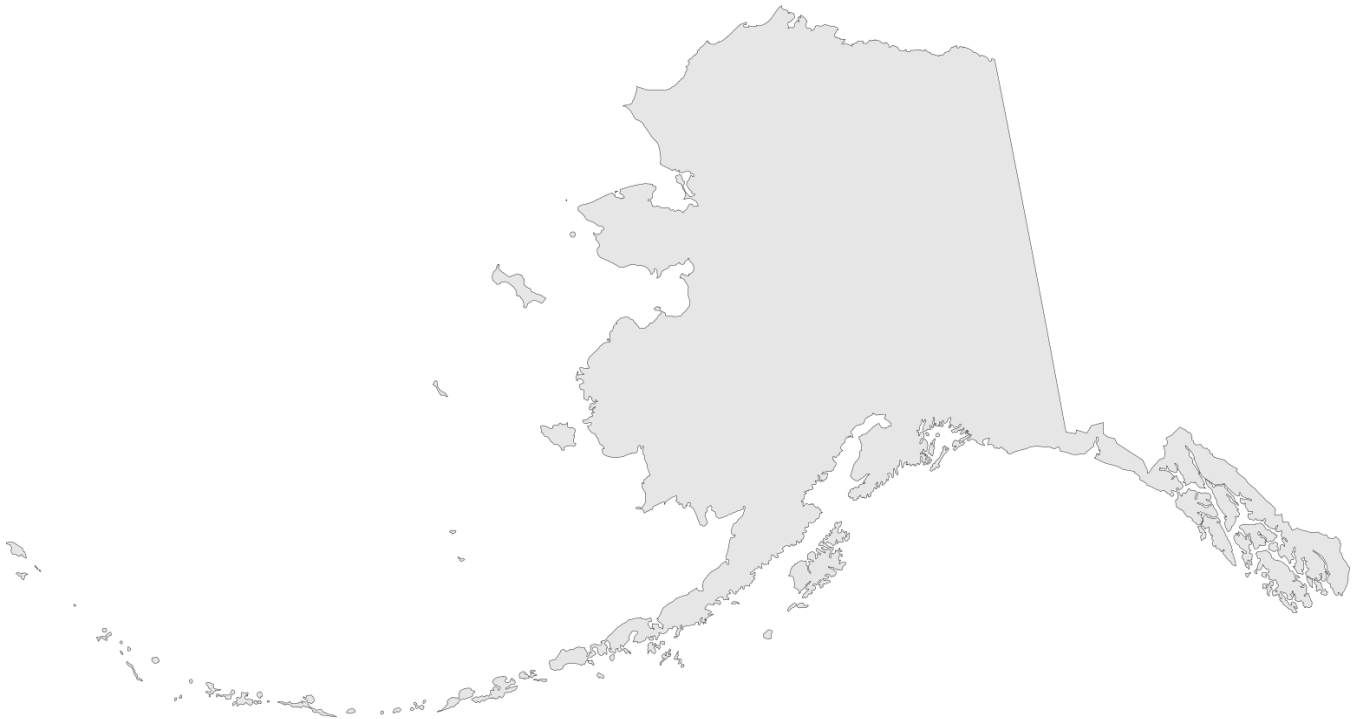


The Fiscal Year 2015 Budget:

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



Legislative Finance Division

www.legfin.state.ak.us

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

- (1) *analyze the budget and appropriation requests of each department, institution, bureau, board, commission or other agency of state government;*
- (2) *analyze the revenue requirements of the state;*
- (3) *provide the finance committees of the legislature with comprehensive budget review and fiscal analysis services;*
- (4) *cooperate with the Office of Management and Budget in establishing a comprehensive system for state budgeting and financial management as set out in the Executive Budget Act (AS 37.07);*
- (5) *complete studies and prepare reports, memoranda or other materials as directed by the Legislative Budget and Audit Committee;*
- (6) *with the Governor's permission, designate the legislative fiscal analyst to serve ex officio on the Governor's budget review committee. [AS 24.20.231]*

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

LEGISLATIVE FINANCE DIVISION FISCAL ANALYST/BUDGET ASSIGNMENTS

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Introduction

As required by law, the Governor released his FY15 budget proposal to the public and the legislature by December 15, 2013. 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

In just a few short years, the bottom line fiscal question facing Alaska legislators has changed from "How much can we save this year?" to "How large is the deficit?"

The projected FY14 deficit is about \$2.24 billion (45% of our unrestricted general fund revenue). With both oil production and price above expectations mid way through the year, the deficit may be closer to \$1.9 billion. Filling the deficit will deplete nearly 35% of reserves in the statutory budget reserve fund.

The magnitude of the deficit is sobering—particularly for those used to the massive budget surpluses experienced between 2005 and 2012. The greater concern is that annual deficits are projected into the foreseeable future.

The Governor and legislators have known for years that recent budget growth was not sustainable and have tried to control spending. That is never an easy task, and it is particularly difficult when there are surpluses available to spend.

For FY15, the budget proposed by the Governor has a deficit of over \$1 billion. As always, there is much more to budget analysis than can be condensed into a single number. On a positive note, the FY15 deficit is half the size of the FY14 deficit, and that is with a revenue decline of over \$400 million. On the other hand, the Governor's number

- excludes capital projects that may be added by the legislature—as much as \$400 million, based on recent budgets;
- excludes \$700 million of state assistance to public retirement systems that the Governor proposes to draw from the constitutional budget reserve fund; and
- benefits from several large FY14 expenditures that were not expected to be repeated in FY15.

Legislative additions to the capital budget and using general funds for retirement assistance could double the Governor's deficit.

The Governor's FY15 Budget

The following discussion is based on the fiscal summary that appears on page 6. This review focuses on unrestricted general funds (UGF), 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 7)** may be the best representation of "the budget" as perceived by the public. It includes money for K-12 education (line 10) and

other formula programs like Medicaid (line 11) as well as all non-formula operating costs (line 9).

Considering that the UGF budget for agency operations has increased at an annual rate of 7.2% during the past eight years, the Governor's request for a \$15.4 million reduction is a remarkable achievement. While there are some increases in the Governor's priority programs and the almost inevitable increases for formula programs, most agencies will operate with less UGF than in FY14.

The Governor eliminated many vacant positions. That is not unusual, but submitting decrements associated with the deletions *is* unusual. The Governor cut over \$5 million UGF associated with deleted positions.

In addition, the request contains unspecified reductions totaling over \$21 million UGF. As part of the review process, fiscal analysts identify topics that legