiscal summary removes these items from the operating portion of the budget. Also note that the Adjusted Base is set at the Governor's request for items other than agency operating budgets.

Please see the agency narratives for details on significant issues in each agency's budget.

In addition to summaries of agency budgets, the *Overview* contains discussions of the language sections, position changes and details of debt obligations.

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Agency Summary - FY12 Operating Budget - Total Funds*										
Agency	10Actual	11 CC	11 Auth	11MgtPln	Adj Base	Gov	11MgtPln to Gov	Adj Base to Gov		
Administration	283,401.9	302,191.4	302,936.5	302,936.5	306,736.5	308,360.9	5,424.4	1,624.4	1.8%	0.5%
Commerce, Community & Econ Dev	172,592.0	207,835.8	213,119.2	213,119.2	200,252.6	206,178.4	(6,940.8)	5,925.8	-3.3%	3.0%
Corrections	256,811.2	258,125.6	265,846.0	265,846.0	270,865.1	278,149.7	12,303.7	7,284.6	4.6%	2.7%
Education & Early Development	1,353,738.4	1,425,386.1	1,466,385.7	1,466,385.7	1,424,521.3	1,467,910.8	1,525.1	43,389.5	0.1%	3.0%
Environmental Conservation	71,366.3	77,497.1	77,589.3	77,589.3	79,468.2	80,650.2	3,060.9	1,182.0	3.9%	1.5%
Fish and Game	161,819.5	193,345.7	193,546.7	193,546.7	198,408.8	197,120.1	3,573.4	(1,288.7)	1.8%	-0.6%
Governor	59,036.3	30,675.5	115,480.3	115,480.3	25,082.0	29,372.8	(86,107.5)	4,290.8	-74.6%	17.1%
Health & Social Services	2,068,934.1	2,247,878.1	2,260,960.5	2,260,960.5	2,251,526.4	2,443,507.8	182,547.3	191,981.4	8.1%	8.5%
Labor & Workforce Development	171,831.8	193,554.6	198,731.4	198,731.4	190,677.7	193,609.9	(5,121.5)	2,932.2	-2.6%	1.5%
Law	82,101.3	87,581.7	88,325.5	88,325.5	80,125.7	85,668.4	(2,657.1)	5,542.7	-3.0%	6.9%
Military & Veterans Affairs	44,087.3	49,758.1	50,079.4	50,079.4	50,708.9	50,931.7	852.3	222.8	1.7%	0.4%
Natural Resources	203,232.3	148,278.7	152,492.9	152,492.9	146,447.7	153,646.7	1,153.8	7,199.0	0.8%	4.9%
Public Safety	164,373.8	181,893.5	189,580.9	189,580.9	183,601.8	188,990.1	(590.8)	5,388.3	-0.3%	2.9%
Revenue	208,555.4	286,270.7	310,444.7	310,444.7	286,812.3	305,267.0	(5,177.7)	18,454.7	-1.7%	6.4%
Transportation & Public Facilities	536,099.8	565,152.8	579,396.7	579,396.7	576,017.5	585,455.0	6,058.3	9,437.5	1.0%	1.6%
University of Alaska	771,573.5	850,369.7	851,854.7	851,854.7	858,491.7	879,899.5	28,044.8	21,407.8	3.3%	2.5%
Alaska Court System	89,247.9	97,522.8	98,883.8	98,883.8	100,202.3	105,457.4	6,573.6	5,255.1	6.6%	5.2%
Legislature	52,710.7	67,136.9	69,670.7	69,670.7	69,541.8	70,533.8	863.1	992.0	1.2%	1.4%
Branch-wide Unallocated Approp	-	27,000.0	14,500.0	14,500.0	14,500.0	33,000.0	18,500.0	18,500.0	127.6%	1,275,862.1
Agency Budgets Total	6,751,513.5	7,297,454.8	7,499,824.9	7,499,824.9	7,313,988.3	7,663,710.2	163,885.3	349,721.9	2.2%	4.8%
Statewide Items										
Debt Service	352,087.2	271,661.6	271,661.6	271,661.6	271,661.6	300,340.8	28,679.2	28,679.2	10.6%	0.1055696
Fund Capitalization	358,566.4	285,273.2	540,748.2	540,748.2	535,273.2	503,277.6	(37,470.6)	(31,995.6)	-6.9%	-6.0%
Direct Approps to Retirement	284,687.5	357,564.7	357,564.7	357,564.7	357,564.7	479,471.8	121,907.1	121,907.1	34.1%	34.1%
Special Appropriations	84,707.7	1,200.0	5,726.9	5,726.9	4,526.9	1,200.0	(4,526.9)	(3,326.9)	-79.0%	-73.5%
	1,080,048.8	915,699.5	1,175,701.4	1,175,701.4	1,169,026.4	1,284,290.2	108,588.8	115,263.8	9.2%	9.9%
Statewide Total	7,831,562.3	8,213,154.3	8,675,526.3	8,675,526.3	8,483,014.7	8,948,000.4	272,474.1	464,985.7	3.1%	5.5%
Fund Summary										
Unrestricted General (UGF)	4,332,009.6	4,464,769.2	4,747,934.5	4,747,934.5	4,695,323.3	4,997,241.8	249,307.3	301,918.5	5.3%	6.4%
Designated General (DGF)	625,144.8	705,355.3	706,697.0	706,697.0	712,222.1	726,575.3	19,878.3	14,353.2	2.8%	2.0%
Other State Funds (Other)	1,104,892.2	1,115,159.1	1,118,136.0	1,118,136.0	1,123,201.3	1,152,345.3	34,209.3	29,144.0	3.1%	2.6%
Federal Receipts (Fed)	1,769,515.7	1,927,870.7	2,102,758.8	2,102,758.8	1,952,288.0	2,071,838.0	(30,920.8)	119,570.0	-1.5%	6.1%
Fund Transfers (non-additive)	1,526,955.4	1,567,448.5	1,240,448.5	1,240,448.5	1,240,448.5	1,146,069.6	(94,378.9)	(94,378.9)	-7.6%	-7.6%

\*This table presents the Governor's budget as submitted. In the Fiscal Summary, \$19.1 million for items the Governor requested as capital projects show as agency operating items. This table differs from the fiscal summary by that amount.

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Agency Summary - FY12 Operating Budget - General Funds*									
Agency	10 Actual	11 CC	11 Auth	11 MgtPln	Adj Base	Gov	11 MgtPln to Gov	Adj Base to Gov	
Administration	97,598.3	99,893.8	100,613.2	100,613.2	102,959.2	104,637.5	4,024.3	4.0%	1,678.3
Commerce, Community & Econ Dev	93,222.8	112,582.5	117,082.4	117,082.4	104,296.5	108,378.5	(8,703.9)	-7.4%	4,082.0
Corrections	238,640.5	240,730.1	248,336.4	248,336.4	253,622.3	260,004.1	11,667.7	4.7%	6,381.8
Education & Early Development	1,125,830.5	1,184,777.4	1,185,610.0	1,185,610.0	1,183,198.5	1,207,599.2	22,089.2	1.9%	24,500.7
Environmental Conservation	41,135.4	44,355.1	44,439.0	44,439.0	45,505.6	46,449.1	2,010.1	4.5%	943.5
Fish and Game	66,422.3	73,351.0	73,523.9	73,523.9	75,733.4	78,128.1	4,604.2	6.3%	2,394.7
Governor	28,149.3	29,631.5	31,250.4	31,250.4	24,093.5	28,572.3	(2,678.1)	-8.6%	4,478.8
Health & Social Services	929,088.7	1,022,340.0	998,046.5	998,046.5	1,005,037.8	1,082,896.5	84,850.0	8.5%	77,888.7
Labor & Workforce Development	59,385.1	63,632.2	63,707.1	63,707.1	63,441.6	66,152.0	2,444.9	3.8%	2,710.4
Law	55,196.6	61,157.3	61,671.7	61,671.7	53,312.8	58,440.1	(3,231.6)	-5.2%	5,127.3
Military & Veterans Affairs	11,798.6	12,131.9	12,447.5	12,447.5	12,355.5	12,398.7	(48.8)	-0.4%	43.2
Natural Resources	150,007.6	94,270.7	97,524.9	97,524.9	92,263.7	99,865.7	2,340.8	2.4%	7,602.0
Public Safety	140,682.8	151,401.4	151,804.0	151,804.0	152,858.7	157,975.8	6,171.8	4.1%	5,117.1
Revenue	33,310.9	37,904.8	60,987.5	60,987.5	36,366.9	41,373.0	(19,614.5)	-32.2%	5,006.1
Transportation & Public Facilities	310,970.7	313,814.9	327,980.4	327,980.4	317,528.6	328,527.0	546.6	0.2%	10,998.4
University of Alaska	575,787.6	641,425.0	642,910.0	642,910.0	651,240.2	658,206.5	15,296.5	2.4%	6,966.3
Alaska Court System	87,093.3	93,998.3	95,359.3	95,359.3	97,772.2	101,957.1	6,597.8	6.9%	4,184.9
Legislature	52,370.7	66,723.9	69,257.7	69,257.7	69,128.8	70,120.8	863.1	1.2%	992.0
Branch-wide Unallocated Approp	-	27,000.0	14,500.0	14,500.0	14,500.0	33,000.0	18,500.0	127.6%	18,500.0
Agency Budget Total	4,096,691.7	4,371,121.8	4,397,051.9	4,397,051.9	4,355,215.8	4,544,782.0	147,730.1	3.4%	189,566.2
Statewide Items									
Debt Service	165,961.2	192,717.0	192,717.0	192,717.0	192,717.0	230,436.9	37,719.9	19.6%	37,719.9
Fund Capitalization	325,106.3	247,521.0	501,571.0	501,571.0	497,521.0	467,926.4	(33,644.6)	-6.7%	(29,594.6)
Direct Approps to Retirement	284,687.5	357,564.7	357,564.7	357,564.7	357,564.7	479,471.8	121,907.1	34.1%	121,907.1
Special Appropriations	84,707.7	1,200.0	5,726.9	5,726.9	4,526.9	1,200.0	(4,526.9)	-79.0%	(3,326.9)
Statewide Items Total	860,462.7	799,002.7	1,057,579.6	1,057,579.6	1,052,329.6	1,179,035.1	121,455.5	11.5%	126,705.5
Statewide Total	4,957,154.4	5,170,124.5	5,454,631.5	5,454,631.5	5,407,545.4	5,723,817.1	269,185.6	4.9%	316,271.7
Fund Summary									
Unrestricted General Funds (UGF)	4,332,009.6	4,464,769.2	4,747,934.5	4,747,934.5	4,695,323.3	4,997,241.8	249,307.3	5.3%	301,918.5
Designated General Funds (DGF)	625,144.8	705,355.3	706,697.0	706,697.0	712,222.1	726,575.3	19,878.3	2.8%	14,353.2
Fund Transfers (non-additive)	1,521,603.7	1,557,948.9	1,230,948.9	1,230,948.9	1,230,948.9	1,137,307.9	(93,641.0)	-7.6%	(93,641.0)

\*This table presents the Governor's budget as submitted. In the Fiscal Summary, \$19.1 million for items the Governor requested as capital projects show as agency operating items. This table differs from the fiscal summary by that amount.

## **Positions: Authorized Count, Vacancy Factors and Legislative Control**

The Governor's FY12 operating budget request increases permanent full-time (PFT) positions by 40 from the FY11 Management Plan. Departments also added 53 PFTs in the FY11 Management Plan (to the number authorized by the legislature) so the total increase from the FY11 authorized level is 93. Overall, the Governor's FY12 statewide budget contains 24,700 total positions (full-time, part-time, and temporary).

<b>Permanent Full-time Positions Only</b>						
<b>Agency</b>	<b>FY11 Authorized</b>	<b>FY11 Management Plan</b>	<b>FY12 Governor</b>	<b>Positions Added by Agencies in FY11</b>	<b>Additional Positions Requested in FY12</b>	<b>TOTAL Change from FY11 to FY12</b>
Administration	1,070	1,071	1,073	1	2	3
Commerce, Community and Economic Development	534	538	538	4	-	4
Corrections	1,509	1,509	1,509	-	-	-
Education and Early Development	335	337	337	2	-	2
Environmental Conservation	535	537	542	2	5	7
Fish and Game	915	923	924	8	1	9
Office of the Governor	159	163	162	4	(1)	3
Health and Social Services	3,473	3,481	3,489	8	8	16
Labor and Workforce Development	847	848	842	1	(6)	(5)
Law	556	557	563	1	6	7
Military and Veterans Affairs	295	295	295	-	-	-
Natural Resources	777	776	776	(1)	-	(1)
Public Safety	871	872	877	1	5	6
Revenue	875	877	878	2	1	3
Transportation and Public Facilities	3,191	3,210	3,210	19	-	19
University of Alaska	4,694	4,694	4,694	-	-	-
Alaska Court System	740	740	759	-	19	19
Legislature	247	248	248	1	-	1
<b>TOTAL -- ALL Agencies</b>	<b>21,623</b>	<b>21,676</b>	<b>21,716</b>	<b>53</b>	<b>40</b>	<b>93</b>

AS 39.25 (State Personnel Act) 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 at some time during the fiscal year.

Legislators frequently express concern over the "unauthorized" addition of positions, as well as confusion over how positions are funded. There are a variety of reasons for both concern and confusion.

- Funding requested for FY12 positions is nearly 26% of the total operating budget (\$2.4 billion). Perhaps more pertinent, personal services funding is 45% of the operating budget excluding grants.
- Positions are difficult to delete. As former Representative Mike Kelly bluntly stated, "State employees have Velcro on their butts."
- Positions not authorized by the legislature are added every year (in Management Plan and beyond). As noted above, 53 positions added in the FY11 Management Plan were not authorized by the legislature.
- Legislators are often surprised when services cannot be performed because agencies hold "fully funded" positions vacant, claiming they have insufficient funding to fill the positions.

The following discussion addresses these issues. The intent is to give legislators (and staff) information so they can better understand budgetary issues involving positions. Before delving into a discussion of positions, the reader will need to be familiar with the following definitions.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- **Position Control Number (PCN)** - A PCN is a six- to eight-character code identifying a position. PCNs for authorized positions are assigned by the Division of Personnel and Labor Relations (henceforth referred to as the "Division of Personnel"). Exempt positions usually contain an "X" and exempt temporary positions usually contain a "T" in the third character of the PCN. The Personal Services Module of the executive branch budget system identifies new position requests (and positions which are not authorized) by using a non-numeric character "#" as the first character of a PCN, and assigns a sequential number, e.g. #123. If the position is authorized by the legislature, the Division of Personnel will assign an authorized number at the time the position is allocated to a job classification. Occasionally, a position will contain a "?" as the first character. This identifies a new position that has not been established through the Division of Personnel but has been authorized by the legislature.
- **Vacancy Factor** – The percentage by which personal services are purposely underfunded. In theory, a vacancy factor should account for savings attributable to employee turnover, and the budget should include sufficient funds to fill all positions listed in the budget. In reality, high vacancy factors, in combination with other complications, often force agencies to leave positions unfilled in the long-term. Minimum and maximum vacancy factors are suggested by OMB and increase with the number of full-time positions. *For more detailed information please see the "Vacancy Factor Explanation" section in this write-up.*

### LEGISLATIVE CONTROL OVER POSITIONS

#### 1. Can positions be created that have not been authorized by the legislature?

The short answer is "Yes". According to the Alaska Administrative Manual (AAM 250.020), the following should occur to create positions:

- A requesting agency needs to obtain budgetary approval from OMB;
- The Division of Personnel must establish the position by assigning a position control number (PCN), job classification title, location, salary range, bargaining unit, overtime indicator, position type, and the agency that will pay the salary; and
- An agency may not appoint an individual to a position until the position has been authorized by the legislature or by OMB.

#### 2. Can the legislature force a Department to lay off a person by cutting a PCN and/or its associated funding?

Although the specific PCN will be deleted, the *person* in the position may be unaffected. Instead of a lay off, the Department may choose, or be required by collective bargaining agreement, to place the person:

- in an existing, vacant PCN; or
- in a reclassified PCN; or
- in another PCN after "bumping" that PCN's incumbent; or
- in a newly-created PCN.

Cutting funding for a position forces an agency to make choices: should cuts be made elsewhere, in other line items, in other allocations, or to other positions, so the person can be retained? Sometimes an agency can shift the impact of a cut by forcing others to pay. For example, cuts to a Commissioner's Office will be passed to other divisions if the Commissioner's Office increases its collection of interagency receipts.

#### 3. Can the legislature gain more control over the creation of positions?

The legislature could adopt a bill preventing agencies from creating positions not authorized in the budget. However, the undesirable consequences may far outweigh the perceived advantages.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- **Funded services may not be provided.** The legislature may appropriate funding for a purpose but an agency may have insufficient staff to conduct business.
- **Costs may increase** because agencies may have to contract for services instead of being able to do them in-house or may have to pay overtime to existing employees.
- **More legislative time could be needed** to approve the addition of “emergency” positions. (Budgets are prepared long in advance; unforeseen circumstances would almost certainly require a process for adding unbudgeted positions.)
- **Appropriations bills would need to be restructured** to include positions. This would not be technically difficult, but would bring up issues such as the ability to move positions across appropriation and agency lines.

### **FUNDING POSITIONS AUTHORIZED BY THE LEGISLATURE**

#### **4. Why does cutting funding for a vacant PCN affect the level of service an agency can provide? Conversely, how can a Department have insufficient funding to fill positions that are listed in the budget?**

There are a variety of reasons an agency may have insufficient funding for budgeted positions, including:

- **Increased non-personal services expenditures.** Unfunded fixed costs offer a clear example of a situation in which an agency may have to use personal services money for a different purpose. Other situations are less clear, but occur frequently. For example, DCCED's Commissioner's Office contains a budget request for \$140.0 of Inter-Agency (I/A) receipts for a Communications Coordinator. The funding source indicates that funding for this position will come from outside the Commissioner's Office. Unless additional funding is approved in the divisions from which the funding comes, those divisions must absorb the cost of the position—essentially, the divisions receive an unallocated reduction that may leave them with insufficient funding to fill their own positions. This problem arises in a number of ways, including paying the Department of Administration for centralized services, Law for legal assistance, or the state equipment fleet for vehicle costs. This situation is not always easy to spot; I/A receipts may not always be budgeted.
- **Step increases for existing employees.** While pay increases due to bargaining unit agreements are typically built into the base budget, Departments are generally expected to absorb the cost of merit increases. The theory is that replacing a stepped-out employee with a low-step employee provides the money to pay the step increases for several other employees. The theory works if departing workers are replaced by workers with far less experience, but it doesn't work when turnover is low or when replacements come in at advanced steps. Generally speaking, agencies frequently must absorb much of the cost of merit increases.
- **Hollow authorization.** A personal services report that appears to be clean, meaning low vacancy rates, may “hide” a problem because budgeted funding sources may fail to materialize. For example, excess federal authorization in the personal services line may mean that an agency does not have cash to fill positions.
- **Reclassifications** may increase the cost for existing employees. Sometimes the legislature approves an increment to pay for job reclassifications. Sometimes agencies must absorb these costs.
- **Geographic Differentials** change the cost of a position. For example, moving a position from Anchorage to Kotzebue can increase the cost of the position by over 50%.
- **Increased working reserve rates.** In FY12, Departments will absorb about \$7 million of increases in unemployment insurance rates, leave cash-in, and terminal leave.



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- **Vacancy factors** are discussed below.
5. **If an agency cannot afford to fill a position, why the reluctance to delete it?** There are a several reasons an agency may not delete an unfilled PCN.
- Gaining legislative and OMB approval to add a PCN is not a painless process.
  - The manager may believe there is a need for the PCN and hope to eventually be able to afford it. For instance, if one-time costs decrease (such as one-time legal fees), the manager may be able to hire a person in the next fiscal year.
  - An agency may want to carry extra positions so that it can transfer personal services funding to other line items.

### **TRANSFERS TO AND FROM THE PERSONAL SERVICES LINE**

6. **Why is funding transferred between the personal services line and other lines?** If an agency needs funding to pay for non-personal services costs, funding must be transferred from the personal services line to other line items by Revised Program (RP). This can occur in Management Plan or can occur after Management Plan has been submitted.
7. **Why is it important to analyze personal services transfers in the budget?** Transfers to and from the personal services line can signal “vacancy games” in an allocation. Funding moved from the personal services line to contractual line may simply indicate that the Department
- is having difficulty recruiting so will contract for the services, or
  - must use the funding to pay increased contractual costs for leases, IT services, outside vendor costs, etc.

But some transfers, particularly those that are reversed before submitting the budget to the legislature, may indicate a lack of intent to follow the budget as submitted. When an agency consistently moves funding to and from the personal services line, it may be done to avoid deleting vacant positions. This may be important to those who place great importance on position counts and/or those who believe that the budget should be the best possible representation of how an agency expects to spend the money appropriated to it.

### **VACANCY FACTOR EXPLANATION**

8. **What is a vacancy factor?**

A vacancy factor is the percentage by which personal services are purposely underfunded.

9. **Why are vacancy factors used in agency budgets?**

Vacancy factors reflect the expectation that the process of filling vacated positions is not instantaneous, all positions cannot be filled 100% of the time during the fiscal year so personal services do not need to be 100% funded.

10. **What would happen if vacancy factors were not included in the budget?**

Full funding may give an agency more money than is needed to pay for budgeted positions.

11. **Who determines allowable vacancy factors?**

The Office of Management and Budget (OMB) provides the following suggested minimum and maximum vacancy factor guidelines:

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

Number of Full Time Positions	Minimum Vacancy Factor *	Maximum Vacancy Factor
10 or less	0%	3%
11 to 20	1%	4%
21 to 30	2%	5%
31 to 50	3%	6%
51 plus	4%	7%

\*Per OMB's June 2009 Operating Instructions, the minimum vacancy factor is optional.

### **12. Where do I find the vacancy factor for an allocation?**

The vacancy factor for each allocation can be found in the personal services report in the Governor's Budget Detail books and on OMB's website.

### **13. When is the vacancy factor calculated?**

Departments reconcile (or balance) personal services in the Automated Budget System (ABS) three times a year.

- Management Plan reflects the anticipated position costs in the current fiscal year and may include new positions which were added with OMB approval after the authorized budget.
- The Governor's December 15<sup>th</sup> request reflects the projected position costs for the next fiscal year and may include future position requests.
- Vacancy factors are also reconciled when the Governor's Amended budget is submitted.

### **14. Why do vacancy factors differ so much? Reasons include the following:**

- **Allocation size.** Typically, larger allocations have higher vacancy factors. A zero percent vacant factor may be appropriate for an allocation with few employees but one can reasonably expect an allocation with 100 employees to experience turnover that is equivalent (in terms of cost) to having several vacant positions throughout the year. Forcing an allocation with three employees to maintain a 5% vacancy factor may mean that funding from another line item will need to be transferred to the personal services line to pay the full costs of the three positions.
- **High turnover and recruitment difficulties:** Some allocations experience higher turnover and/or more difficulty recruiting than other allocations (frequently where there are highly specialized positions). These allocations may be able to carry a higher vacancy factor than allocations that typically have little turnover and/or fill positions quickly.
- **Anticipated increase in another expenditure line.** It is also common for a Department to choose to hold a position vacant for a portion of the year to meet anticipated increases in another expenditure line. For example, a position may be held vacant to meet increased lease costs.
- **A vacancy factor is, to a large extent, an arbitrary number,** as discussed in the following paragraph.

### **15. How is a vacancy factor determined for an allocation?** The personal services module within the Governor's Automated Budget System (ABS) details each budgeted position and the associated cost (salary and benefits) by allocation. Each position is reconciled for position status, bargaining unit, job class title, range, step, location, retirement, funding sources and other factors.

Once the reconciliation process is complete, a Department will know the total personal services cost for each allocation, assuming that every position was filled for the full year. This amount is referred to as the pre-vacancy amount.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

The agency then reviews how much money is available to each allocation, and how much of that money is required for nonpersonal services. Subtracting projected nonpersonal service costs from available funding gives an amount that is available for personal services. Alternately, the agency simply uses the amount appropriated to an allocation's personal services line. The amount available for personal services is the post-vacancy amount. In either case, the agency balances personal services by reducing the pre-vacancy amount so it equals the post-vacancy amount. The percentage reduction is the vacancy factor.

A key point: a vacancy factor reduces the amount available to pay for the positions within an allocation; it does not reduce the amount of funding appropriated to an allocation.

### **16. What happens when an allocation can't balance within the vacancy factor guidelines?**

If an allocation has a vacancy factor that does not meet guidelines, the Department may

- submit a line item transfer to/from another expenditure line (services, commodities, capital outlay) so that the guidelines are met,
- move personal services authorization from one allocation to another, within an appropriation, or
- submit an increment in the Governor's request to increase authorization or a decrement to remove excess authorization to balance personal services. Typically, an agency will attempt to transfer money within the agency rather than asking for a decrement.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **Language Sections of the Governor's FY12 Operating Budget**

#### **DELETED SECTION** appeared in the FY11 Operating Budget

**FINDINGS.** The legislature finds that the state will realize savings in the amount of \$114,081,600 during the fiscal year ending June 30, 2011, through the federal medical assistance percentage provisions of P.L. 111-5 (American Recovery and Reinvestment Act of 2009) that will be used to offset appropriations from the general fund made in this Act.

*Legislative Fiscal Analyst Comment: The section provides information regarding the anticipated amount of general fund savings attributable to the federal medical assistance percentage (FMAP) provisions of P.L. 111-5 (American Recovery and Reinvestment Act of 2009). No similar statement is needed for FY12.*

#### **PROPOSED NEW SECTION** appeared in the FY11 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, 2012.

*Legislative Fiscal Analyst Comment: In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The intent of this section was to emphasize that supplemental operating appropriations are designed to be limited to needs that are truly unanticipated.*

#### **PROPOSED NEW SECTION** appeared in the FY11 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, 2012.

*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.*

#### **PROPOSED NEW SECTION** appeared in the FY11 Operating Budget

**PERSONAL SERVICES TRANSFERS.** It is the intent of the legislature that agencies restrict transfers to and from the personal services line. It is the intent of the legislature that the office of management and budget submit a report to the legislature on January 15, 2012, that describes and justifies all transfers to and from the personal services line by executive branch agencies during the first half of the fiscal year ending June 30, 2012. It is the intent of the legislature that the office of management and budget submit a report to the legislature on October 1, 2012, that describes and justifies all transfers to and from the personal services line by executive branch agencies during the second half of the fiscal year ending June 30, 2012.

*Legislative Fiscal Analyst Comment: This section was added by the legislature in FY09 and appeared in the FY10 and FY11 operating budgets. It was added in response to some legislators' desire to gain a better understanding of personal services expenditures and the addition of positions that were not authorized by the legislature.*

\* **Sec. 4. ALASKA AEROSPACE CORPORATION.** Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2012, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations during the fiscal year ending June 30, 2012.

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

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Funding:** The estimated impact of this section is zero. Historically, the appropriations to the corporation in section 1 have been sufficient to avoid application of this section.

\* **Sec. 5. ALASKA HOUSING FINANCE CORPORATION.** (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$23,115,616 of the adjusted net income from the second preceding fiscal year will be available in fiscal year 2012, 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(a)).

**Subsection a** specifies the amount of corporate receipts that will be made available to the state as a FY12 dividend payment but does not appropriate the dividend.

**Legislative Fiscal Analyst Comment:** *The statutory dividend is the lesser of \$103 million or 75% of the corporation's net income in the most recently completed fiscal year (AS 18.56.089(c)).*

**Legislative Fiscal Analyst Recommendation:** *The Alaska debt retirement fund is no longer used, and subsection (d) states that any available dividend not used for capital projects is appropriated to the budget reserve fund. The subsection should be redrafted to read: "...will be available in fiscal year 2012 for payment of debt service, appropriation in this Act and appropriation for capital projects."*

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2012, 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) \$2,592,558 for debt service on the bonds authorized under ch. 1, SSSLA 2002;

(3) \$2,546,460 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

**Subsection b** makes no appropriation; it informs the legislature that the Alaska Housing Finance Corporation (AHFC) will retain \$6,139,018 of the dividend to pay debt service on various AFHC-financed capital projects authorized by past legislatures. This leaves a net dividend of \$16.977 million (\$19.4 million less than in FY11) for the legislature to spend as it wishes.

**Legislative Fiscal Analyst Comment:** *AHFC retains the amount required to make debt service payments on state-requested corporate debt in order to avoid higher interest rates that bonds with debt service subject to appropriation might command.*

**Legislative Fiscal Analyst Recommendation:** *Subsection (b)(2) should use the word "described" rather than "authorized" when referring to the 2002 bond issue.*

(c) After deductions for the items set out in (b) of this section, \$16,976,598 of the remainder of the amount set out in (a) of this section is available for appropriation for capital projects.

**Subsection c** informs the legislature that, after the amounts retained in subsection b, the remaining amount of the AHFC Dividend is available for other purposes.

**Legislative Fiscal Analyst Comment:** *Although corporate dividends are traditionally reserved for use in the capital budget, there is no requirement that this must occur—the legislature can appropriate corporate dividends for any purpose.*

(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, 2012, is appropriated to the budget reserve fund (AS 37.05.540(a)).

**Subsection d** appropriates the "unused" portion of the dividend to the budget reserve fund.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Legislative Fiscal Analyst Recommendation:** *Appropriate the "unused" balance of dividends to the Alaska Capital Income Fund (AS 37.05.565). This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

(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 2012 and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under procedures adopted by the board of directors.

**Subsection e** appropriates certain FY12 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

**Funding:** The corporate receipts used for purposes other than operating costs do not appear in the bill summary or in Legislative Finance 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 between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (e) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2012, 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 between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (e) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2012, for housing loan programs and projects subsidized by the corporation.

**Subsections f and g** appropriate bond proceeds and arbitrage earnings to the various housing programs.

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

(h) The sum of \$32,000,000 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, 2012.

**Subsection h** appropriates federal receipts received by the corporation for Section 8 housing assistance payments.

\* **Sec. 6. 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, 2012, estimated to be \$524,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the dividend fund (AS 43.23.045(a)) for the payment of permanent fund dividends, and for administrative and associated costs for the fiscal year ending June 30, 2012.

**Subsection a** appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY12 (as calculated on the last day

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

of the fiscal year) will be used to pay PFDs in October of 2012 and to pay administrative and associated costs throughout FY12.

**Funding:** The projected amount of dividend transfer for FY12 is \$524 million, including administrative and associated costs. Administrative and associated costs for FY12 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.

(b) After money is transferred to the dividend fund under (a) of this section, the amount calculated under AS 37.13.145(c) to offset the effect of inflation on the principal of the Alaska permanent fund during fiscal year 2012, estimated to be \$922,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund.

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

**Funding:** The projected amount of inflation proofing for FY12 is \$922 million.

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during fiscal year 2012, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

**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 because the deposits are constitutionally dedicated rather than appropriated. The Permanent Fund projects that dedicated deposits will be \$716 million during FY12.

### **NEW SUBSECTION** formerly appeared in section 1

(d) The amount necessary to pay the custody, investment management, and third-party fiduciary fees of the permanent fund (art. IX, sec. 15, Constitution of the State of Alaska), estimated to be \$90,300,000, but not to exceed \$130,000,000, is appropriated from the receipts of the Alaska Permanent Fund Corporation to the Alaska Permanent Fund Corporation for the fiscal year ending June 30, 2012.

**Subsection d** appropriates gross earnings of the Permanent Fund—which are classified as corporate receipts—to the Corporation in order to pay the cost of managing the Fund's investment portfolio. Appropriations for this purpose have appeared in section 1 of the operating bill in past years. Moving the appropriation to the language portion of the bill prevents the use of management fees for APFC operations and allows flexibility in the amount appropriated for management fees.

### **PROPOSED NEW SECTION;** move from Governor's capital bill

(e) The income earned during fiscal year 2012 on revenue from the sources set out in AS 37.13.145(d), estimated to be \$22,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

**Subsection e** appropriates FY12 earnings associated with the State vs. Amerada Hess settlement (held within the Permanent Fund) to the Alaska Capital Income Fund. This fund was established in FY05 and is customarily appropriated for capital projects.

**Legislative Fiscal Analyst Comment:** Capitalization of the fund is preferable to direct appropriations from the Permanent Fund Earnings Reserve Account. Because the precise amount of earnings is unknown in advance, the amount available for appropriation is unknown. Putting the money in a non-lapsing fund ensures that all available earnings are appropriated while reducing the danger of appropriating more money than is available. The location of the language is open to debate. It has appeared in the capital budget in recent years because of a desire to place fund inflows and outflows in the same bill. However, earnings from the Amerada Hess settlement are



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*independent of appropriations from the Capital Income Fund, so that placing capitalization language with other appropriations of Permanent Fund earnings may be preferable.*

***Legislative Fiscal Analyst Recommendation:*** *Place all appropriations of Permanent Fund Earnings in a single section of the operating bill, and reverse subsections (d) and (e) in order to improve the logical flow of the appropriations.*

**Funding:** The Amerada Hess settlement portion of the Permanent Fund is “fenced off” from the rest of the Permanent Fund principal. The earnings on this \$425 million portion have historically been projected at \$28 million per year based on the expected rate of return on Permanent Fund investments. Transfers to the Capital Income Fund (in millions) from FY05-010 are: FY05 - \$27, FY06 - \$37, FY07 - \$42, FY08 - \$33, FY09 - \$0, and FY10 - \$0. Current projections for FY11 and FY12 are \$8 and \$22 million respectively. The low transfers for FY10 and FY11 are the result of the way the Permanent Fund accounts for investment losses experienced in FY09.

\* **Sec. 7. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$29,400,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088 for appropriation as the dividend for the fiscal year ending June 30, 2012, from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

**Subsection a** informs the legislature that the anticipated annual Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the state will be \$29.4 million (the FY11 dividend was \$23.4 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.

(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, 2012, is appropriated to the budget reserve fund (AS 37.05.540(a)).

**Subsection b** appropriates the “unused” portion of the dividend to the Alaska Debt Retirement Fund.

***Legislative Fiscal Analyst Recommendation:*** *Appropriate the “unused” balance of dividends to the Alaska Capital Income Fund (AS 37.05.565). This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

\* **Sec. 8. DEPARTMENT OF ADMINISTRATION.** 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, 2012.

**Section 8** 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 section re-emphasizes the state's authority to expend funds from the state insurance catastrophe reserve account described in AS 37.05.289(a). The language may not be necessary, but it does no harm.*

*The catastrophe reserve account sweeps lapsing general fund appropriations annually to maintain a balance not to exceed \$5 million. If these funds were not available, two opportunities would remain for meeting catastrophic situations: 1) supplemental appropriations by the legislature; and 2)*



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*judgment legislation. Delays that could occur with legislative remedies would cause difficulty in situations that require immediate action.*

**Funding:** This provision has no FY12 fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations.

\* **Sec. 9.** DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund on June 30, 2012, 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, for the fiscal year ending June 30, 2012;
2. the balance remaining after the appropriation made by (1) of this subsection 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, 2012, 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, 2012.

**Subsection 1** appropriates \$170,000 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.*

*AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution has not been made. The amount appropriated in subsection 1 (\$170.0) has not changed for several years.*

*Subsection 2 appears to change the intended purpose of lapsing receipts. Under AS 41.15.180(j) lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection 2 takes money that would otherwise be spent in unorganized areas and appropriates it to local governments.*

(b) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2010 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2012, 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.

(c) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2010 and deposited in the general fund under AS 43.76.380(d) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2012, to qualified regional seafood development associations.

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

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

(d) The sum of \$23,510,600 is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2012.

**Subsection d** appropriates seven percent of the Power Cost Equalization Endowment to Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As in the past, this is the maximum withdrawal that can occur under the statutory formula (AS 42.45.070-.085). The amount is a reduction of \$160,000 from FY11.

(e) If the amount appropriated in (d) of this section is not sufficient to pay power cost equalization program costs without proration, the amount necessary to pay power cost equalization program costs without proration, estimated to be \$10,829,400, is appropriated from the general fund to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2012.

**Subsection e** is an open-ended general fund appropriation to AEA for the PCE program. Combined with the appropriation in subsection d, this appropriation will provide the amount required to fund the statutory formula for the PCE program.

**Funding:** The estimated impact of this section is \$10.8 million—which is \$1.8 million less than the estimated UGF appropriation in FY11. The Department revised its expenditure projections downward due to recalibration based on a review of historical information.

(f) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2012.

**Subsection f** is intended to ensure that all federal funding received for the National Forest Receipts program is disbursed expeditiously to communities.

**Legislative Fiscal Analyst Recommendation:** *To improve clarity, the legislature may want to place this subsection under subsection 9(a), where other National Forest Receipts appropriations occur.*

**Funding:** The estimated impact of this section is zero. The \$15.1 million appropriated in section 1 for this program should be sufficient.

(g) If the amount necessary to make payment in lieu of taxes payments under 3 AAC 152 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make payment in lieu of taxes payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2012.

**Subsection g** is intended to ensure that PILT payments are disbursed expeditiously to communities. Payments in Lieu of Taxes (PILT) are federal payments to local governments that help offset losses in property taxes due to nontaxable federal lands within their boundaries.

**Funding:** The estimated impact of this section is zero. The \$10.1 million appropriated in section 1 for this program should be sufficient.

### **NEW SUBSECTION**

(h) Section 56(e), ch. 43, SLA 2010 is amended to read:

(e) The unexpended and unobligated balances of the appropriations made in sec. 37(a)(3), ch. 15, SLA 2009 (Legislative Council, addressing the effects of climate and environmental change on the state - \$750,000) and sec. 37(e), ch. 15, SLA 2009 (Legislative Council - Alaska Conference on State and Federal Responsibility Related to Economic Impacts of ESA Listings and for addressing the effects of climate and environmental change on the state) are reappropriated to the

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

Department of Commerce, Community, and Economic Development, office of the commissioner, for addressing the effects of climate and environmental change on the state for the fiscal years ending June 30, 2010, [AND] June 30, 2011, **and June 30, 2012.**

**Subsection h** extends the lapse date (through FY12) of money made available to the Department for addressing the effects of climate and environmental change on the state.

**Funding:** The estimated impact of this section is zero. The appropriation is included in prior year reports, and a lapse extension makes no new money available. The estimated amount to be carried forward into FY12 is unknown at this time.

### **PROPOSED NEW SECTION**

**Legislative Fiscal Analyst Recommendation:** *In response to legislative intent, add the following subsection to consolidate a tourism marketing appropriation in section 1 and a tourism marketing appropriation that appears in the Governor's capital bill.*

(i) An amount not to exceed \$13,300,000 is appropriated from the general fund to the Department of Commerce, Community, and Economic Development, Qualified Trade Association Contract allocation, for the purpose of promoting tourism in Alaska for the fiscal year ending June 30, 2012. This appropriation is subject to the matching requirement of AS 44.33.125, as amended by Ch. 103 SLA 2008.

**Subsection i** consolidates the Governor's requests for a \$6.3 million operating appropriation and a \$7 million capital grant, both for the promotion of tourism in Alaska. The consolidation is consistent with intent language included in the FY11 operating budget. That language stated "It is the intent of the legislature that future appropriations for promoting tourism be subject to AS 44.33.125."

Effective in FY12, the match requirement changes from "30 percent of the *state money* used for the marketing campaign described in the contract" to "50 percent of the *costs* of the marketing campaign described in the contract."

By appropriating \$7 million in the capital budget as a grant to a named recipient, the Governor's budget excludes that amount from the marketing contract, which—in violation of legislative intent—removes the match requirement for the grant.

If the legislature wishes to follow AS 44.33.125 and the FY11 intent, the state would pay 50% of the costs of tourism marketing. As shown below, the Governor's budget would have the state pay 69% of a \$18.7 million marketing campaign—the amount that will be spent in FY11 if QTA matches all available state funds in the QTA contract.

The Governor's budget permits a marketing campaign of \$19.6 million, for which the state would pay 68%. Under the proposed language, the state would pay half the cost of a tourism promotion campaign, not to exceed \$13.3 million.

**Legislative Fiscal Analyst Comment:** *A \$13.3 million appropriation—matched by an equal contribution from the tourism industry—would permit a campaign costing \$26.6 million. Note that this level of industry match is highly unlikely. If FY11 legislative intent is followed, a \$13.3 million appropriation appears to be about \$10 million more than is likely to be used.*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

<b>Contributions to a Marketing Campaign to Promote Tourism</b>					
(\$millions)					
	<b>FY11 Method (potential \$18.7 million Campaign)</b>	<b>FY12 Governor's Budget for a \$18.7 million Campaign</b>	<b>FY12 Governor's Budget (Maximum)</b>	<b>Proposed Revision (\$18.7 million Campaign)</b>	<b>Proposed Revision (Maximum Allowable Campaign)</b>
State Operating Appropriation	9.00	5.85	6.30	9.35	13.30
QTA Match Requirement	2.70	5.85	6.30	9.35	13.30
State Operating Grant	5.00				
State Capital Grant	2.00	7.00	7.00	-	-
<b>Total Campaign Cost</b>	<b>18.70</b>	<b>18.70</b>	<b>19.60</b>	<b>18.70</b>	<b>26.60</b>
State Contribution to Marketing Campaign	16.00	12.85	13.30	9.35	13.30
QTA Portion of Campaign Costs	2.70	5.85	6.30	9.35	13.30
QTA Match Percent of State Operating Appropriation	30%				
QTA Match Percent of QTA Contract	23%	50%	50%	50%	50%
QTA Share of Total Campaign Cost	14%	31%	32%	50%	50%
State Share of Total Campaign Cost	86%	69%	68%	50%	50%

\* **Sec. 10.** DEPARTMENT OF HEALTH AND SOCIAL SERVICES. (a) The sum of \$1,200,000 is appropriated from the general fund to the Department of Health and Social Services, office of children's services, for the purpose of paying judgments and settlements against the state for the fiscal year ending June 30, 2012.

**Subsection a** appropriates funding for the FY12 settlement costs of a lawsuit filed by four Alaska Native tribes. The Curyung, Ekwok, Kwinhagak, and Chevak tribes alleged that the state violated the federal Indian Child Welfare Act (ICWA) when it (1) failed to notify the tribe when it took custody of a young tribal member; (2) failed to meet placement preferences under ICWA; and (3) failed to provide proper and timely notice of placement changes for children (who are tribal members) that were taken from their parents due to abuse or neglect.

A settlement has been reached between the tribal organizations and the state. The settlement mandates that the state pay \$1.2 million in FY10-FY12. An FY09 supplemental appropriation of \$1.3 million GF to the Department of Law paid the FY10 settlement amount. Procedural changes within OCS, relating to the handling of tribal children, were among other agreed upon issues.

**Legislative Fiscal Analyst Comment:** *In reports prepared by the Legislative Finance Division, this appropriation appears as a special appropriation for judgments and claims rather than as a part of the agency operating budget.*

(b) The amount available for appropriation under AS 37.14.200(e), estimated to be \$399,300, is appropriated for grants to the Alaska children's trust grant account (AS 37.14.205) for the fiscal year ending June 30, 2012.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Subsection b** capitalizes the Children's Trust grant account. 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.

Beginning in FY12, the Trust converts from using earnings of the Trust to an endowment approach.

**Legislative Fiscal Analyst Recommendation:** *Because the appropriation is to a fund and no further appropriation is required to award grants, the language should be moved to the fund capitalization section of this bill.*

### **PROPOSED NEW SUBSECTION** Similar language appeared in the FY11 Operating Budget

(c) If the amount of federal receipts appropriated in sec. 1 of this Act for state Medicaid programs for an enhanced Federal Medicaid Assistance Percentages rate for the fiscal year ending June 30, 2012 is not available to the state in the amount appropriated, the appropriation of federal receipts is reduced by the unavailable amount, and the difference between the amount of federal receipts appropriated and the amount received, not to exceed \$123,786,200, is appropriated from the general fund to the Department of Health and Social Services for Medicaid programs.

**Subsection c** is a contingent appropriation prompted by uncertainty regarding Congressional action to extend the enhanced Federal Medicaid Assistance Percentages (FMAP) rates now in effect. The Governor's budget request presumes that enhanced FMAP rates will apply in FY12—meaning that the federal government will pay a larger-than-normal share of Medicaid expenses. That presumption may be reasonable, but it takes Congressional action to extend the enhanced rates.

If Congress does not extend the enhanced rates, Medicaid programs will be under-funded by approximately \$124 million of general funds. Subsection c is intended to fill that potential gap without the need for additional legislative action.

**Funding:** The estimated impact of this section is zero, based on the assumption that Congress will extend enhanced FMAP rates in order to avoid stalling the somewhat fragile economic recovery.

**Legislative Fiscal Analyst Comment:** *Legislators should be aware that Medicaid is an entitlement program that pays individual benefits according to formulas. The significant issue here is the portion of benefits that will be paid by the state and federal governments. The state does not make that decision, and will incur costs if enhanced FMAP rates are not extended, regardless of whether this appropriation appears in the bill.*

**Legislative Fiscal Analyst Recommendation:** *Include language that provides a contingent appropriation of general funds in the event that federal funds are unavailable.*

\* **Sec. 11. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT.** (a) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amounts appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2012.

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

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

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

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

make those benefit payments is appropriated for that purpose from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2012.

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

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

(c) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2012.

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

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

(d) If the amount of designated program receipts received under AS 43.20.014(a)(3) and deposited in the vocational education account (AS 37.10.200) during the fiscal year ending June 30, 2012, exceeds the amount appropriated in sec. 1 of this Act for purposes described in AS 37.10.200, the additional designated program receipts are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the fiscal year ending June 30, 2012.

**Legislative Fiscal Analyst Comment:** AS 43.20.014(a)(3) reads:

**Income tax education credit.** (a) A taxpayer is allowed a credit against the tax due under this chapter for cash contributions accepted...(3) by a state-operated vocational technical education and training school.

*There are six problems with the Governor's language:*

- *The contributions are not program receipts as the Department of Revenue defines them;*
- *contributions under AS 43.20.014 do not go into the vocational education account, they go directly to a school;*
- *the recipient of the contributions (AVTEC) is not named;*
- *receipts should not be limited to the purposes of the vocational education account, which appears to be unrelated to these tax credits;*
- *the tax credits apply to several types of taxes; and*
- *the money could lapse if its use is limited to FY12.*

*This subsection was modified in the FY11 bill to address these problems. It appears that the old language was used in error.*

**Legislative Fiscal Analyst Recommendation:** Replace subsection d with the following language:

If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.89.070, AS 37.05.146, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2012, exceeds the amount appropriated in section 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

\* **Sec. 12.** DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS. Five percent of the market value of the average ending balances in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2009, June 30, 2010, and June 30, 2011, is appropriated from the Alaska veterans' memorial endowment fund 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, 2012.

**Funding:** Endowment payout is expected to be about \$13,300. Proceeds may be used for maintenance, repair and construction of monuments to the military.

**Legislative Fiscal Analyst Recommendation:** Clarify language by replacing "Five percent of the market value of the average ending balances in the Alaska veterans' memorial endowment fund..." with "Five percent of the average ending market value of Alaska veterans' memorial endowment fund..."

\* **Sec. 13.** DEPARTMENT OF NATURAL RESOURCES. (a) Federal receipts received for fire suppression during the fiscal year ending June 30, 2012, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2012.

**Subsection a** appropriates an open-ended 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.

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2011, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources.

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

**Legislative Fiscal Analyst Comment:** This section is not required; the appropriation contained in section 20(f)—an internal transfer of funds from the income account to the operating account—appears to satisfy the appropriation requirement of AS 37.14.800(b). Once that internal transfer occurs, expenditures require no further appropriation per AS 37.14.820.

**Funding:** The agency estimates the amount needed for mine reclamation expenditures is about \$50,000. The money is spent in the Claims, Permits and Leases allocation for reclamation of land use permits and leases on state lands.

**Legislative Fiscal Analyst Recommendation:** Although this section is not required, it should be retained because the appropriation in section 20(f) is classified as an internal transfer within a fund (so does not appear as a budget transaction). Subsection b ensures that the use of earnings appears as an appropriation of new money in the allocation in which the money is spent. The reference to June 30, 2011 should be changed to June 30, 2012.

(c) The interest earned during the fiscal year ending June 30, 2012, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be \$250,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2012, through June 30, 2014.

**Subsection c** appropriates the interest earned on the bond posted by Cook Inlet Energy and held in the general fund to DNR for the purpose of the bond.

**Legislative Fiscal Analyst Comment:** This situation is atypical for reclamation bonding. In 2009, Pacific Energy Resources Ltd. declared bankruptcy and abandoned the Redoubt Unit in Cook Inlet.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*Their bond was transferred to DNR for reclamation of the site. Cook Inlet Energy (CIE) then purchased the Redoubt Unit, which meant that DNR did not need to perform further site reclamation work and that the State was holding cash from the Pacific Energy Resources bond. That cash was applied to the reclamation bond requirements imposed on Cook Inlet Energy. As a cost saving measure, the proceeds from the Pacific Energy Resources bond were retained in the general fund. This section appropriates the earnings on the bond to DNR to cover potential reclamation activity in the future.*

**\* Sec. 14. DEPARTMENT OF PUBLIC SAFETY.** (a) The sum of \$1,393,200 is appropriated from the general fund to the Department of Public Safety, division of Alaska state troopers, narcotics task force, for drug and alcohol enforcement efforts for the fiscal year ending June 30, 2012.

(b) If the amount of federal receipts received by the Department of Public Safety from the justice assistance grant program during the fiscal year ending June 30, 2012, for drug and alcohol enforcement efforts exceeds \$1,289,100, the appropriation in (a) of this section is reduced by the amount by which the federal receipts exceed \$1,289,100.

**Subsection a** appropriates \$1.4 million in general funds for drug and alcohol enforcement efforts.

**Subsection b** is contingency language that requires a dollar-for-dollar reduction of the previous subsection's general fund appropriation if DPS receives over \$1.3 million in federal grants for drug and alcohol enforcement efforts.

**Legislative Fiscal Analyst Comment:** *The FY11 operating budget included similar language. DPS received \$1,397,877 of federal funds in FY11 for this purpose—resulting in a reduction of \$108,877 of general funds in the FY11 budget.*

**Funding:** Because the amount of federal funds for FY12 is unknown, Legislative Finance is estimating the cost of the section to be the full \$1.4 million in general funds.

(c) The sum of \$1,270,000 is appropriated from the general fund to the Department of Public Safety, division of Alaska state troopers, special projects, for rural alcohol interdiction efforts for the fiscal year ending June 30, 2012.

(d) If federal receipts are received by the Department of Public Safety for the rural alcohol interdiction program during the fiscal year ending June 30, 2012, the appropriation in (c) of this section is reduced by the amount of the federal receipts.

**Subsection c** appropriates \$1.3 million in general funds for rural alcohol interdiction efforts.

**Subsection d** is contingency language that requires a dollar-for-dollar reduction of the previous subsection's general funds.

**Legislative Fiscal Analyst Comment:** *The FY11 operating budget included similar language. DPS received \$900.0 of federal funds for this purpose—resulting in an equal reduction of general funds.*

**Funding:** Because the amount of federal funds for FY12 is unknown, Legislative Finance is estimating the cost of the section to be the full \$1.3 million in general funds.

**\* Sec. 15. DEPARTMENT OF REVENUE.** (a) If the amount of the federal incentive payments under AS 25.27.125 received by the child support services agency for the fiscal year ending June 30, 2012, that may be used by the state to match federal receipts for child support enforcement is less than \$1,800,000, an amount equal to 66 percent of the difference between the incentive payments used to match federal receipts and \$1,800,000 is appropriated from the general fund to the Department of Revenue, child support services agency, for child support enforcement for the fiscal year ending June 30, 2012.



## Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

**Legislative Fiscal Analyst Comment:** This section is no longer relevant. As of September 30, 2010, federal incentive funds may no longer be used as matching funds. The Department has requested \$1.5 million in general funds (in section 1) to meet the required match.

**Legislative Fiscal Analyst Recommendation:** Delete the subsection.

(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, 2012.

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

**Funding:** The Department estimates that paternity testing will generate \$46,000 in program receipts.

**Legislative Fiscal Analyst Recommendation:** Add the estimated amount of collections (\$46,000).

\* **Sec. 16. OFFICE OF THE GOVERNOR.** (a) If the 2012 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$50 a barrel on August 1, 2011, the amount of money corresponding to the 2012 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section, estimated to be \$16,500,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs.

(b) If the 2012 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$50 a barrel on December 1, 2011, the amount of money corresponding to the 2012 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section, estimated to be \$16,500,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs.

(c) The following table shall be used in determining the amount of the appropriations in (a) and (b) of this section:

2012 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$90 or more	\$20,000,000
89	19,500,000
88	19,000,000
87	18,500,000
86	18,000,000
85	17,500,000
84	17,000,000
83	16,500,000
82	16,000,000
81	15,500,000
80	15,000,000

*Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

79	14,500,000
78	14,000,000
77	13,500,000
76	13,000,000
75	12,500,000
74	12,000,000
73	11,500,000
72	11,000,000
71	10,500,000
70	10,000,000
69	9,500,000
68	9,000,000
67	8,500,000
66	8,000,000
65	7,500,000
64	7,000,000
63	6,500,000
62	6,000,000
61	5,500,000
60	5,000,000
59	4,500,000
58	4,000,000
57	3,500,000
56	3,000,000
55	2,500,000
54	2,000,000
53	1,500,000
52	1,000,000
51	500,000
50	0

(d) It is the intent of the legislature that a payment under (a) or (b) of this section be used to offset the effects of higher fuel and utility costs for the fiscal year ending June 30, 2012.

(e) The governor shall allocate amounts appropriated in (a) and (b) of this section as follows:

(1) to the Department of Transportation and Public Facilities, 65 percent of the total plus or minus 10 percent;

(2) to the University of Alaska, eight percent of the total plus or minus three percent;

(3) to the Department of Health and Social Services and the Department of Corrections, not

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

more than five percent each of the total amount appropriated;

(4) to any other state agency, not more than four percent of the total amount appropriated;

(5) the aggregate amount allocated may not exceed 100 percent of the appropriation.

**Subsections a and b** appropriate an estimated \$33 million—depending on the year-to-date average price of crude oil—to be distributed to agencies to offset increased fuel and utility costs.

**Subsection c** indicates, based on the price of oil, how much funding is appropriated in subsections a and b.

**Subsection d** states legislative intent that the funding is to offset fuel and utility cost increases.

**Subsection e** provides guidelines for allocating the money among agencies.

**Funding:** OMB included a \$33 million appropriation for fuel in its budget transmittal, which corresponds to the forecast oil price of \$83/bbl.

**Legislative Fiscal Analyst Recommendation:** *Although the trigger concept has worked as designed, the legislature may want to cut the table off at \$64/bbl, add \$13.5 million to base budgets of departments, reduce the trigger amounts accordingly, and extend the table beyond \$90/bbl.*

\* **Sec. 17. UNIVERSITY OF ALASKA.** The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2011, for the issuance of special request university plates, less the cost of issuing the license plates, is 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, 2012.

**Funding:** The University expects to receive about \$2,000 under this section.

**Legislative Fiscal Analyst Recommendation:** *Include the estimated amount in the language.*

\* **Sec. 18. BOND CLAIMS.** The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$50,000, is appropriated to the agency secured by the bond for the fiscal year ending June 30, 2012, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

This section 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 \$50,000: \$25,000 for reclamation of land use permits & leases on state lands in the Claims, Permits and Leases allocation (Mining and Land Development in FY12); and \$25,000 for reclamation bonds associated with timber sales on state lands in the Forest Management & Development allocation.

\* **Sec. 19. 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), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund described in AS 19.65.060(a), receipts of the University of Alaska as described in AS 37.05.146(b)(2), 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, 2012, 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

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

received during the fiscal year ending June 30, 2012, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

(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, 2012, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

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

**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 reports place no dollar value on appropriations made in this section.

**Legislative Fiscal Analyst Recommendation:** Receipts of the Fire Safety Standards Council are now classified as generic designated program receipts; the specific reference can be deleted.

\* **Sec. 20. FUND TRANSFERS.** (a) The federal funds received by the state under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 not appropriated for grants under AS 37.05.530(d) are appropriated as follows:

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

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

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

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

**Legislative Fiscal Analyst Recommendation:** Remaining balances should be appropriated to a fund other than the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer used because the Power Cost Equalization program is funded with an open-ended appropriation of general funds. AS 37.05.530(g) should also be revised.

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

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2011, estimated to be \$3,200,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2011, estimated to be \$7,900,000, from the surcharge levied under AS 43.55.300.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

**Subsection b** is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY11 collections from the 4 cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.03 to \$0.04.

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

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2011, estimated to be \$475,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2011, from the surcharge levied under AS 43.55.201, estimated to be \$2,000,000.

**Subsection c** is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY11 collections from the \$0.01 cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.02 to \$0.01.

**Legislative Fiscal Analyst Comment:** *Based on the current balance and annual collections of \$2 million from the one cent surcharge, the surcharge may be in effect for a few more years.*

(d) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2012, estimated to be \$26,200, are appropriated to the Alaska children's trust grant account (AS 37.14.205):

(1) fees collected under AS 18.50.225, less the cost of supplies, for the issuance of heirloom birth certificates;

(2) fees collected under AS 18.50.272, less the cost of supplies, for the issuance of heirloom marriage certificates;

(3) fees collected under AS 28.10.421(d) for the issuance of special request Alaska children's trust license plates, less the cost of issuing the license plates.

**Subsection d** appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY12 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates. Before FY12, these receipts were deposited to principal; they may now go out as grants without further appropriation.

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.

**Legislative Fiscal Analyst Recommendation:** *Because the appropriation is to a fund and no further appropriation is required to award grants, subsection d should be moved to the fund capitalization section of this bill and consolidated with language addressing the payout from the Children's Trust Endowment.*

(e) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2012, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

**Subsection e** 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.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Funding:** The amount of the loan origination fee is capped by regulation at 5% and set annually by the corporation. For FY12, the Alaska Commission on Postsecondary Education has indicated that the fee will be set at the maximum allowed of 5% and that it will remain there until further action is taken by the Board. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

(f) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2011, and money deposited in that account during the fiscal year ending June 30, 2012, estimated to be \$50,000, is appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)) for the fiscal year ending June 30, 2012.

**Subsection f** authorizes an internal transfer of funds from the income account to the operating account, where it is available to DNR for mine reclamation activity under AS 37.14.820.

**Funding:** The agency projects a transfer of approximately \$50,000. The money will be spent in the Mining and Land Development allocation.

**Legislative Fiscal Analyst Comment:** See section 13(b) for further discussion.

(g) The sum of \$14,145,040 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	\$ 2,438,800
Federal receipts	11,706,240

(h) The sum of \$12,079,970 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	\$2,714,600
Federal receipts	9,365,370

**Subsections g and h** provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The state typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money.

**Legislative Fiscal Analyst Recommendation:** Move subsections g and h to section 21. Because the clean water and drinking water funds contain a mixture of funding sources, appropriations to the funds should be classified as fund capitalizations rather than as fund transfers.

(i) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2011, estimated to be \$50,000, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

**Subsection i** appropriates earnings of the Bond Bank to its earnings reserve fund.

**Funding:** Expectations for FY12 earnings are relatively low due to the low short-term interest rate environment.

(j) An amount equal to the bulk fuel revolving loan fund fees established under AS 42.45.250(j) and collected under AS 42.45.250(k) from July 1, 2010, through June 30, 2011, estimated to be \$50,000, are appropriated from the general fund to the bulk fuel revolving loan fund (AS 42.45.250(a)).

**Subsection j** appropriates to the bulk fuel revolving loan fund an amount of general funds equal to the loan fund fees collected in FY11.

(k) The sum of \$7,000,000 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770).

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Subsection k** transfers the amount collected under the surcharge on sport fish licenses (created by SB 147 (Ch 94, SLA 2005)) 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.

(l) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise account (AS 16.05.130(e)), not to exceed \$1,711,687, as reimbursement for the federally allowable portion of the principal balance payment on the sport fishing revenue bonds series 2006 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) to the fish and game fund (AS 16.05.100).

**Subsection l** clarifies that the Department chooses to use \$1.7 million of current federal funding as reimbursement. They may use federal operating receipts as reimbursement for a portion of debt service payments on the "Sportfish Bonds" issued in 2006 (see Section 26(y)).

***Legislative Fiscal Analyst Comment:** The Department's action increases flexibility in the use of existing federal receipts by placing federal money in the sport fishing enterprise account. Once there, the money can be used for sport fishing facilities intended to directly benefit license purchasers.*

**Funding:** The section simply transfers funds between accounts within the Fish and Game Fund; there is no direct fiscal impact.

(m) If the Alaska Municipal Bond Bank Authority must draw on the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)), 2005 general bond resolution reserve, because of a default by a borrower, an amount equal to the amount drawn from the reserve is appropriated from the general fund to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

**Subsection m** provides a state moral obligation pledge should the need arise. The intent of this section is to increase the credit rating of the Bond Bank and lower the cost of borrowing money.

**Funding:** The fiscal impact of this section is estimated to be zero. The Bond Bank has been entirely self sufficient throughout its 35 year history.

(n) The sum of \$1,140,996,900 is appropriated from the general fund to the public education fund (AS 14.17.300).

**Subsection n** appropriates \$1.14 billion to the Public Education Fund (PEF).

***Legislative Fiscal Analyst Comment:** Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. The amount appropriated is the projected amount of K-12 funding required for FY13. It is approximately \$14 million more than the amount expected to be withdrawn from the PEF during FY12.*

(o) Fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement authorized under AS 16.05.050(a)(6), during the fiscal year ending June 30, 2012, and estimated to be \$450,000, are appropriated to the fish and game fund (AS 16.05.100).

***Legislative Fiscal Analyst Comment:** The federal government has indicated that these receipts must be appropriated to the F&G Fund.*

\* **Sec. 21. FUND CAPITALIZATION.** (a) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2012, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

(b) The sum of \$7,500,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**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 estimate for disaster relief has been used for several years.

**Subsection b** capitalizes the Disaster Relief Fund with \$7.5 million of general funds.

(c) The amount received under AS 18.67.162 as program receipts, estimated to be \$27,100, including donations and recoveries of or reimbursement for awards made from the fund, during the fiscal year ending June 30, 2010, is appropriated to the crime victim compensation fund (AS 18.67.162).

**Subsection c** capitalizes the Crime Victim Compensation Fund with “money from donations, recoveries of or reimbursements for awards made from the fund, income from the fund, and other program receipts.”

**Legislative Fiscal Analyst Comment:** Chapter 112, SLA 2008 (HB 414) added language to the effect that money appropriated to the fund “may include donations, recoveries of or reimbursements for awards made by the fund, income from the fund, and other program receipts.”

(d) If the balance of the oil and gas tax credit fund (AS 43.55.028) is insufficient to purchase transferable tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceeds the balance of the fund, estimated to be \$400,000,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

Oil and gas tax credit claims have proven difficult to forecast; actual claims have typically exceeded projected claims by a wide margin. The appropriation to purchase tax credits is open-ended so that the fund balance is sufficient to purchase all claims presented.

**Funding:** The original estimated impact of a similar provision in the FY11 budget was \$180 million, but the Department of Revenue requested an additional \$230 million in September and noted that additional transfers to the fund may be required. The \$400 million estimate for FY12 credits may understate the actual impact of the subsection.

**Legislative Fiscal Analyst Comment:** The downside of higher-than-anticipated purchases of credits is that the tax credits reduce current state revenue. The upside is that a high level of tax credit claims indicates a high level of development work—and, potentially, future revenue.

(e) An amount equal to 20 percent of the revenue collected under AS 43.55.011(g), not to exceed \$60,000,000, is appropriated from the general fund to the community revenue sharing fund (AS 29.60.850).

**Subsection e** appropriates 20% of receipts from the progressive portion of the oil and gas production tax, to a limit of \$60 million, for revenue sharing.

**Legislative Fiscal Analyst Comment:** The revenue sharing fund was established with an FY08 supplemental appropriation of \$180 million. Each year since then, \$60 million (1/3 of the prior year balance, per AS 29.60.850) has been distributed to communities. Each year, the amount distributed was replaced by \$60 million of revenue from the progressive portion of the oil and gas production tax. The FY12 distribution to communities will be \$60 million (1/3 of the balance).

As long as oil prices are high enough to generate more than \$60 million from the progressive production tax, the cycle of \$60 million annual deposits/distribution will continue. At prices less than about \$60/barrel, the progressive tax generates no revenue and annual deposits and distributions will decline.

**Funding:** The full \$60 million potential amount of the appropriation is included in all Legislative Finance and OMB reports.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

\* **Sec. 22. 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, 2012, is appropriated for that purpose to the agency authorized by law to generate the revenue. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

**Subsection a** allows the state to compensate vendors that collect fees on behalf of the state. The provision originally addressed Fish and Game fishing, hunting and trapping license sales in which the vendor retained a portion of the sales. It also applies to several programs in the Department of Administration, Department of Natural Resources and Trial Courts.

**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.

(b) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2012, 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.

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

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

(c) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2012, is appropriated for that purpose to the Department of Law for accepting payment of restitution in accordance with AS 12.55.051 and AS 47.12.170 by bankcard or credit card, from the funds and accounts in which the restitution payments received by the Department of Law are deposited.

**Subsection c** allows credit card service providers to retain fees charged for using a credit card for payment of restitution.

**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. 23. RETIREMENT SYSTEM FUNDING.** (a) The sum of \$234,517,333 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2012.

(b) The sum of \$242,609,397 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2012.

The appropriations in **subsections (a) and (b)** are amounts determined by the state's actuaries for the teachers (TRS) and public employees (PERS) retirement systems.

**Legislative Fiscal Analyst Comment:** During recent years, Alaska's retirement systems accrued a multi-billion dollar unfunded liability due to a combination of investment losses, escalating health care costs, modification of actuarial assumptions and capped contribution rates. Beginning in FY08, the State began making direct contributions to retirement systems in order to stabilize employer contribution rates while repaying that unfunded liability.

Despite the State's efforts to pay down the unfunded liability, it has continued to grow (primarily due to investment losses). The actuarial unfunded liability of the PERS and TRS systems is now \$6.3

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*billion and \$3.4 billion for PERS and TRS, respectively. Based on the market value of assets, those numbers increase to \$8 billion and \$4.1 billion.*

*Because the State caps employer contribution rates—and makes direct contributions to retirement accounts to bring total contributions to the actuarially required amount—the cost of paying off the unfunded liability is substantial, and is increasing rapidly. The FY12 direct State contribution to retirement systems is about \$120 million higher than it was in FY11, and projected annual increases are significant, reaching \$1.4 billion per year in about ten years.*

(c) The sum of \$13,411 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2012.

***Legislative Fiscal Analyst Comment:*** *A \$10 million FY08 supplemental appropriation to the retirement fund was intended to payoff the unfunded liability of the system. The system is fully funded (based on the actuarial value of assets) but has an unfunded liability of about \$4.5 million based on the market value of assets.*

(d) The sum of \$2,331,725 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2012.

***Legislative Fiscal Analyst Comment:*** *A \$49 million FY08 supplemental appropriation to the retirement fund was designed to payoff the unfunded liability of the system. According to the December 2009 valuation, large investment losses in FY09 reduced the market value of system assets by about \$28 million, which resulted in a re-opening of the unfunded liability gap. Unfunded liability is now estimated to be \$30.5 million. The appropriation in subsection (d) responds to the unfunded liability by increasing annual contributions.*

***Legislative Fiscal Analyst Recommendation:*** *The legislature may wish to consider an appropriation of \$30.5 million to pay off the entire unfunded liability. Given a contribution rate of 26%, plus a past service rate bringing the total employer contribution rate to 43% of annual judicial salaries, the legislature may wish to review the structure of the retirement system.*

**\* Sec. 24. SALARY AND BENEFIT ADJUSTMENTS.** (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2012, of the following ongoing collective bargaining agreements:

- (1) Alaska Public Employees Association, for the confidential unit;
- (2) Alaska State Employees Association, for the general government unit;
- (3) Alaska Public Employees Association, for the supervisory unit;
- (4) Public Employees Local 71, for the labor, trades and crafts unit;
- (5) Alaska Correctional Officers Association, representing correctional officers;
- (6) Teachers' Education Association of Mt. Edgecumbe.

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2012, for university employees who are not members of a collective bargaining unit and for the terms of the current agreements for the fiscal year ending June 30, 2012 providing for the staff benefits for university employees represented

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

by the following entities:

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

**Section 24** appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

\* **Sec. 25. SHARED TAXES AND FEES.** (a) 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 to local governments in fiscal year 2012:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Fisheries business tax (AS 43.75)	2011
Fishery resource landing tax (AS 43.77)	2011
Aviation fuel tax (AS 43.40.010)	2012
Electric and telephone cooperative tax (AS 10.25.570)	2012
Liquor license fee (AS 04.11)	2012

**Subsection a** ensures that the Department of Revenue has the authorization to disburse taxes and fees collected for local governments to those entities.

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

(b) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2011 according to AS 43.52.230(b), estimated to be \$14,900,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the port of call during the fiscal year ending June 30, 2012.

**Subsection b** appropriates \$5 of the \$34.50 Commercial Passenger Vessel “Head” Tax to the first seven ports of call.

**Funding:** Revenue to the ports totaled \$10.1 million for FY10. Expected revenue for FY11 and FY12 is \$8.5 and \$14.9 million, respectively. These “pass through” taxes are excluded from Legislative Finance reports on the operating bill.

**Legislative Fiscal Analyst Comment:** Last session the legislature passed SB 236 (effective 10/31/10) which amended the statutes for the Commercial Passenger Vessel Head Tax. Changes to the tax are: the head tax was reduced from \$46 to \$34.50; \$5 is shared with the first 7 ports of call (previously 5 ports); and the Regional Impact Fund was eliminated.

*The impacts to the state are a decrease in total available revenue (due to the reduction in the overall tax rate), coupled with an increased level of revenue sharing (5 ports to 7 ports), leaving little remaining for appropriation to port and harbor projects.*

(c) It is the intent of the legislature that the payments to local governments set out in (a) and (b) of this section may be assigned by a local government to another state agency.

**Subsection c** is intended to allow a municipality to assign a payment under subsections (a) or (b) to a state agency. For example, the City of Homer might receive Fisheries Business tax payments under subsection (a), but owe the Department of Administration contributions for PERS. Homer could assign the payment to DOA, thus avoiding cash flow from the state to the city and back to the state.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

\* **Sec. 26. 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, 2012, 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 payment of principal and interest on those bonds for the fiscal year ending June 30, 2012.

**Subsection b** appropriates general funds to pay principal and interest on state-guaranteed bonds (veteran's mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The 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.

**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 \$129,260 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2003A general obligation bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2003A, for the fiscal year ending June 30, 2012.

(d) The sum of \$2,229 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 debt service fund of the series 2003A bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2003A, for the fiscal year ending June 30, 2012.

(e) The amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2003A, for the fiscal year ending June 30, 2012, after the payments in (c) and (d) of this section, estimated to be \$29,796,400, is appropriated to the state bond committee from the general fund for that purpose.

**Subsections c, d and e** appropriate \$29.9 million to pay debt service on series 2003A general obligation bonds. These bonds were authorized by the voters in 2002 for construction of schools and university facilities.

(f) The sum of \$23,035 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project fund for state guaranteed transportation revenue anticipation bonds, series 2003B, for payment of debt service and accrued interest on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B, for the fiscal year ending June 30, 2012.

(g) The amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B, for the fiscal year ending June 30, 2012, after the payment in (f) of this section, estimated to be \$12,548,900, is appropriated to the state bond committee from federal receipts for that purpose.

**Subsections f and g** appropriate \$12.6 million to pay debt service on series 2003B general obligation bonds. These bonds were authorized by the voters in 2002 for road and harbor construction.

*Legislative Fiscal Analyst Comment: Although these bonds were issued with a general obligation pledge by the state, they are more appropriately referred to as GARVEE bonds. The majority of the*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*debt service is paid using eligible federal-aid highway formula funding coupled with a state matching component.*

(h) The sum of \$1,454,874 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, for the fiscal year ending June 30, 2012.

(i) The sum of \$904 is appropriated to the state bond committee from State of Alaska general obligation bonds, series 2009A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2009A bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, for the fiscal year ending June 30, 2012.

(j) The amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, for the fiscal year ending June 30, 2012, after the payments made in (h) and (i) of this section, estimated to be \$11,422,500, is appropriated to the state bond committee from the general fund for that purpose.

**Subsections h, i and j** appropriate \$12.9 million to pay debt service on series 2009A general obligation bonds. These bonds were authorized by the voters in 2008 for road construction.

**Legislative Fiscal Analyst Comment:** *Of the \$315 million bond issue authorized by voters in 2008, approximately \$150 million remains to be issued. All authorized bonds are not sold at the same time because IRS rules require complete expenditure of bond proceeds (for tax exempt status) within three years of bond issuance. Bonds are issued in specific series as cash is needed for projects.*

(k) The sum of \$3,107,000 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011(a)) for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, 2010B, and 2010C, for the fiscal year ending June 30, 2012.

(l) The sum of \$544,100 is appropriated to the state bond committee from the investment loss trust fund (AS 37.14.300(a)) for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, 2010B, and 2010C, for the fiscal year ending June 30, 2012.

(m) The amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A, 2010B, and 2010C, for the fiscal year ending June 30, 2012, after the payments made in (k) and (l) of this section, estimated to be \$25,154,600, is appropriated to the state bond committee from the general fund for that purpose.

**Subsections k, l and m** appropriate \$28.8 million to pay debt service on series 2010A, 2010B, and 2010C general obligation bonds. These bonds were authorized by the voters in 2010 for educational facilities.

**Legislative Fiscal Analyst Comment:** *The most recent general election authorized issuance of \$397 million in bonds to finance educational facilities. The Department of Revenue recently issued \$200 million of bonds in three series, taking advantage of federal stimulus debt programs. Series A were issued using Build America Bonds (receiving a 30% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a subsidized interest rate of nearly 100%); and Series C were issued as standard tax exempt bonds.*

(n) The amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2011A, for the fiscal year ending June 30, 2012, estimated to be \$10,000,000, is appropriated to the state bond committee from the general fund for that purpose.

**Subsection n** appropriates \$10 million to pay debt service on series 2011A general obligation bonds (yet to be issued). These bonds were authorized by the voters in 2008 for road construction.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

**Legislative Fiscal Analyst Comment:** As mentioned in subsection j, \$150 million of the 2008 road construction bonds have not yet been issued. Issuance is expected in 2011. Subsection n is the estimated debt service payment for those bonds.

(o) The amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, Series 2003A, 2009A, 2010A, 2010B, 2010C, and 2011A, for the fiscal year ending June 30, 2012, estimated to be \$4,650, is appropriated to the state bond committee from the general fund for that purpose.

**Subsection o** appropriates an estimated \$4,650 for trustee fees on all outstanding GO Bonds.

**Legislative Fiscal Analyst Comment:** These fees have previously been included in the debt service appropriation for each series of bonds. It is unclear why the trustee fees have been separated from other costs of issuing debt, but there is no harm in doing so.

### **PROPOSED NEW SUBSECTION**

If the amount necessary to pay the debt service obligations on State of Alaska general obligation bonds exceeds the amounts appropriated in this section, the additional amount necessary is appropriated from the general fund for payment of those obligations for the fiscal year ending June 30, 2012.

**Legislative Fiscal Analyst Comment:** This is a safety measure to ensure that the State can meet its general obligation pledge if unforeseen circumstances or miscalculation leave the appropriations in this section short of debt service requirements.

(p) The sum of \$41,571,428 is appropriated to the state bond committee for payment of debt service and trustee fees on outstanding international airports revenue bonds for the fiscal year ending June 30, 2012, from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430(a))	\$35,941,665
Passenger facility charge	5,200,000
AIAS 2010D Build America Bonds federal interest subsidy	429,763

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

(q) The sum of \$2,448,800 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, 2012.

(r) The sum of \$2,724,600 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, 2012.

**Subsections q and r** appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts for drinking and clean water bond receipts (see sections 20(g) and (h)). The federal receipts require a state match. Federal rules permit interest earnings of the loan funds to be used to pay debt service as well as making loans. This section takes advantage of the ability to use the funds to pay debt service. Issuing short-term bonds (secured by the assets of the loan fund) allows the "restricted" earnings of the funds to be used to pay off the bonds. Essentially, the earnings of the funds are used as match.

(s) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2012, estimated to be \$7,986,200, is appropriated from the general fund to the state bond committee for that purpose.



## Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

**Subsection s** appropriates \$25.0 for trustee fees and \$7.9 million to make payments on:

- the Fairbanks Virology Lab - \$2.2 million;
- the Alaska Psychiatric Institute - \$1.6 million;
- the Environmental Health Lab - \$1.3 million;
- the Series 2005 Refunding - \$2.8 million;

(t) The sum of \$3,467,005 is appropriated from the general fund to the Department of Administration for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage for the fiscal year ending June 30, 2012.

**Subsection t** 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.

(u) The sum of \$22,934,075 is appropriated from the general fund to the Department of Administration for payment of obligations and fees for the following facilities for the fiscal year ending June 30, 2012:

FACILITY	ALLOCATION
(1) Anchorage Jail	\$ 5,120,425
(2) Goose Creek Correctional Center	17,813,650

**Subsection u** appropriates funds to pay lease costs for the Anchorage Jail and the Goose Creek Correctional Center. Anchorage issued municipal bonds to pay for the construction of the Anchorage Jail, which the state leases. The Mat-Su Borough issued bonds for the Goose Creek Correctional Center.

***Legislative Fiscal Analyst Comment:** In common language, the contracts with the Municipality of Anchorage and the Mat-Su Borough are leases, but terms of the contracts are such that Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. This means that a default on lease payments could affect the state's credit rating. Because of the potential impact on credit rating, the obligations are categorized as debt.*

*Chapter 160, SLA 2004 (SB 65) authorized lease-purchase agreements for the Spring Creek Correctional Center (SCCC) expansion, the Yukon-Kuskokwim Correctional Center (YKCC) expansion, and the Goose Creek Correctional Center construction. The 25-year lease of the Goose Creek Correctional Center is capped in statute at \$11,600 per bed, and annual debt service is limited to \$17.8 million. Because the Department of Corrections reports the SCCC and the YKCC projects are on hold, appropriations for those facilities are not required.*

(v) The sum of \$3,303,500 is appropriated from the general fund to the Department of Administration for payment of obligations to the Alaska Housing Finance Corporation for the Linny Pacillo Parking Garage in Anchorage, for the fiscal year ending June 30, 2012.

**Subsection v** appropriates \$3.3 million for obligations associated with the Linny Pacillo parking garage. The obligation is a lease purchase similar to the obligation for the Robert B. Atwood Building.

(w) The sum of \$108,145,600 is appropriated to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 for the fiscal year ending June 30, 2012, from the following sources:

General fund	\$86,545,600
School Fund (AS 43.50.140)	21,600,000

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

**Subsection w** 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.

(x) The sum of \$6,070,967 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2012, 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	\$1,415,470
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)	131,250
(B) Matanuska-Susitna Borough (deep water port and road upgrade)	754,613
(C) Aleutians East Borough/False Pass (small boat harbor)	101,840
(D) Lake and Peninsula Borough/Chignik (dock project)	116,563
(E) City of Fairbanks (fire headquarters station replacement)	866,815
(F) City of Valdez (harbor renovations)	224,486
(G) Aleutians East Borough/Akutan (small boat harbor)	457,068
(H) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	337,999
(I) City of Unalaska (Little Susitna America (LSA) Harbor	370,008
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Copper Valley Electric Association (cogeneration projects)	351,179

**Subsection x** appropriates \$6.1 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 about \$300,000 higher than that enacted for FY11, due to the addition of a harbor in Unalaska. The level of reimbursement is subject to appropriation.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

(y) The sum of \$7,500,000 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 for the fiscal year ending June 30, 2012. It is the intent of the legislature that up to \$2,400,000 of the amount appropriated be used for early redemption of the bonds.

**Subsection y** appropriates the majority of the surcharge levied on sport fish licenses authorized under Ch 94, SLA 2005—and transferred to the bond redemption fund in Section 20(k) of this bill—for payment of debt service on bonds issued for sport fish hatchery development. The appropriation exceeds the debt service due on the bonds, allowing the bonds to be paid off ahead of schedule.

\* **Sec. 27. BUDGET RESERVE FUND.** (a) If the unrestricted state revenue available for appropriation in fiscal year 2012 is insufficient to cover general fund appropriations made for fiscal year 2012, the amount necessary to balance revenue and general fund appropriations is appropriated from the budget reserve fund (AS 37.05.540(a)) to the general fund.

**Section 27** allows the state to cover any shortfall in unrestricted revenues with transfers from the Statutory Budget Reserve Fund (SBR) to the general fund. In FY08, the legislature appropriated \$1 billion of general funds to the SBR (Sec. 21(c), Ch. 11, SLA 2008). Additional appropriations have brought the balance to about \$1.2 billion. Unlike the Constitutional Budget Reserve Fund (CBRF), the SBR can be accessed with a simple majority vote.

### **NEW SUBSECTION**

(b) The unobligated balance of the operating general fund (state accounting system fund number 11100) at the close of business on June 30, 2012, is appropriated to the budget reserve fund (AS 37.05.540(a)).

**Subsection b** sweeps the available general fund balance into the budget reserve fund at the end of FY12.

*Legislative Fiscal Analyst Comment: The legislature typically determines the disposition of the surplus, if any, in the supplemental bill.*

\* **Sec. 28. CONSTITUTIONAL BUDGET RESERVE FUND.**

### **DELETED LANGUAGE** appeared in the FY11 operating bill

(a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2011 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 those funds were transferred.

**Subsection a** is "sweep reversal language." As long as there was an outstanding liability to the CBRF, the Constitution required that year-end general fund balances be used to repay past withdrawals from the CBRF. This provision reverses that required sweep; all money in general fund subaccounts are returned to the accounts (on July 1) from which they were swept (on June 30).

*Legislative Fiscal Analyst Comment: With the full repayment of the CBR, the deletion is reasonable.*

(a) An amount equal to the investment earnings that would otherwise have been earned by the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on money borrowed from the budget reserve fund to meet general fund expenditures during the fiscal year ending June 30, 2012, is appropriated from the general fund to the budget reserve fund for the fiscal year ending June 30, 2012, for the purpose of compensating the budget reserve fund for lost earnings.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

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

(b) The sum of \$2,592,400 is appropriated from the general fund to the Department of Revenue, treasury division, for operating costs related to management of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for the fiscal year ending June 30, 2012.

**Subsection b** appropriates \$2.6 million from the general fund to the Department of Revenue, Treasury Division, for investment management fees for FY12.

***Legislative Fiscal Analyst Comment:** Prior to FY11, management fees were appropriated from the CBRF. Appropriating management fees from the CBRF requires a supermajority vote and creates a general fund liability to the CBRF. That liability, in turn, would activate a FY12 year-end sweep of general funds into the CBRF, which would require a supermajority vote to reverse in FY13. An appropriation from the general fund is a far more sensible approach.*

**Legislative Fiscal Analyst Recommendation:** Delete a duplicate appropriation for the same purpose that appears in section 1.

### **NEW SECTION**

\* **Sec. 29. AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009.** (a) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Administration, is reappropriated to the Department of Administration for the fiscal year ending June 30, 2012.

(b) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Commerce, Community, and Economic Development, is reappropriated to the Department of Commerce, Community, and Economic Development for the fiscal year ending June 30, 2012.

(c) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Education and Early Development, is reappropriated to the Department of Education and Early Development for the fiscal year ending June 30, 2012.

(d) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Health and Social Services, is reappropriated to the Department of Health and Social Services for the fiscal year ending June 30, 2012.

(e) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Labor and Workforce Development, is reappropriated to the Department of Labor and Workforce Development for the fiscal year ending June 30, 2012.

(f) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Public Safety, is reappropriated to the Department of Public Safety for the fiscal year ending June 30, 2012.

(g) The unexpended and unobligated balance on June 30, 2011, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Office of the Governor, is reappropriated to the Office of the Governor for the fiscal year ending June 30, 2012.

**Section 29** extends the lapse date—through the end of FY12—for about \$268.8 million of FY11 operating authorization associated with the American Recovery and Reinvestment Act of 2009. Carryforward will be added to the \$3.5 million of new ARRA money that is included in the Governor's FY12 request.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

\* **Sec. 30. CERTAIN MEDICAID APPROPRIATIONS.** The amount of federal receipts received during the fiscal year ending June 30, 2012, as reimbursement for school-based Medicaid claims, estimated to be \$5,543,800, is appropriated for the fiscal year ending June 30, 2012, as follows:

(1) the sum of \$215,000 is appropriated to the Department of Health and Social Services, Medicaid school-based claims allocation, for operating expenses;

(2) after deducting the amount appropriated in (1) of this section, 50 percent of the remainder is appropriated to the Department of Health and Social Services, Medicaid school-based claims allocation, for distribution to school districts participating in the Medicaid school-based claims program;

(3) after deducting the amounts appropriated in (1) and (2) of this section, the remainder is appropriated to the Department of Education and Early Development, K-12 support, foundation program allocation, for distribution to school districts through the foundation formula.

**Legislative Fiscal Analyst Comment:** Discussion with the Department of Health and Social Services highlighted two problems with this language that was new for FY11:

- Sharing the federal reimbursements with all school districts reduces the incentive to participate in the program to the point that two school districts have opted out of the program.
- The level of reimbursement may be substantially below the estimate in the bill.

The solution proposed below—allocating the full amount of reimbursements (after administrative costs) to participating districts—will replace approximately \$1 million of federal reimbursements used for K-12 education with an equal amount of general funds.

**Legislative Fiscal Analyst Recommendation:** Change the language to read the “amount of federal receipts received for [during] the fiscal year....”

Remove “50 percent of the” from subsection 1, and delete subsection 3.

\* **Sec. 31. RATIFICATIONS OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM.** The appropriation to each department under this Act for the fiscal year ending June 30, 2012, is reduced to reverse negative account balances for the department in the state accounting system in amounts of \$1,000 or less for each prior fiscal year in which a negative account balance of \$1,000 or less exists.

This section allows departments to use the amount appropriated in FY12 to clean up negative account balances (or ratifications) from prior fiscal years that are less than \$1,000. This section removes the need for minuscule ratifications

\* **Sec. 32. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 5(d), 6, 7(b), 20, 21, and 23 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 2011 program receipts or the unexpended and unobligated balance on June 30, 2011, of a specified account are retroactive to June 30, 2011, solely for the purpose of carrying forward a prior fiscal year balance.

**Section 33** ensures that unexpended receipts and balances carry forward into FY12 before they lapse.

***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

\* **Sec. 34.** Sections 32 and 33 of this Act take effect June 30, 2011.

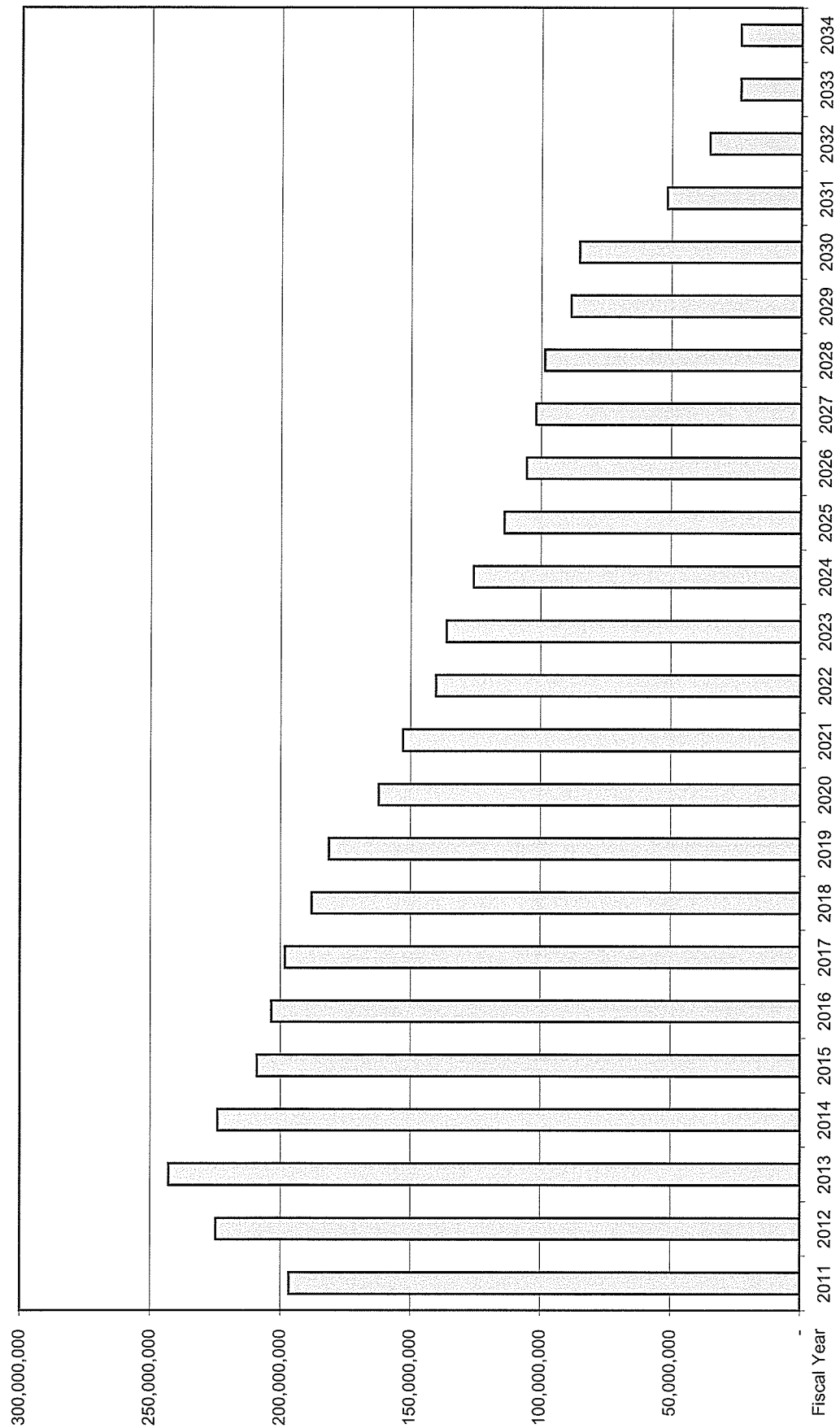
\* **Sec. 35.** Except as provided in sec. 34 of this Act, this Act takes effect July 1, 2011.

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Debt Summary Table (\$ thousands)											
	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12 Gov	FY11 to FY12
<b>Alaska Debt Retirement Fund (ADRF)</b>											
Capitalization											
General Funds	8,000.0	2,702.4	-	45,784.1	41,491.9	102,288.0	107,043.3	105,680.2	-	-	-
Federal Receipts	-	3,894.5	8,005.4	8,043.1	9,295.1	11,768.0	13,055.2	12,007.7	-	-	-
Investment Loss Trust Funds	100.0	2,500.0	104.0	77.8	250.0	376.5	171.9	26.0	-	-	-
Municipal Bond Bank Receipts (Earnings)	-	775.0	775.0	250.0	250.0	-	458.7	-	-	-	-
AHFC Dividend	18,700.0	8,861.1	27,569.0	18,854.6	17,441.7	-	-	-	-	-	-
ASLC Dividend	-	-	13,837.4	8,812.0	16,649.5	-	-	-	-	-	-
ASLC Bonds	783.1	-	-	3,100.0	-	-	-	-	-	-	-
Statutory Designated Program Receipts	-	-	24,815.0	22,000.0	-	-	-	-	-	-	-
Chugach Interle Earnings (Misc. Earnings)	-	2,500.0	-	-	-	-	-	-	-	-	-
International Trade and Business Endowment	-	30,469.0	-	-	-	-	-	-	-	-	-
Lease Payment Accounts Receivable (Misc. Earnings)	-	4,382.0	-	-	-	-	-	-	-	-	-
AATP Bond Proceeds (Misc. Earnings)	-	-	109.8	-	-	-	-	-	-	-	-
GO Bond Interest - Series 2003A (Misc. Earnings)	-	-	2,731.1	3,720.3	6,829.8	5,173.0	-	2,837.4	-	-	-
GO Bond Interest - Series 2003B (Misc. Earnings)	-	-	-	1,198.9	2,367.0	1,434.7	-	877.4	-	-	-
<b>Total</b>	<b>27,583.1</b>	<b>56,084.0</b>	<b>78,727.3</b>	<b>111,838.8</b>	<b>94,337.7</b>	<b>121,070.2</b>	<b>120,729.1</b>	<b>121,426.7</b>	-	-	-
<b>DEBT SERVICE/REIMBURSEMENT</b>											
ADRF Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	-	-	19,706.2	31,772.1	31,470.9	31,148.6	30,803.3	30,248.0	-	-	-
GO Bonds - GARVEES (Series 2003B)	-	-	9,045.0	9,241.0	11,662.0	13,222.7	13,062.5	12,885.1	-	-	-
GO Bonds - Transportation (Series 2009A)	-	-	-	-	-	-	-	5,590.0	-	-	-
GO Bonds - Transportation (Series 2010A)	-	-	-	-	-	-	-	-	1,036.0	-	-
Certificates of Participation (COPs)	17,642.1	15,751.4	17,260.7	13,782.1	13,147.6	11,170.1	8,061.3	8,036.3	-	3,107.0	2,068.0
School Debt Reimbursement	27,372.1	37,424.1	51,970.1	59,463.5	66,935.0	70,497.0	73,621.2	77,045.3	-	-	-
Administrative Systems Replacement	-	-	-	400.0	-	2,302.0	-	-	-	-	-
AHFS Vessel	-	-	-	764.0	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>45,014.2</b>	<b>57,370.0</b>	<b>97,712.0</b>	<b>115,422.7</b>	<b>123,215.5</b>	<b>128,340.4</b>	<b>125,548.3</b>	<b>133,803.7</b>	<b>1,036.0</b>	<b>3,107.0</b>	<b>2,068.0</b>
Direct Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	-	15,192.6	12,009.3	96.8	44.5	11.4	13.6	221.5	30,190.9	29,027.0	(272.0) GO Bond Premium, Interest & GF
GO Bonds - GARVEES (Series 2003B)	-	-	5,045.6	4,543.3	1,860.1	56.3	8.9	1.3	12,781.0	12,571.0	(156.2) Interest & Federal Repts
GO Bonds - Transportation (Series 2009A)	-	-	-	-	-	-	-	-	10,932.1	10,932.1	2,946.2 GO Bond Premium, Interest & GF
GO Bonds - Transportation (Series 2010A)	-	-	-	-	-	-	-	-	3,861.0	25,068.7	21,737.7 JLF & GF
GO Bonds - Educational Facilities (Series 2011A)	-	-	-	-	-	-	-	-	10,004.7	10,004.7	10,004.7 GF
Certificates of Participation (COPs)	29,006.3	28,600.0	30,200.0	27,000.0	27,000.0	24,500.0	23,400.0	23,000.0	8,009.5	8,009.5	(23.3) GF
School Fund - School Debt Reimbursement	17,444.0	28,907.3	31,557.9	33,125.9	45,428.3	49,085.7	50,027.4	50,028.7	109,258.5	108,145.8	1,897.1 GF & School Fund
International Airport Revenue Bonds	1,680.0	1,640.0	1,630.0	1,630.0	1,539.3	831.8	2,050.0	1,005.0	50,027.4	41,371.3	(8,476.4) IAPRF, PFC's, Fed
Clean Water Fund Bonds	1,060.5	1,040.0	1,030.0	1,050.0	1,076.0	1,098.8	1,115.0	1,670.0	2,710.0	2,448.8	(261.2) ACWF Receipts
Drinking Water Fund Bonds	-	-	-	-	-	-	-	-	2,573.2	2,724.6	(246.6) ACWF Receipts
Sport Fish Hatchery Revenue Bonds	-	-	-	-	8,218.0	7,009.0	7,500.0	8,500.0	7,500.0	7,500.0	Sport Fish License Surcharge
Capital Project Reimbursement (HB 528)	-	-	2,818.7	3,634.1	10,209.0	10,459.0	8,036.2	5,549.9	6,071.0	3,637.0	363.7 GF
Limny Pacific Parking Garage	3,549.4	3,549.4	3,549.4	3,549.4	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1	(0.1) GF
Anchorage Jail (Capital Lease)	-	-	-	-	-	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	GF
Spring Creek Correctional Center	5,282.8	5,284.5	5,274.1	5,275.1	5,091.8	5,102.0	5,092.2	5,103.9	5,106.0	5,120.4	12.4 GF
Yukon-Kuskokwim Correctional Center	-	-	-	-	-	-	1,755.6	-	-	-	-
GO Bonds	-	-	-	-	-	-	-	-	-	-	-
AHFC State Capital Project Bonds	51,000.0	56,001.7	53,892.5	59,895.4	31,935.0	6,138.6	6,139.6	6,136.9	17,816.5	17,813.7	(2.8) GF
NTSC Tobacco Settlement Bonds (off budget)	20,000.0	17,100.0	18,900.0	16,000.0	16,400.0	27,600.0	26,800.0	25,200.0	22,800.0	23,200.0	(1.8) Diverted AHFC Dividends
<b>Subtotal</b>	<b>129,003.0</b>	<b>160,114.2</b>	<b>164,424.8</b>	<b>155,955.0</b>	<b>152,263.3</b>	<b>136,804.7</b>	<b>142,637.9</b>	<b>151,403.2</b>	<b>289,363.4</b>	<b>326,572.8</b>	<b>400.0 Revenue (to NTSC)</b>
<b>TOTAL Debt Service/Reimbursement</b>	<b>174,017.2</b>	<b>217,484.2</b>	<b>262,136.8</b>	<b>271,277.6</b>	<b>275,483.8</b>	<b>267,145.1</b>	<b>268,206.2</b>	<b>285,206.9</b>	<b>300,602.4</b>	<b>329,679.8</b>	<b>15,395.5</b>
<b>Debt Payments by Type</b>											
GO Bonds	-	19,387.1	46,006.1	45,653.2	45,037.5	44,439.0	43,886.3	48,944.9	58,760.1	94,188.5	35,428.4
Lease - Purchase Financing	26,454.3	24,585.3	26,114.2	22,006.6	21,709.5	23,182.2	22,630.5	37,724.2	37,704.6	37,660.8	(13.8) Creek Prison
Revenue Bonds	17,444.0	28,907.3	31,557.9	33,125.9	45,428.3	49,085.7	50,027.4	50,028.7	109,258.5	108,145.8	(8,476.4) International Airport, Sport Fish
Debt Reimbursement	56,378.4	60,842.6	64,960.1	69,496.1	104,144.9	105,486.0	107,527.4	111,985.8	114,216.6	114,216.6	2,250.8 School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	71,000.0	75,101.7	79,982.0	73,986.0	48,335.0	33,738.6	31,339.6	31,339.6	29,940.8	29,940.8	388.2 AHFC, NTSC
Short Term Financing	2,740.3	2,660.0	2,660.0	3,135.0	2,614.6	4,243.0	3,165.0	2,675.0	5,683.2	5,175.4	(509.8) Clean and Drinking Water

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

General Fund Supported Debt Service Projection



Note: Projections are based on debt issued to date with the exception of the remaining unissued GO Bond authorization which has been forecast on expected construction cash flow requirements.

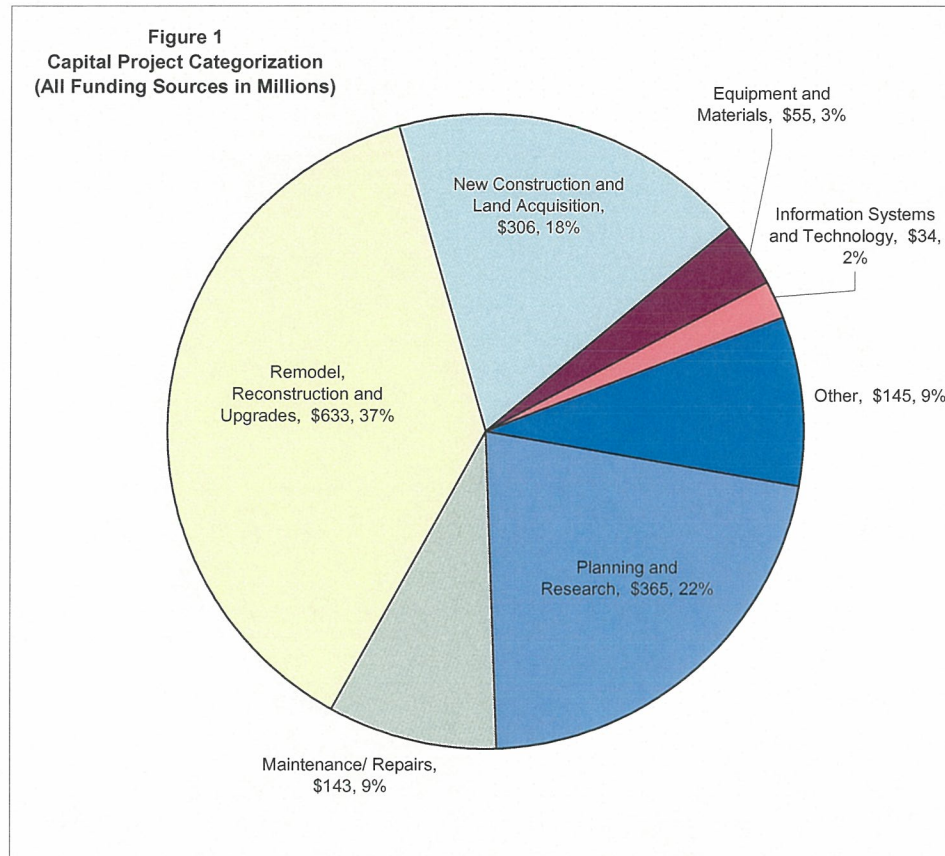
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## Capital Budget

The Governor has proposed capital projects of \$1.68 billion for FY12. The budget includes \$740.7 million in general funds, \$110.5 million of other state funds, and \$829.7 million in federal funds. Compared to the budget for FY11<sup>2</sup>, it is \$131.4 million greater in general funds, \$434.7 million less in other state funds, and \$181 million less in federal funds (for a \$484.3 million net decrease). The pie chart below provides a categorical breakdown of the proposed capital spending plan.<sup>3</sup>



### **Construction - \$939 million**

Construction projects, both new and remodel, comprise 55% of the Governor's proposed capital budget. New construction involves adding infrastructure to the state's capital stock, and includes both new roads and new buildings. Reconstruction involves modifying or improving existing roads or space.

The Surface Transportation Program and the Airport Improvement Program within Department of Transportation and Public Facilities (DOT&PF) (along with associated state match) make up the majority (\$709 million) of the construction budget. Other significant construction programs include the Village Safe Water Program and the Municipal Water Sewer Matching Grants Program in the Department of Environmental Conservation. These programs account for \$71.6 million of the Governor's request.

<sup>2</sup> The FY11 Budget figures include RPLs through the 12/14/2010 meeting.

<sup>3</sup> Please see page 60 of this section for the project categorization methodology.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### ***Maintenance/Repairs - \$143 million***

This category includes deferred, scheduled, and preventative maintenance or repair projects for agency facilities, state parks, harbors, highways, bridges, rural airports, aircraft, and vessels. The category accounts for 9% of the total capital budget.

In January of 2007, Legislative Finance compiled a list that showed a deferred maintenance back-log of \$954 million. In FY11, the backlog totaled approximately \$1.8 billion (an 89% increase). In FY11 the Governor announced a plan to reduce the backlog by spending \$100 million each year for the next five years. The legislature fully funded year one of the plan. The most recent estimates have the backlog totaling \$1.6 billion. The Governor's FY12 bill again contains \$100 million to address the issue.

The current backlog, as reported by each agency, follows:

<b>Deferred Maintenance by Agency (millions)</b>			
	<b>Jan-10</b>	<b>Jan-11</b>	<b>Difference</b>
<b>Administration</b>	<b>80.8</b>	<b>80.6</b>	<b>(0.2)</b>
<b>Corrections</b>	<b>103.0</b>	<b>88.8</b>	<b>(14.2)</b>
<b>Court System</b>	<b>14.9</b>	<b>12.6</b>	<b>(2.3)</b>
<b>Education &amp; Early Development</b>	<b>15.0</b>	<b>30.0</b>	<b>15.0</b>
<b>Environmental Conservation</b>	<b>0.5</b>	<b>0.2</b>	<b>(0.3)</b>
<b>Fish and Game</b>	<b>2.3</b>	<b>4.4</b>	<b>2.1</b>
<b>Health &amp; Social Services</b>	<b>19.5</b>	<b>18.8</b>	<b>(0.7)</b>
<b>Labor &amp; Workforce Development</b>	<b>58.2</b>	<b>49.2</b>	<b>(9.0)</b>
<b>Military &amp; Veterans Affairs</b>	<b>32.4</b>	<b>25.8</b>	<b>(6.6)</b>
<b>Natural Resources</b>	<b>67.6</b>	<b>83.0</b>	<b>15.4</b>
<b>Public Safety</b>	<b>2.7</b>	<b>2.7</b>	<b>-</b>
<b>Transportation &amp; Public Facilities</b>	<b>427.1</b>	<b>454.3</b>	<b>27.2</b>
Airports	54.1	83.5	29.4
Harbors	19.1	19.1	-
Facilities	24.7	24.7	-
Highways	305.9	305.9	-
AMHS Vessels/Terminals	23.3	21.1	(2.2)
<b>University of Alaska</b>	<b>967.3</b>	<b>773.4</b>	<b>(193.9)</b>
<b>Total</b>	<b>1,791.3</b>	<b>1,623.8</b>	<b>(167.5)</b>

A cursory review of the table above may lead one to conclude that the deferred maintenance backlog has dropped \$168 million. This is not the case. The majority of the change is due to refinement of the figures by the University. They have removed Remodel, Reconstruction and Upgrade projects (what they term "Renewal and Renovation") from their deferred maintenance backlog.

After adjusting for the University changes, the statewide total for deferred maintenance increases from FY11 to FY12. The amount of the increase is difficult to determine; there appears to be no accounting for the \$100 million appropriated last session. The numbers above should be considered as gross approximations.

Unless and until the state adopts a definition for deferred maintenance, estimates of the deferred maintenance backlog will remain rough. The Federal Accounting Standards Advisory Board (FASAB) provides a model definition for "maintenance" that could be utilized. "Deferred" maintenance would encompass project meeting the definition, but were not undertaken on schedule.

#### **FASAB definition:**

*"Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventative maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use."*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

For purposes of categorizing the Governor's capital budget request, all projects labeled "deferred maintenance" have been assigned to the "Maintenance and Repairs" category.

Why does it matter? Understanding a problem can lead to better decision making. A clear accounting of the state "maintenance" backlog could lead to a better understanding of the funding that needs to be applied to the backlog and to current and preventative maintenance plans. Without proper measurement, it will be difficult to determine whether improvements are being made.

### ***Planning/Research - \$365 million***

Another 22% of the budget falls into the planning and research category. The Governor has proposed a \$160 million deposit to the Alaska Gasline Inducement Act (AGIA) Reimbursement Fund. Under AGIA, the state provides matching contributions in the form of reimbursements to the licensee (TC Alaska) in an amount not to exceed \$500 million of the qualified expenditures incurred in development of a natural gas pipeline. This particular funding will reimburse TC Alaska for planning expenses through FY12.<sup>4</sup>

After renewed interest by the legislature, the Governor has proposed applying the balance of the Railbelt Energy Fund (\$65.7 million) toward continued development of the Susitna Hydroelectric Project. The most recent estimate for the preferred alternative (the Watana/Devil Canyon) puts total construction costs at \$11.7 billion. This request would be used for field work and environmental permitting.

The Roads to Resources program within DOT&PF has \$10.5 million for continued planning, engineering, Environmental Impact Statement (EIS) preparation, and field work for three new roads: Dalton to Umiat area, Dalton to Ambler Mining District, and a road connecting the existing road system with the Nome road system.

Other significant planning appropriations include the federal highway and airport pre-construction appropriations. At \$45 million and \$18 million, respectively, these highway and airport projects fund the preliminary design, engineering, environmental analysis, right-of-way, and utility work for the federal Airport Improvement Program and Surface Transportation Program.

### ***Information Systems/Technology - \$34 million***

Information technology projects make up 2% of the budget. Spread throughout state agencies, projects include network upgrades/replacements, security projects, document imaging projects, database development and various communication projects. Also included are several Intelligent Transportation Systems (ITS) projects within DOT&PF. These projects utilize special funding from the Federal Highway Administration for improving transportation safety and efficiency. Examples include variable speed limit signs, traffic monitoring and incident detection systems, and weather and pavement sensors.

Two large projects, the Department of Revenue (DOR) Tax Management System and the Department of Administration (DOA) Payroll and Accounting System Replacement, are again absent from the budget even though there has been extensive prior testimony regarding their need. The FY10 budget request contained \$23.4 million and \$76.5 million, respectively, for these two projects.

### ***Equipment/Materials - \$55 million***

This category, totaling 3% of the request, contains recurring projects for State Equipment Fleet replacement (\$18.3 million), various rural and international airport snow removal and safety equipment (\$19.8 million), and other agency equipment and materials.

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<sup>4</sup> A full report on AGIA progress, including expenditures to date can be seen at <http://www.gasline.alaska.gov>. Further analysis can be seen in the Capital Language Section on page 63.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **Other - \$145 million**

The "Other" category, at 9% of the budget, is comprised of projects that do not fit well in any of the other project categories. This category includes projects that provide economic assistance, training, safety grants/programs, and similar miscellaneous items. This category has often contained appropriations that may be more appropriately placed in an agency operating budget. The legislature has taken steps during the last few years to remove operating items from the capital budget. This proposed FY12 budget appears improved in this regard.

***Legislative Fiscal Analyst Comment:** Two projects do, however, stand out for removal from the capital budget. The Department of Law has \$9 million for BP Exploration Litigation and \$5 million for other oil and gas litigation. Both of these should be removed and, if desired, placed in the operating budget as multi-year appropriations.*

Notable projects in the "Other" category include:

- \$25 million – Renewable Energy Project Grants;
- \$9.5 million – State Homeland Security Grants;
- \$10 million – Alaska Housing Finance Corporation (AHFC) Homeless Assistance Program; and
- \$20 million – DOT&PF Statewide Safety Program.

### **Funding**

#### **Unrestricted General Funds (UGF) - \$740.7 million**

Unrestricted General Funds are up \$131.4 million over the FY11 capital budget. The Governor again proposes utilizing money from the Alaska Housing Capital Corporation savings account. The legislature placed \$300 million of general funds in this sub-corporation of AHFC in FY07 with the intent that the money be used for future capital projects. The Governor utilizes \$270 of the \$366.5 million available (\$160 million of which will go to the AGIA Reimbursement Fund mentioned under project "Planning").

The Governor's budget includes the top 14 projects from the Department of Education and Early Development (DEED) School Major Maintenance Priority List (for a total of \$19.9 million) and the #1 school on the School Construction Priority List (\$28.5 million). The full major maintenance list contains 117 projects for a total state cost of \$275 million. The full construction priority list contains 32 schools totaling \$314 million. The legislature has typically added to the Governor's request for school funding in the capital bill.

As in FY11, the Governor's budget includes funding for Grants to Municipalities and Grants to Named Recipients. These items are usually added by the legislature. The Governor includes over \$67 million to various grantees, several of which were proposed by the Governor in FY11.

The largest FY12 projects include:

- \$20 million: Anchorage - Port of Anchorage Expansion;
- \$20 million: Mat-Su Borough – Port Mackenzie Rail Extension;
- \$10 million: Skagway – Dock Improvements;
- \$7 million: Alaska Travel Industry Association – Tourism Marketing Program;
- \$2.5 million: Newtok Traditional Council – Evacuation Shelter and Access Road; and
- \$3.1 million: Covenant House Alaska – Facility Construction.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

General Fund Match totals \$103.3 million, up \$38.7 million from the FY11 budget. A good portion of this increase (\$20 million) can be attributed to the unprecedented use of GF Match in the Department of Environmental Conservation (DEC) municipal water and sewer grants.

***Legislative Fiscal Analyst Comment:*** *The GF Match fund code (1003) has historically been used to identify state funding that is leveraging a non-state source of money (typically federal funds) for the direct benefit of the state. The Governor's budget expands the use of the GF Match code to include state grant funding requiring a grantee match - the logic being that non-state sources will be used in the project, and therefore, the state funds are matching those non-state sources. This use of the code would undermine its value as a tracking tool.*

### ***Designated General Funds (DGF) - \$30.1 million***

Appropriations of Designated General Funds are \$29.6 million lower than in FY11. An appropriation of \$15 million in University Receipt Authority for University capital projects through FY16 was included in the FY11 budget, as was \$8.5 million for the Division of Motor Vehicles (DMV) License and Vehicle Information System.

Of the \$30 million DGF, \$25 million is for renewable energy grant projects from the Renewable Energy Fund.

### ***Other State Funds - \$110.5 million***

Proposed appropriations of Other State Funds are \$434.7 million less than in FY11. This reduction is primarily attributable to the General Obligation (GO) Bond authorization in the last election (\$397 million) inflating the FY11 figure. Other state funds include Highway Working Capital Funds, used for State Equipment Fleet replacement, and International Airport Revenue/Construction Funds for various Anchorage and Fairbanks international airport projects.

### ***Federal Funds - \$829.7 million***

Federal receipt authority comprises the largest portion of the capital budget. Requested authority is down \$181 million from the FY11 budget, primarily the net result of a decrease to the DOT&PF Surface Transportation Program and an increase to the DOT&PF Airport Improvement Program.

The Surface Transportation Program (\$274 million) is down \$263 million from FY11. Federal receipts to the state are not expected to decline, but excess legislative authority in prior years has reduced the need for authorization in FY12<sup>5</sup>. Federal receipts of \$410 million plus a 9% state match gives a total surface transportation program of \$450 million.

***Legislative Fiscal Analyst Comment:*** *The potential exists for substantial reductions to Alaska's future federal surface transportation funding. A new federal transportation act has not been enacted into law and Congress continues to pass continuing resolutions extending the existing authorization of SAFETEA-LU. The most recent continuing resolution extends through March 2011. These resolutions may be in Alaska's best interest, however, as recent reauthorization proposals have leaned more toward large urban surface transportation systems as opposed to the rural nature of the Alaska road system.*

The Airport Improvement Program (AIP) is budgeted at \$317.6 million for FY12. This is \$68 million greater than the FY11 budget. As for the surface transportation act, Congress continues to pass continuing resolutions for Airport Improvement Program funding. For federal fiscal year (FFY) 2010, Alaska received

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<sup>5</sup> State Transportation Improvement Program (STIP) Amendment #15 is currently in the public comment period ending 1/18/11. An additional \$150 million or so of projects might be requested in the Governor's Amended budget as a result of this STIP amendment.



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

\$236.7 million in AIP funding. This was split \$176.7 million for rural airports and \$60 million for international airports. A similar level of funding is expected for FFY11.

***Legislative Fiscal Analyst Comment:*** DOT&PF typically budgets excess federal receipt authority in anticipation of project delays. The "extra" expenditure authority creates flexibility by allowing reprogramming of funding should project delays occur. This, in turn, maximizes the use of federal revenue. The ebb and flow of requested authority is seen annually in both the Surface Transportation and Airport Improvement Programs.

### **Project Categorization Methodology**

The pie chart at the beginning of this section and the spreadsheets accompanying each agency narrative categorize the capital budget by project groups. The groupings are a mutually exclusive set. This allows Legislative Finance to prepare a Project Group Summary report that reflects the entire capital budget without duplication. As with any task of categorization, subjectivity exists.

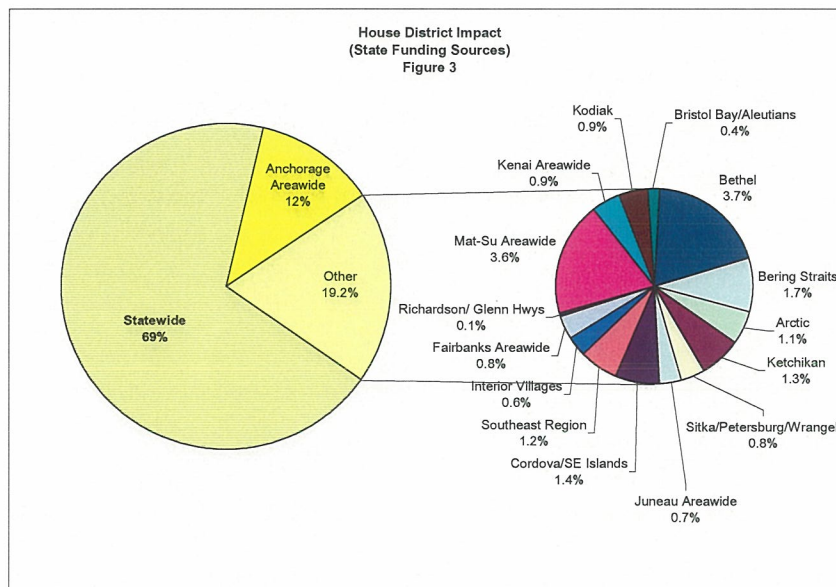
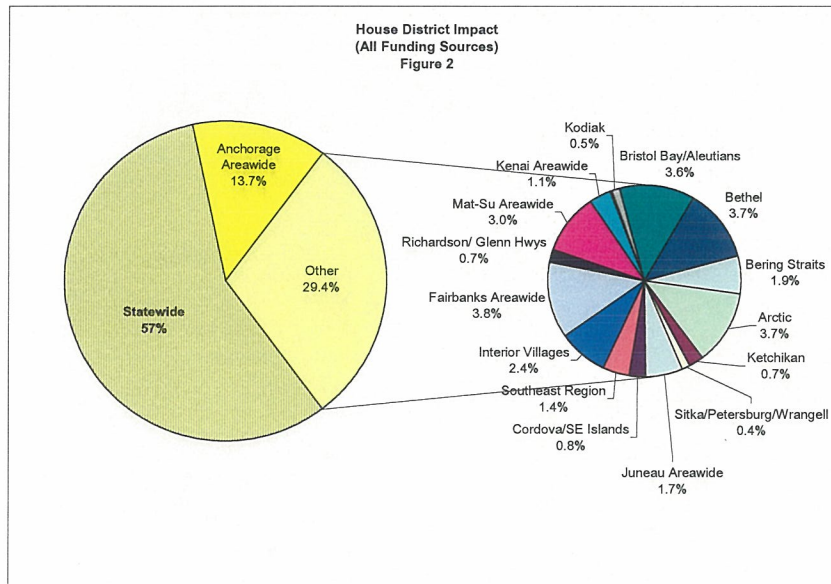
The rules used to define the projects in each group are provided in the table below.

<b>Project Group</b>	<b>Description</b>
<b>Planning and Research</b>	Projects involving planning, design, engineering, research, or studies
<b>Maintenance and Repairs</b>	Projects involving the repair of deteriorated conditions, restoration to previous condition, and preventative maintenance
<b>Remodel, Reconstruction and Upgrades</b>	Projects modifying or rebuilding existing space; includes complete replacement and upgrades
<b>New Construction and Land Acquisition</b>	Projects involving the addition of new space; including extensions and expansions
<b>Information Systems and Technology</b>	Projects related to information technology regardless of whether they are in a planning phase or construction (programming) phase - segregated due to their unique nature
<b>Other</b>	Projects that do not fit elsewhere

## Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

### Distribution by House District

Figures 2 and 3 show the proportional breakdown of the Governor's capital request by house district on an "impact" basis.<sup>6</sup> Figure 2 contains all funding sources, while Figure 3 is state funds only. As can be seen, the majority of projects are assigned to the "Statewide" House District. Projects falling under this assignment are generally broad appropriations that span multiple regions of the state. The types of projects included are large deferred maintenance projects, information technology projects, and federal grant programs. The Capital Budget Summary table on the page breaks out the funding sources by fund group (General Funds (UGF & DGF), Other State, and Federal Funds) for each House District. Project detail reports by House District (along with project back-up) can be found on the Legislative Finance website.



<sup>6</sup> Legislative Finance assigns two house districts to each project: (1) by the house districts impacted by a project, and (2) by the geographic location of a project.

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Capital Budget Summary									
(thousands)									
Agency Comparison - All Funds (Includes MH)				FY12 Governor's Budget by House District					
Agency	FY11 Budget (1)	FY12 Gov (2)	Change FY11-FY12	House District	HD #	General Funds	Other State Funds	Federal Funds	
Administration	17,025.0	15,483.2	(1,541.8)	Ketchikan	1	11,154.6	-	1,098.6	
Commerce, Community & Econ Dev	246,664.3	206,082.3	(40,582.0)	Sitka/Petersburg/Wrangell	2	6,545.3	-	858.3	
Corrections	450.0	7,400.0	6,950.0	Juneau Areawide	3-4	3,119.6	3,000.0	23,227.9	
Education and Early Development	197,073.8	50,174.5	(146,899.3)	Cordova/SE Islands	5	11,492.0	-	2,500.0	
Environmental Conservation	81,037.6	78,370.1	(2,667.5)	Southeast Region	1-5	10,356.0	-	12,500.0	
Fish and Game	43,035.0	25,825.0	(17,210.0)	Interior Villages	6	5,527.1	-	35,085.0	
Office of the Governor	3,098.8	100.0	(2,998.8)	Fairbanks Areawide	7-11	4,731.9	1,755.0	57,090.0	
Health and Social Services	12,355.0	21,780.3	9,425.3	Richardson/ Glenn Hwys	12	1,000.0	-	10,000.0	
Labor and Workforce Development	6,912.7	1,710.0	(5,202.7)	Mat-Su Areawide	13-16	30,548.2	-	19,518.5	
Law	150.0	15,250.0	15,100.0	Anchorage Areawide	17-32	44,485.2	56,430.2	128,992.5	
Military and Veterans Affairs	24,242.0	25,925.8	1,683.8	Kenai Areawide	33-35	7,875.7	-	9,907.5	
Natural Resources	25,652.0	32,658.0	7,006.0	Southcentral Region	12-35	-	-	1,500.0	
Public Safety	11,806.0	8,278.0	(3,528.0)	Kodiak	36	7,879.7	-	7.5	
Revenue	69,271.1	84,478.5	15,207.4	Bristol Bay/Aleutians	37	3,254.8	-	57,501.5	
Transportation & Public Facilities	1,009,500.7	871,418.9	(138,081.8)	Bethel	38	31,513.5	-	31,135.0	
University of Alaska	264,701.6	69,500.0	(195,201.6)	Southwest Region	36-38	35.0	-	-	
Alaska Court System	9,900.0	6,500.0	(3,400.0)	Bering Straits	39	14,376.7	-	17,030.0	
Fund Capitalization (3)	142,400.0	160,000.0	17,600.0	Arctic	40	9,305.0	-	52,495.0	
				Statewide	1-40	537,507.5	49,299.2	369,295.3	
<b>Total Capital - "Money on the Street" (4)</b>	<b>2,165,275.6</b>	<b>1,680,934.6</b>	<b>(484,341.0)</b>	<b>Total</b>		<b>740,707.8</b>	<b>110,484.4</b>	<b>829,742.6</b>	
Unrestricted General Funds	549,673.1	710,656.3	160,983.2	Unrestricted General Funds		710,656.3	-	-	
Designated General Funds	59,662.0	30,051.5	(29,610.5)	Designated General Funds		30,051.5	-	-	
Other State Funds	545,193.4	110,484.3	(434,709.1)	Other State Funds		-	110,484.3	-	
Federal Funds	1,010,747.0	829,742.6	(181,004.4)	Federal Funds		-	-	829,742.6	
<b>Fund Transfers - Non-Additive (5)</b>	<b>35,000.0</b>	<b>25,000.0</b>	<b>(10,000.0)</b>						

Notes:

- 1) The FY11 Budget figure includes approved RPL's through the 12/14/2010 meeting of the Legislative Budget and Audit Committee.
- 2) This table presents the Governor's budget as submitted. In the Fiscal Summary, \$19.1 million for items the Governor requested as capital projects show as agency operating items. This table differs from the fiscal summary by that amount.
- 3) Fund Capitalization refers to funding appropriated to a program not requiring further appropriation for expenditure (e.g. - Harbor Facility Grant Fund, AGIA Reimbursement Fund).
- 4) "Money on the Street" is the total amount of funding for capital projects, net of fund transfers. Duplicated fund sources are not removed because doing so would understate the amount of funding going toward capital projects.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **Language Sections of the Governor's FY12 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 Housing Finance Corporation, corporate receipts of the Alaska Aerospace 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** provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the Governor can increase authorization for listed fund sources without the approval of the Committee. Similar language in the operating budget applies only to operating authorizations. The operating language excludes test fisheries receipts and corporate receipts of the Alaska Aerospace Development Corporation.

**Subsection b** 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** automatically limits authorization of federal and other receipts to the amount actually received. The language applies to all appropriations in the Act, not merely to appropriations subject to LB&A review.

**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 reports place no dollar value on appropriations made in this section.

**Legislative Fiscal Analyst Recommendation:** *Receipts of the Fire Safety Standards Council are now classified as generic designated program receipts; the specific reference can be deleted.*

\* **Sec. 5. FUND CAPITALIZATION.** (a) The sum of \$160,000,000 is appropriated from receipts of the Alaska Housing Capital Corporation created under AS 18.56.086 to the Alaska Gasline Inducement Act reimbursement fund (AS 43.90.400(a)) for the natural gas pipeline project construction inducement under AS 43.90.110(a)(1).

**Section 5** capitalizes the AGIA Reimbursement Fund with \$160 million from the savings account created within the Alaska Housing Finance Corporation. Under AGIA, the state will provide matching contributions in the form of reimbursements (not to exceed \$500 million) to the licensee (TC Alaska) of qualified expenditures incurred in development of a natural gas pipeline. No appropriation is required to disburse money from the fund.

**Funding:** To date, \$185 million has been appropriated to the fund, and \$36.7 million has been used to reimburse the licensee through 10/31/10. Projected reimbursements through FY11 and FY12 are \$139.7 and \$162.7 million, respectively, for a total through FY12 of \$339.1 million (as outlined in the 10/31/2010 pipeline project report <http://gov.state.ak.us/agia>). Adding \$160 million to the fund would provide \$345 million available for reimbursements through FY12.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

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

(1) interest earned on amounts in the election fund required by the federal Help America Vote Act;

(2) the sum of \$100,000 from federal receipts.

**Subsection b** capitalizes the Election Fund with federal Help America Vote Act (HAVA) funds, and the earnings of the Election Fund. Expenditure of the funds occurs (in Section 1) in the Governor's Office for polling place improvements.

***Legislative Fiscal Analyst Recommendation:*** Move subsection b to the operating bill to avoid counting both the capitalization of the fund and expenditures from it in the calculation of capital project "money on the street."

\* **Sec. 6. FUND TRANSFERS.** (a) The income earned during fiscal year 2012 on revenue from the sources set out in AS 37.13.145(d), estimated to be \$22,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

**Subsection a** appropriates the FY12 earnings associated with the State vs. Amerada Hess settlement (held within the Permanent Fund) to the Alaska Capital Income Fund. This fund was established in FY05 and is customarily appropriated for capital projects.

***Legislative Fiscal Analyst Comment:*** Capitalization of the fund is preferable to direct appropriations from the Permanent Fund Earnings Reserve Account. Because the precise amount of earnings is unknown, the amount available for appropriation is unknown. Putting the money in a non-lapsing fund ensures that all available earnings are appropriated while reducing the danger of appropriating more money than is available.

***Legislative Fiscal Analyst Recommendation:*** Move subsection a to the operating bill so that this appropriation from Permanent Fund earnings appears with other appropriations of Permanent Fund earnings for dividends and inflation proofing.

(b) The sum of \$25,000,000 is appropriated from receipts of the Alaska Housing Capital Corporation created under AS 18.56.086 to the renewable energy grant fund (AS 42.45.045(a)).

**Subsection b** transfers \$25 million from the general funds saved in the Alaska Housing Capital Corporation to the renewable energy grant fund for energy grant appropriations.

**Funding:** To date, \$150 million has been appropriated to and from the Renewable Energy Fund for projects.

***Legislative Fiscal Analyst Comment:*** Grant funds typically require an appropriation to the fund, and grants may then be disbursed with no further appropriation. Appropriations to grant funds are, therefore, typically classified as fund capitalizations. Because enabling legislation stated that money is to be appropriated from the Renewable Energy Fund as well as to it, deposits are classified as fund transfers. Recent capital bills contained a list of grantees and projects to be funded. At this point, the Governor's bill appropriates (in Section 1) \$25 million from the fund to the Alaska Energy Authority, but does not specify grantees or projects.

\* **Sec. 7. 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 FY2012 Request*

**Section 7** 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. 8. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM.** The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 by August 31, 2011, estimated to be \$5,400,00, 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.

**Section 8** appropriates the entire amount received (estimated at \$5.4 million for FY12) from the revenue shared by the federal government from sales, rentals, bonuses, and royalties on leases issued within the NPR-A to the NPR-A Impact Grant Program. Grants are awarded to municipalities impacted by oil and gas development in the NPR-A. AS 37.05.530(g) states that receipts not appropriated as grants are to be distributed as follows: 25% to Permanent Fund Principal, ½% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

**Legislative Fiscal Analyst Comment:** Recent capital bills contained a list of grantees and the projects to be funded. Providing this information allows it to be entered into the budget system so that it is available for future queries regarding grants.

**Legislative Fiscal Analyst Recommendation:** Grantees and a short description of projects should appear in the bill.

**Legislative Fiscal Analyst Recommendation:** Remaining balances should be appropriated to a fund other than the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer used because the Power Cost Equalization Program is funded with an open-ended appropriation of general funds. AS 37.05.530(g) should also be revised.

**\* Sec. 9. ALASKA ENERGY AUTHORITY.** (a) The interest earnings on the renewable energy grant fund (AS 42.45.045(a)), estimated to be \$2,000,000, are appropriated to the Alaska Energy Authority for administration of the renewable energy grant fund (AS 42.45.045(a)) for the fiscal year ending June 30, 2012.

**Subsection a** appropriates the investment earnings of the Renewable Energy Grant Fund to the Alaska Energy Authority for administration of the grants.

**Legislative Fiscal Analyst Comment:** This section duplicates an appropriation in Section 1 of the Governor's operating bill.

**Legislative Fiscal Analyst Recommendation:** Retain only the more flexible language section appropriation for renewable energy fund grant administration, but move it to the operating bill.

(b) The unexpended and unobligated balance in the Railbelt energy fund (AS 37.05.520) on July 1, 2011, estimated to be \$65,731,100, and interest earnings on the amount appropriated, are appropriated to the Alaska Energy Authority to conduct planning, design, licensing, and permitting for the Susitna hydroelectric project.

**Subsection b** appropriates the entire available balance of the Railbelt Energy Fund to AEA for the Susitna hydroelectric project.

**Legislative Fiscal Analyst Comment:** The Railbelt Energy Fund was created in 1986 for the purpose of meeting railbelt energy needs, including projects for retrofitting state-owned buildings



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*and facilities for energy conservation. The Susitna hydroelectric project meets the designated criteria for appropriations from the fund.*

\* **Sec. 10.** DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. The sum of \$35,000 is appropriated from the anatomical gift awareness fund (AS 13.50.160) to the Department of Commerce, Community, and Economic Development for payment as a grant under AS 37.05.316 to Life Alaska Donor Services, Inc., for promoting the donation program prescribed in AS 13.50.150 for the fiscal year ending June 30, 2012.

**Section 10** is a grant to a named recipient.

\* **Sec. 11.** LAPSE. (a) The appropriations made in secs 5, 6, and 7(1) of this Act are for the capitalization of funds and do not lapse.

(b) The appropriations made in secs. 8 and 9(b) of this Act are for capital projects and lapse under AS 37.25.020.

*Under AS 37.25.020, a capital appropriation is for the life of the project. In addition, an Attorney General's Opinion states that exclusion of a capital appropriation from a capital lapse provision (such as subsection b) does not prevent the appropriation from lapsing under AS 37.25.020 as long as the appropriation is "clearly a capital improvement."*

***Legislative Fiscal Analyst Comment:*** *The belief that capital appropriations have a five-year lapse is a common misunderstanding. Capital projects are initially booked in the state accounting system for five years, but are administratively extended if the funding is still needed.*

*The statutes governing Grants to Municipalities, AS 37.05.315, include a provision that if substantial and ongoing work has not begun within five years of the appropriation, the funding shall lapse.*

***Legislative Fiscal Analyst Recommendation:*** *The legislature may wish to consider adding a similar provision to AS 37.25.020 in order to prevent capital projects from remaining on the books for extended periods with little to no activity.*

(c) A grant awarded in this Act to a named recipient under AS 37.05.316 is for a capital project, unless specifically identified in this Act as an operating grant, and lapses under AS 37.25.020 unless otherwise stated or designated for a fiscal year.

***Legislative Fiscal Analyst Comment:*** *This subsection is included to clarify that grants under AS 37.05.316 are to be considered capital projects (unless specifically identified as operating grants) and are to lapse like other capital projects. There has been confusion in the past when some grants were booked as operating grants with a one-year lapse. This language clarifies legislative intent.*

\* **Sec. 12.** This Act takes effect July 1, 2011.



## Agency Narratives and Funding Summaries

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Administration				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$99,893.8</b>			
FY11 Fiscal Notes	698.9			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	20.5			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$100,613.2</b>	\$719.4	0.7%	
One-time Items removed	(100.5)			
FY12 Contractual Salary and Health Increases	2,446.5			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$102,959.2</b>	\$2,346.0	2.3%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	1,678.3			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$104,637.5</b>	\$1,678.3	1.6%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$1,678.3</b>	
Office of Administrative Hearings	462.9	550.4	87.5	4,8
Office of the Commissioner	367.7	382.4	14.7	8
Administrative Services	113.4	203.3	89.9	8
DOA Info Tech Support	58.9	106.2	47.3	8
Finance	6,472.6	6,614.6	142.0	5,8
E-Travel	7.9	24.6	16.7	8
Personnel	1,938.1	2,591.8	653.7	8
Property Management	619.0	629.2	10.2	8
Lease Administration	89.8	126.9	37.1	8
Enterprise Technology Services	1,618.5	2,117.0	498.5	8
Alaska Oil and Gas Conservation Commission	5,702.2	6,018.2	316.0	1
Office of Public Advocacy	21,954.4	21,967.2	12.8	8
Violent Crimes Compensation Board	1,904.0	1,655.9	(248.1)	9
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	200,328.1	199,194.2	(1,133.9)	3,8
Federal Funds (all allocations)	3,449.2	4,529.2	1,080.0	2,6,7,8
<b>Total Non-General Funds (all allocations)</b>	<b>\$203,777.3</b>	<b>\$203,723.4</b>	<b>(\$53.9)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>1,128</b>	<b>1,130</b>	<b>2</b>	
PFT	1,071	1,073	2	1
PPT	18	18	-	
Temp	39	39	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	5,515.0	-	5,515.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	9,968.2	-	9,968.2	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$15,483.2</b>	<b>\$0.0</b>	<b>\$15,483.2</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 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 Alaskans. DOA establishes policies and coordinates services among departments and provides statewide leadership and policy direction in the following areas:

- finance and accounting;
- payroll;
- information technology;
- human resources;
- labor relations;
- procurement, including final administrative decisions on statewide procurement appeals;
- 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 which collects revenues from vehicle titling and registration and driver licensing; by legal and advocacy services through the Public Defender Agency and the Office of Public Advocacy; and through the Office of Administrative Hearings which provides for adjudication services in a broad range of administrative appeals and alternative dispute resolution processes. 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).

The FY12 Department of Administration general fund operating budget submitted by the Governor is \$1,678.3 above the FY12 Adjusted Base [\$1,625.8 Unrestricted General Funds (UGF) and \$52.5 Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Alaska Oil and Gas Conservation Commission (AOGCC): \$316.0 AOGCC Receipts (DGF) and 2 PFT Positions.** The AOGCC is requesting two new positions (one Petroleum Engineer and one Petroleum Inspector) and funding for those positions. The workload of this Commission has increased dramatically over the past two years due to aging wells and infrastructure, increased number of wells and fields, expansion of responsibilities to include geothermal drilling and production, efforts by industry to squeeze more production from Alaska's maturing oil fields, and a large increase in the number of incidents and whistleblower investigations. AOGCC regulatory fees will be used to pay for these Commission activities.
- 2. Motor Vehicles – Increase in Federal Grant: \$1,000.0 Federal Receipts (Fed).** The Division of Motor Vehicles (DMV) is requesting the authority to receive and expend federal funds made available by the Federal Motor Carrier Safety Administration (FMCSA) to enhance DMV's Commercial Driver's License (CDL) Improvement Program. These improvements will address the issues of compliance from the 2008 FMCSA audit, as well as recommendations

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

from the American Association of Vehicle Administrators, CDL Best Practices manual, and changes outlined in the Federal Register. The addition of this increment will provide a total of \$1.5 million in Federal Receipt authority to DMV for FY12.

3. **Office of Public Advocacy Public Guardian Fees: \$110.0 Statutory Designated Program Receipts (SDPR) (Other).** The Office of Public Advocacy (OPA) charges their clients monthly fees based on the service provided. Currently, more is being collected in fees than is authorized for SDPR expenditure within this allocation. Due to the difficulty of predicting workload increases and costs, OPA operations have often been fully funded through supplemental appropriations. Approval of this increment may reduce the amount of the potential FY12 supplemental and will allow OPA to receive and expend all anticipated client receipts on program services.
4. **Office of Administrative Hearings – Legal Work for Municipalities and Other Government Agencies: \$50.0 GF/Program Receipts (DGF).** The Office of Administrative Hearings (OAH) is requesting program receipt authority in order to allow expenditure of receipts collected from school districts, municipalities and other governmental entities for hearing-related work performed under the authority of AS 44.64.055. Without the ability to retain and spend receipts for these services, OAH anticipates that rates charged to state agencies would be increased.
5. **Finance – Databasics Software for Automation of Travel Expenditure Reports: \$112.5 GF/Program Receipts (DGF).** The Department is requesting additional program receipt authority to allow expenditure of credit card rebates. This additional receipt and expenditure authority will pay for work to automate travel expenditure reports.

### **MAINTENANCE OF SERVICES**

6. **Office of Public Advocacy – Court Appointed Special Advocate (CASA) Program: \$40.2 Federal Receipts (Fed).** The Alaska Office of Public Advocacy (OPA) was created in 1984 to handle a variety of functions previously handled by the Alaska Court System, including the provision of guardian ad litem services for children in child protection proceedings. In 1987, the Court Appointed Special Advocate (CASA) Program was started using citizen volunteers to supplement the work of the paid advocates and to provide caseload relief. Currently, OPA is the recipient of two federal grant awards (which total \$95.0) that support programs statewide and are designed to expand CASA throughout Alaska (at present, only the major population centers of Anchorage, the Matanuska Valley, Juneau, and Fairbanks have CASA support). Approval of this FY12 increment will bring the overall federal receipt authority in this allocation to \$95.0 and will allow OPA to receive and expend the full amount of federal funds allocated for the State of Alaska CASA program.

*Legislative Fiscal Analyst Comment: On October 29, 2010, the Legislative Budget & Audit Committee also approved the addition of \$40.2 Federal Receipts to allow OPA to receive these grant awards for FY11.*

### **OTHER ISSUES**

7. **Finance – Consolidated Omnibus Budget Reconciliation Act (COBRA) Funding: \$50.0 Federal Stimulus Funds (Fed).** The American Recovery and Reinvestment Act of 2009 included a program under which an involuntarily terminated employee could obtain a 65% premium subsidy for health benefits under the Consolidated Omnibus Budget



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

Reconciliation Act (COBRA) of 1985. The federal government extended this subsidy to cover terminations that occurred through May 31, 2010. When that extension occurred, the potential coverage period for a qualified individual was lengthened from 9 months to 15 months. Given those changes, authority for the receipt of additional federal funds is requested based on the estimated premium costs for the COBRA premium in FY12.

***Legislative Fiscal Analyst Comment:*** *The FY11 Enacted Budget and the Department's Management Plan included \$500.0 Stimulus09 funds for this purpose, but it was removed as a one-time item in the FY12 Adjusted Base. This FY12 request is also reflected as an IncOTI and will be removed from the FY13 budget.*

8. **Salary Fund Source Changes: \$1,475.8 UGF.** The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual health insurance increases, cost of living allowances, and geographic differentials for employees. Thirteen different allocations are affected for a total of \$1,475.8 UGF (the switch occurs from GF/Program Receipts (\$14.7), Interagency Receipts (\$909.7), Surplus Property (\$10.2), CIP Receipts (\$29.5), Information Services Fund (\$498.5) and Permanent Fund Dividend (PFD) Criminal Fund (\$13.2), in addition to the net-zero realignment of Retirement and Benefits Funds). As an alternative to these fund source changes, DOA could either (1) charge agencies for services and let any necessary fund source changes occur in the agencies or (2) absorb these personal services costs within the individual allocation vacancy factors.
9. **Violent Crimes Compensation Board (VCCB) Decrement: (\$248.1) PFD Criminal Receipts (DGF).** Due to a reduction in the amount of anticipated Permanent Fund Dividend Felon Funds that are available for allocation, the Violent Crimes Compensation Board has submitted a decrement for \$248.1. The VCCB anticipates having sufficient funding in their FY12 operating budget to cover expenditures and grant awards and, therefore, has not submitted a request for replacement of those funds with general funds. The Violent Crimes Compensation Board was established to help mitigate financial losses that are the direct result of violent crimes that occur against Alaskans and visitors to Alaska. In addition, the Board helps to foster victim advocacy services and promotes victim recovery. Assistance is generally in the form of payment for services, reimbursement of certain losses, and financial help to ensure the safety of Alaska victims.
10. **Enterprise Technology Services Alaska Land Mobile Radio (ALMR) Fund Source Change from GF/Program Receipts to UGF: \$150.0 UGF.** The Department of Administration is requesting a fund source change from general fund program receipts back to general funds due to uncollectible receipts from communities who participate in the Alaska Land Mobile Radio program. This change will eliminate all GF/PR in the allocation so that the ALMR program is fully funded with Unrestricted General Fund of \$1.3 million.

***Legislative Fiscal Analyst Comment:*** *In FY11, the House Finance Committee (and eventually the Conference Committee) recommended that the Department work with the municipalities and begin requiring those who participate in ALMR to pay their part of the operating and maintenance costs. The Committee also recommended a fund source change from GF to GF/Program Receipts in the amount of \$150,000. This program has been in place for several years and thus far the Department has not secured an agreement with any of the municipalities to share costs. The House Finance Subcommittee voiced concern that the Department should work over the interim and strategize with participating municipalities on how best to phase out this state subsidy and begin charging municipalities their full share of the costs. The fund source change and intent language were both added to the FY11 budget, which stated "It is the intent of the legislature that the Department work with the entities participating in ALMR to negotiate a cost share agreement. This agreement shall be implemented in the second half of the fiscal year".*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### ORGANIZATIONAL CHANGES

In FY12, the following structural changes (name changes only) are reflected in the Governor's Department of Administration budget:

- The Group Health Insurance allocation within Centralized Administrative Services is re-named Health Plans Administration. This name more clearly reflects the mission of the allocation which is to hold the funds for the group health administration Third Party Administrator contract; and
- The ITG Facilities Maintenance appropriation name was changed to ETS Facilities Maintenance to match the singular allocation by the same name.

### CAPITAL REQUEST

The Governor's FY12 Department of Administration capital budget includes seven projects and totals \$15.5 million. Included in the general fund category is \$10.75 million UGF and \$200.0 GF/Program Receipts (DGF), divided into the following projects:

- **\$3,000,000 UGF – Statewide Network Connectivity Upgrades** which are needed to address statewide bandwidth issues, especially in communities outside of the Anchorage, Fairbanks and Juneau core areas;
- **\$500,000 UGF – Classification System Conversion** to obtain the short and long-term goals set forth in Administrative Order No. 237 which proposed to substantially reduce the number of job classifications in addition to procuring the services of a contractor to convert the current classification method to a point factor evaluation system;
- **\$200,000 GF/ Program Receipts (DGF) – Motor Vehicles Automatic Queuing System** to allow Division of Motor Vehicles managers to accurately track the number of customers served and wait times per customer and to provide the statistical information needed for division performance measures and continued improvement of service; and
- **\$7,250,000 UGF plus \$3,000,000 Public Building Fund (Other) – Statewide Deferred Maintenance Projects** managed by the Department of Administration for Public Building Fund and non-Public Building Fund facilities as well as projects for the State of Alaska Telecommunication System infrastructure and ETS facilities.

In addition to the \$3 million noted above in Public Building Fund deferred maintenance, the Governor's Department of Administration capital request includes **\$1.5 million in non-GF projects related to the Division of Retirement and Benefits.**

***Legislative Fiscal Analyst Comment:** A large project—replacement of the state's payroll and accounting software—is significant in its absence. In FY10, the Department requested (but did not receive) \$76 million to work toward replacing legacy administrative systems, primarily the statewide accounting system (AKSAS) and payroll system (AKPAY). The continued operation of these systems is threatened by their age and the antiquated software languages in which they are written. The legislature previously appropriated \$41 million for this massive project, which is projected to take at least six more years to complete and to require many more millions of dollars. Although the Governor's FY12 request does not address the need for additional funds, the Department reports that a Request for Proposals (RFP) 2010-0200-9388 was issued on August 2, 2010 for the Statewide Administrative Systems Replacement Project. Nine amendments to the RFP were issued, with the final deadline for receipt of proposals on October 15, 2010. The procurement is currently in the evaluation stage with an anticipated award date of May 31, 2011.*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

***Legislative Fiscal Analyst Comment:*** *As in previous years, direct appropriations for costs associated with public employees' retirement systems are segregated from the Department's budget in order to avoid overstating the Department of Administration's budget. A total of \$479.5 million in direct appropriations for retirement include:*

- (a) \$234,517.3 UGF for the teachers' retirement system defined benefit plan account;*
- (b) \$242,609.4 UGF for the public employees' retirement system defined benefit plan account;*
- (c) \$13.4 UGF for the Department of Military and Veterans' Affairs AK National Guard and Alaska Naval Militia defined benefit plan account; and*
- (d) \$2,331.7 UGF for the judicial retirement system defined benefit plan account.*

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Commerce, Community, and Economic Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$112,582.5</b>			
FY11 Fiscal Notes	999.9			
CarryForward	1,500.0			
Special Appropriations	2,000.0			
Agency Transfers	-			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$117,082.4</b>	\$4,499.9	4.0%	
One-time Items removed	(14,245.0)			
FY12 Contractual Salary and Health Increases	1,459.1			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$104,296.5</b>	(\$12,785.9)	-10.9%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	(1,960.0)			
FY12 Governor's GF Increments/Decrements/Fund Changes	6,042.0			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$108,378.5</b>	\$4,082.0	3.9%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$4,082.0</b>	
Economic Development	7,657.2	8,420.4	763.2	2,3
Community & Regional Affairs	7,320.1	6,817.1	(503.0)	8,11
Qualified Trade Association Contract	2,700.0	5,981.8	3,281.8	1
AEA Rural Energy Operations	1,619.4	1,919.4	300.0	6
AEA Power Cost Equalization	36,300.0	34,340.0	(1,960.0)	4
Alternative Energy & Efficiency	3,151.9	5,151.9	2,000.0	5
Insurance Operations	6,820.5	7,020.5	200.0	9
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	30,673.6	34,317.2	3,643.6	1,7
Federal Funds (all allocations)	65,282.5	63,482.7	(1,799.8)	12
<b>Total Non-General Funds (all allocations)</b>	<b>\$95,956.1</b>	<b>\$97,799.9</b>	<b>\$1,843.8</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>550</b>	<b>553</b>	<b>3</b>	
PFT	537	538	1	8
PPT	3	3	-	
Temp	10	12	2	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	72,731.1	-	72,731.1	
Maintenance and Repairs	330.0	-	330.0	
Remodel, Reconstruction and Upgrades	20,000.0	6,000.0	26,000.0	
New Construction and Land Acquisition	48,600.0	5,400.0	54,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	600.0	-	600.0	
Other	45,541.2	6,880.0	52,421.2	
<b>TOTAL CAPITAL</b>	<b>\$187,802.3</b>	<b>\$18,280.0</b>	<b>\$206,082.3</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Commerce, Community, and Economic Development**

The mission of the Department of Commerce, Community, and Economic Development (DCCED) is to promote a healthy economy, strong communities, and protect consumers in Alaska. To accomplish this, the Department implements programs to

- Coordinate, develop, and promote programs for sustainable economic growth;
- Regulate and enforce to protect the consumer and to provide a stable business climate;
- Assist in the development of sustainable energy systems and reduce the cost of energy in rural Alaska; and
- Assist communities to achieve maximum local self-government and foster volunteerism statewide.

The Department consists of core agencies including: Division of Banking & Securities, Division of Corporations, Business and Professional Licensing, Division of Community and Regional Affairs, Division of Insurance, and the Division of Economic Development. Various corporate agencies are also part of the Department, including: Alaska Aerospace Corporation, Alaska Industrial Development and Export Authority, Alaska Energy Authority, Alaska Railroad Corporation, Alaska Seafood Marketing Institute, Regulatory Commission of Alaska, and the Serve Alaska Commission.

The FY12 Department of Commerce, Community, and Economic Development general fund operating budget submitted by the Governor is \$4,082.0 above the FY12 Adjusted Base [\$5,419.2 Unrestricted General Funds (UGF)/and a decrease of \$1,337.2 in Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Qualified Trade Association (QTA) Contract for Tourism: \$6.3 million Total [\$1,464.5 Vehicle Rental Tax (DGF)/ \$1,817.3 Gambling Tax (UGF)/ \$3,018.2 Commercial Passenger Vehicle Tax (Other)].** This increment will provide funding for a tourism marketing campaign. In 1999, the legislature consolidated tourism marketing functions performed by the Alaska Tourism Marketing Council, the Alaska Visitors Association and the Alaska Division of Tourism. Further, the legislature appropriated money to perform tourism promotion activities under contract with a qualified trade association, namely, the Alaska Travel Industry Association. The partnership created efficiencies by reducing administration costs and eliminating duplication of marketing efforts.

AS 44.33.125 limits state funding of the QTA contract to the amount contributed by the Qualified Trade Association. The sunset of HB 137 (Ch. 103 SLA 2008) on July 1, 2011 returns the Qualified Trade Association (QTA) Contract to a 50/50 state/industry match rate.

***Legislative Fiscal Analyst Comment:*** *Legislative Finance has concerns about the funding sources used in this increment.*

- *There is no active fund code for the gambling tax; the revenue from the tax is simply UGF. If funding for the contract is approved, UGF (code 1004) should be substituted for the gambling tax fund source.*
- *Use of the CPV Tax for the ATIA contract is questionable—use of this fund source does not meet the statutory requirements found in AS 43.52.230(d): “the legislature may appropriate money*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*from the commercial vessel passenger tax account to projects that (1) improve port and harbor infrastructure, (2) provide services to commercial passenger vessels and the passengers on board those vessels, or (3) improve the safety and efficiency of the interstate and foreign commerce activities in which the vessels and the passengers on board those vessels are engaged.”*

*There are two concerns in addition to the fund source problems:*

- The legislature may wish to add language limiting the appropriation of funds for the QTA contract to a 50% match in accordance with AS 44.33.125.*
- The legislature may wish to clarify that a \$7 million UGF capital request for tourism promotion is also subject to the match requirements of AS 44.33.125, per legislative intent in the FY11 operating budget. Please see discussion of this issue under section 9 of the analysis of the language sections of the Governor's bill.*

- 2. Creating the Division of Economic Development, Including a Net-zero Transfer of Funding (\$4,979.4) and 41 Positions from the Division of Investments: \$363.2 UGF.** On October 12, 2010, the Governor issued Administrative Order No. 257 to combine the Division of Investments and the Office of Economic Development into a new Division of Economic Development. According to the Department, the increase in funding will be used to broaden and align division functions to the agency's mission. This merger was designed to facilitate a realignment of the organization based on economic development functions: Marketing, Finance, Research, Business Technical Assistance, and Outreach & Coordination. The Governor stated, “This consolidation will aggressively re-assert the state's leadership in creating a business-friendly climate necessary for responsible, sustainable development.”

***Legislative Fiscal Analyst Comment:*** *Legislative Finance is concerned about fund tracking issues that may arise as a result of combining the Division of Investments and the Office of Economic Development. By statute, most of the funding in the Division of Investments is to be used to administer various loan programs. The funding in the Office of Economic Development is primarily UGF and can be used for any purpose. Combining the two functions makes it extremely difficult to track how funding is being used. For instance, there would be no way for the legislature to determine that Commercial Fisheries Revolving Loan Fund (CFRLF) receipts would not be used to send Economic Development specialists to a remote village to work on tourism issues.*

*Legislative Finance takes no position on the organizational structure of the Department, but recommends that the loan programs and the economic development functions be in two separate appropriations.*

*Regarding the additional funding, the subcommittee may wish to explore why the increment is on the services line while the transaction description relates primarily to additional personal service functions.*

- 3. Economic Development – Funding for Alaska Native Arts Marketing Grant: \$400.0 UGF.** This increment is requested to replace awards to the Alaska Native Arts Foundation. As of October 1, 2010 the non-profit Alaska Manufacturing Extension Partnership declined to fund the Alaska Native Arts Foundation. The primary goal of the Foundation is to serve as a marketing solution and economic development resource to Alaska Native Artists.

***Legislative Fiscal Analyst Comment:*** *This increment appears to be a Grant to a Named Recipient (under AS 37.05.316) and, as such, should be considered for inclusion in the capital budget.*



## MAINTENANCE OF SERVICES

4. **Alaska Energy Authority Power Cost Equalization (PCE) Decrement: \$1.96 million Total (\$1,797.0 UGF/ \$163.0 Power Cost Equalization Endowment (DGF).** The Department revised its expenditure projections downward due to recalibration based on a review of historical information. The overall grant amount available to communities is reduced by \$2 million from FY11 Authorized; but an additional \$40.0 is requested (\$10.0 for travel and \$30.0 for services) for PCE administrative costs and for utility clerk training. The desired result of this increase is to ensure that all eligible utilities are participating in the PCE program to the maximum benefit of rural ratepayers.

In addition, the amount available from the PCE Endowment for FY12 is calculated to be \$23,510.6, which is a *decrease* of \$163.0 over the amount budgeted in FY11. Funds from the Endowment replace UGF.

*Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates general funds in the amount necessary to pay for the PCE program under the statutory formula.*

5. **Statewide Project Development, Alternative Energy and Efficiency – Continuation of Renewable Energy Fund Administration: \$4,000.0 GF Miscellaneous Earnings (UGF).** This increment is a request for the continuation of the one-time funding included in the FY11 budget. The Alaska Energy Authority requests this funding for the costs of administering the renewable energy grant fund. Administration of this program includes project management, grant management, accounting, and support services.

*Legislative Fiscal Analyst Comment: The request for funding for administration of renewable energy grants is duplicated. In addition to a \$2 million appropriation in section 1 of the Governor's operating bill, the capital bill [Section 9(a)] appropriates \$2 million for the same purpose.*

*Legislative Finance recommends that language be moved from the capital bill to the operating bill and that the section 1 transaction be denied. The language appropriation is preferable because it specifies the source of the miscellaneous earnings to be used.*

6. **Alaska Energy Authority (AEA) Rural Energy Operations: \$300.0 UGF increase (related to a \$300.0 Federal Receipts decrease).**

- **\$200.0 UGF – AEA Rural Utilities Training:** The Governor's request includes \$200.0 to provide rural utilities with technical assistance and training. This funding is requested to replace \$300.0 of federal Denali Training Funds that are no longer available.
- **\$100.0 UGF – Rural Technical Assistance:** Over \$250 million in Denali Commission grants have been awarded to AEA for construction projects. The Commission has indicated a desire for more state cost sharing for projects. This increment will provide state support to maintain these projects. The technical assistance program is required as direct support for federally funded energy projects in rural Alaska.

7. **Commissioner's Office – Increase funding to pay for a Communications Coordinator: \$140.0 Inter-Agency (I/A) Receipts (Other).** The Department is requesting funding to pay for a range 23 Communications Coordinator position. A position was transferred to the Commissioner's Office from the Alaska Industrial Development and Export Authority (AIDEA) in the FY11 Management Plan and reclassified.

*Legislative Fiscal Analyst Comment: This increases the Commissioner's Office budget by 14.4% over the Adjusted Base. Because the position will be funded with I/A receipts from various divisions,*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

*and those divisions requested no specific increments for this purpose, the cost of this position is an effective budget reduction to the divisions.*

- 8. Community and Regional Affairs – Maintain Position to Provide Communities with Assistance on Land Management: \$97.0 UGF plus 1 PFT.** In FY11, the legislature approved one-time funding for a position to provide communities with land management, site control verification, planning assistance services and management of Alaska Native Claims Settlement Act (ANCSA) 14(c) actions. This increment would add the funding and position to the Community and Regional Affairs base budget.

When ANCSA was passed in 1971, 95 unincorporated communities had a land conveyance obligation to the state under section 14(c)(3). Over 50 communities still have not completed the conveyance of land to the village corporation to be held in trust for a future municipality.

Site control and land status verifications are needed to ensure clear title on village corporation land. Lack of this verification can result in legal issues and can hold up capital grants disbursement. Other departments and entities depend upon the Department's verification actions to allow for the disbursement of capital grants and to avoid legal complications resulting from unresolved land status issues.

*Legislative Fiscal Analyst Comment: The legislature approved this funding as one-time in FY11 because the one Planner working on ANCSA 14(c) actions was expected to retire within the next couple of years. The additional Planner position would allow for training the new Planner.*

- 9. Insurance Operations – Continued Coverage of Legal and Other Costs to Maintain Consumer Protection: \$200.0 Receipt Supported Services (DGF).** The FY11 legislature provided \$200.0 in one-time funding for statutorily required notification to licensees and consumer protection activities. According to the Department, funding for increased legal fees and ongoing public outreach is critical to this appropriation/allocation. Alaska consumers will be at risk if the division has to prioritize investigations because of insufficient funds to fulfill oversight responsibilities.

## **OTHER ISSUES**

- 10. Alaska Seafood Marketing Institute (ASMI) Fund Change: Net Zero \$2,838.7 UGF/ (\$2,838.7) GF Program Receipts (DGF).** ASMI requests a fund shift from General Fund Program Receipts to General Funds in order to maintain the current budget level and marketing efforts (\$18.79 million with 19 full-time positions). Program receipts are expected to decline due to lower industry contributions brought about by poor economic conditions in 2009, lowered Pollack Total Allowable Catch (TAC), and a drop in Pacific cod prices. With the fund source change, the state match would be \$6.5 million UGF vs. \$7.3 million in voluntary direct industry assessments. ASMI is the State of Alaska's official seafood marketing arm, and it builds and protects the Alaska Seafood brand while working with marketers of Alaska as a tourism destination and marketers of Alaskan farm products.
- 11. Community and Regional Affairs – Deletion of Grant Funding for Ilisagvik College: (\$600.0) UGF.** In FY11, the legislature added \$600.0 in base funding for workforce development programs at Ilisagvik College. The Governor's FY12 Request deletes this funding.

*Legislative Fiscal Analyst Comment: The Governor's request reflected this reduction as an OTI, but there is no indication in the FY11 transactions or closeout documents that indicate the legislature intended this to be removed as a one-time item. In fact, there is evidence that the legislature intended*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

*the funding to be continuing. Legislative Finance has changed the transaction type to a "Decrement" to match the Governor's funding request.*

- 12. National Forest Receipts - Federal Program Funding Decrement: (\$2.1 million) Federal Receipts.** The Department anticipates receiving and distributing (to local governments) \$15 million in National Forest Receipts. This is a *decrease* of \$2.1 million from FY11. Although the program was scheduled to sunset in FY08, the \$700 billion Economic Rescue Package (H.R. 1424 – signed into law on October 3, 2008) extended the program's funding through FY12. Each borough that has Chugach or Tongass National Forest acreage within its boundaries will receive a payment based on acreage.

## **ORGANIZATIONAL CHANGES**

Organizational changes in DCCED revolve around the Governor's Administrative Order which combined the Division of Investments and the Office of Economic Development into a new Division of Economic Development. Two appropriations, each with a single allocation, were created—Economic Development and Community and Regional Affairs. The Investments Appropriation/Allocation was eliminated.

## **CAPITAL REQUEST**

The Governor's FY12 Department of Commerce, Community and Economic Development capital budget totals \$206.1 million—\$92.3 UGF/ \$90.8 DGF/ \$4.7 Other Funds/ \$18.3 million Federal Funds. The budget consists of a diverse mix of grants and capital projects, most of which are more clearly described as *passing through DCCED* rather than *going to DCCED*. The pass-through projects include rural power and transportation systems, community economic assistance, port expansion and cruise ship industry enhancements. Projects requested by DCCED include:

- **\$117.1 million for five Alaska Energy Authority Projects** (\$20.3 million UGF/ \$90.7 million DGF/\$6 million Federal Funds);
- **\$10 million** (Alaska Housing Capital Corporation (AHCC) Receipts [UGF]) for **Skagway City Dock Improvements**;
- **\$20 million** (AHCC Receipts [UGF]) for **Port of Anchorage Expansion**; and
- **\$20 million** (AHCC Receipts [UGF]) for **Matanuska-Susitna Borough – Port MacKenzie Rail**

***Legislative Fiscal Analyst Comment:** Three projects included in the Governor's Capital Request appear to be operating in nature. The following projects should be evaluated for inclusion in the language section of the operating bill:*

- ***\$600.0 UGF – Phytosanitary Testing Seed Potato Exports to China** – submitted as a capital project, but appears to be a multi-year operating RSA for testing seed potatoes through the University of Alaska Fairbanks plant materials lab in FY12 and FY13 (lapses June 30, 2013);*
- ***\$4 million AIDEA Dividend (UGF) – Alaska Aerospace Corporation** – submitted as a capital project, but appears to be for AAC operations and maintenance; and*
- ***\$7 million UGF – to promote tourism** – while the request could be classified a grant to a named recipient, doing so would be counter to legislative intent. Please see discussion of this issue under section 9 of the analysis of the language sections of the Governor's bill.*

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Corrections				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$240,730.1</b>			
FY11 Fiscal Notes	52.8			
CarryForward	7,013.5			
Special Appropriations	-			
Agency Transfers	540.0			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$248,336.4</b>	\$7,606.3	3.2%	
One-time Items removed	(7,853.5)			
FY12 Contractual Salary and Health Increases	13,139.4			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$253,622.3</b>	\$5,285.9	2.1%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/Multi Years	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	6,381.8			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$260,004.1</b>	\$6,381.8	2.5%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			\$6,381.8	
Institution Director's Office	1,300.4	1,437.3	136.9	4
Prison Employment Program	1,360.9	-	(1,360.9)	9
Goose Creek Correctional Center	285.7	3,892.8	3,607.1	1
Probation & Parole Director's Office	706.4	777.0	70.6	
Community Jails	6,115.4	7,603.4	1,488.0	2, 7
Community Residential Centers	20,715.8	21,649.3	933.5	8
Behavioral Health Care	6,750.3	6,756.9	6.6	
Physical Health Care	28,334.8	29,834.8	1,500.0	5, 6
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	14,022.2	14,925.0	902.8	3
Federal Funds (all allocations)	3,220.6	3,220.6	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$17,242.8</b>	<b>\$18,145.6</b>	<b>\$902.8</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>1,511</b>	<b>1,511</b>	<b>-</b>	
PFT	1,509	1,509	-	
PPT	2	2	-	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	6,000.0	-	6,000.0	
Remodel, Reconstruction and Upgrades	150.0	-	150.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	1,000.0	-	1,000.0	
Other	250.0	-	250.0	
<b>TOTAL CAPITAL</b>	<b>\$7,400.0</b>	<b>\$0.0</b>	<b>\$7,400.0</b>	

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

## Department of Corrections

The mission of the Department of Corrections (DOC) is to provide secure confinement, reformative programs, and a process of supervised community reintegration to enhance the safety of Alaskan communities. The Department:

- provides secure confinement;
- provides reformative programs; and
- provides supervised re-entry.

The FY12 Department of Corrections general fund operating budget as submitted by the Governor is \$6,381.8 above the FY12 Adjusted Base [\$9,064.7 Unrestricted General Funds (UGF) and a reduction of \$2,682.9 Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### NEW PROGRAMS/PROGRAM EXPANSION

#### 1. Phased-in Opening of Goose Creek Correctional Center: \$3.6 Million

**UGF.** The Department of Corrections is scheduled to take leased ownership of the new Goose Creek Correctional Center (GCCC) in December 2011. Located approximately nine miles from Point MacKenzie, construction progress for the \$240 million project is on schedule and approximately 75% complete. In the months leading up to phased-in occupancy, testing of all core systems will be required to assure correct operations. This testing must occur during the one-year building warranty period (beginning December 2011). The initial testing phase will involve the rotation of at least five correctional officers, three maintenance positions and 30 minimum security inmates through GCCC during late FY12. This increment covers operational costs during the test period.

Recruitment of the 343 permanent full time positions will begin in FY13. The Department expects to reach full capacity (1,480 beds) in FY14, with total operating costs expected to be approximately \$50 million per year. These costs will eventually be offset by the reduction in the Out-of-State Contractual allocation (\$21.8 million UGF in FY11).

**Legislative Fiscal Analyst Comment:** *It should be noted that projections do not include start up furniture, fixture, and equipment costs. Additionally, there is little funding available in the original capital project and there is no capital appropriation included in the Governor's FY12 budget request for these items.*

*Following is the most recent departmental breakdown of the prison's construction budget:*

Goose Creek Correctional Center Bonds and Uses (as of 11/5/10)	
Project Fund/Total Bonds	\$240,073.2
Nesser Construction Contract Award	-\$218,600.0
Honorarium for Bid Loser	-\$400.0
RISE Alaska Project Mgmt Contract	-\$6,000.0
Alaska Planning & Architecture Contract	-\$3,000.0
Mat-Su Borough Mgmt. Fees	-\$1,000.0
Original Contingency Fund from Bonds	\$11,073.2
Wastewater Treatment Facility Land Transfer	-\$5,400.0 *
Approved Change Orders	-\$365.0
High Probability Change Order Reserve	-\$480.0
Balance of Contingency	\$4,828.2

*\*may come in slightly lower*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

2. **Community Jails - Increased Bed Costs for Kodiak Jail: \$188.0 UGF.** This increment would support increased jail capacity of six beds, added under the funding methodology in SB65 (Ch. 160, SLA 2004) which expanded the required level of service the state must provide to incarcerated offenders.
3. **Statewide Probation and Parole - Pilot Program for Domestic Violence Misdemeanants: Probationer Accountability with Certain Enforcement (PACE): \$200.0 Inter-Agency Receipts (Other).** The Governor's Office FY12 budget contains \$3 million UGF for funding Sexual Assault and Domestic Violence (DV) Prevention Programs in various departments. The Department of Corrections requests I/A funding to initiate supervision of Domestic Violence misdemeanants in Fairbanks (currently, DV misdemeanants are not supervised). Under the PACE model, DV offenders would be immediately arrested, brought to court, and sanctioned for any violation of probation conditions. Although unfunded, a PACE pilot program has been implemented in Anchorage (by increasing the caseloads of existing probation officers) and appears to be achieving positive results.
4. **Institution Director's Office - Increased Prison Population as a Consequence of SB 222: \$136.9 UGF.** The enactment of SB222 (Ch. 18, SLA 2010) necessitates the development of an enhanced reporting mechanism and data system to collect and track felony sex offenses in the Department of Public Safety. DOC anticipates that more sophisticated tracking is likely to increase the number of offenders requiring incarceration. This increment request is based on the average number of new convictions for felony sex offenses.

### **MAINTENANCE OF SERVICES**

5. **Increased Physical Health Care Costs: \$1.5 million UGF.** The Department is required to provide and pay for health care services for all incarcerated offenders. Treatment associated with diabetes, cancer, heart disease, health-related issues due to obesity, health issues associated with care for geriatrics, and catastrophic medical cases continue to drive costs upward. Because the majority of treatment for these types of conditions occurs outside correctional institutions, the Department has limited control over the cost of providing chronic medical services. The Department negotiates discounted rates for contracted medical services, but cannot accurately predict total costs. The Department received \$4.7 million in FY10 supplemental funding, as well as a \$3.1 million increment for the Physical Health Care allocation in FY11.
6. **Fund Change/Inmate Physical Health Care: \$1,322.0 UGF from PFD Criminal Funds (DGF).** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to the number of convicted felons and third time misdemeanants who are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of available PFD Criminal funds is volatile. For FY12, the Department of Revenue calculated the amount available for appropriation to be \$2.7 million less than in FY11.  
  
The requested fund change replaces the Department's portion of that reduction with UGF in order to maintain services.
7. **Community Jails: \$1.3 million UGF.** In FY08, the agency initiated a community jails cost allocation analysis in an effort to promote funding equity among the 15 communities whose jails hold offenders that violated state law. Using data gathered from the past three fiscal years, the study's funding methodology recommends the following cost allocation increase for 13 of 15 participating communities to maintain existing services:



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

Bristol Bay	\$ 45.0
Cordova	\$ 40.0
Craig	\$ 35.0
Dillingham	\$ 35.0
Haines	\$ 25.0
Homer	\$ 165.0
Kodiak	\$ 175.0
Kotzebue	\$ 190.0
Petersburg	\$ 65.0
Seward	\$ 125.0
Unalaska	\$ 160.0
Valdez	\$ 120.0
<u>Wrangell</u>	<u>\$ 120.0</u>
<b>TOTAL</b>	<b>\$1,300.0</b>

8. **Community Residential Centers (CRC): \$933.5 UGF.** In recent years, the CRC component has been underfunded. The Department has been able to offset this shortfall using existing authorization from the Electronic Monitoring (EM) component. In FY08, EM received an increment to increase the daily average of participants to 250. Full implementation did not occur until FY10, which finally saw the EM daily average reach 253. As a result, excess authorization from EM is no longer available to the CRC allocation and full funding is requested to cover the anticipated Consumer Price Index (CPI) increase of \$748.0, with an additional \$185.5 required to fully fund the Department's 108 per-diem beds.

## **ORGANIZATIONAL CHANGES**

9. **Prison Employment Program (PEP) Discontinued** – Marginal economics of the PEP were the primary driver behind the dissolution of the program. Only one of the three entities (the Lemon Creek Correctional Center (LCCC) Commercial Laundry) provided self-sufficient revenues and was maintained. The laundry operation is now housed within the LCCC allocation (\$350.0 I/A Receipts) and continues to provide services to the Alaska Marine Highway.

## **CAPITAL REQUEST**

The agency's \$7.4 million UGF capital budget is comprised primarily of a \$5 million proposal for deferred maintenance projects. The majority of the 117 state-owned buildings the Department is charged with maintaining are over 20 years old, and 20% are over 30 years old. This appropriation will fund the most urgent projects in the Department based on safety, environmental factors, utility infrastructure, and security.

The Department's other four capital projects include:

- Annual Facilities Maintenance and Repairs: \$1 million UGF;
- Implementation of a Medical Information System: \$1 million UGF;
- Spring Creek Correctional Center (SCCC) Land Transfer: \$250.0 UGF; and

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

***Legislative Fiscal Analyst Recommendation:*** *This project might be placed more appropriately in the Department of Natural Resources, which will incur the majority of survey, platting and legal costs.*

- Community Jails Repairs, Renovations, and Equipment: \$150.0 UGF.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Education and Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$1,184,777.4</b>			
FY11 Fiscal Notes	3,781.1			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	51.5			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	(3,000.0)			
<b>FY11 Management Plan (GF only)</b>	<b>\$1,185,610.0</b>	\$832.6	0.1%	
One-time Items removed	(3,094.2)			
FY12 Contractual Salary and Health Increases	682.7			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$1,183,198.5</b>	(\$2,411.5)	-0.2%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/Multi Years	10,350.4			
FY12 Governor's GF Increments/Decrements/Fund Changes	14,150.3			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$1,207,699.2</b>	\$24,500.7	2.1%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$24,500.7</b>	
Foundation Program	1,061,183.0	1,072,794.2	11,611.2	8
Pupil Transportation	63,839.2	64,228.4	389.2	8
Special Schools	3,303.0	3,318.4	15.4	14
Alaska Challenge Youth Academy	5,826.8	6,008.6	181.8	12
Executive Administration	829.9	851.0	21.1	13
Administrative Services	668.9	689.5	20.6	15
Information Services	263.9	287.2	23.3	15
Student and School Achievement	10,275.7	10,767.9	492.2	3,4,15
State System of Support	1,661.6	2,061.6	400.0	2
Early Learning Coordination	8,214.6	10,214.6	2,000.0	9
Library Operations	4,705.2	4,729.2	24.0	6
Program Admin & Operations	-	1,100.0	1,100.0	11
AK Performance Scholarships	-	8,221.9	8,221.9	1
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	23,196.5	24,196.7	1,000.2	4,10
Federal Funds (all allocations)	218,126.3	236,014.9	17,888.6	5,7,10
<b>Total Non-General Funds (all allocations)</b>	<b>\$241,322.8</b>	<b>\$260,211.6</b>	<b>\$18,888.8</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>353</b>	<b>357</b>	<b>4</b>	
PFT	337	337	-	
PPT	12	12	-	
Temp	4	8	4	10
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	125.0	-	125.0	
Maintenance and Repairs	1,700.0	-	1,700.0	
Remodel, Reconstruction and Upgrades	19,860.2	-	19,860.2	
New Construction and Land Acquisition	28,489.3	-	28,489.3	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$50,174.5</b>	<b>\$0.0</b>	<b>\$50,174.5</b>	

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **Department of Education and Early Development**

The Department of Education and Early Development (DEED) 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/major maintenance. Core services include the following:

- provide and evaluate a Comprehensive Student and School Standards, 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;
- provide and support standards-based professional development and mentoring for Alaska's educators to ensure high quality and student achievement;
- provide a statewide program to ensure all students have the foundational skills required for a successful transition to college and/or the workforce after high school;
- secure and award state, federal, and private educational funding to school districts and other educational organizations to result in higher student achievement; and
- provide high quality data to school districts and stakeholders through the use of the Alaska Statewide Longitudinal Data System.

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, EED State Facilities Maintenance, and Alaska Library and Museums.

The FY12 Department of Education and Early Development general fund operating budget submitted by the Governor is \$24,500.7 above the FY12 Adjusted Base [\$22,916.1 Unrestricted General Funds (UGF) and \$1,584.6 Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Alaska Postsecondary Education Commission – Alaska Performance Scholarship Award: \$8,221.9 UGF.** This request will fund the first year (2011) of student participation—estimated to be 2,305 high school graduates—in the Alaska Performance Scholarship Award program. Signed into law on May 10, 2010 (Ch. 14, SLA 10 – SB221), this merit-based scholarship is intended to provide incentive for high school students to take a more rigorous curriculum to better prepare for college or job training and success. Overall, this program is intended to improve graduation rates and make higher education more affordable for Alaska's families.
- 2. State System of Support – Content Coaches and School District Trustee Funding: \$400.0 UGF.** The Department is requesting funding for the services of Content Coaches to provide direct, sustained and targeted assistance for schools and districts to reach Adequate Yearly Progress (AYP) as required by the federal No Child Left Behind (NCLB) law. In addition, this increment would provide for a School District Trustee to authorize expenditures to implement a District Improvement Plan and a School Improvement Grant and to perform assessments to measure AYP.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

*Legislative Fiscal Analyst Comment: In FY11, base funding of \$291.7 was provided to add 3 PFT Content Specialists for Math, Science, and Reading. These content specialists are working to support content coaches and school districts throughout the state. The FY12 increment request is a further expansion of this state system of support.*

### **3. Student and School Achievement - Support for School Health and Safety**

**Coordinator: \$200.0 UGF.** In October 2010, a new, permanent full-time, exempt position was approved by OMB to support the Governor's Domestic Violence & Sexual Assault Initiative through a coordinated school health framework. In FY11, this range 21 position is funded by interagency receipts through a Reimbursable Services Agreement (RSA) with the Office of the Governor. In FY12, however, a \$200.0 UGF increment is requested to fund these efforts.

*Legislative Fiscal Analyst Comment: In FY11, \$3 million UGF was added to the Governor's Office for statewide planning, development and execution of prevention and intervention strategies to address sexual assault and domestic violence. Funds were distributed to participating agencies via reimbursable services agreements. The Governor's FY12 budget contains \$3 million to continue this initiative, but DEED is requesting general funds because the DEED position is not listed as an FY12 RSA. (The funding will be redirected to the Department of Corrections.) If the DEED position is to be retained, the legislature may wish to consider funding the position through the Governor's Office in order to retain the coordinated approach that consolidated funding was intended to provide.*

### **4. Student and School Achievement – MH Trust Grant for the Alaska Autism Resource Center: \$150.0 GF/MH (UGF) plus \$100.0 Mental Health Trust Authority Authorized Receipts (MHTAAR)**

The Alaska Autism Resource Center (AARC) is a project that shares information and resources about autism with individuals throughout the state. The Special Education Service Agency (SESA) currently has the contract to operate the AARC. The project provides full life services, including referrals, training and consultation both on-site and by distance delivery to all Alaskans who desire Autism information and help.

*Legislative Fiscal Analyst Comment: In FY11, \$212.0 MHTAAR was appropriated for the AARC. Because the total funding request increased and general funds are replacing more than half of the MHTAAR funding, the FY12 increment is categorized as a new program/program expansion.*

### **5. Child Nutrition – Increase for Additional Food & Nutrition Program Reimbursements: \$15 million Federal Receipts (Fed).**

This increase in federal authorization (by more than 42 percent over the FY11 budget) is due to an increase in the amount of federal funds available for reimbursement of Food and Nutrition program expenditures.

### **6. Library Operations – Stratton Library Maintenance/Utility Fund: \$24.0**

**UGF.** The Stratton Library, which served as the former Sheldon Jackson College academic and research center, was acquired by the State of Alaska through a \$2 million appropriation in the FY11 Capital Budget (Ch 43, SLA10, SB 230). The state expects to consolidate the library with the adjacent state-owned museum. This increment is for fuel and utility costs to prevent mold/mildew damage while the library is unoccupied.

### **7. AK Postsecondary Education Commission College Access Challenge Grant (CACG) Authority: \$1,100.0 Federal Receipts (Fed).**

Federal receipt authority is requested to provide additional student advising and to build research capacity. College Access Challenge Grants are designed to foster partnerships among federal, state, and local governments and philanthropic organizations. They are aimed at increasing the number of low-income students who are prepared to enter and succeed in some form of postsecondary education.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **MAINTENANCE OF SERVICES**

- 8. K-12 Education Formula Funding.** Because education funding changes are likely to come through legislation rather than subcommittee action, the discussion here is brief and general. The statutory formula requires \$1,060,444.2 UGF for the Foundation Program and \$64,228.4 UGF for Pupil Transportation. Total funding for K-12 education formula programs is increasing by \$12 million over FY11.

Three years ago, the legislature adopted a three-year education plan presented by an Education Task Force. The recommendations (adopted in HB 273 (Ch. 9, SLA 2008)):

- increased the Base Student Allocation (BSA) by \$100/student/year for FY09, FY10, and FY11;
- increased the geographic differential paid to school districts with high operating costs; and
- increased the amount paid to school districts for approximately 2,000 intensive-needs students who experience health conditions and disabilities requiring daily monitoring and assistance with their school day activities.

FY11 was the final year of the three-year phase-in of significantly higher payments to school districts. At this point, the Governor's request reflects the same Base Student Allocation for FY12 as that for FY11 – \$5,680.

Section 20(n) of the Governor's operating budget bill appropriates \$1.141 billion from the general fund to the Public Education Fund (PEF). That amount is the projected need for K-12 formula funding for the Foundation Program and Pupil Transportation for FY13, and is about \$13.7 million more than the projected need for FY12.

*Legislative Fiscal Analyst Comment: Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. A continuation of the concept of forward funding requires an appropriation of projected FY13 costs to the Public Education Fund while withdrawing FY12 costs from the fund.*

- 9. Early Learning Coordination Pre-Kindergarten Program: \$2,000.0 UGF.**

This request is for the third year of a pre-kindergarten program. According to the Department, this preschool program provides a voluntary, comprehensive, half-day for four-year olds and early five-year olds based on the standards set forth in the Alaska Early Learning Guidelines. Participating school districts are funded through a competitive grant process. It is anticipated that the preschools will serve 300-500 children statewide and that, eventually, this project will provide the framework and guidance for the creation of local programs in a variety of urban, rural, and remote sites.

*Legislative Fiscal Analyst Comment: In both FY10 and FY11, the legislature approved \$2 million as one-time funding for a Pre-K Pilot Program. For FY12, the Department requests that this amount be added to its base budget. Previously, funding was also appropriated in the formula-driven Foundation Program allocation under the K-12 Support appropriation. In FY12, the money is requested in the Early Learning Coordination allocation within the Teaching and Learning Support appropriation.*

- 10. Library Operations – Broadband Technology Opportunities Program: \$2,704.3 Total (\$710.0 - Statutory Designated Program Receipts (Other Funds)/ \$1,994.3 Stimulus09 Federal Funds) plus 4 Temporary Positions.**

This increment reflects second year funding of a three-year grant from the U.S. Department of Commerce, National Institute of Standards and Technology for the Broadband Technology Opportunities Program. The Alaska State Library is a recipient of this grant, the intent of which is to link Alaskans and their communities to each other and the rest of the world through a statewide network of public computer centers located in 104 Alaska public libraries. The overall project will

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

collaborate with a parallel U.S. Department of Commerce grant awarded to the University of Alaska that will provide widespread training in broadband resources.

*Legislative Fiscal Analyst Comment: The first year of funding for this project was approved as an RPL at the December 14, 2010 Legislative Budget and Audit Committee meeting, in the amount of \$3,460.6 (\$2,432.4 Stimulus09 funds/ \$1,028.2 SDPR). Legislative Finance suggests that the agency's FY12 operating budget be amended to include a multi-year (FY12 and FY13) request for the balance of the grant plus any potentially lapsing balance from the RPL. This will ensure that full funding is secured as early as possible and that no money is left on the table.*

- 11. AK Postsecondary Education Commission – AlaskAdvantage Education Grant Fund: \$1,100.0 UGF.** In 2010, the passage of SB 221 created the Alaska Performance Scholarship Award program and provided \$400.0 to supplement the \$620.0 already available for AlaskAdvantage grants. Both the fiscal note funding and the available grant funding terminated in FY11. The Governor's FY12 increment request maintains the FY11 funding level for the needs-based AlaskAdvantage Education Grant program.
- 12. Alaska Challenge Youth Academy (ACYA) – Formula Increase: \$181.8 UGF.** The academy is operated by the Department of Military and Veterans Affairs (DMVA) and is funded through a Reimbursable Services Agreement with DEED in accordance with AS 14.30.740. The total FY12 general fund budget for the ACYA will be \$6,008.6. This amount reflects an increase in FY12 of \$181.8 and is calculated using the base student allocation amount of \$5,680 (the same as in FY11). The increase is due to student count differences between FY11 and FY12: The residential program is increasing from 189 to 194 in FY12; and the post-residential program is decreasing from 297 in FY11 to 292 in FY12.

*Legislative Fiscal Analyst Comment: The legislature may wish to revisit this formula program. The current statutory program support formula provides seven times the base student allocation for ACYA residential students plus a smaller non-resident amount. The legislature may wish to consider a direct appropriation to DMVA, as DEED has no legal responsibility for the ACYA and, therefore, should not act as a pass-through agency.*
- 13. Executive Administration – Support for the Alaska Council on Education for Military Children: \$21.1 UGF.** In 2009, the Department of Education and Early Development joined the Interstate Compact on Educational Opportunity for Military Children. This increment provides funding for the compact dues (currently \$16.2) as well as costs associated with departmental representation at state and national meetings. The purpose of joining the compact was to eliminate some of the barriers that face children of military personnel as they transition from one school system to another.
- 14. Special Schools – Special Education Service Agency (SESA): \$15.4 UGF.** A request for \$15.4 in general funds reflects a formula adjustment. The SESA formula requires \$2,037.0 for FY12.

### **OTHER ISSUES**

- 15. Salary Fund Source Changes: \$251.5 UGF.** The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for increases in health insurance and offset bargaining unit adjustments for FY12. Three different allocations are affected for a total of \$251.5 UGF (the switch occurs from unrealizable Federal Receipts (\$205.7) and Interagency Receipts (\$45.8)). As an alternative to these fund source changes, DEED could either (1) increase chargebacks to other allocations, placing the burden of the costs on other DEED

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

divisions which would require them to reallocate funding through a reduction in other program areas or (2) absorb these personal services costs within the individual allocation vacancy factors.

- 16. Lapse Extension for Stimulus Funds.** The Governor's operating budget request includes a lapse extension for \$10 million for American Recovery and Reinvestment Act (ARRA 2009) funds in the Teaching and Learning Support appropriation. Because a lapse extension is not a request for new money, the dollar amount of the lapse does not need to appear as a Governor's request.

## **ORGANIZATIONAL CHANGES**

In FY12, the only structural change in the Department of Education and Early Development is the addition of an allocation, Alaska Performance Scholarships Awards, to the Alaska Postsecondary Education Commission appropriation.

## **CAPITAL REQUEST**

In addition to school district major maintenance grants totaling \$19.9 million and the school construction grant funds totaling \$28.5 million, the Department of Education and Early Development's FY12 capital budget includes \$1.825 million UGF for the following projects:

- **Mt. Edgecumbe High School Deferred Maintenance: \$800.0 UGF.** Continued work on deferred maintenance and construction projects in the Mt. Edgecumbe High School capital project plan. Specific projects are determined by an annual review including verification that the school is performing maintenance and operation tasks in accordance with the requirements of AS 14.11.011.
- **Stratton Library Roof and Siding Replacement: \$900.0 UGF.** This project would replace the failing roof and siding at the Stratton Library in Sitka, protecting the state's 2010 investment in the purchase of the library building. The library was originally constructed in 1974, and both the roofing and siding systems have exceeded their useful life.
- **Abandoned School Site Assessments: \$125.0 UGF.** Five abandoned school sites to which the Department currently holds title (located in the communities of Tuntutuliak, Rampart, Pilot Station, Telida and Newtok) require a hazardous materials assessment. This assessment would then lead to plans for demolition and mitigation at each site.

*Legislative Fiscal Analyst Comment: The school debt reimbursement program is shown in a separate section of this overview that addresses debt obligations (see table on page 52).*

# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Environmental Conservation				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$44,355.1</b>			
FY11 Fiscal Notes	16.2			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	67.7			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$44,439.0</b>	\$83.9	0.2%	
One-time Items removed	(67.7)			
FY12 Contractual Salary and Health Increases	1,134.3			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$45,505.6</b>	\$1,066.6	2.4%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	943.5			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$46,449.1</b>	\$943.5	2.1%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$943.5</b>	
Commissioner's Office	449.4	451.0	1.6	
State Support Services	1,818.0	1,997.8	179.8	6
Food Safety & Sanitation	3,907.9	3,921.9	14.0	
Laboratory Services	1,971.2	2,078.7	107.5	2
Drinking Water	2,318.2	2,387.6	69.4	4
Solid Waste Management	1,998.0	2,047.9	49.9	5
Air Quality	3,245.1	3,465.1	220.0	1
Contaminated Sites Program	3,679.2	3,699.2	20.0	1
Water Quality	10,831.2	11,085.6	254.4	1,3,8
Facility Construction	1,172.2	1,199.1	26.9	
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	10,806.1	10,707.7	(98.4)	1,6,7,8
Federal Funds (all allocations)	23,156.5	23,493.4	336.9	1,6,7
<b>Total Non-General Funds (all allocations)</b>	<b>\$33,962.6</b>	<b>\$34,201.1</b>	<b>\$238.5</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>551</b>	<b>554</b>	<b>3</b>	
PFT	539	542	3	1,2
PPT	1	1	-	
Temp	11	11	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	100.0	-	100.0	
Maintenance and Repairs	200.0	-	200.0	
Remodel, Reconstruction and Upgrades	9,521.3	17,781.2	27,302.5	
New Construction and Land Acquisition	19,745.3	24,518.8	44,264.1	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	605.3	5,898.2	6,503.5	
<b>TOTAL CAPITAL</b>	<b>\$30,171.9</b>	<b>\$48,198.2</b>	<b>\$78,370.1</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 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:

- develop and enforce standards for protection of the environment;
- provide controls and enforcement for the prevention and abatement of pollution to the environment; and
- provide controls and enforcement to protect citizens from unsafe sanitary practices.

The FY12 Department of Environmental Conservation general fund operating budget submitted by the Governor is \$943.5 GF above the FY12 Adjusted Base [\$268.6 Unrestricted General Funds (UGF) / \$674.9 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

## **NEW PROGRAMS / PROGRAM EXPANSION**

### **1. Gasline Related Development**

- **Air Quality Permitting: \$155.0 UGF/ \$55.0 GF/Program Receipts (DGF).** This funding will allow the Department to add one new permanent full-time Environmental Engineer Associate I position to work on air quality permitting issues related to resource development including, but not limited to, the natural gas pipeline.
- **Water Quality Stormwater & Wastewater Permitting: \$82.0 UGF.** Funds will allow the Department to add one new permanent full-time Environmental Engineer II for half of the fiscal year. This position will participate primarily in the development of Environmental Impact Studies and stormwater/wastewater pre-permitting processes.
- **Contaminated Sites: \$20.0 UGF.** The Environmental Impact Statement (EIS) process requires identification of contaminated sites along the gasline right-of-way and planning for fuel spill prevention and mitigation measures. This funding will allow the Department to complete required studies and identify contaminated sites.
- **Air Quality - Fairbanks North Star Borough Air Quality Monitoring to Evaluate Impacts of Gasline Construction Activities: \$10.0 Federal Receipts/ \$10.0 GF Match (UGF).** Before Gasline construction can begin, 12 months of air quality monitoring and modeling is required in the Fairbanks North Star Borough as part of the Environmental Impact Statement (EIS) process. The EIS will have to predict and evaluate air quality impacts due to increased activity related to a major construction project. This funding will allow the Department to complete the air quality monitoring and modeling as required.
- **Industry Preparedness and Pipeline Operations - Work Related to In-State Pipeline Coordination Team (HB 369): \$121.1 I/A Receipts (Other).** Interagency Receipt authorization is being requested to receive funding from the Alaska Housing Finance Corporation (AHFC) for work related to HB 369 In-State Pipeline Coordination Team as outlined in the corresponding fiscal note. HB 369 required the creation of a Joint In-State Gasline Development Team whose purpose will be to develop an in-state natural gas pipeline plan by July 1, 2011.

***Legislative Fiscal Analyst Comment:** The fiscal note for HB 369 outlined funding for FY11 but provided no estimates for future years. The Department of Revenue (DOR), Alaska Gasline Development Corporation, removed all funding associated with the fiscal note from the operating budget in FY12. Funding for the Alaska Gasline Development Corporation Staff has*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*been requested in FY12 as Capital Improvement Project Receipts; however, no additional funding was requested for the other participating departments. There is no cash requested in the DOR operating budget to back the I/A Receipts expected by DEC. There is a FY12 capital project request titled Alaska Gasline Development Corporation – Year 2 In-State Gas Project, but it does not outline funding available for other participating departments.*

### **2. Laboratory Services - Support for Shellfish Testing: \$80.0 GF/PR (DGF).**

Funds will allow the Department to add one new permanent full-time Microbiologist position to process the increasing number of samples from geoduck farms and marine water testing. Six geoduck farms and three wild harvest sites were added over the course of the past year, each producing an estimated 20 additional Paralytic Shellfish Poison samples requiring testing. This adds an additional 180 tests to the 589 samples tested.

### **3. Water Quality - Contractual Assistance to the On-Site Wastewater Discharge Program: \$60.0 GF/PR (DGF).**

The Department is requesting authorization to contract with an engineering firm to provide assistance to the On-Site Waste Water Discharge Program in the Matanuska-Susitna (Mat-Su) Borough Office. Communities in the Mat-Su rely almost exclusively on disposal of septic and industrial wastewater to the subsurface, with the potential to pollute groundwater. Currently some drinking water system plans are not being reviewed due to a shortage of engineers in the program. This funding would augment the staff's ability to monitor systems in the Mat-Su area. The Department anticipates the generation of additional receipts to offset the cost.

### **4. Drinking Water - Increased GF/PR Authority for Drinking Water Inspections and Technical Assistance: \$30.0 GF/PR (DGF).**

As a result of the adoption of new federal rules, the Drinking Water Program is required to provide inspections, technical assistance and other services for drinking water systems. This request provides the Department additional authorization to expend fees already being collected from services provided to public water systems.

*Legislative Fiscal Analyst Comment: The legislature may wish to explore the option of replacing budgeted UGF with GF/PR. Increased GF/PR authorization is requested partially within the personal services line.*

### **5. Solid Waste Management - Increased GF/PR Authority to Increase Services: \$40.0 GF/PR (DGF).**

Receipt authority is being requested to cover increased personal services costs for staff that review permit applications and perform facility inspections of land fills and industrial waste disposal sites in the Solid Waste Program. An analysis was completed last year to determine whether permit fees accurately reflect direct costs to the State, as required every four years by statute, and resulted in higher rates. This request provides the Department additional authorization to expend fees already being collected.

*Legislative Fiscal Analyst Comment: The legislature may wish to explore the option of replacing budgeted UGF with GF/PR. Increased GF/PR authorization is requested partially within the personal services line.*

## **MAINTENANCE OF SERVICES**

### **6. State Support Services - Increased Lease Costs: \$250.0 Federal Receipts / \$179.8 DGF / \$59.0 Other.**

The Department requests \$488.8 to cover increased lease costs for existing space in the Anchorage Office Building.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

7. **Administrative Services - Increase Federal Authorization for Federal Grant Management: \$250.0 Federal Receipts/ (\$250.0) I/A Receipts (Other).** The Department requests a fund source change from Interagency Receipts to Federal Receipts in order to use indirect revenues earned as a result of the increased workload associated with the federal grant process. The Department indicates it has experienced a 51% increase in the number of federal grants being managed since FY07.

*Legislative Fiscal Analyst Comment: The legislature may wish to explore the option of reducing general funds, either in Administrative Services or in the divisions that provide the I/A receipts to Administrative Services.*

8. **Water Quality - Increase GF/PR Authorization for Mining Permit Fees: \$47.4 GF/PR (DGF)/ (\$47.4) SDPR (Other).** The Department requests a fund source change from Statutory Designated Program Receipts to General Fund Program Receipts to allow for the collection of established mining permit fees versus negotiated mining contracts.

## **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

## **CAPITAL REQUEST**

The agency's \$78.4 million capital budget, of which \$29.6 million is UGF, includes the following:

- **Village Safe Water and Wastewater Infrastructure Projects: \$42,300.0 Federal/ \$8,766.7 GF Match/ \$500.0 Statutory Designated Program Receipts (Other).** This request provides:
  - grant funding to communities to plan, design and construct drinking water and sanitation facilities; and
  - capital related operating costs of the Facility Construction component within the Division of Water.
- **Municipal Water, Sewage, and Solid Waste Facilities Grants: \$20,000.0 GF Match.** This request provides grant funding to communities to plan, design and construct drinking water and sanitation facilities and the associated operating costs of the Facility Construction component within the Division of Water.
- **Drinking Water Capitalization Grant Subsidy Funding: \$4,071.9 Alaska Drinking Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue 30% of the funding as subsidies. This request provides funding to meet the federal requirement and be eligible to receive the \$13.6 million in federal funds in FY12.
- **Clean Water Capitalization Grant Subsidy Funding: \$1,826.3 Alaska Clean Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue subsidies. The subsidy amount required was identified under grant terms the Environmental Protection Agency has identified for Alaska. This provides funding to meet the federal requirement and be eligible to receive the \$12.2 million in federal funds in FY12.
- **Recreational Shellfish Beach Monitoring Pilot Program: \$400.0 UGF.** This project will provide funding for a pilot recreational shellfish beach monitoring program. In collaboration with four local communities, the Department will monitor recreational harvesting areas for paralytic shellfish poison.

*Legislative Fiscal Analyst Comment: This capital request has been identified by Legislative Finance as an operating item in the capital budget. Requested funding would allow the*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*Department to provide technical assistance and testing of samples. The Laboratory Services allocation currently provides testing services for commercial harvest and sale of shellfish.*

- **Tax Exempt Usage Requirement for Investment Income from Certificates of Participation: \$205.3 Misc Earnings (UGF).** The Department is requesting Miscellaneous Earnings authorization to satisfy the tax exempt usage requirements for the investment income earned from the issuance of Certificates of Participation for the building of the Environmental Health Lab.

***Legislative Fiscal Analyst Comment:** This capital request will provide the Department authorization to make a technical adjustment, as well as purchase additional equipment. Existing general fund expenditures for the Environmental Health Laboratory Building will be replaced with the miscellaneous earnings, thus freeing up UGF. The Department intends to purchase additional equipment as identified in the original building plan with the available UGF.*

- **Environmental Health Laboratory Building Deferred Maintenance: \$200.0 UGF.** This funding request is to cover deferred maintenance items in the Environmental Health Laboratory Building. Examples of immediate deferred maintenance needs include air flow safety alarms, ventilation improvements, steam generator replacement, and a decontamination shower upgrade.

***Legislative Fiscal Analyst Comment:** The legislature may wish to combine The Tax Exempt Usage Requirement for Investment Income from Certificates of Participation and the Environmental Health Laboratory Building Deferred Maintenance capital projects into a single request, totaling \$405.3. Both projects request funding to make improvements and upgrades for the same building.*

- **Spill Prevention - Best Available Technology Analysis: \$100.0 Oil/Hazardous Release Prevention & Response Fund (DGF).** To assure that proven new technologies are considered for use in oil discharge prevention and contingency plans, the Department is required to review and appraise technology applied in other locations. This request provides funding to engage in studies, inquiries, surveys, analysis and sponsorship of technology conferences to present data on emerging technologies.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

## Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$73,351.0</b>			
FY11 Fiscal Notes	103.0			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	69.9			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$73,523.9</b>	\$172.9	0.2%	
One-time Items removed	(379.9)			
FY12 Contractual Salary and Health Increases	2,589.4			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$75,733.4</b>	\$2,209.5	3.0%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	2,394.7			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$78,128.1</b>	\$2,394.7	3.2%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>				
	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$2,394.7</b>	
Southeast Region Fisheries Management	8,300.6	8,300.6	-	5
Central Region Fisheries Management	8,693.9	8,693.9	-	6
AYK Region Fisheries Management	6,791.9	6,961.6	169.7	3,7
Commercial Fisheries Special Projects	3,353.4	3,863.8	510.4	8
Sport Fisheries	4,911.6	5,894.0	982.4	8
Wildlife Conservation	5,802.8	6,207.9	405.1	1,8
Wildlife Conservation Special Projects	958.1	998.5	40.4	8
Commissioner's Office	818.7	841.0	22.3	8
State Subsistence	2,349.0	2,459.4	110.4	8
Habitat	3,701.7	3,855.7	154.0	2,8
<b>Non-General Fund Agency Summary</b>				
	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	59,175.5	56,392.3	(2,783.2)	4,8
Federal Funds (all allocations)	63,499.9	62,599.7	(900.2)	8
<b>Total Non-General Funds (all allocations)</b>	<b>\$122,675.4</b>	<b>\$118,992.0</b>	<b>(\$3,683.4)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>1,744</b>	<b>1,744</b>	-	
PFT	924	924	-	
PPT	756	756	-	
Temp	64	64	-	
<b>Governor's Capital Request</b>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	12,000.0	12,000.0	
Maintenance and Repairs	700.0	-	700.0	
Remodel, Reconstruction and Upgrades	1,580.0	540.0	2,120.0	
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	
Equipment and Materials	105.0	-	105.0	
Information Systems and Technology	400.0	-	400.0	
Other	-	7,500.0	7,500.0	
<b>TOTAL CAPITAL</b>	<b>\$3,535.0</b>	<b>\$22,290.0</b>	<b>\$25,825.0</b>	

## **Department of Fish and Game**

The Department of Fish and Game (DF&G) is charged with protecting and improving the fish, game, and aquatic plant resources of the state, and managing their use and development in the best interests of the economy and the people of the state, consistent with the sustained yield principle.

### **Core Services:**

- Provide opportunity to utilize fish and wildlife resources;
- Ensure sustainable and harvestable surplus of fish and wildlife resources;
- Provide information to all customers;
- Involve the public in management of fish and wildlife resources;
- Protect the state's sovereignty to manage fish and wildlife resources; and
- Protect important fish and wildlife habitat during permit and project review.

The FY12 Department of Fish & Game general fund operating budget as submitted by the Governor is \$2,394.7 above the FY12 Adjusted Base [\$2,890.4 Unrestricted General Funds (UGF)/ (\$495.7) Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

## **NEW PROGRAMS / PROGRAM EXPANSION**

- 1. Wildlife Conservation - Region IV Leadership Positions: \$200.0 UGF.** In FY11, the Wildlife Conservation Division established a new region (Region IV) which consists of area offices in Glennallen, King Salmon, Dillingham and Palmer, and created four leadership positions. The cost of the positions is approximately \$440.0. In the request to OMB to establish the positions, DF&G indicated that 60% of the position costs were to be paid with federal Wildlife Restoration funding. Unfortunately, activities performed by these leadership positions were not fully eligible for this federal funding. If this request is granted, the state/federal split on position cost will be about 45/55. In FY11, the division used general funds from an FY08 Wildlife Conservation capital project (\$2 million UGF) titled "Intensive Management Program Technical and Administrative Support". According to the Department, this one-time source will not be available in FY12, so general funds are being requested as an addition to the base budget.
- 2. Habitat - Support of Lead Position for Gasline Projects: \$103.5 UGF.** The Department is requesting to transfer one existing full-time position from the Commercial Fisheries Special Projects allocation to the Habitat allocation and is requesting funding to support it. This vacant Fishery Biologist I position will be reclassified to a Habitat Biologist IV for participation in planning and permitting of gasline projects. The position was previously funded with Statutory Designated Program Receipts (SDPR). The position was vacant because SDPR was not collected. The SDPR was retained in Commercial Fisheries Special Projects for future use.
- 3. Commercial Fisheries AYK Region Fisheries Mgmt - Norton Sound Red King Crab Annual Research & Assessment: \$50.0 UGF.** Currently the Department manages commercial fisheries in the AYK Region in collaboration with the North Pacific Fishery Management Council and conducts high-seas research on a bi-annual schedule. This increment would fund annual in-season research and assessment of the Norton Sound red king crab population. It would help ensure sustainable populations while maximizing harvest opportunity,

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

provide information to assist the Alaska Board of Fisheries and the council in making allocation and regulatory decisions, and would assist researchers and managers in refining population models and harvest strategies.

### **MAINTENANCE OF SERVICES**

- 4. Commercial Fisheries Special Projects - Additional CIP Authorization: \$300.0 CIP Receipts (Other).** The Department is requesting additional Capital Improvement Project Receipt authorization to cover the personal services costs for positions assigned to Commercial Fisheries capital projects. This increase will eliminate an unbudgeted Reimbursable Services Agreement (RSA) that is prepared annually.

*Legislative Fiscal Analyst Comment: The legislature may want to further examine the use of CIP Receipt authorization in this allocation. The Department has also requested a fund source change of CIP Receipts to UGF for unrealizable fund sources from personal services increases.*

*Legislative Fiscal Analyst Comment: CIP Receipts are a duplicated fund source and consist of amounts transferred from capital projects to the operating budget to support work on the project.*

- 5. Commercial Fisheries Southeast Region Fisheries Mgmt - Fund Source Change: \$109.8 UGF/ (\$109.8) GF/Program Receipts (DGF).** The Department is requesting replacement of General Fund Program Receipts from commercial crew license fees with UGF for the Southeast Tanner Crab Survey. The Department indicates an inability to predict the revenue collections from year to year.

In addition to the fund source change, the Department is requesting a transfer of the Southeast Tanner Crab Survey from the Commercial Fisheries Special Projects allocation to the Southeast Region Fisheries Management allocation.

*Legislative Fiscal Analyst Comment: The Department has indicated that a fund source change may not be necessary for this project due to carry forward language included in the Governor's Request. If the unexpended and unobligated balance of program receipts from commercial crew license fees is allowed to be carried forward, it will provide a stable revenue source.*

- 6. Commercial Fisheries Central Region Fisheries Mgmt - Fund Source Change: \$160.0 UGF/ (\$160.0) Test Fish (DGF).** The Department is requesting UGF to replace Test Fisheries Receipt authorization. According to the Department, test fisheries collections have been inadequate to cover management costs. This funding will be used to pay for two projects:

- Upper Cook Inlet (UCI) Offshore Test Fish project will assess actual run strength of sockeye salmon entering UCI as they pass Anchor Point at the southern boundary of UCI; and
- Bristol Bay Port Moller Test Fish project will assess stock composition and abundance of sockeye salmon as they approach Bristol Bay.

*Legislative Fiscal Analyst Comment: Although the use of Test Fisheries Receipts has been controversial in some areas of the state, these projects appear to be a justifiable use of the funds. The legislature may wish to review these projects further to determine whether the fund source change to UGF is appropriate.*

- 7. Commercial Fisheries AYK Region Fisheries Mgmt - Fund Source Change: \$119.7 UGF/ (\$119.7) SDPR (Other).** The Department is requesting the replacement of Statutory Designated Program receipts with UGF for the Canadian Border Sonar Program. According to the Department, the Yukon River Panel has indicated to the Department that

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

it does not intend to fund baseline operations of this program beyond the 2010 season. Without full funding, the project could not be operated for the entirety of the Chinook and fall chum salmon runs.

In addition to the fund source change, the Department is also requesting a transfer of the Canadian Border Sonar Program from the Commercial Fisheries Special Projects allocation to the AYK Region Fisheries Management allocation.

### OTHER ISSUES

#### 8. Requests to Correct Unrealizable Fund Sources for Personal Services

**Increases.** The Department is requesting UGF to replace over \$2.1 million of federal and other funds for personal services increases. The subcommittee should carefully examine each of these salary adjustment fund source changes to determine whether the changes are justified.

### ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

### CAPITAL REQUEST

The Department of Fish and Game requested eight capital projects totaling about \$25.8 million (\$2.8 million UGF / \$22.3 million Federal Receipts / \$750,000 Other):

- **Pacific Coastal Salmon Recovery Fund: \$12,000.0 Federal Receipts.** The Alaska portion of the Pacific Coastal Salmon Recovery Fund (PCSRF) federal appropriation is estimated to be \$12.0 million. Funding comes to the state through a Memorandum of Understanding in which the U.S. Department of Commerce designates the Alaska Department of Fish and Game as the program manager. This program seeks to manage salmon populations for sustainability.
- **Pacific Salmon Treaty Chinook Fishery Mitigation: \$7,500.0 Federal Receipts.** Federal authorization is requested to allow the State of Alaska to receive an estimated \$7.5 million in FY12 to help mitigate the economic consequences of harvest reductions imposed by the Pacific Salmon Treaty on the Southeast Alaska sport and commercial Chinook salmon fisheries. In FY11, the state also received \$7.5 million of federal funds which was allocated for salmon stock enhancement projects; grants for infrastructure improvements; direct payments to commercial trollers and consumer research.
- **Sport Fish Recreational Boating Access: \$2,250.0 Federal Receipts / \$750.0 F&G Funds (Other).** This annual request authorizes the Division of Sport Fish to continue to construct and upgrade boating and sport fish access facilities statewide from funds comprised of 75% federal assistance and 25% Fish and Game Fund state match. Projects include boat launches, mooring floats, parking lots, restrooms, fish cleaning facilities, and other facilities for recreational boaters.
- **Statewide Facility Deferred Maintenance Projects: \$1,400.0 UGF.** This project requests funding for two deferred maintenance projects - Cordova Dock/Uplands improvements and upgrades and repairs in the Fairbanks Regional Office.
- **Facilities, Vessels, and Aircraft Maintenance, Repair and Upgrades: \$700.0 UGF.** This request provides funding for repair, maintenance and renovation of Department facilities statewide and vessel and aircraft repair and maintenance. This is an annual request.
- **Critical Information Technology Infrastructure Maintenance: \$400.0 UGF.** This request provides funding for annual maintenance costs for critical information infrastructure



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

components. Examples of technology infrastructure needs are storage, virtualization, databases and disaster recovery.

- **State Game Refuge Access and Development: \$540.0 Federal Receipts / \$180.0 GF Match (UGF).** This project will provide funding to improve hunter access as well as clean up and develop public lands in state game refuges. Specific state game refuges include: Goose Bay, Susitna Flats, Palmer Hay Flats, and Anchorage Coastal.
- **Westward Region DIDSON Sonar Purchase: \$105.0 UGF.** This project funds the acquisition of one Dual-Frequency Identification Sonar (DIDSON) long-range sonar unit to help commercial salmon fishery management and research within the Westward Region. The unit will be used to provide timely inseason escapement estimates, allow fish counts during emergencies when weirs are flooded or inoperable, and address applied research questions such as smolt avoidance of traps and salmon movement and distribution at counting sites.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Office of the Governor				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$29,631.5</b>			
FY11 Fiscal Notes	648.3			
CarryForward	970.6			
Special Appropriations	-			
Agency Transfers	-			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$31,250.4</b>	\$1,618.9	5.5%	
One-time Items removed	(7,759.1)			
FY12 Contractual Salary and Health Increases	602.2			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$24,093.5</b>	(\$7,156.9)	-22.9%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	4,478.8			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$28,572.3</b>	\$4,478.8	18.6%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$4,478.8</b>	
Redistricting Board	993.6	1,393.6	400.0	1
Executive Office	11,338.6	11,566.0	227.4	2
Governor's House	502.2	577.2	75.0	3
Lieutenant Governor	1,207.6	1,132.6	(75.0)	3
Domestic Violence/Sex Assault	-	2,900.0	2,900.0	2
Office of Management & Budget	2,715.9	2,590.9	(125.0)	2
Elections	3,491.7	4,568.1	1,076.4	4
Non-General Fund Agency Summary	FY12 Adjusted Base Budget	FY12 Governor's Request	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
Other State Funds (all allocations)	793.5	605.5	(188.0)	
Federal Funds (all allocations)	195.0	195.0	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$988.5</b>	<b>\$800.5</b>	<b>(\$188.0)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>181</b>	<b>189</b>	<b>8</b>	
PFT	162	162	-	
PPT	-	-	-	
Temp	19	27	8	4
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	100.0	-	100.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$100.0</b>	<b>\$0.0</b>	<b>\$100.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 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. The Governor's Office oversees the Office of Management and Budget and the Division of Elections. The Alaska State Commission for Human Rights and the Redistricting Board are included in the Governor's Office for budgetary purposes.

### **SIGNIFICANT ISSUES**

The FY12 Office of the Governor general fund operating budget is \$4,478.8 above the FY12 Adjusted Base. This increase is due primarily to the traditional treatment of language appropriations as one-time items, so that an FY11 appropriation of \$3 million to address domestic violence does not appear in the base despite the fact that it was presented as a continuing program.

*Legislative Fiscal Analyst Comment: The FY11 request included money for planning, as well as for implementation. The FY12 increment, which would add money to the base budget, lists \$3 million in projected contracts.*

*The Department of Education and Early Development requests an increment of \$200.0 in order to maintain a Health and Personal Safety Coordinator position that was funded via the Domestic Violence Initiative in FY11. If that position is to be retained, the legislature may wish to consider funding the position through the Governor's Office in order to retain the coordinated approach that consolidated funding was intended to provide.*

*A second indication that the domestic violence initiative is less coordinated than might be desired is in the executive office, which is listed as a recipient of money from the domestic violence component but does not request I/A receipt authority. The legislature may wish to perform a statewide review of funding under the domestic violence initiative before completing subcommittee work.*

Of the budget changes discussed below, only the \$1 million request (in the Division of Elections) to implement a redistricting proclamation is a clear expansion of regular activities. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

- 1. Redistricting Board: \$400.0 UGF.** This request for funding the staff and other resources required for redistricting board activities was presented as a one-time item. It is a reduction from the \$970.6 available to the board in FY11.
- 2. Executive Office: \$225.0 UGF.** This is a net zero realignment of resources within the Office of the Governor. A decrement of \$125.0 in the Office of Management and Budget is a straightforward offsetting transaction reflecting the Governor's priorities. The funding of the Sexual assault coordinator is somewhat more complex. The position was funded in the executive office at \$200.0 in FY11, with half the money coming from Mental Health Trust receipts. A new Domestic Violence allocation was created in FY11, and the \$3 million UGF appropriated for that purpose was transferred from the executive office to the new allocation. The Governor's request exchanges \$100.0 of Mental Health funding for UGF, so the coordinator (who remains in the executive office) is paid with 100 percent UGF and the domestic violence allocation now has \$2.9 million of UGF and \$100.0 of Mental Health funding.
- 3. Governor's House: \$75.0 UGF.** A position was taken from Elections and \$75.0 UGF was taken from the Lt. Governor's Office in order to fund this position added to the Governor's House.
- 4. Elections:** The Governor requested a \$288.0 decrement (CIP receipts) to reflect a projected reduction of HAVA (Help America Vote Act) activity. Elections also has the following increments:

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- \$1 million to implement a redistricting proclamation (a one-time item) and
- \$76.4 to be added to the base budget in non-election years.

***Legislative Fiscal Analyst Comment:*** *The request for non-election year base funding will minimize supplemental requests and reduce election year one-time increments by an amount similar to the base increment. Some activity associated with primary and general elections occurs in the fiscal years preceding elections.*

## **ORGANIZATIONAL CHANGES**

There are no significant changes requested. The separate allocation for domestic violence funding that was created in FY11 is formalized in the FY12 budget.

## **CAPITAL REQUEST**

The Governor's Office FY12 capital budget contains one project related to the Division of Elections.

- \$100.0 (Election Fund)–The funds will be used for polling place accessibility improvements under the Federal Help America Vote Act (HAVA).

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Health and Social Services				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$1,022,340.0</b>			
FY11 Fiscal Notes	2,579.3			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	540.0			
Reappropriations	-			
Misc Adjustments	(26,500.0)			
Vetoed	(912.8)			
<b>FY11 Management Plan (GF only)</b>	<b>\$998,046.5</b>	<b>(\$24,293.5)</b>	<b>-2.4%</b>	
One-time Items removed	(1,343.1)			
FY12 Contractual Salary and Health Increases	8,334.4			\$23,409.7
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$1,005,037.8</b>	<b>\$6,991.3</b>	<b>0.7%</b>	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/Multi Years	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	77,858.7			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$1,082,896.5</b>	<b>\$77,858.7</b>	<b>7.7%</b>	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$77,858.7</b>	
Behavioral Health Grants	25,326.3	25,676.3	350.0	8
Front Line Social Workers	30,914.1	30,914.1	-	10
Family Preservation	7,003.3	7,391.3	388.0	9,11
Permanent Fund Dividend Hold Harmless	13,584.7	16,284.7	2,700.0	5
Nursing	22,941.9	25,295.4	2,353.5	4
Senior/Disabilities Services Administration	7,159.5	9,109.5	1,950.0	6,7
Behavioral Health Medicaid Services	59,444.0	65,308.0	5,864.0	1,2
Children's Medicaid Services	5,396.5	5,584.0	187.5	1,2
Adult Preventative Dental Medicaid Services	2,874.2	3,038.4	164.2	1,2
Health Care Medicaid Services	229,145.9	256,882.9	27,737.0	1,2
Senior/Disabilities Medicaid	149,997.9	178,563.0	28,565.1	1,2,3
All Other Increments	452,449.5	460,048.9	7,599.4	
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	88,939.9	99,375.2	10,435.3	
Federal Funds (all allocations)	1,157,548.7	1,261,236.1	103,687.4	1
<b>Total Non-General Funds (all allocations)</b>	<b>\$1,246,488.6</b>	<b>\$1,360,611.3</b>	<b>\$114,122.7</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>3,683</b>	<b>3,690</b>	<b>7</b>	
PFT	3,482	3,489	7	4
PPT	84	84	-	
Temp	117	117	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	7,500.0	86.3	7,586.3	
Remodel, Reconstruction and Upgrades	1,050.0	-	1,050.0	
New Construction and Land Acquisition	5,160.0	-	5,160.0	
Equipment and Materials	475.0	-	475.0	
Information Systems and Technology	3,753.6	3,755.4	7,509.0	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$17,938.6</b>	<b>\$3,841.7</b>	<b>\$21,780.3</b>	



# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Health and 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:

- provide the highest quality of life in a safe home environment for older Alaskans and veterans;
- manage an integrated and comprehensive behavioral health system based on sound policy, effective practices, and open partnerships;
- promote safe children and strong families;
- manage health care coverage for Alaskans in need;
- hold juvenile offenders accountable for their behavior, promote the safety and restoration of victims and communities, and assist offenders and their families in developing skills to prevent crime;
- provide self-sufficiency and basic living expenses to Alaskans in need;
- protect and promote the health of Alaskans;
- promote the independence of Alaskan seniors and persons with physical and developmental disabilities; and
- provide quality administrative services in support of the Department's mission.

## **SIGNIFICANT ISSUES**

The FY12 Department of Health and Social Services general fund operating budget submitted by the Governor is \$77,858.7 (7.7%) above the FY12 Adjusted Base [\$74,193.3 Unrestricted General Funds (UGF)/\$3,665.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Medicaid Services - Extension of the “Enhanced” FMAP Rate is Built Into the Governor’s Budget: \$123.8 million Federal Receipts (1002).** The federal stimulus bill signed in February 2009 authorized a temporary increase in the Federal Medical Assistance Percentage (FMAP) matching funds. Alaska’s FMAP rate increased from 50.53% to 62.46% (including an unemployment rate bonus) for the period from October 1, 2008 through December 31, 2010. Congress has since approved legislation that phases out the “enhanced” FMAP rate by the end of FY11. The enhanced FMAP rate will drop by 3.2% (about half of the current 6.2% enhancement rate) during the January-March 2011 quarter, and by 1.2% in the 4th quarter (April-June, 2011).

Without Congressional action, the FMAP rate will return to 50.53% in FY12, and the Governor’s request will be (an estimated) \$123.8 million short of general funds for Medicaid.

***Legislative Fiscal Analyst Recommendation:*** *To ensure that sufficient state funding is available for Medicaid services in FY12, the legislature may wish to add contingency language to the FY12 operating budget. See section 10 of the analysis of language sections of the Governor’s operating bill.*

- 2. Medicaid Services - Medicaid Growth: \$55.1 million UGF.** The funding requested will maintain the current level of Medicaid services for eligible Alaskans. Of the amount requested, the Department contends that \$45.7 million UGF is needed to fund projected growth in

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

FY12 and \$9.4 million UGF is needed to cover unbudgeted costs due to program growth in FY11. Enrollment increased from 105,462 in January 2010 to 109,648 in July 2010.

*Legislative Fiscal Analyst Comment: Based on the Department's analysis, the legislature should expect a supplemental funding request of at least \$9.4 million for Medicaid.*

*Legislative Fiscal Analyst Comment: The Governor's FY12 request should be considered preliminary. Medicaid is an entitlement program that pays individual benefits according to formulas (which are continuously updated).*

- 3. Senior and Disabilities Medicaid Services – Medicaid Home and Community Based Services Provider Rate Adjustments – \$7 million UGF/ \$7 million Federal Rcpts.** Medicaid waivers provide the majority of long-term services and support to needy Alaskans. Waiver programs allow the state to "waive" some of the federal rules governing Medicaid so people can receive services in their own homes and communities. Currently, waivers serve over 3,500 individuals with a variety of home and community-based services (HCBS), including care coordination, home health care, chore service, habilitation and respite. To be eligible for an Older Alaskans (OA) or Adults with Physical Disabilities (APD) waiver, an individual must be both Medicaid-eligible and be found to need the level of care available in a nursing home.

In response to concerns, voiced by the legislature, provider community, recipients and their advocates, over the lack of a rational relationship between *rates of payment* and *cost of services*, the Department began working on a rate determination system that periodically links the actual costs of providing a service to the reimbursement rate for that service. The previous rate determination methodology relied on projected (budgeted) costs submitted by individual providers. Under that system, various providers of similar services could be reimbursed at very different rates.

Beginning in late FY11, the rate methodology relies on a combination of historical payment rates and costs provided through a survey. A phase-in period will allow providers to adjust to the new structure and give providers time to collect and report the costs of providing various services. A rebasing will occur in FY 2014.

Funding is requested to pay for implementation of the new system. Over a three year phase-in of the new provider rates, providers currently reimbursed at rates lower than the proposed rates will receive incremental increases over the next three years; while providers paid more than the proposed rates will be held harmless (will not receive any reductions) for the same three-year period. The system will be fully implemented in FY14.

- 4. Public Health/Nursing – \$2,353.5 UGF (a 10.3% increase from the FY12 Adjusted Base).** The following increments were requested:

- **Reduction in the vacancy factor to increase the number of authorized positions that can be filled: \$1 million UGF.** A recent effort to strengthen recruitment of public health nurses was successful and resulted in a decrease in the vacancy factor from 16% in July 2006 to 11% in May 2010. The Department states that, because many of the authorized positions are funded with uncollectible federal receipts, the true vacancy factor—adjusting for the uncollectible receipts—will be 17% if this increment is not approved. With this increment, the vacancy factor (unadjusted for unrealizable receipts) will fall to 6.8%. *For more information on vacancy factors, see the "Positions: Authorized Count, Vacancy Factors and Legislative Control" discussion in this Overview.*

According to the agency, the following services will be deleted if the increment is not approved:

- 35 trips to communities and villages;
- Mass vaccination and emergency shelter exercises for communities;
- Family planning services and birth control options;

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- Pediatric Tylenol when children receive immunizations;
- Head lice treatment;
- Health prevention and promotion activities; and
- Dissemination of public health information to communities.

***Legislative Fiscal Analyst Comment:*** *A comparison of the FY10 authorized budget to FY10 actual federal expenditures supports the Department's claim. Only 43.3% (or \$1.8 million) of the \$3.4 million of federal receipts authorized in FY10 was expended. In general, a small amount of excess federal authorization is desirable. In this case, the large amount of hollow federal authorization makes it more difficult to understand the allocation's budget. The Department states that it expects to address the excess receipt authority in a future budget cycle. The legislature may wish to address it now.*

- **Increase funding to the Three Public Health Nursing Grantees (Phase II): \$750.0 UGF.** In FY12, the Division of Public Health will provide direct public health nursing services to all communities in Alaska except those served by the following three grantees: the Maniilaq Association, the North Slope Borough and the Municipality of Anchorage.

According to the Department, current grants are inadequate to support services on par with services provided to the rest of the state. Maniilaq and North Slope Borough serve a combined 14,160 people in 16 villages covering more than 125,000 square miles. The Municipality of Anchorage serves 42% of the state's population.

***Legislative Fiscal Analyst Comment:*** *A \$1 million increment was approved in FY11 for this purpose. The FY11 request did not indicate that "Phase II" would be necessary. According to the Department, the number of phases will be based upon the time it takes to provide a funding level to grantees that is comparable to the rest of the state. Public Health conducted an analysis comparing the costs of grantees, state costs for similar services, and the amount of funding needed to provide grantees with comparable funding. The legislature may wish to ask the Department the total amount of grant funding needed to provide comparable services.*

- **Assume Public Health Services for the Nome/Bering Strait Region: \$450.0 UGF.** Funding is requested to assume provision of all public health services for the Nome/Bering Strait region on July 1, 2011. The total cost to transfer public health services from Norton Sound Health Corporation (NSHC) to the state will be \$1,452.4 in FY12. The Department is requesting \$450.0 because the total cost is offset by the \$1,002.4 grant the Division will no longer have to provide to the NSHC.

- 5. Public Assistance/Permanent Fund Dividend Hold Harmless: \$2.7 million PFD Funds (DGF).** Current statute provides that recipients of public assistance programs not lose benefits because they receive a Permanent Fund Dividend. As public assistance caseloads increase, more funding is needed to cover the amount of hold harmless payments. The Supplemental Security Income (SSI) and Adult Public Assistance (APA) programs have grown by over 3% in recent years, and this trend is expected to continue. The Food Stamp program caseload grew more than 20% between FY09 and FY10 and the Department expects the program to continue to grow at a rate of 10% in FY11.

- 6. Senior and Disabilities Services Administration – Waiver Corrective Action Plan, Assessments, Annual Reassessments and Budget Shortfall: \$1.2 million UGF and \$500.0 Federal Rcpts.** According to the Department:

- \$450.0 of UGF is needed to conduct and manage the documentation requirements, prior authorization and over-utilization of initial waiver assessments, and annual reassessments for the Older Alaskans and Adults with Physical Disabilities waiver program.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- \$1.25 million (\$750.0 UGF and \$500.0 Federal Rcpts) is needed to cover the projected FY12 budget shortfall.

***Legislative Fiscal Analyst Comment:** In FY11, a total of \$1.943 million (\$1,018.9 GF & \$924.0 Federal Rcpts) was added for the Home and Community Based Waiver compliance for the same purpose. According to the explanation for the FY11 request, the FY11 increment would ensure that the division did not fall behind on future forecasted workloads.*

7. **Senior and Disabilities Services Administration – Personal Care Assistance Staff & Program Stabilization: \$950.0 Total [\$750.0 GF/Match (UGF) and \$200.0 Federal Receipts].** According to the Department, this increment will provide funding to address assessment and reassessment needs and the burgeoning document management of this program (the program grew by 16% in the last year).

Approximately 3,000 individuals are currently in the Personal Care Assistance program but not in a waiver program. Individuals currently in the waiver program must be reassessed annually. According to the Department, failure to fund this increment means that the Department will be unable to perform the annual face-to-face assessments necessary to determine an individual's eligibility for continued benefits.

8. **Behavioral Health Grants – Bethel Sobering Center Annual Operations: \$350.0 GF/MH (UGF).** Bethel has the highest per capita rate of inebriates who end up in 12-hour protective-custody jail holds (20% of protective custody holds statewide). Since the winter of 2007-2008, the Department of Health and Social Services, Department of Corrections, the Alaska Mental Health Trust, the Yukon-Kuskokwim Health Corporation, and the community of Bethel have partnered to address the needs of chronic inebriates who are a danger to themselves or others as a result of chronic alcoholism or the abuse of other drugs. One component of a coordinated plan created by the partnership was to construct a Sobering Center as an alternative treatment placement for this population and to decrease the number of 12-hour protective custody hold admits. Funding provided in FY11 was based upon operation of the new sobering center beginning in early 2011. This increment reflects the full operating costs in FY12.

9. **Family Preservation – Sustain Operations of the Kodiak Child Advocacy Center: \$250.0 UGF.** In support of the Governor's Domestic and Sexual Assault Prevention Initiative, Child Advocacy Centers (CAC) in Alaska are providing services to mitigate the trauma suffered by child victims of severe abuse or neglect and providing for the effective prosecution of crimes against children. The Office of Children's Services supports CACs located in Anchorage, Dillingham, the Kenai Peninsula (Homer, Kenai, Seward), the Copper River Basin (Gakona), Bethel, Fairbanks, Wasilla, Nome, and Juneau. According to the Department, the programs are successful and continued statewide expansion is sought by state and private agencies.

The Kodiak Area Native Association (KANA) has been serving as the lead agency to establish a regional Child Advocacy Center on Kodiak Island. A planning grant to bring the Kodiak CAC into operation was included in the funding provided through the DVSA initiative in FY11. When added to other state grants, federal grants, contributions and fundraising, the Department states that this request will ensure adequate operating funds to sustain the CAC beginning in FY12.

Without this funding, the Office of Children's Services will need to decide whether to fund Kodiak by decreasing grants to other CACs or to exclude the Kodiak CAC from state support. Current funding available to existing CAC's is less than requested amounts. Reports of sexual abuse referred to CACs in FY08 totaled 743. In FY09 that number increased to 1,478. Reports of physical abuse referred increased by 98 during that same time period. Referral amounts for FY10 are not yet available. According to the Department, without additional funding to sustain their program, the Kodiak CAC will most likely fail.

## OTHER ISSUES

### **10. Front Line Social Workers: \$1.8 million UGF Transferred from Foster Care Base Rate to Front Line Social Workers in FY11 Management Plan.**

The Department transferred \$1.8 million from Foster Care Base Rate to Front Line Social Workers in the FY11 Management Plan. According to the Department, general funds are available in the Foster Care Base Rate allocation because, since FY08, the numbers of children in out-of-home care have declined. In FY07, FTE (full time equivalents to adjust for children moving in and out of the system) counts averaged 1,550, dropped to 1,475 in FY08 then to 1,400 in FY09. FY10 averages are about 1,250. The Office of Children's Services (OCS) attributes these declines to increases in the number of adoptions and improved child protective services work that keep children in their own homes whenever possible.

*Legislative Fiscal Analyst Comment: Despite the \$1.8 million transfer, the Department states that it will be short by about \$500.0 in FY11, but a supplemental request is not anticipated.*

### **11. Family Preservation - Judgments and Settlements: \$1.2 million UGF.** The Department is seeking funding for the FY12 settlement costs of a lawsuit filed by four Alaska Native tribes. The Curyung, Ekwok, Kwinhagak, and Chevak tribes alleged that the state violated provisions of the federal Indian Child Welfare Act (ICWA) when it (1) failed to notify the tribe when it took custody of a young tribal member; (2) failed to meet placement preferences under ICWA; and (3) failed to provide proper and timely notice of placement changes for children (who are tribal members) that were taken from their parents due to abuse or neglect.

*Legislative Fiscal Analyst Comment: A settlement was reached between the tribal organizations and the state. The settlement mandated that the state pay \$1.2 million per year in FY10-FY12. The \$1.2 million included in the FY12 Governor's budget is the final settlement amount. Procedural changes within OCS, relating to the handling of tribal children, were among other agreed upon issues.*

*Legislative Finance Change to the Transaction Location: Legislative Finance moved the transaction from Family Preservation to "Judgments, Claims & Settlements" under "Special Appropriations."*

## ORGANIZATIONAL CHANGES

There are no significant changes requested.

## CAPITAL BUDGET

DHSS has proposed a total capital budget of \$21.8 million, which is comprised of \$17.9 million of State Funds and \$3.8 million in Federal Funds. A variety of projects are being requested. The largest project and categories of projects are listed below:

- **McLaughlin Youth Center Safety and Security Phase 1 Completion: \$4,275.0 UGF.** This request will fund the completion of the McLaughlin Youth Center Safety and Security Phase I project. \$19.5 million was appropriated in FY09 to complete Phase 1 of a four-phase project. Phase 1 projects include: relocate the outdoor recreation area, relocate and increase parking for the juvenile justice center, complete a new 25-bed detention unit, renovate the old Intensive Treatment Unit (ITU), and renovate old Detention II Unit into new medical suite and training space. There is insufficient funding to complete construction of the new medical suite and

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

training area (the last component of Phase I of this project). There are several reasons for the funding shortfall:

- There is a 15,000 square foot (SF) increase (from 5,000 SF to 20,000 SF) in the space needed for the medical suite and training room;
- The original budget was based on a 1.5 year construction time line. The actual time line is 3.5 years; and
- Unanticipated Asbestos Abatement in a crawl space.

According to the Department, if this request is not funded, the contractor will need to demobilize and the medical suite and training space will need to be re-bid when funds become available. The cost of rebidding the project could substantially increase the amount of the request.

- **Pioneer Homes Deferred Maintenance, Renovation, Repair & Equipment: \$4 million UGF.** This funding will be expended for deferred maintenance in Pioneer Homes in Anchorage, Juneau and Ketchikan.
- **Non-Pioneer Home Deferred Maintenance, Renovation, Repair and Equipment: \$3 million UGF.**

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Labor and Workforce Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$63,632.2</b>			
FY11 Fiscal Notes	43.1			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	31.8			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$63,707.1</b>	\$74.9	0.1%	
One-time Items removed	(1,121.7)			
FY12 Contractual Salary and Health Increases	856.2			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$63,441.6</b>	(\$265.5)	-0.4%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	2,710.4			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$66,152.0</b>	\$2,710.4	4.3%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$2,710.4</b>	
Occupational Safety and Health	3,103.5	3,176.3	72.8	
Employment and Training Services	1,046.5	946.5	(100.0)	
Business Services	10,179.9	12,269.8	2,089.9	1,5
Kotzebue Tech Operations Grant	1,536.3	1,507.7	(28.6)	7
SW AK Voc Educ Ctr Ops Grant	507.1	497.6	(9.5)	7
Yuut Learning Ctr Ops Grant	936.3	907.7	(28.6)	7
NW Ak Career & Tech Center	712.1	702.6	(9.5)	7
Delta Career Advancement Center	312.1	302.6	(9.5)	7
New Frontier Vocations Tech	208.1	201.7	(6.4)	7
Alaska Vocational Tech Center	9,725.5	10,465.3	739.8	2
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	27,709.7	25,741.1	(1,968.6)	2
Federal Funds (all allocations)	99,526.4	101,716.8	2,190.4	3,4,6,8,
<b>Total Non-General Funds (all allocations)</b>	<b>\$127,236.1</b>	<b>\$127,457.9</b>	<b>\$221.8</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>1,005</b>	<b>1,010</b>	<b>5</b>	
PFT	841	842	1	1
PPT	116	120	4	2
Temp	48	48	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	500.0	-	500.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	210.0	-	210.0	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$1,710.0</b>	<b>\$0.0</b>	<b>\$1,710.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Labor and Workforce Development**

The Department of Labor and Workforce Development (DOLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities. It has also been charged with developing a statewide training program for an Alaskan workforce capable of managing, constructing, operating, and maintaining a gasline. To accomplish these goals the Department provides the following core services:

- statutory and regulatory assistance and enforcement to protect Alaska's workers;
- workforce development to support Alaska hire and economic development; and
- income replacement for injured, unemployed, and permanently disabled workers.

The FY12 Department of Labor and Workforce Development general fund operating budget submitted by the Governor is \$2,710.4 above the FY12 Adjusted Base [\$1,620.1 Unrestricted General Funds (UGF)/ \$1,090.3 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Business Services – Implement a New Career and Technical Education Plan & Grant Program: \$1,000.0 UGF.** Alaska is ranked fifth in the nation for teens not in school and not working. According to the Department, the Career and Technical Education (CTE) program is a proven dropout prevention and career building program that is underfunded in many districts and virtually nonexistent in others. Funds are requested by the Department to implement a new competitive grant program for enhanced Career and Technical Education programs. This funding will:

- fund one new Grants Administrator II position to establish and support the new program; and
- provide for implementation of Alaska CTE Plan strategies such as implementing student personal learning career plans, coordinating program development and delivery models, and developing criteria for CTE programs.

CTE will be geared towards high growth jobs (especially relating to gasline occupations) in regions with limited economic and employment opportunities.

- 2. Alaska Vocational Technical Center (AVTEC): \$524.8 UGF/ \$206.0 DGF/ \$300.0 Other.**

- **Establish a New Registered Nurse Training Program: \$226.8 UGF/ \$100.0 GF/PR (DGF)/ \$300.0 Statutory Designated Program Receipts (SDPR) (Other).** The Cook Inlet Tribal Council (CITC) received a five-year, \$7.6 million federal Health Professions Opportunity Grant to promote welfare-to-work for Alaska Natives. The CITC has included AVTEC in this grant to establish and deliver a Registered Nurse (RN) Training program in Anchorage. The RN program will have the capacity to train up to 20 RNs annually and will co-locate with the Certified Nurse Assistance and Licensed Practical Nurse Programs. Two instructors and additional training space are required to fulfill AVTEC's portion of this grant.

Statutory Designated Program Receipt (SDPR) authorization is requested to allow AVTEC to use grant funding passed on from CITC for additional lease space.

- **Replace Deferred Maintenance Capital Funds with UGF: \$250.0 UGF/ \$250.0 I/A Receipts (Other)/ (\$250.0) CIP Receipts (Other).** To pay for ongoing maintenance needs, AVTEC is requesting UGF to pay for six existing AVTEC Facilities Maintenance staff that have been paid from AVTEC's annual deferred maintenance capital projects. According to the Department, this

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

increment will provide a consistent funding source for ongoing maintenance needs. AVTEC also has a capital budget request for \$1 million of UGF for deferred maintenance on AVTEC's 16 buildings in Seward.

- **Establish a Mariner Training Program: \$48.0 UGF/ \$51.0 GF/PR (DGF).** This funding will allow AVTEC to develop maritime engineering training programs in Seward and add one part-time instructor position to deliver the Qualified Member of Engine Department (QMED) and Dedicated Duty Engineer (DDE) training.

The Department contends that this request is part of a workforce development plan required by legislative intent language that instructed the Departments of Labor and Workforce Development and Environmental Conservation to ensure that Alaskans are provided the opportunity to prepare for jobs as Ocean Rangers on Cruise ships that transit Alaskan waters.

- **Increase to Support an Additional Custodian Position: \$55.0 GF/PR (DGF).** The Department is requesting additional funding to support a new permanent part-time custodial position. In FY11, AVTEC began training in two new facilities: the Maritime Safety Training Facility and the Culinary Academy Facility. An additional position is requested to cover the increased classroom facilities. AVTEC currently has five custodial staff to maintain 16 existing state-owned buildings and one leased building in Seward.

### **3. Employment and Training Services - Increase Federal Authorization to Support Two New Grants: \$2,106.5 Federal Receipts.** The Department is requesting funding to fully support the following two new federal grants:

- Disability Employment Initiative Grant for \$2,727.0 to improve participation of persons with disabilities in the Alaska workforce; and
- Health Care Workforce Development Grant for \$150.0 to develop a plan to increase health professionals in Alaska.

The Department also submitted a decrement of excess I/A Receipt authorization to offset the federal increment.

### **4. Unemployment Insurance - One-Time Increase of Federal ARRA Authorization to Support Unemployment Insurance Administration: \$1,165.7 Federal ARRA Receipts.** The Department is requesting a one-time increase to receive a special transfer of funds to state accounts in the federal Unemployment Trust Fund. This new transfer of funds will be made regardless of whether the state qualifies for a modernization incentive payment. States do not need to apply to receive these funds. The Unemployment Insurance (UI) component will use these funds for information technology training, contracts which include ongoing enhancements to the Unemployment Insurance (UI) Tax and Benefits programs, and to support program staff costs.

## **MAINTENANCE OF SERVICES**

### **5. Business Services - Provide Additional Training Opportunities to Alaskans: \$1,089.9 State Training and Employment Program (STEP) Funds (DGF).** The Department is requesting funds to maintain the same level of funding as FY11. In FY11, the Department received \$1,089.9 in STEP funds as a one-time increment. This increment will again fully obligate available STEP funds for workforce training.

***Legislative Fiscal Analyst Comment:*** *The legislature may wish to further examine the projected STEP fund balance. In FY11, due to concern that the fund was being expended at an unsustainable*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*rate (i.e., annual expenditures exceed estimated revenue) the legislature changed the increment to a one-time item. According to the Department, spending the balance of the fund would **not** create a need for replacement funding; training opportunities would be reduced in the future if less money is available.*

6. **AVTEC - Federal Pell Grant Increase: \$1,006.8 Federal Receipts.** The Department is requesting funding to accommodate an increase in federal Pell Grant awards to students and to meet the federal requirement for Title IV funded post-secondary institutions that use William D. Ford Federal Direct Loan Programs for new federal student loans. The Legislative Budget and Audit Committee approved an identical request for additional Federal Receipt authorization in FY11.

### **OTHER ISSUES**

7. **Business Partnerships - Reduced Technical Vocational Education Program (TVEP) Receipts: (\$92.1) TVEP (DGF).** Based on a reduced amount available in FY12, the Department submitted decrements reducing authorization for all allocations except AVTEC, Employment Security and Business Services. The Department has indicated it will be submitting a FY12 budget amendment to reduce authorization for AVTEC.

***Legislative Fiscal Analyst Comment:** The legislature may want to review the amount of TVEP available for distribution in FY11 and FY12. In FY11, the Department of Labor and Workforce Development overestimated the amount of Technical and Vocational Education Program Receipts available for distribution by \$656.1. The legislature should expect a negative supplemental request to reduce TVEP appropriations in the Department of Labor and Workforce Development, the University of Alaska, and Department of Education and Early Development.*

*The legislature may also want to address the use of TVEP Receipts for administrative purposes, such as collections and grant administration. Per AS 23.15.830(d), 100% of available TVEP funds are allocated directly to specific institutions; there does not appear to be an allowance for administrative functions within the Employment Security and Business Services allocations.*

8. **Unemployment Insurance – Federal Incentive Funds.** The United States Department of Labor recently deposited approximately \$15.6 million of federal incentive funds into an account within the Unemployment Insurance Trust Fund. These incentive funds were received by the Department as a result of making updates to unemployment insurance eligibility statutes and regulations. Subject to legislative authorization, this funding may be used by the Department of Labor and Workforce Development to administer the Alaska job center networks. There is no timeline associated with spending these funds and they are available until fully expended. The Department is requesting \$3.5 million from the Unemployment Insurance Modernization account for FY12.

### **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

### **CAPITAL REQUEST**

The Department of Labor and Workforce Development is requesting \$1.7 million UGF in the capital budget for the following three projects:

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- **Maritime Vessel Simulator Projection System Upgrade: \$210.0 UGF.** This request will upgrade the projection system within the Maritime Vessel Simulator used by the Alaska Vocational Technical Center for training;
- **Fairbanks Pipeline Training Center Utilities and Equipment Purchase: \$500.0 UGF.** This request will fund a grant to the Fairbanks Pipeline Training Center for classroom and instruction equipment to train Alaskans for work in oil/gas and construction industries; and
- **AVTEC Deferred Maintenance: \$1 million UGF.** This annual request is to pay for deferred maintenance needs at 16 state-owned and one leased building in Seward.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Law				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$61,157.3</b>			
FY11 Fiscal Notes	514.4			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	-			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$61,671.7</b>	<b>\$514.4</b>	<b>0.8%</b>	
One-time Items removed	(9,864.9)			
FY12 Contractual Salary and Health Increases	1,506.0			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$53,312.8</b>	<b>(\$8,358.9)</b>	<b>-13.6%</b>	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/Multi Years	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	5,127.3			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$58,440.1</b>	<b>\$5,127.3</b>	<b>9.6%</b>	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$5,127.3</b>	
First Judicial District	1,762.0	1,765.9	3.9	9
Second Judicial District	1,606.3	1,821.1	214.8	1,9
Third Judicial District: Anchorage	7,329.0	7,342.0	13.0	9
Third Judicial District: Outside Anchorage	5,080.0	5,186.9	106.9	8,9
Fourth Judicial District	5,281.3	5,292.1	10.8	9
Criminal Justice Litigation	1,973.2	1,992.6	19.4	9
Criminal Appeals/Special Litigation	4,127.7	4,685.3	557.6	6,9
Child Protection	4,636.5	4,673.4	36.9	9
Collections and Support	1,055.7	1,274.9	219.2	4,9
Commercial and Fair Business Support	1,222.2	1,495.2	273.0	7,9
Environmental Law	1,192.7	1,405.7	213.0	3,9
Human Services	1,082.7	1,109.1	26.4	9
Labor and State Affairs	2,580.5	2,859.3	278.8	9
Legislation/Regulations	682.3	689.6	7.3	9
Natural Resources	3,100.4	3,111.6	11.2	9
Oil, Gas and Mining	3,778.3	6,478.3	2,700.0	5
Opinions, Appeals and Ethics	1,477.0	1,494.0	17.0	9
Regulatory Affairs Public Advocacy	1,608.0	1,658.0	50.0	
Timekeeping and Litigation Support	356.5	436.0	79.5	2,9
Torts & Workers' Compensation	89.6	242.9	153.3	9
Transportation Section	59.3	144.8	85.5	9
Administrative Services	1,153.0	1,202.8	49.8	9
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	25,160.3	25,618.5	458.2	9
Federal Funds (all allocations)	1,652.6	1,609.8	(42.8)	6,9
<b>Total Non-General Funds (all allocations)</b>	<b>\$26,812.9</b>	<b>\$27,228.3</b>	<b>\$415.4</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>562</b>	<b>565</b>	<b>3</b>	
PFT	560	563	3	1,2,4
PPT	2	2	-	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	1,250.0	-	1,250.0	
Other	14,000.0	-	14,000.0	
<b>TOTAL CAPITAL</b>	<b>\$15,250.0</b>	<b>\$0.0</b>	<b>\$15,250.0</b>	



# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Law**

The mission of the Alaska Department of Law is to prosecute crime and provide legal services to state government for the protection and benefit of Alaska's citizens. The Department represents the state in:

- protecting the safety and physical and financial well-being of Alaskans;
- fostering the conditions for economic opportunity and responsible development and use of our natural resources;
- protecting the fiscal integrity of the state; and
- promoting and defending good governance.

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 and to managing the resources of the Department.

The FY12 Department of Law general fund operating budget as submitted by the Governor is \$5,127.3 above the FY12 Adjusted Base [\$4,774.2 Unrestricted General Funds (UGF) and \$353.1 Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Second Judicial District - New Kotzebue District Attorney V: \$210.0 UGF.** Currently, the caseload for the Department's one Assistant Attorney General in Kotzebue – 844 cases – is the highest in the state. According to the Department, the additional position would cut the case load to 422 per attorney – 100 cases above the mean.
- 2. Timekeeping and Litigation – Add Public Records Attorney V: \$210.0 UGF.** Due in large part to the increased use of electronic communications, heightened public awareness of available records, and federal court decisions providing sanctions for failure to retain and provide records, the Department requests an additional attorney to advise the Governor's Office and agencies regarding retention and production requirements, coordinate responses to large public records and discovery requests, and represent the state in related proceedings.
- 3. Environmental Law - Outside Counsel for EPA Related Work: \$175.0 UGF.** The Department requests one-time funding for outside counsel to review air permitting issues and potential impacts of new Environmental Protection Agency (EPA) and Green House Gas (GHG) regulations related to oil and gas development.
- 4. Collections and Support - New Paralegal to Assist with Backlog of Restitution Owed to Victims: \$140.0 GF/Program Receipts (DGF).** In 2002, under legislative mandate, the Department began collecting and distributing restitution owed to victims in criminal cases. The associated FY02 fiscal note was not funded at the requested level and budgetary constraints continue to hinder the program. The unit's staff has been unable to keep up with the workload (increasing from 800 active cases in 2002 to 6,500 in 2010) and the backlog is preventing timely payments to victims. Furthermore, new case openings have been delayed, which has impacted garnishment of offender's PFDs.

## Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

### MAINTENANCE OF SERVICES

5. **Oil, Gas and Mining: \$7.7 million UGF.** The Department is requesting funds to continue its role in one of the Governor's top priority projects - the construction of a gas pipeline and bringing natural gas to market. Additionally, the Department has a number of major oil and gas projects underway that continue to require outside counsel and experts beyond the funding included in the Department's base budget.

- **\$5 Million UGF (requested in capital budget)** for ongoing oil and gas matters including Pt. Thomson Litigation, proceedings before the Federal Energy Regulatory Commission (FERC), TransAlaska Pipeline Service (TAPS) tariff issues, and TAPS property tax matters. The Department requested this item in the capital budget because they believe that approach offers more flexibility than a one-year operating appropriation.

*Legislative Fiscal Analyst Comment: This project has been identified by Legislative Finance as an operating item. One alternative would be to fund this request as a multi-year operating appropriation, which would provide the flexibility of a capital appropriation without misclassifying it as a capital project.*

- **\$2.7 Million UGF** is requested as an addition to the base for work related to the state gas pipeline and to bring North Slope gas to market.

#### **Oil & Gas Related Funding FY09-FY12**

Department of Law (including transfers from the Governor's Office)  Oil & Gas Related Funding Base and Non-Base FY09-FY12	FY09 Budget		FY10 Budget		FY11 Budget		FY12 Request	
	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE
Outside Counsel and Experts for Oil & Gas Matters (Including Pt. Thomson Litigation, FERC on TAPS Tariffs, and TAPS property tax matters)		\$3.0 million UGF		\$6.1 million UGF		\$3 million UGF		\$5 million UGF (Capital Request)
Gasline - Preparation of Legislation and Implementation of a Comprehensive Plan to Commercialize North Slope Gas		\$3.5 million UGF				\$2.5 million UGF	\$2.7 million UGF	

*Legislative Fiscal Analyst Comment: The subcommittee may wish to consider appropriating the \$2.7 million UGF increment as one-time funding. This approach is consistent with the funding method most recently used for both oil and gas matters and the BP Corrosion litigation. It promotes annual legislative review of what may be varying external costs.*

6. **Criminal Appeals/Special Litigation - Replace One-Time Earmarks for Sexual Assault/Domestic Violence Grants: \$500.0 UGF.** In FY06, the Department received three multi-year federal grants, totaling \$8,288.3, for sexual assault and domestic violence prevention programs. The majority of these grants expired in FY10, leaving a remainder of \$500.0 available in FY11. Replacing an expiring federal grant with UGF will allow the Department to continue to fund additional attorneys and paralegals in Bethel, Barrow and Anchorage to aid in the prosecution of domestic violence as well as adult and child sexual assault cases.
7. **Commercial and Fair Business Support - Continued Tobacco Education and Cessation (TOB ED/CES) Arbitration: \$165.0 Tob ED/CES Funds.** On November 23, 1998, the Attorneys General and representatives of 46 states and the US districts

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

signed an agreement (known as "The Master Settlement Agreement", or "MSA") with the five largest tobacco manufacturers, ending a four-year legal battle involving the effects of tobacco use. As a result, states will receive approximately \$206 billion in settlement payments over the first twenty-five years of the agreement (2000-2025). Alaska's portion of the distribution is estimated to be approximately \$25 million annually, of which 80% is directed toward bond debt [Ch 131, SLA 2000 (HB 287) and Ch. 96, SLA 2001 (HB 234)]. The remaining 20% is deposited into the Tobacco Use Education and Cessation Fund.

A dispute exists between the State and the tobacco companies that signed the MSA over whether or not Alaska should be subject to the 2003 Non-Participating Manufacturer (NPM) Adjustment. If Alaska is found subject to the 2003 NPM Adjustment, future MSA payments that the state receives could be reduced by up to \$21.0 million. The state will need to continue its legal efforts until the dispute is resolved (most likely through arbitration). The Department received identical one-time increments for this purpose in FY10 and FY11.

8. **Third Judicial District: Outside Anchorage - Fully Fund Kenai District Attorneys Added in FY11: \$105.0 UGF.** The legislature funded  $\frac{3}{4}$  of the Department's FY11 request for two full-time positions in Kenai to handle the significant caseload increases in the area. This increment represents the amount needed to annualize both filled positions.

### OTHER ISSUES

9. **Salary Fund Source Changes: \$657.0 UGF.** The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for increases in health insurance and offset bargaining unit adjustments for FY12. Twenty different allocations are affected for a total of \$657.0 UGF (the switch occurs from unrealizable Federal Receipts (\$42.8), Interagency Receipts (\$593.2), Oil & Hazardous & Waste (\$14.1), CIP Receipts (\$5.0), and Tob ED/CES (\$1.9)). As an alternative to these fund source changes, DOL could either (1) increase chargebacks to other allocations/agencies, placing the burden of the costs on the corresponding state entity which would require them to reallocate funding through a reduction in other program areas or (2) absorb these personal services costs within the individual allocation vacancy factors.

*Legislative Fiscal Analyst Comment: It is not clear why some of the switched funds are "unrealizable", e.g. Tobacco Education and Cessation funds. The subcommittee may wish to request further clarification on this.*

### ORGANIZATIONAL CHANGES

There are no significant changes requested.

### CAPITAL BUDGET

- **BP Corrosion: \$9 million UGF.** The Department is requesting \$9.0 million of UGF (\$5 million more than FY11) to continue the pending litigation seeking penalties and lost revenues for the 2006 Prudhoe Bay pipeline spills and production shutdowns. The state filed its complaint in Superior Court on March 31, 2009, seeking recovery of lost revenues for 2006-08 due to curtailments of oil production stemming from BP Exploration's (Alaska, BPXA) negligent corrosion practices.

Both parties are currently engaged in extensive pre-trial activity with an anticipated trial date set for March of 2012. Although the BP Corrosion allocation was previously funded on a one-time basis in the operating budget, the Department is requesting a transfer to the capital budget to offer more flexibility for the management of outside counsel.

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

***Legislative Fiscal Analyst Comment:*** *This project has been identified by Legislative Finance as an operating item. One alternative would be to fund this request as a multi-year operating appropriation, which would provide the flexibility of a capital appropriation without misclassifying it as a capital project.*

- **Outside Counsel and Experts for Oil & Gas Matters: \$5 Million UGF.** *Please refer to item 5 above (MAINTENANCE OF SERVICES/Oil, Gas and Mining).*
- **Information Technology Projects: \$1.25 million UGF.** This project includes \$750.0 to upgrade the Department's server room, \$300.0 to continue ProLaw deployment and improve functionality of the ProLaw case management system, and \$200.0 for improvements to the State of Alaska Statute and Regulations database.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Military and Veterans Affairs				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$12,131.9</b>			
FY11 Fiscal Notes	21.0			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	294.6			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$12,447.5</b>	\$315.6	2.6%	
One-time Items removed	(294.6)			
FY12 Contractual Salary and Health Increases	202.6			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$12,355.5</b>	(\$92.0)	-0.7%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	43.2			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$12,398.7</b>	\$43.2	0.3%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$43.2</b>	
Army Guard Facilities Maintenance	2,612.5	2,652.5	40.0	1
Veterans' Services	994.0	996.2	2.2	
Retirement Benefits	881.2	882	1.0	
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	13,920.1	14,101.9	181.8	2,3
Federal Funds (all allocations)	24,433.3	24,431.1	(2.2)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$38,353.4</b>	<b>\$38,533.0</b>	<b>\$179.6</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>298</b>	<b>298</b>	<b>-</b>	
PFT	295	295	-	
PPT	2	2	-	
Temp	1	1	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	100.0	1,900.0	2,000.0	
Maintenance and Repairs	4,000.0	8,085.8	12,085.8	
Remodel, Reconstruction and Upgrades	10.0	30.0	40.0	
New Construction and Land Acquisition	-	2,200.0	2,200.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	9,600.0	9,600.0	
<b>TOTAL CAPITAL</b>	<b>\$4,110.0</b>	<b>\$21,815.8</b>	<b>\$25,925.8</b>	

## **Department of Military and Veterans Affairs**

The mission of the Department of Military and Veterans Affairs (DMVA) is to provide military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military style training and education. The Department accomplishes this mission by providing core services for the following:

- Alaska National Guard Joint Forces Headquarters;
- National Guard Support;
- Homeland Security and Emergency Services Management and Coordination;
- Veterans' Services;
- Alaska Military Youth Academy;
- Administrative Services Support and Information Technology (IT) Support;
- Facilities Maintenance; and
- Special Operations.

The FY12 Department of Military and Veterans Affairs general fund operating budget as submitted by the Governor is \$43.2 above the FY12 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Army Guard Facility Maintenance – Transfer Maintenance Position and Match: \$40.0 GF Match (UGF).** The Department has requested the transfer of a vacant position and associated federal receipt authorization from Air Guard Facilities Maintenance. The Air Guard position is vacant due to the Base Realignment and closure of Kulis Air National Guard Base. The position will be reclassified to a Building Maintenance Specialist. The GF Match is requested to meet federal match requirements. The position was fully funded with federal funds within the Air Guard Facility Maintenance allocation.

### **MAINTENANCE OF SERVICES**

- 2. Alaska Military Youth Academy (AMYA) Formula Increase: \$181.8 I/A Receipts (Other).** The Academy is funded through a Reimbursable Services Agreement with the Department of Education and Early Development (DEED) in accordance with AS 14.30.740. Although, at \$5,680 per student, the statutory base student allocation funding is identical in FY11 and in FY12, changes in the student count are expected. In FY12 the residential program is increasing from 189 to 194; and the post-residential program is decreasing from 297 in FY11 to 292 in FY12. The total FY12 amount from the student funding allocation for AMYA will be \$6,008.6 (an increase of \$181.8).

***Legislative Fiscal Analyst Comment:** The legislature may wish to revisit this formula program. The current statutory program support formula provides seven times the base student allocation for AMYA residential students plus a smaller non-resident amount. The legislature may wish to consider a direct appropriation to DMVA, as DEED has no legal responsibility for the AMYA and, therefore, should not act as a pass-through agency.*



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

3. **Homeland Security & Emergency Management - Fund Source Change to Meet Personal Services Costs: \$108.2 CIP Receipts (Other)/ (\$108.2) I/A Receipts (Other).** The Department requests a fund source change from Interagency Receipts to Capital Improvement Project Receipts to cover an anticipated increase in Personal Services that will be billed to capital projects.

### **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

### **CAPITAL REQUEST**

The agency's \$25.9 million capital budget, of which \$21.8 million is Federal Receipts and \$4.1 million is UGF, includes the following projects:

- **Military and Veterans Affairs Deferred Maintenance Projects: \$8,085.8 Federal Receipts/ \$3,920.0 GF Match (UGF)/ \$80.0 UGF.** Funding is requested for the deferred maintenance projects at Alaska Army National Guard Facilities. The Alaska Army National Guard has 237 buildings at 96 locations across the state with an average age of over 30 years. Projects focus on building repair and renovation with an emphasis on fire, safety, and protection of structures.
- **State Homeland Security Grant Program: \$9,500.0 Federal Receipts.** The 100% federally funded State Homeland Security grant program is annually awarded by the U.S. Department of Homeland Security. Programs include homeland security planning, equipment, training, and exercises to support local first responders, private sector critical infrastructure and state preparedness. This funding has been requested to assist in life-safety citizen preparedness.
- **Army Guard Facilities Projects: \$3,650.0 Federal Receipts/ \$100.0 GF Match (UGF).** Funding is requested to address capital improvement projects at three of the 96 Alaska Army National Guard locations: Fairbanks, Anchorage, and Wasilla. Projects are necessary to meet space requirements, code requirements, property protection, condition improvements, and the lodging needs of soldiers.
- **Federal Energy Projects: \$480.0 Federal Receipts/ \$10.0 GF Match (UGF).** Funding is requested to address energy conservation requirements in Alaska Army National Guard Facilities. The Alaska Army National Guard is tasked with reducing energy consumption at its facilities per Federal Executive Orders 13423 and 13514 which prescribe the requirement for using more energy efficient equipment and for utilizing energy obtained from renewable sources.
- **National Guard Counterdrug Support: \$100.0 Federal Receipts.** The Counterdrug Support Program supports law enforcement agencies in drug enforcement operations, assists in training Law Enforcement Officers, and provides community-based drug awareness programs.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$94,270.7</b>			
FY11 Fiscal Notes	329.7			
CarryForward	2,863.3			
Special Appropriations	-			
Agency Transfers	61.2			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$97,524.9</b>	\$3,254.2	3.5%	
One-time Items removed	(7,611.8)			
FY12 Contractual Salary and Health Increases	2,350.6			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$92,263.7</b>	(\$5,261.2)	-5.4%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	7,602.0			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$99,865.7</b>	\$7,602.0	8.2%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$7,602.0</b>	
Gas Pipeline Implementation	745.8	3,563.3	2,817.5	10, 11a, 12
Mining & Land Development	7,936.1	9,419.2	1,483.1	1, 5, 7
Oil & Gas Development	9,556.7	10,864.2	1,307.5	11b
Land Acquisition and Title Defense	1,747.6	2,450.8	703.2	2
Forest Management & Development	4,236.8	4,675.7	438.9	6
Large Project Permitting	561.8	801.8	240.0	
North Latitude Plant Material Center	1,427.0	1,627.0	200.0	13
Water Development	1,652.0	1,822.6	170.6	4
Land Sales & Municipal Entitlements	5,217.0	5,323.5	106.5	3
All Other Increments	18,277.4	18,412.1	134.7	
Non-General Fund Agency Summary	FY12 Adjusted Base Budget	FY12 Governor's Request	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
Other State Funds (all allocations)	35,128.2	35,140.3	12.1	8, 9
Federal Funds (all allocations)	19,055.8	18,640.7	(415.1)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$54,184.0</b>	<b>\$53,781.0</b>	<b>(\$403.0)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>1,122</b>	<b>1,122</b>	-	
PFT	776	776	-	
PPT	248	248	-	
Temp	98	98	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	7,768.0	1,360.0	9,128.0	14, 15
Maintenance and Repairs	4,350.0	3,500.0	7,850.0	
Remodel, Reconstruction and Upgrades	500.0	-	500.0	
New Construction and Land Acquisition	4,730.0	5,000.0	9,730.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	2,900.0	-	2,900.0	
Other	950.0	1,600.0	2,550.0	
<b>TOTAL CAPITAL</b>	<b>\$21,198.0</b>	<b>\$11,460.0</b>	<b>\$32,658.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Natural Resources**

The Department of Natural Resources (DNR) develops, conserves, and enhances natural resources for present and future Alaskans. Core services include:

- Providing resource management (land, water, forest, subsurface) and regulatory activities;
- acquiring and providing hydrologic, geologic, geographic, historical site, and other land record and natural resource information;
- acquiring land for public purposes and to fulfill statehood land entitlements;
- making land available for sale to the public, and transfer land to municipalities;
- preserving and enhancing the value of state land and water resources and Alaska's coastal areas;
- mitigating potential disasters and hazards; and
- implementing federal regulations and programs related to natural resources.

The FY12 Department of Natural Resources general fund operating budget submitted by the Governor is \$7,602.0 above the FY12 Adjusted Base [\$7,657.5 Unrestricted General Funds (UGF)/(\$55.5) Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

For a variety of budgetary reasons, the Division of Mining, Land & Water (DMLW) has carried vacant positions that have left services delivery at undesirable levels for the agency, the legislature and the public. Positions have been held vacant primarily due to two reasons: recruitment difficulties and funding shortfalls. Funding shortfalls have been caused by a combination of items such as the absorption of unfunded merit and personal services rate increases, other unfunded costs such as increased responses to litigation, and the accumulation of unrealizable funding sources in the base budget.

When recruitment was more difficult, absorbing funding shortfalls was relatively easy. As recruitment success has increased the last two years (likely correlated to the difficult job environment in the lower 48), the budget has become constrained. The FY12 budget contains several decrements to eliminate the unrealizable funding sources and several increments to address less-than-desirable service levels by providing funding for many of the vacant positions. Details on these increments are provided in items 1-5 below.

***Legislative Fiscal Analyst Comment:** The FY11 Management Plan has a total of 26 vacant positions budgeted within DMLW. The FY12 budget reduces that number by 14.*

#### **1. Mining and Land Development - Public Land Stewardship: \$802.0 UGF.**

During the last five years, the state has received an additional eight million acres of entitlement land from the federal government (with another five million outstanding). In addition, increased activity on state land as a result of mineral exploration, alternative energy projects, telecommunication projects, and public use have stretched the Division's resources. This increment would fund **five existing vacant positions** and allow the agency to address a significant land use permit application backlog (2,376 at the end of FY10), along with increasing the management presence for public and private use of state lands.

#### **2. Land Acquisition and Title Defense: \$671.0 UGF.** This increment will provide funding for **four existing vacant positions** and allow the agency to:

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- resume adjudication of 1906 Native Allotment reconveyances that were halted during Federal Bureau of Land Management budget cuts;
- resume review of Alaska Native Claims Settlement Act (ANCSA) conveyances; and
- fund continued work on state entitlement land selections (five million acres are still owed from the federal government).

3. **Land Sales and Municipal Entitlements – Southeast Region Staff: \$105.0 State Land Disposal Income Fund (DGF).** This increment will provide funding for **one existing vacant position** to be dedicated to adjudicating municipal entitlements in the Southeast Region. Numerous complaints were lodged in FY11 about the lack of progress on municipal conveyances.

*Legislative Fiscal Analyst Comment: Given the constitutional requirement to “administer the state public domain” it is not clear why a shortfall of funding was allowed to develop in these allocations. The legislature has not recently denied increment requests or decremented funding.*

4. **Water Development Vacant Positions: Fund Change \$275.0 UGF/ (\$275.0) Various Uncollectible Receipts.** This fund source change would provide funding for **four existing vacant positions**. Receiving a water rights permit is the only way a land owner can legally obtain and protect use of water for domestic or industrial purposes. A growing water rights permit backlog would be addressed with the funded positions.

5. **Mining and Land Development - Litigation Defense: \$500.0 UGF.** DNR is facing a significant increase in legal challenges to its permitting and land planning procedures. Currently, three lawsuits have been filed to halt permitting of the Pebble Mine. Responding to this litigation is consuming significant staff time in the agency and in the Department of Law. Law has requested an RSA for reimbursement of legal services rendered; \$300.0 of this increment would be used for the RSA. The remaining \$200.0 would supplant “project revenue” that cannot be charged when staff are responding to the litigation.

6. **Forest Management: \$400.0 UGF.** This increment will fund additional contracts for maintenance of forest access roads, reforestation and forest thinning along with personal services for expanded review and administration of timber activities.

*Legislative Fiscal Analyst Comment: \$600.0 UGF is requested in the Capital Budget for development of new forest access roads.*

7. **Mining and Land Development - Continued Development of Guide Concession Area Program: \$120.0 UGF.** This FY12 increment will fund a full time position (plus travel and supplies) to work with the contractor on program development. Upon development completion, fees and charges of the program are projected to approximately cover operating costs.

*Legislative Fiscal Analyst Comment: In FY11 the legislature approved \$120.0 of the Governor's \$250.0 request to develop a Guide Concession Area Program. The initial FY11 \$120.0 for contractual assistance is built into the budget as a base increment. Upon completion of the development phase, contract assistance may no longer be required and this funding could be decremented.*

8. **Large Project Permitting Volume Increase: \$400.0 Statutory Designated Program Receipts (Other).** Additional receipt authority is requested in anticipation of permitting the Usibeli Coal Mine project and the Environmental Impact Statement (EIS) for the

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

Izembek National Wildlife Refuge Land Exchange/ Road Corridor project. This expanded receipt authority will allow the Department to spend fees collected for project permitting.

- 9. Mental Health Trust Lands Administration: \$443.9 Mental Health Trust Authority Authorized Receipts (Other).** This increase in base funding approved by the Trust will be used primarily for personal services and contractual line increases. Specifically, the division will implement salary and merit pay increases along with conversion of two positions from part-time to full-time. The vacancy factor will also be reduced as turnover is expected to be limited. Additionally, three long-term engineering contracts have been entered into to support trust lands projects.

### **MAINTENANCE OF SERVICES**

**Alaska Gasline Inducement Act (AGIA): \$3,617.5 UGF.** Funding for AGIA implementation has historically been added as multi-year and one-time items, with limited amounts added to the base budget (see table below). This has been done primarily because work related to AGIA is relatively short-term and because the specific amount of funding necessary each year (by agency and statewide) has been difficult to ascertain. Therefore, legislators have viewed annual revisitation of the issues (and the requests) as prudent.

<b>DNR AGIA Appropriations</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12 Gov</b>
Op Base Funding	-	681.7	681.7	709.1	745.8
FY12 Base Funding Request	-	-	-	-	3,617.5
Op Multi-year/Carryforward	7,919.8	5,516.4	3,801.1	2,929.8	-
Op One-Time Items	-	5,500.0	3,200.0	3,967.5	-
Op Supplemental	-	-	537.6	-	-
Capital/Carryforward	7,075.0	1,306.3	760.9	1,189.8	700.0
<b>Total Available</b>	<b>14,994.8</b>	<b>13,004.4</b>	<b>8,981.3</b>	<b>8,796.2</b>	<b>5,063.3</b>
Actuals	8,772.1	4,153.5	5,059.0	n/a	n/a

The Department has several increment requests for the FY12 *base* budget. The requested level of funding is similar to FY11.

- 10. Gas Pipeline Implementation - Coordinator's Office Staff: \$1,290.0 UGF.** The FY11 budget included an increment totaling \$1,440.0 for four new positions and associated travel and office expenses. The Conference Committee agreed upon an IncOTI and reduced the request by \$150.0 to \$1,290.0. A maintenance level increment to the base budget is requested for FY12.
- 11. Contract Consultants: \$1,950.0 UGF.** As the AGIA process develops, the agency continues to require contract consultants with expertise in various aspects of engineering, finance and economics. One-time funding, totaling \$2.3 million, was appropriated in FY11 to meet these needs. The Department is requesting \$1,950.0 as a FY12 base budget increase:
- **Commissioner's Office Contractors: \$1,150.0.** Funding will be used to retain outside experts for continued analysis for items such as pipeline engineering, gas treatment plant design, audit support, etc.; and

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- **Division of Oil and Gas Commercial Contractors: \$800.0.** This funding will be used to ensure that any changes to commercial terms comply with the AGIA license and provide general state support in negotiations with producers.

*Legislative Fiscal Analyst Comment: Although the Division of Oil and Gas did not receive funding specifically for contract commercial consultants in FY11, those services have been contracted in the agency. This increment was, therefore, classified as a "maintenance of services" increase.*

### **12. Gas Pipeline Implementation - Information and Public Outreach: \$377.5**

**UGF.** This increment was requested in FY11 at \$477.5. The Conference Committee agreed upon an IncOTI and reduced it by \$100.0. \$377.5 is requested to be maintained for FY12. The funding would be used to continue local and national public awareness campaigns, along with consultant assistance to monitor national legislation that might impact AGIA.

### **13. North Latitude Plant Material Center - Seed Potato Program: \$200.0**

**UGF.** This base increment request will continue the FY11 level of funding for the Certified Seed Potato Program. A full-time Agronomist and seasonal Natural Resource Technician provide services of producing and testing plantlets, inspecting fields, and serving as the in-state potato consultant for the agriculture industry.

## **ORGANIZATIONAL CHANGES**

The Claims, Permits, and Leases allocation is now named Mining and Land Development. Title Acquisition and Defense allocation is now named Land Acquisition and Title Defense. Both are renamed in an attempt to better reflect their missions. Organizationally, the agency remains the same.

## **CAPITAL BUDGET**

DNR has requested a total capital budget of \$32.7 million (\$19.2 million GF, \$2 million Other State Funds, and \$11.5 million Federal). The budget consists of a diverse mix of projects from deferred maintenance for Forestry and Parks facilities to snowmobile trail development and in-state natural gas assessments, among others. A few highlights from the Department's capital budget are described below:

- 14. South Denali Visitor Center Design and Construction: \$3,000.0 UGF.** This request will fund the completion of the design phase. The total projected remaining cost (including this request) is \$25 million. A total of \$8.9 million has already been received for the access road design and construction.
- 15. Lower Kasilof River Boat Takeout, Phase 1: \$2,000.0 UGF.** This request would fund a public drift boat takeout on this popular drift only salmon fishing river. This Phase 1 of 2 would include property purchase, design, and planning along with site prep and utilities. Phase 2 (projected to be \$1.6 million) would fund construction.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Public Safety				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$151,401.4</b>			
FY11 Fiscal Notes	156.1			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	246.5			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$151,804.0</b>	\$402.6	0.3%	
One-time Items removed	(290.0)			
FY12 Contractual Salary and Health Increases	1,344.7			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$152,858.7</b>	\$1,054.7	0.7%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	5,117.1			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$157,975.8</b>	\$5,117.1	3.3%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$5,117.1</b>	
Narcotics Task Force	2,316.2	2,319.0	2.8	
AST Detachments	51,811.1	52,884.4	1,073.3	2
Alaska Bureau of Investigation	6,092.4	6,452.0	359.6	3
VPSO Contracts	10,621.9	12,921.4	2,299.5	1
Alaska Police Standards Council	1,194.9	1,244.9	50.0	
Domestic Violence/Sexual Assault	9,003.3	10,253.4	1,250.1	4
Commissioner's Office	1,091.4	1,100.4	9.0	
Administrative Services	3,060.3	3,097.6	37.3	
Alaska Public Safety Information Network	2,158.8	2,194.3	35.5	
<b>Non-General Fund Agency Summary</b>				
	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	18,412.5	19,383.9	971.4	4
Federal Funds (all allocations)	12,330.6	11,630.4	(700.2)	4
<b>Total Non-General Funds (all allocations)</b>	<b>\$30,743.1</b>	<b>\$31,014.3</b>	<b>\$271.2</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>901</b>	<b>906</b>	<b>5</b>	
PFT	872	877	5	2, 3
PPT	16	16	-	
Temp	13	13	-	
<b>Governor's Capital Request</b>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	3,125.0	-	3,125.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,412.5	-	1,412.5	
Information Systems and Technology	1,740.5	-	1,740.5	
Other	-	2,000.0	2,000.0	
<b>TOTAL CAPITAL</b>	<b>\$6,278.0</b>	<b>\$2,000.0</b>	<b>\$8,278.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Public Safety**

The mission of the Department of Public Safety (DPS) is to ensure public safety and enforce fish and wildlife laws. The Department's core services include the following items:

- perform criminal and traffic law enforcement and investigations;
- manage and perform search and rescue operations for lost and missing persons;
- provide wildlife law enforcement and investigations;
- provide support to rural law enforcement entities;
- provide security to the Alaska Court System, transport inmates to and from court and between correctional institutions, and perform extradition of wanted persons to and from the state;
- provide criminal laboratory and forensic services, administer the statewide breath alcohol program, maintain Alaska's DNA identification system, and provide expert testimony in court proceedings;
- maintain accurate and complete Alaska criminal records and information for use by law enforcement agencies in Alaska and elsewhere;
- manage building and fire codes (development, adoption, interpretation, and review), conduct building plan reviews of commercial buildings and 4-plex and larger housing units, conduct fire and life safety inspections of priority facilities; and
- enforce alcoholic beverage laws.

The FY12 Department of Public Safety general fund operating budget as submitted by the Governor is \$5,117.1 above the FY12 Adjusted Base [\$6,113.6 Unrestricted General Funds (UGF) and a reduction of \$996.5 Designated General Funds (DGF)].

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Village Public Safety Officers (VPSO) Contracts – Add 15 VPSOs: \$2.3 Million UGF.** The Department has dramatically increased its rural law enforcement recruiting efforts during the past few years. This increment adds funding for fifteen new VPSOs and is consistent with the VPSO Senate Task Force's recommendation to add 15 new officers each year for a total of five years. This fourth year request brings the total of *new VPSOs* to 60. At present, 80 of the 86 authorized VPSO positions are filled and the Governor has indicated a desire to add 15 positions every year until FY20.
- 2. Alaska State Trooper (AST) Detachments – Three New Troopers for VPSO Oversight: \$1,056.3 UGF/ \$15.4 DGF.** The nearly 100% increase in statewide VPSO presence over the past three years necessitates additional oversight by the Alaska State Troopers in rural villages. The new positions will be located in Kotzebue, Bethel, and Fairbanks. In addition to the personal services costs, this increment provides funding for field visits, training, housing and office space leases, vehicles (including all terrain vehicles and/or snow machines), law enforcement equipment, and supplies.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

3. **Alaska Bureau of Investigation - Increased Staffing for Investigations of Internet Crimes Against Children (ICAC): \$359.6 UGF.** Two new positions are requested to focus on the overwhelming volume of crimes being committed against children through today's technological capabilities:
  - **One State Trooper Investigator** to conduct investigations, prepare reports, and pursue charges against perpetrators; and
  - **One Criminal Justice Technician I** to aid in forensic data collection from seized computers.

## **MAINTENANCE OF SERVICES**

4. **Council on Domestic Violence and Sexual Assault (CDVSA) – Domestic Violence and Sexual Assault Prevention: \$3.15 million [(\$2.25 million UGF/ \$910.0 Inter-Agency Receipts (Other) through the Governor's Office)].** In early December of 2009, the Governor announced his initiative to “eliminate the epidemic of domestic violence and sexual assault (DVSA) within a decade.” The Governor's comprehensive approach includes concentrated coordination between the newly established DVSA Initiative Coordinator (within the Governor's Office) and other state agencies.

UGF funding increases for DVSA programs within DPS can be separated into the following two categories:

### **Direct UGF Increases (including fund changes) to CDVSA**

- **Grantee Program Salary, Health Insurance, and Travel Increases: \$550.0 UGF.** \$370.0 will support increased grantee program salary and health insurance expenses (approximately four percent) while \$180.0 is requested to meet the higher cost to grantees of bringing victims to hub communities and transporting staff to villages. Increased media attention to domestic violence and sexual assault has resulted in a higher number of requests for emergency travel from rural areas to shelters.
- **Replace PFD Criminal Funds in CDVSA: \$1 million UGF.** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to the number of convicted felons and third time misdemeanants who are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of PFD Criminal funds is volatile. For FY12, the Department of Revenue calculated the amount available for appropriation to all agencies to be \$2.7 million less than in FY11.

The requested fund change replaces the Department's portion of that reduction with UGF in order to maintain services.

- **Replace Expiring Federal Earmarks in CDVSA: \$697.4 UGF.** In FY08, the Department received a \$5 million, multi-year federal grant for domestic violence and sexual assault prevention programs, which will be fully spent by the end of FY11. This increment will replace \$697.4 of that funding to continue the Council's legal advocate program, as well as provide support for the statistical database structure.

### **Year Two - RSAs through the Governor's Office/DVSA Allocation**

- **Universal Public Education Marketing Campaign: \$450.0 I/A.** Using a variety of campaign delivery methods (including radio, internet, television, and community events throughout the state), this grant to the Alaska Network on Domestic Violence and Sexual Assault (ANDVSA) will provide education to Alaskans on:
  - incidence rates of domestic violence and sexual assault;

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- impact of violence;
- services available; and
- violence prevention.
- **Planning Grants, Victimization Study & Evaluation: \$400.0 I/A.** CDVSA will continue its contract with the University of Alaska – Anchorage Justice Center to conduct a statewide victimization survey in order to have a definitive measure of the incidence and prevalence of domestic violence and sexual assault in Alaska.
- **Pro-Bono Attorneys: \$60.0 I/A.** As part of ANDVSA's Legal Advocacy Project, this funding will support the recruitment and training of pro bono attorneys to help fill the considerable gap between referrals to the program and its capacity to provide the number of consultations and representation needed.

### **5. AST Special Projects and Narcotics Task Force - Drug Enforcement and Rural Alcohol Interdiction: \$2,663.2 UGF.** Alcohol and drug enforcement remains a significant challenge, particularly with tenuous federal funding. The Department requests continued one-time funding, which could be reduced contingent upon the amount of federal money received by DPS.

- **Narcotics Task Force: \$1,393.2 UGF (Language)**
- **Special Projects: \$1,270.0 UGF (Language)** for the Rural Alcohol Interdiction Program (includes \$400.0 for prosecution efforts by the Department of Law)

***Legislative Fiscal Analyst Comment:*** *The legislature has included "reduce general funds if federal funds are forthcoming" language for both of these appropriations annually. Because the language may imply that federal funds are anticipated, there may be an expectation that these increments will have no GF impact. In FY10, \$387,775 was received to offset general funds while in FY11 the offsetting amount was just over \$1 million.*

## **ORGANIZATIONAL CHANGES**

There are no changes requested.

## **CAPITAL REQUEST**

The agency's \$8.3 million capital budget (\$6.3 million UGF and \$2 million Federal Receipts) can be categorized as follows:

### **MAINTENANCE AND REPAIRS: \$3,125.0 UGF**

- Statewide Facilities Maintenance, Repairs, and Improvements: \$1.275 million UGF
- Anchorage Aircraft Hangar Improvements: \$1 million UGF
- Aircraft and Vessel Repair and Maintenance: \$850.0 UGF

### **EQUIPMENT and MATERIALS: \$1,412.5 UGF**

- Alaska State Trooper Law Enforcement Equipment Replacement: \$500.0 UGF
- Alaska Wildlife Trooper Law Enforcement Equipment Replacement: \$500.0 UGF
- VPSO Equipment Replacement: \$337.5 UGF
- Anchorage Aircraft Hangar Air Compressor: \$75.0 UGF

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

### **INFORMATION SYSTEMS AND TECHNOLOGY: \$1,740.5 UGF**

- Data Exchange With Multi-Agency Justice Integration Consortium (MAJIC) Agencies, Phase II: \$800.0 UGF
- Alaska State Troopers Records Management System: \$775.0 UGF
- Phase III Mobile Solutions – Online Fire and Life Safety Plan Review System: \$165.5

### **OTHER: \$2 million Federal Receipts**

- Marine Fisheries Patrol Improvements: \$2 million Federal Receipts

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$37,904.8</b>			
FY11 Fiscal Notes	16,196.3			
CarryForward	-			
Special Appropriations	7,216.4			
Agency Transfers	-			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	(330.0)			
<b>FY11 Management Plan (GF only)</b>	<b>\$60,987.5</b>	\$23,082.7	60.9%	
One-time Items removed	(25,727.3)			
FY12 Contractual Salary and Health Increases	1,106.7			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$36,366.9</b>	(\$24,620.6)	-40.4%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	532.4			
FY12 Governor's GF Increments/Decrements/Fund Changes	4,473.7			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$41,373.0</b>	\$5,006.1	13.8%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$5,006.1</b>	
Treasury Division	4,617.2	7,742.0	3,124.8	7
Child Support Services	6,649.2	8,194.1	1,544.9	8
Commissioner's Office	206.4	210.9	4.5	
Administrative Services	283.9	390.6	106.7	3
Natural Gas Commercialization	-	125.0	125.0	1
Long Term Care Ombudsman	134.1	265.4	131.3	2
AK Gasline Development Corp	31.1	-	(31.1)	
↓				
Non-General Fund Agency Summary	FY12 Adjusted Base Budget	FY12 Governor's Request	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
Other State Funds (all allocations)	172,474.0	189,958.8	17,484.8	4,5,6,9,10, 11
Federal Funds (all allocations)	77,971.4	73,935.2	(4,036.2)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$77,971.4</b>	<b>\$73,935.2</b>	<b>(\$4,036.2)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>936</b>	<b>938</b>	<b>2</b>	
PFT	876	878	2	2,11
PPT	40	40	-	
Temp	20	20	-	
Governor's Capital Request				
	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	6,500.0	-	6,500.0	
Maintenance and Repairs	5,700.0	-	5,700.0	
Remodel, Reconstruction and Upgrades	26,000.0	4,700.0	30,700.0	
New Construction and Land Acquisition	19,250.0	-	19,250.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	2,588.6	139.9	2,728.5	
Other	10,600.0	9,000.0	19,600.0	
<b>TOTAL CAPITAL</b>	<b>\$70,638.6</b>	<b>\$13,839.9</b>	<b>\$84,478.5</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Revenue**

The Department of Revenue's responsibilities include:

- administration and enforcement of Alaska's tax laws;
- management of the treasury;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support; and
- administrative support to the following independent boards and corporations:
  - Alaska Permanent Fund Corporation;
  - Alaska Housing Finance Corporation;
  - Alaska Municipal Bond Bank Authority;
  - Alaska Natural Gas Development Authority;
  - Alaska Retirement Management Board; and
  - the Alaska Mental Health Trust Authority.

The FY12 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$5,006.1 above the FY12 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

### **NEW PROGRAMS / PROGRAM EXPANSION**

1. **Natural Gas Commercialization - Alaska Gasline Inducement Act (AGIA) Reimbursement Fund Audit: \$125.0 UGF.** AS 43.90.400(c) requires that regulations address periodic audits of the use of money disbursed as reimbursements from the AGIA Reimbursement Fund. Regulations [15 AAC 90.020(c)] established that audits be performed not less than annually. The Department states it does not currently have the audit personnel, time, or the resources to comply with this requirement and is requesting UGF for an outside audit firm to conduct an audit.
2. **Mental Health Trust Request – Office of the Long Term Care Ombudsman Investigator & Travel: \$120.0 GF/MH (UGF).** The Alaska Mental Health Trust Authority is requesting funding for two separate requests in the Long Term Care Ombudsman Office.
  - \$26.3 for investigative travel outside of Anchorage. According to the Department, currently all investigations outside of Anchorage are done primarily by phone. Past travel funding was made available by holding positions vacant. These funds are no longer available as the positions have now been filled to meet current investigation demands.
  - \$93.7 to add one full-time investigator position. The Office of the Long Term Care Ombudsman (OLTCO) protects the rights of seniors in assisted living and skilled nursing facilities. Staff investigate complaints from the public and work to resolve problems to the residents' satisfaction. OLTCO staff also provide public education, consultation, and technical assistance to families and providers throughout the State of Alaska. This request makes permanent the one-time funding and position approved in FY11.



## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

3. **Administrative Services - Annual Licensing for Network Servers Virtual Management: \$75.0 UGF.** Requested funds will allow the Department to purchase annual licenses for virtual management of the Department's network servers. The Department is transitioning to a virtual management system to improve technology performance and security, and to allow for system enhancements.
4. **Support for Alaska Gasline Development Corporation Staff: \$1,095.2 CIP Receipts (Other).** HB 369 required the creation of a Joint In-State Gasline Development Team whose purpose will be to develop an in-state natural gas pipeline plan by July 1, 2011. The fiscal note for HB 369 outlined funding for FY11 but provided no estimates for future years. The Department removed all funding associated with the fiscal note from the operating budget in FY12 and is requesting Capital Improvement Project (CIP) Receipt authorization to support seven existing positions within the Alaska Gasline Development Corporation.

*Legislative Fiscal Analyst Comment: CIP Receipts are a duplicated fund source and consist of amounts transferred from capital projects to the operating budget for operations costs of managing the project. This request will be funded if a FY12 capital project request titled "Alaska Gasline Development Corporation – Year 2 In-State Gas Project" is approved.*

5. **Alaska Permanent Fund Corporation (APFC) Increase to Fill All Existing Positions and Fund Salary Increases: \$319.0 PF Gross (Other).** APFC is requesting additional funding to maintain a vacancy rate of 3.41%. This will enable the APFC to fill all existing positions and provide salary increases to current staff that have met or exceeded their annual performance goals. According to APFC, one investment position was held vacant due to short funding in the FY11 personal services line.

*Legislative Fiscal Analyst Comment: The legislature may want to review the personal services expenditure plan for FY12. In FY11, the legislature denied a request to reduce the vacancy factor to 0.86% and fill all existing positions because the APFC has a historically high turnover rate.*

6. **APFC Increase for Due Diligence Travel, Legal Fees and Consultants: \$115.0 PF Gross (Other).** APFC is requesting additional funding to support the following increases: due diligence travel for new and existing investments; board travel; and existing business obligations for auditing, external legal services, and investment performance measurement.

## **MAINTENANCE OF SERVICES**

7. **Constitutional Budget Reserve (CBR) Fund Management Fees: \$2,592.4 UGF.** This increment request will fund the full cost of managing the CBR in FY12.

*Legislative Fiscal Analyst Comment: This request has been duplicated in section 1 and in a language section of the operating budget. An adjustment will need to be made in subcommittee and an amendment from the Governor should be expected.*

8. **Child Support Services Division (CSSD) Match Increase: \$1,544.9 GF Match (UGF).** In FY10, declining Temporary Assistance for Needy Families (TANF) cases resulted in declining receipts to the Department, resulting in insufficient funding to match federal program receipts. The American Recovery and Reinvestment Act (ARRA) provided federal funding and allowed Federal Incentive Payments to be used as state match through September 30, 2010. During the FY11 budget process, the legislature replaced all program receipt authorization with general fund match in order to clarify the budget and alleviate future problems. The Department is requesting increased match funding to maintain the FY11 budget level. This includes replacement of

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

Federal ARRA receipts (which are no longer available) and of Federal Incentive Payments (which are no longer eligible for use as state match).

9. **APFC Investment Management Fees and Third Party Fiduciary Fees: \$14.1 million PF Gross (Other).** Manager fees are calculated based on the market value of assets under management. This request will fund increased fees based on projected asset value growth, and fund higher fees associated with changes in the Permanent Fund's structure and strategies. This request also supports additional third party fiduciary work that is anticipated to be required in FY12. This work will provide the board with additional assistance in evaluating investment strategies, investments, and investment managers.

APFC is replacing a fixed appropriation in section 1 of the budget with a variable appropriation in language. See page 22 for additional information.

10. **Mental Health Trust Zero-based Budgeting: \$2,914.8 MH Trust Admin (Other).** The Alaska Mental Health Trust Authority continues to use zero-based budgeting for all of their programs. The goal of the Trust is to be able to identify how Trust funding is being allocated on a year-by-year basis.

*Legislative Fiscal Analyst Comment: This concept works well for Trust funding that appears in the budgets of various agencies, but it is not beneficial for the Trust's administrative budget. The FY12 request is \$123.3 larger than FY11, but the reasons for the increase are not clear.*

*Legislative Fiscal Analyst Recommendation: Return to incremental budgeting for Trust administrative components (including the Trust Land Office in the Department of Natural Resources).*

11. **Mental Health Trust Drug/Alcohol Coordinator: \$87.6 MH Trust Admin (Other) / \$80.0 SDPR (Other).** The Alaska Mental Health Trust Authority is requesting additional authorization to fund a full-time program officer position that will provide coordination, planning and leadership to address alcohol abuse. The Trust has partnered with the Rasmuson Foundation and the Mat-Su Health Foundation to provide funding for this initiative. The Legislative Budget and Audit Committee approved a similar request for additional authorization to implement this initiative in FY11.

## **ORGANIZATIONAL CHANGES**

There were two organizational changes made within the Department.

A new allocation titled Alaska Gasline Development Corporation was created within the Alaska Housing Finance Corporation appropriation. This allocation contains seven positions to work on the development of an in-state natural gas pipeline.

The Department is requesting the consolidation of three separate investigation groups into one Criminal Investigations Unit (CIU) allocation. This new allocation consists of 12 existing positions that were transferred from the Child Support Services, Tax, and Permanent Fund Dividend Divisions.

## **CAPITAL REQUEST**

The Alaska Housing Finance Corporation (AHFC) capital budget makes up the majority of DOR's annual request (90% of the budget for FY12). AHFC has over \$76 million budgeted for their housing programs, including, \$61.7 million of UGF and \$13.8 million of Federal Receipts. A few of the larger projects are:

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- the Weatherization Program: \$26.5 million (\$25.0 million AHCC and \$1.5 million Federal Receipts);
- the Homeless Assistance Program: \$10 million (\$6.3 million UGF; \$2.0 Federal Receipts; \$850.0 GF/MH; and \$850.0 MHTAAR);
- the Supplemental Housing Development Program: \$7 million (\$4 million UGF and \$3 million AHFC Dividend);
- the Teacher, Health, Public Safety Professionals, and Village Public Safety Officer (VPSO) Housing Loan Program: \$6 million (\$4 million AHFC Dividend and \$2 million UGF); and
- the Senior Citizen's Housing Development Program: \$4.5 million UGF.

The remainder of DOR's capital budget request totals \$8.2 million and includes the following:

- Alaska Gasline Development Corporation – Year 2 In-State Gas Project: \$5.5 million AHCC;
- Payment Card Industry Data Security Standards Statewide Compliance: \$2 million UGF; and
- Various small information technology projects totaling \$728.5.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Department of Transportation and Public Facilities				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$313,814.9</b>			
FY11 Fiscal Notes	474.2			
CarryForward	3,600.0			
Special Appropriations	-			
Agency Transfers	10,091.3			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$327,980.4</b>	\$14,165.5	4.5%	
One-time Items removed	(13,823.5)			1
FY12 Contractual Salary and Health Increases	3,371.7			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$317,528.6</b>	(\$10,451.8)	-3.2%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	10,998.4			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$328,527.0</b>	\$10,998.4	3.5%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$10,998.4</b>	
Marine Vessel Operations	105,782.1	108,746.1	2,964.0	5, 6, 9
Northern Highways and Aviation	62,593.9	64,935.6	2,341.7	2, 4, 8, 9
Central Highways and Aviation	48,188.1	49,773.9	1,585.8	2, 3, 8, 9
Marine Vessel Fuel	18,968.1	20,522.8	1,554.7	5, 6, 9
Southeast Highway and Aviation	14,400.0	14,706.7	306.7	4, 8, 9
Central Design and Engineering Services	1,311.4	1,605.8	294.4	7
Central Region Facilities	6,982.8	7,242.8	260.0	1, 9
Central Construction & CIP	492.3	745.1	252.8	7
Northern Construction & CIP	586.3	799.1	212.8	7
Southeast Design and Engineering Services	874.6	1,068.6	194.0	7
Northern Design and Engineering Services	667.0	851.1	184.1	7
Program Development	548.3	707.7	159.4	
Southeast Region Construction	159.9	303.9	144.0	7
Stwd Design and Engineering Services	1,129.0	1,252.8	123.8	7
Whittier Access and Tunnel	101.1	213.8	112.7	
Measurement Standards and Comm. Vehicle Enforcement	4,638.6	4,731.7	93.1	
Northern Region Facilities	10,676.7	10,760.7	84.0	1, 9
Other Increments	15,880.4	16,010.8	130.4	
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	254,516.0	252,970.2	(1,545.8)	
Federal Funds (all allocations)	3,972.9	3,957.8	(15.1)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$3,972.9</b>	<b>\$3,957.8</b>	<b>(\$15.1)</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>3,856</b>	<b>3,856</b>	<b>-</b>	
PFT	3,210	3,210	-	
PPT	420	420	-	
Temp	226	226	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	14,584.8	88,096.9	102,681.7	
Maintenance and Repairs	37,532.2	13,993.8	51,526.0	
Remodel, Reconstruction and Upgrades	103,653.6	385,036.6	488,690.2	
New Construction and Land Acquisition	20,257.0	118,980.0	139,237.0	
Equipment and Materials	28,590.6	24,608.0	53,198.6	
Information Systems and Technology	2,485.5	2,800.0	5,285.5	
Other	400.0	30,400.0	30,800.0	
<b>TOTAL CAPITAL</b>	<b>\$207,503.7</b>	<b>\$663,915.3</b>	<b>\$871,419.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Department of Transportation and 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 many public facilities. This includes approximately 260 state-owned airports and seaplane bases, 5,600 miles of state roads, 700 buildings ranging from maintenance shops to state office complexes, and 25 ports and harbors. In addition, the Department owns and operates the Alaska Marine Highway System (AMHS). 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 7,967 light and heavy duty vehicles and attachments.

The FY12 Department of Transportation and Public Facilities (DOT&PF) general fund operating budget submitted by the Governor is \$10,998.4 (3.5%) above the FY12 Adjusted Base [\$5,046.6 Unrestricted General Funds (UGF)/ \$5,941.8 Designated General Funds (DGF)].

***Legislative Fiscal Analyst Comment:** In the FY10 budget, the legislature expanded the highways, rural airport and facilities maintenance and operations budgets by \$12.7 million UGF. The intent was to mitigate accumulating inflationary pressures (\$2.7 million) and expand service levels (\$10 million). The FY11 budget saw budgetary increases related to EPA mandates. In addition, \$11.25 million of the "fuel trigger" appropriation was added to the base budget. The total FY12 requested budget change is relatively modest agency-wide. However, significant changes occur in individual allocations. Those issues are highlighted below and correspond to the numbers in the last column of the preceding spreadsheet.*

### **NEW PROGRAMS/ PROGRAM EXPANSION**

- 1. New Facilities' Operating Costs: \$356.0 UGF.** Twenty-eight new buildings have been, or will be, added to the agency inventory in FY11. Basic operating costs for the new buildings are requested for FY12. The new buildings are mostly snow removal equipment buildings (SREB's). The Central Region has 21 buildings for **\$260.0** and the Northern Region has 6 buildings for **\$84.0**. The new Coffman Cove maintenance station in the Southeast Region will be under construction in FY11 and ready for operation in FY12. The request for that building is **\$12.0**. Operating costs for the buildings include electricity, heating oil, water/sewer, and risk management costs.
- 2. New Lane Miles in Central Region: \$364.8 UGF.** Lane miles in the Central Region are expected to increase by 46 in FY12 (5,897 miles are being maintained in FY11). The increment is calculated based on a total UGF amount of \$46.8 million divided by the 5,897 lane miles, equating to \$7,931 per mile ( $\$7,931 \times 46 = \$364.8$ ).

***Legislative Fiscal Analyst Comment:** This justification does not exactly coincide with budgeted amounts. The FY11 Management Plan UGF amount is \$47.4 million, not including the second "fuel trigger" transfer that occurred in December 2010. Assuming another \$614.1 (for the 2<sup>nd</sup> trigger amount), the total FY11 budget would be just over \$48 million, equating to \$8,142 per mile and an increment of \$374.5. That said, economies of scale might exist to some extent when adding new lane miles.*

- 3. Glenn Highway Lighting: \$90.0 UGF.** Construction of new lighting systems on the Glenn Highway from Anchorage to Palmer has begun and is expected to be completed in early FY12. Electricity and minor maintenance costs for the new lighting will be required in order to avoid a decrease of service in the area. The Department received \$20 million of federal receipts in prior capital budgets to construct lighting systems.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

4. **ADA Sidewalk Maintenance Compliance: \$432.6 UGF.** The agency was cited in 2009 for inadequate sidewalk maintenance in the Northern Region (NR). An FY11 request for \$305.0 to address the issue was denied because the legislature thought DOT&PF could reprioritize and absorb the cost. However, \$100.0 was included in the FY11 capital budget for NR sidewalk maintenance equipment. An increment of **\$332.6** is requested for FY12 to cover NR operating costs. Because the Southeast Region has been under similar scrutiny, **\$100.0** is requested for this region as well.
  
5. **Marine Highway Bellingham to Whittier Express Run: \$2,778.2 AMHS Receipts (DGF)/ (\$2,245.0) UGF.** This request would allow for an adjustment to the *Kennicott* summer schedule creating an express run from Bellingham to Whittier with stops in Ketchikan, Juneau, and Yakutat. It is projected by AMHS management that \$2.8 million of additional revenue will be derived from this schedule change. This change would still allow for twice monthly service by the *Tustumena* to the Aleutian Chain in the summer (as implemented in FY11 – see AMHS in Maintenance of Services below). The requested increase in funding is split with \$2,286.1 for Vessel Operations, \$462.1 for Fuel and \$30.0 for Shore Operations. An associated decrement of \$2,245.0 UGF is budgeted in Vessel Operations as a result of the revenue increase.

***Legislative Fiscal Analyst Comment:** It is unclear why the GF reduction does not precisely offset the revenue increase.*

Below is a table displaying the changes between FY11 and FY12 for Vessel Operations and Vessel Fuel allocations.

Vessel Ops	UGF	DGF		Vessel Fuel	UGF	DGF
11Mgmt Plan	77,803.7	30,600.2		11Mgmt Plan	24,105.4	3,874.4
				FY11 Trigger OTI	(8,033.5)	-
less Aleutian FY11 OTI	(2,621.8)			less Aleutian FY11 OTI	(978.2)	-
Adj Base	75,181.9	30,600.2		Adj Base	15,093.7	3,874.4
Aleutian Service FY12	-	2,922.9		Aleutian Service FY12	802.0	290.6
Xpress Run	(2,245.0)	2,286.1		Xpress Run	-	462.1
Gov	72,936.9	35,809.2		Gov	15,895.7	4,627.1
Delta Gov to AdjBase	(2,245.0)	5,209.0		Delta Gov to AdjBase	802.0	752.7

	Total Change Vessel Ops and Fuel
UGF	(1,443.0)
DGF	5,961.7

## MAINTENANCE OF SERVICES

6. **Marine Highway Aleutian Chain Service: \$4,015.5 Total [\$802.0 UGF/ \$3,213.5 AMHS Receipts (DGF)].** As mentioned above, just over \$4 million is requested to continue twice monthly summer service to the Aleutian Chain. The FY11 funding for this service was added as one-time items, and increments of \$2,922.9 (AMHS Receipts) for Vessel Operations and \$1,092.6 (\$802.0 UGF and \$290.6 AMHS Receipts) for Vessel Fuel are included in the FY12 request.

*Legislative Fiscal Analyst Comment: These budget increments would authorize an additional \$3,213.5 of AMHS Fund expenditures without an associated increase in revenue. The FY09 and FY10 supplemental budgets included appropriations of excess "fuel trigger" funding (approximately \$10.5 million) to the AMHS Fund. This "savings" portion of the fund would be used to provide service to the Aleutian Chain.*

*Use of the AMHS Fund in this manner is inconsistent with legislative intent. The Marine Highway System budget was restructured several years ago; general funds for operations were appropriated directly to the Department rather than going through the Marine Highway Fund. The intent was that current year revenue would be fully utilized, with general funds used as necessary. The "savings" portion of the fund was to be utilized only if system revenue fell short of projections in a particular year. By reducing the "savings balance" of the fund, this increment would leave the Marine Highway System with less money to meet potential revenue shortfalls in the future.*

*Analysis of the FY11-12 revenue projections, budget requirements, and the AMHS Fund should be undertaken during the subcommittee process.*

7. **Fund Source Changes in Design, Engineering and Construction: \$1,457.9 UGF/ (\$1,457.9) CIP Receipts (Other).** Several allocations within the Design, Engineering and Construction Appropriation have significant fund source changes related to "unrealizable receipts" for personal services increases. The argument is that rising agency labor costs being charged to capital projects are eroding funds available for project contracts.

*Legislative Fiscal Analyst Comment: This is not a new argument and is perhaps justifiable. On the other hand, projects could be estimated and budgeted with rising design, engineering, and oversight costs in mind. If a project appropriation becomes insufficient to cover costs, perhaps the project appropriations should be adjusted rather than changing the funding sources underlying the operating budget labor costs. Adding UGF to the base budget implies that CIP receipts will continue to be unavailable in the future.*

8. **State Equipment Fleet (SEF) Cost Increases: \$2,766.7 UGF.** Each of the three Highways and Aviation regions is requesting increases for (what the Department identifies as) accumulated unfunded SEF operating and replacement rates. The increments regionally are: Central – \$890.4; Northern – \$1,788.9; and Southeast – \$87.4.

*Legislative Fiscal Analyst Comment: The SEF continues to be a growth area for the DOT&PF budget. Rising equipment replacement costs, commodities, shipping, and travel (for maintenance) are driving the equipment fleet rate increases.*

## OTHER ISSUES

9. **Fuel/Utility "Trigger" Appropriation (DOT&PF Maximum \$30 million UGF).** The last four budget cycles have seen unprecedented commodity price volatility. FY08 was a year of very high energy prices. Worldwide economic conditions during FY09 relieved energy cost pressure statewide, and FY10 began with Alaska North Slope (ANS) crude trading near



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

\$70/barrel (nearly 180% greater than the December 2008 low of \$25.81/bbl). Prices remained fairly stable in FY10, yet have begun trending upward again in FY11. As of this writing, ANS Crude is trading over \$90/bbl and the Department of Revenue's fall 2010 forecast has prices trending over \$100 in a few short years.

The oil price "trigger" appropriation created by the legislature has performed as intended in this environment. By making one-time appropriations for increases in fuel costs, the legislature has avoided building a budget base that may contain unnecessary funding.

As in FY11, disbursements of "fuel trigger" funding would occur at the beginning of August and December. Disbursements would be based on the average price per barrel of ANS Crude to date on the first day of the aforementioned months. For example, prices averaging \$82.67 (the Department of Revenue's Fall Forecast price for FY12) on August 1st would result in disbursement of **\$16.5 million, of which DOT&PF would receive 65% plus or minus 10%** (as decided by the Governor's Office).

***Legislative Fiscal Analyst Comment:** It may be advisable to again adjust agency base budgets, reducing the amount to be distributed via the trigger to only extreme levels. See the analysis of language sections (section 16) of the Governor's operating bill.*

## **ORGANIZATIONAL CHANGES**

There are no significant changes.

## **CAPITAL REQUEST**

The DOT&PF capital budget comprises the majority of the statewide capital budget each year. Typical programs include the Surface Transportation Program (receipts from the Federal Highway Administration) and the Airport Improvement Program (receipts from the Federal Aviation Administration). Both programs require state match components that are usually budgeted separately to allow for agency flexibility. The budget also typically has appropriations from the general fund for facility, harbor, airport, highway and Alaska Marine Highway vessel/terminal deferred maintenance, and for the stockpiling of materials for construction. The Governor's proposal contains elements of all of the above. See the capital budget section on page 55 for further details.

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$641,425.0</b>			
FY11 Fiscal Notes	-			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	1,485.0			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$642,910.0</b>	\$1,485.0	0.2%	
One-time Items removed	(2,024.2)			
FY12 Contractual Salary and Health Increases	10,354.4			12
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$651,240.2</b>	\$8,330.2	1.3%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	6,966.3			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$658,206.5</b>	\$6,966.3	1.1%	
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$6,966.3</b>	
Budget Reductions/Additions - Systemwide	8,220.4	14,049.5	5,829.1	1,3,7,8,9,10
Statewide Services	29,748.4	29,740.9	(7.5)	10
Office of Information Technology	17,617.9	17,867.9	250.0	2
Systemwide Education and Outreach	7,533.2	7,524.2	(9.0)	10
Anchorage Campus	207,932.4	208,738.6	806.2	1,4,10
Kenai Peninsula College	11,115.3	11,108.6	(6.7)	10
Matanuska-Susitna College	8,893.5	8,889.0	(4.5)	10
Prince William Sound Community College	6,164.3	6,156.9	(7.4)	10
Bristol Bay Campus	2,092.3	2,088.2	(4.1)	10
College of Rural and Community Development	11,595.1	11,591.6	(3.5)	10
Fairbanks Campus	197,973.7	198,283.7	310.0	5,6
Interior-Aleutians Campus	2,856.1	2,848.2	(7.9)	10
Kuskokwim Campus	4,906.5	4,903.7	(2.8)	10
Northwest Campus	2,111.0	2,108.3	(2.7)	10
UAF Community and Technical College	11,702.7	11,691.4	(11.3)	10
Juneau Campus	37,845.2	37,742.2	(103.0)	10
Ketchikan Campus	4,552.1	4,493.5	(58.6)	10
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	74,452.8	85,374.3	10,921.5	3,9
Federal Funds (all allocations)	132,798.7	136,318.7	3,520.0	9
<b>Total Non-General Funds (all allocations)</b>	<b>\$207,251.5</b>	<b>\$221,693.0</b>	<b>\$14,441.5</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>4,916</b>	<b>4,916</b>	-	
PFT	4,694	4,694	-	
PPT	222	222	-	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	37,500.0	-	37,500.0	
Remodel, Reconstruction and Upgrades	2,000.0	30,000.0	32,000.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$39,500.0</b>	<b>\$30,000.0</b>	<b>\$69,500.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **University of Alaska**

The major goals of the University are to inspire learning, and to advance and disseminate knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples 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
- the University as the state's primary research facility with focus on the application of new knowledge and emerging technologies to meet the needs of the state.

The FY12 University of Alaska (UA) general fund operating budget submitted by the Governor is \$6,966.3 above the FY12 Adjusted Base [\$1,130.2 Unrestricted General Funds (UGF)/ \$5,836.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **NEW PROGRAMS/PROGRAM EXPANSION**

#### **1. U of A Facilities Maintenance, Repair and Operations**

- **Maintenance and Repair (M&R): \$901.3 University Receipts (DGF).** The University's annual facility maintenance and repair need is calculated at a minimum 1.5 percent of current building value, plus an adjustment factor for building age. Each Major Administrative Unit (MAU) annually dedicates a portion of its operating budget to facilities maintenance. As the deferred maintenance and renewal/repurposing backlog continues to grow, the amount of funding necessary to maintain buildings increases at a disproportionate rate. This increment covers the non-GF portion of the M&R requirement for FY12.
- **UAA Health Sciences Building: \$591.0 General Fund (UGF).** The UAA Health Sciences Building is scheduled to open in August 2011. This 66,000 square foot facility will provide laboratory space as well as education and instructional space for the health sciences program. The Governor's request includes maintenance and repair needs and the operations component (utilities, cleaning, grounds, snow removal, etc.) for this building.

#### **2. Statewide Office of Information Technology Compliance Mandates: \$250.0 University Receipts (DGF).** This increment will fund the replacement of security equipment that is nearing the end of its useful life and supports security maintenance needs generated from security review exercises. This also includes funding for equipment that will be used to scan for security vulnerabilities and to update the existing security infrastructure.

#### **3. Future Provider Workforce Development/Training: \$40.0 Interagency Receipts (Other).** This increment for Interagency Receipts will specifically support the Governor's Domestic Violence and Sexual Assault Initiative through a one-year reimbursable services agreement (RSA) from the Governor's Office for future provider workforce development/training.

*Legislative Fiscal Analyst Comment: In FY11, \$3 million UGF was added to the Governor's Office for statewide planning, development and execution of prevention and intervention strategies to address sexual assault and domestic violence. Funds were distributed to participating agencies via reimbursable services agreements. The Governor's FY12 budget contains \$3 million to continue this initiative. The University's participation in this initiative is new in FY12.*

## **MAINTENANCE OF SERVICES**

- 4. UAA ConocoPhillips Integrated Science Building Operating and Maintenance Costs: \$314.2 General Fund (UGF).** In FY11, the legislature appropriated \$314.2 UGF in one-time funding for Anchorage Fixed Cost Priorities related to the Integrated Science Building (ISB) at the University of Alaska Anchorage (UAA) Campus. That amount was added to the \$2,094.3 (\$1,025.0 UGF/ \$1,069.3 DGF) received as base funding for ISB operating and maintenance costs in FY10. This increment requests that the one-time funding for FY11 be added to base funding. The money would support existing staffing levels for the ISB, which opened in the fall of 2009.
- 5. UAF Individual Technology Based Math Summer Bridge Programs: \$190.0 Total [\$150.0 General Fund (UGF)/ \$40.0 University Receipts (DGF)].** One-time funding of \$150.0 UGF was appropriated by the legislature in FY11 for the Math Summer Bridge Program at the University of Alaska Fairbanks (UAF) Campus. The objective of the overall program is to improve the success of students in mathematics courses. The summer bridge programs help prepare students for their initial college level math class. Students taking advantage of summer bridge programs have often been able to advance a course when starting fall semester, improving their progress toward retention and graduation. This increment requests that the one-time funding from FY11 be added to base funding and that an additional \$40.0 of University Receipts (DGF) be authorized for the program as well.
- 6. UAF Summer Research Academy – Engineering Components: \$120.0 Total [\$75.0 General Fund (UGF)/ \$45.0 University Receipts (DGF)].** In FY11, the legislature appropriated \$75.0 UGF in one-time funding for Alaska Summer Research at the University of Alaska Fairbanks Campus. The Alaska Summer Research Academy (ASRA) is a two-week academic experience offered by the College of Natural Science and Mathematics in cooperation with the University of Alaska Fairbanks and industry partners. The academy provides an opportunity for students in grades 8-12 to live on the UAF campus and work with university faculty, staff, and industry professionals. The approach is experiential – hands-on and minds-on rather than lecture or worksheets. ASRA began in 2001 with 20 students, and in 2010 had 214 students apply for 149 spaces. Approval of the Governor's FY12 request would enable the continuation of the engineering components of this bridging recruitment program and add money to the base budget.
- 7. Non-Personal Services Fixed Cost Increases: \$4,541.1 University Receipts (DGF).** This increment is intended to cover:
  - **\$927.2 - library cost increases** throughout the state system, including subscription costs for journals, monographs, and database services which have risen 13-55% during the last five years;
  - **\$90.0 - leased space for parking** for the UAF Community and Technical College facility in downtown Fairbanks;
  - **\$175.0 – leased space for the UAF Community and Technical College Pipeline Training Facility** in downtown Fairbanks to meet essential instructional and program needs for the Process Technology, Instrumentation, and Safety/Health/Environmental Awareness programs; and
  - **\$3,348.9 – other fixed cost increases** used toward non-discretionary cost increases estimated at three percent over FY11, excluding personal services, utilities, maintenance and repairs, and libraries.

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

8. **Utility Cost Increases: \$875.7 University Receipts (DGF).** This increment covers a portion of the projected FY12 utility and fuel oil cost increases, estimated at six percent over FY11. This increment includes only the non-GF portion of the utility cost increase requirement for FY12.

*Legislative Fiscal Analyst Comment: As in FY11, the Governor included a contingent appropriation in the operating budget to offset increased fuel and utility costs of agencies. The University contends that the fuel trigger may provide insufficient funding because it does not cover the total cost of fuel/utility increases since FY07. The University indicates that a supplemental request for fuel/utility costs may be submitted for FY11.*

9. **University of Alaska Receipt Authority: \$12,920.0 Total [\$3,520.0 Federal Receipts (Fed)/ \$900.0 Interagency Receipts (Other)/ \$1,900.0 CIP Receipts (Other)/ \$6,600.0 UA Interagency Receipts (Other)].** FY12 operating budget projections indicate that the University of Alaska requires additional budget authority to cover expenditures in the following non-General Fund areas:

- Federal Receipt authority is needed to accommodate the student financial aid programs and Pell grants which have increased during the last two years. With the increase in the amount awarded and increased enrollment, UA requires additional authority to accept these grants on behalf of students;
- Interagency Receipt authority is needed to accommodate contractual obligations with other state agencies;
- CIP Receipt authority is required to accommodate chargebacks to capital improvement projects to support CIP personal services administrative costs; and
- UA Intra-Agency Receipt authority is needed to include all internal charges for services provided by central service departments to other university departments. This includes services such as physical plant work orders, printing, and computer repairs, and administrative functions such as risk management and labor relations.

## **OTHER ISSUES**

10. **Technical Vocational Education Program (TVEP) Receipts Funding Adjustment and Reduction: (\$817.0) TVEP Receipts (DGF).** According to Chapter 47, SLA 2008 (HB 2), 50% of TVEP funding is allocated to the University. Available TVEP funding is projected to be \$4.4 million for FY12 (a decrease of 15.7% from FY11). (The estimated statewide total net available TVEP funding for FY12 is \$9.95 million, a decrease of \$974.5 from FY11.) According to the University, at the close of FY10, the Department of Labor and Workforce Development (DOLWD) became aware that they were overly optimistic about actual TVEP receipts in their fall 2009 projections. Subsequently, FY11 and FY12 adjusted projections were reflected in the Governor's request as TVEP decrements.

University funding is statutorily allocated to Statewide Programs – 45% – and to the University of Alaska Southeast – 5%. TVEP funding has been instrumental in the University's ability to meet Alaska's workforce training and educational needs and continues to be the key source of funds for that purpose.

*Legislative Fiscal Analyst Comment: Individual University campuses submit requests for TVEP funds to the University's Associate Vice President for Workforce Development. A review process occurs to determine which projects/campuses will receive TVEP funding in each fiscal year. Because the TVEP funds are in various base budgets and increments or decrements are applied to the whole, internal transfers must occur depending on project approvals. When the DOLWD made a*

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

*mid-year adjustment to statewide TVEP funding, an attempt was made by the University to reduce each previously approved project by 5%. The balance of the reduction was absorbed by the University of Alaska Southeast because not all funds had been obligated by the time change notification was given by DOLWD. Even with the reduction, the University of Alaska Southeast TVEP funding exceeds the statutorily mandated 5% TVEP allocation for the University of Alaska Southeast. Legislative Finance anticipates that a negative FY11 supplemental for TVEP funds will be submitted by the Governor.*

- 11. Legislative Intent – Establishing a Ratio for General Fund Support for the University of Alaska.** The FY11 operating budget conference committee discussed methodologies for stabilizing the state's share of UGF within the University's operating budget. In the budget adopted by the conference committee, the following language was added: "It is the intent of the legislature that the University of Alaska's FY12 budget request for unrestricted general funds not exceed 129 percent of actual University Receipts for FY10. It is the intent of the legislature that future requests by the University of Alaska for unrestricted general funds move toward a long-term goal of 125 percent of actual University Receipts for the most recently closed fiscal year."

*Legislative Fiscal Analyst Comment: The discussion of this ratio (or other methods) could prove helpful for long-term planning on the part of the University and the legislature. The University's FY12 budget request for unrestricted general funds (\$342,755.6) exceeds 129 percent of actual University Receipts for FY10 (\$242,517.6) by \$29.9 million. Although the short-term intent was not met, the University's budget meets the legislature's long-term intent. The FY12 request increases UGF by \$5,367.2 and University Receipts by \$10,746.3, so the ratio of new GF to new University receipts is 50 percent, indicating strong progress toward the long-term goal of reducing total GF funding to 125 percent of University receipts.*

- 12. Contractual Salary and Health Increases.** All of the University's labor contracts expired on December 31, 2010. No request for collective bargaining increases will appear in the budget until agreements have been ratified.

The budget includes an increment request related to benefit cost increases for all employee groups. The budget also includes a 2% salary increase for non-unionized staff to take effect July 1, 2011, followed by an additional 1 percent increase January 2012 to be funded internally. In addition, the budget includes a 50-cent per hour increase for student employees.

## **POSITIONS**

The Governor's University of Alaska FY12 budget adds no new positions. The total count is 4,916 (4,694 PFT and 222 PPT) positions.

## **BOARD OF REGENTS' REQUEST**

*The Governor's budget is less than the Board of Regents' request by \$5.1 million (\$3.8 million of which is UGF). In past years, narratives discussed differences between the Regents' request and the Governor's request. In response to legislative direction that the Governor's request will serve as the starting point of budget deliberations, the Regents' request is not discussed here.*

## **ORGANIZATIONAL CHANGES**

The single appropriation structure under which the University had been organized for many years was replaced by the legislature with a multiple appropriation structure in FY09. The legislature determined that

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

seven appropriations would allow more oversight and control from a legislative perspective. The Governor's FY12 budget has reverted to a single appropriation.

The name of the Tanana Valley Campus allocation has been changed to UAF Community and Technical College.

***Legislative Fiscal Analyst Comment:*** *The legislature provided for some funding flexibility under the seven-appropriation scenario. In FY11, \$22.5 million (3% of federal receipts, UGF, and University Receipts from all appropriations (except the Small Business Development Center) were transferred into the Budget Reductions/Additions – Systemwide appropriation for disbursement between appropriations/allocations as needed.*

### **CAPITAL REQUEST**

There are two general fund projects in the University's FY12 capital budget to begin reducing the deferred maintenance and renewal backlog for nearly 400 buildings, totaling 6.7 million gross square feet, with an adjusted value that currently exceeds \$2 billion:

- \$37.5 million GF to maintain existing facilities (deferred maintenance and renewal and repurposing); and
- \$2.0 million GF for annual renewal and repurposing (the first year of an effort to get to a property maintenance sustainment funding strategy, investing \$50 million annually to extend the life of older buildings needing major system replacements).

The third item in the University's capital request is for \$30 million of federal receipt authority. Although the University requests designated receipt authority through the normal budget process for known projects with sufficient lead time, undesignated authority is also necessary to enable the University to act upon opportunities such as grants that are awarded without sufficient time to get funding authority established through the regular legislative process. This request is an estimate of potential federal receipt authority needed for FY12-FY17 projects at the main and community campuses.



# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

<b>Alaska Court System</b>				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$93,998.3</b>			
FY11 Fiscal Notes	1,361.0			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	-			
Reappropriations	-			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$95,359.3</b>	\$1,361.0	1.4%	
One-time Items removed	(50.0)			
FY12 Contractual Salary and Health Increases	2,462.9			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$97,772.2</b>	\$2,412.9	2.5%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	-			
FY12 Governor's GF Increments/Decrements/Fund Changes	4,184.9			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$101,957.1</b>	\$4,184.9	4.3%	
↓				
FY12 Governor's Increments, Decrements, Fund Changes and Language	FY12 Adjusted Base Budget (GF Only)	FY12 Governor's Request (GF only)	Change from FY12 Adj Base to FY12 Governor's Request	See Note:
<b>Allocation</b>			<b>\$4,184.9</b>	
Appellate Courts	6,800.6	6,879.1	78.5	5
Trial Courts	75,941.5	79,258.0	3,316.5	1,3,5,6
Administration and Support	9,998.9	10,309.4	310.5	2
Therapeutic Courts	3,526.0	4,005.4	479.4	4,5,7
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	754.5	1,824.7	1,070.2	7
Federal Funds (all allocations)	1,675.6	1,675.6	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$2,430.1</b>	<b>\$3,500.3</b>	<b>\$1,070.2</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>808</b>	<b>828</b>	<b>20</b>	
PFT	740	759	19	1, 2
PPT	46	47	1	1
Temp	22	22	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	2,500.0	-	2,500.0	
Remodel, Reconstruction and Upgrades	4,000.0	-	4,000.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$6,500.0</b>	<b>\$0.0</b>	<b>\$6,500.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

## **Alaska Court System**

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and completely state-funded judicial system. The mission of the Alaska Court System is to provide, expeditiously and with integrity, 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.

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's budget is presented in four appropriation requests - the Alaska Court System, Therapeutic Courts, the Commission on Judicial Conduct, and the Judicial Council.

The FY12 Alaska Court System's general fund operating budget is \$4,184.9 Unrestricted General Funds (UGF) above the FY12 Adjusted Base.

Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

## **NEW PROGRAMS/PROGRAM EXPANSION**

- 1. Trial Courts - Improve Public Service: \$1,678.6 UGF.** The Court System continues to experience difficulty in recruiting and retaining qualified staff to manage the agency's increased caseloads throughout the state. In addition to personnel increases, the Court System seeks to expand agency services to the public through the following increments:

- **No Dark Courtrooms: \$934.8 UGF.** The "No Dark Courtrooms Initiative" is integral to the Court System's long range plan to improve courtroom efficiencies and streamline proceedings. Prior year appropriations for this initiative are outlined in the following table:

### **No Dark Courtrooms Initiative Funding History**

<i>(all funding UGF)</i>	<b><u>FY09</u></b>	<b><u>FY10</u></b>	<b><u>FY11</u></b>	<b><u>FY12</u></b>
<b>Requested by the Court System</b>	\$2,248.6	\$879.1	\$1,365.7	\$934.8
<b>Funding approved by Legislature</b>	\$600.0	\$600.0	\$400.0	<i>To be determined</i>

- **Add Positions in 1<sup>st</sup> and 3<sup>rd</sup> Districts: \$286.4 UGF.** Requested funding includes:
  - **1<sup>st</sup> District: \$24.8.** Expand work time for the administrative assistant assigned to custody investigations in Ketchikan and Juneau up to 30 hours per week;
  - **3<sup>rd</sup> District: \$130.8.** One attorney to assist with appeals of decisions issued in agency administrative proceedings and with post conviction relief petitions from prisoners. A predominant number of these types of appeals are requested from self-represented litigants. Consequently, these appeals require a higher degree of monitoring than most civil matters; and

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- **3<sup>rd</sup> District/Statewide: \$130.8.** One additional attorney to serve as a magistrate trainer to assist the magistrate education coordinator with providing judicial educational services to the 43 magistrates and 26 deputy magistrates serving Alaska.
- **Improve Handling of Cases Involving Children: \$276.1 UGF.** Due to the complicated nature of child custody disputes, the Court System is requesting funding for additional intervention to help families resolve their differences in a timelier manner and conserve judicial resources. Requested funding includes:
  - **Custody Mediation: \$83.0** to hire additional contract mediators to keep up with the recent 250% increase in mediation referrals;
  - **Special Docket and Judicial Settlement Conferences: \$57.5** to hire retired judges to work pro tem;
  - **Early Neutral Evaluation: \$51.0** for a PPT custody investigator based in Fairbanks;
  - **Screening and Assessment: \$44.6** to increase hours of existing staff or hire contractors to perform the work as appropriate; and
  - **CINA (Child in Need of Aid): \$40.0** targeted to provide contract mediation services in Juneau.
- **Establish a District Court in Hooper Bay: \$181.3 UGF.** Funding is requested to establish a new magistrate post in Hooper Bay, the most populous community in the Fourth Judicial District without a resident judicial officer.

### **2. Administration and Support – New Positions to Improve Administrative Services: \$310.5 UGF.** The Court System requests the following three PFT positions:

- **\$69.8** for an additional records technician to maintain continuous case file document scanning and ensure timely responses to public record requests;
- **\$111.7** to fund an additional programmer/analyst to work with the Court and other Multi-Agency Justice Integration Consortium (MAJIC) agencies on system enhancements; and
- **\$129.0** to establish a permanent full-time Contracts and Leasing Manager within the Court System to manage the Court's 44 facilities.

***Legislative Fiscal Analyst Comment:** Funding for all three of these positions was requested and denied by the legislature in FY11.*

### **3. Trial Courts - Operating Expenses: \$587.5 UGF.** Operating costs are increasing for the Court System in the areas of leases, building maintenance, utilities, service contracts, equipment, and travel. Increments for these purposes include:

- **\$277.4 UGF:** The Nome court facility is in a federal building that is scheduled to be decommissioned. Pending legislative approval of a proposed Nome State Office Building, court operations will need to transfer to a larger space (approximately 8,472 square feet) that can accommodate judicial proceedings and comply with ADA space and design requirements;

***Legislative Fiscal Analyst Comment:** The Court System requested a similar increment in FY11. The increment was denied as the legislature explored other options to provide office space to state entities in Nome.*

- **\$150.0 UGF:** Update operating systems and replace outdated equipment with a planned, cycled approach; and

***Legislative Fiscal Analyst Comment:** The Court System requested an increase of \$250.0 for these purposes in FY11; \$100.0 was approved.*

## *Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request*

- **\$160.1 UGF:** Increase lease space in both Naknek and Aniak.
- 4. **Expand Alcohol Safety Action Program Services in Therapeutic Courts: \$222.7 GF/MH.** In conjunction with the Alcohol Safety Action Program (as recommended by the Mental Health Trust Authority), additional mental health funding is requested to provide staff training (\$80.0 GF/MH) and supervision (\$142.7 GF/MH) to ensure adequate mentoring, program planning, budget management, monitoring, and public safety.

### **MAINTENANCE OF SERVICES**

- 5. **Update Geographic Differentials in Appellate, Trial, and Therapeutic Courts: \$424.0 UGF:** In FY11, the Court System received funding for its employees equaling the geographic differentials being paid to employees working in the Supervisory Unit (SU) and General Government Unit (GGU). This increment would allow for the implementation of the FY12 differentials (ratified in the 2010 legislative session for the SU and GGU) for court employees.
- 6. **Trial Courts - Software Support Costs: \$545.2 UGF.** The Court System's recent migration to new case management, digital imaging and recording systems has required extensive investment in new and upgraded software. To protect these investments, funding is requested for ongoing license purchases and maintenance agreements.
- 7. **Sustain Programs in Therapeutic Courts: \$870.2 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other)/ \$250.0 GF/MH (UGF).** The recent consolidation of therapeutic courts programs into one appropriation within the Court System appears to be achieving positive results. Departments which provide services to the Therapeutic Courts submit bills to the Court System and are paid via reimbursable service agreements in order to facilitate centralized tracking of expenses. As a transitional measure, the Criminal Justice Working Group has formed a therapeutic courts subcommittee which meets monthly to discuss the process and resolve any issues that may arise.

The majority of these maintenance level increments are funded with MHTAAR and will be backed out at the end of the fiscal year in line with the Trust's zero-based budgeting approach.

**Legislative Fiscal Analyst Comment:** In both FY10 and FY11, the Court System received a specific \$500.0 MHTAAR increment through the Disability Justice Grant for treatment services for therapeutic court participants. The MH Trust request for FY12 replaces half of that amount with \$250.0 GF/MH. The Trust intends to replace the remaining \$250.0 MHTAAR funding with general funds in FY13.

### **ORGANIZATIONAL CHANGES**

There are no changes requested.

### **CAPITAL REQUEST**

The Court System's capital budget request is \$6.5 million (all general funds) for the following projects:

- **Anchorage Campus Court Renovation: \$4 million UGF** as part of a multi-year renovation plan for the Boney Courthouse, Nesbett Courthouse, and Snowden Administration Building. The agency received \$5 million UGF in FY10 and \$8 million UGF in FY11 for this project; and

## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

- **Deferred Maintenance Projects: \$2.5 million** UGF would be allocated for repairs in the following buildings:
  - Nesbett Courthouse: \$1,326.8
  - Kenai Courthouse: \$283.0
  - Palmer Courthouse: \$780.1
  - Snowden Administration Building: \$110.1

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# Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request

Alaska Legislature				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY11 Conference Committee (GF Only)</b>	<b>\$66,723.9</b>			
FY11 Fiscal Notes	983.8			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	-			
Reappropriations	1,550.0			
Misc Adjustments	-			
Vetoed	-			
<b>FY11 Management Plan (GF only)</b>	<b>\$69,257.7</b>	\$2,533.8	3.8%	
One-time Items removed	(1,792.0)			
FY12 Contractual Salary and Health Increases	1,663.1			
<b>FY12 Adjusted Base Budget (GF only)</b>	<b>\$69,128.8</b>	(\$128.9)	-0.2%	
Lang/Lang OTIs/Misc. Adjustments/Carryforward/MultiYears	750.0			
FY12 Governor's GF Increments/Decrements/Fund Changes	242.0			
<b>FY12 Governor's Agency Request (GF only)</b>	<b>\$70,120.8</b>	\$992.0	1.4%	
↓				
<b>FY12 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY12 Adjusted Base Budget (GF Only)</b>	<b>FY12 Governor's Request (GF only)</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$992.0</b>	
Council and Subcommittees	1,320.9	2,312.9	992.0	2
<b>Non-General Fund Agency Summary</b>	<b>FY12 Adjusted Base Budget</b>	<b>FY12 Governor's Request</b>	<b>Change from FY12 Adj Base to FY12 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	413.0	413.0	-	
Federal Funds (all allocations)	-	-	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$413.0</b>	<b>\$413.0</b>	<b>\$0.0</b>	
<b>Position Changes (From FY11 Management Plan to Gov)</b>	<b>533</b>	<b>533</b>	<b>-</b>	
PFT	248	248	-	
PPT	285	285	-	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

# *Legislative Fiscal Analyst's Overview of the Governor's FY2012 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. The legislature includes the following appropriations and allocations:

- Legislative Budget and Audit Committee
  - Legislative Audit
  - Legislative Finance
  - Committee Expenses
  - Legislature State Facilities Rent
- Legislative Council
  - Legislative Salaries and Allowances
  - Administrative Services
  - Session Expenses
  - Council and Subcommittees
  - Legal and Research Services
  - Select Committee on Ethics
  - Office of Victims Rights
  - Office of the Ombudsman
- Legislative Operating Budget

## **SIGNIFICANT ISSUES**

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally reviewed by legislative leadership. The FY12 submittal is essentially identical to the FY11 budget, with the exception of salary adjustments and a fund change (see #1 below). The notes below correspond to the numbers in the last column on the preceding spreadsheet.

1. A fund change in the Office of Victims Rights replaces \$93.1 of Permanent Fund Dividend (PFD) Criminal funds with unrestricted general funds.

***Legislative Fiscal Analyst Comment:*** *The amount of PFD Criminal funds available varies with the amount of the Permanent Fund Dividend and the number of felons incarcerated. Because recent investment losses reduced PFDs, there is a corresponding decrease in available PFD Criminal funds. The result is that Unrestricted General Funds (UGF) is requested to replace PFD Criminal funds.*

2. Because the Governor traditionally does not alter the budget submitted by the legislature, three one-time appropriations from FY11 remain in the FY12 budget of the Legislative Council:
  - a. \$150.0 UGF for the Alaska Northern Waters Task Force (fiscal note to HCR 22);
  - b. \$92.0 UGF for the Legislative Task Force on Higher Education (fiscal note to SB 221); and
  - c. \$750.0 UGF for a large mine development study.



## ***Legislative Fiscal Analyst's Overview of the Governor's FY2012 Request***

***Legislative Fiscal Analyst Comment:*** *In keeping with a legislative decision to minimize carryforward, the legislature may wish to delete these FY11 one-time items from the FY12 budget.*

There are no capital projects or organizational changes requested.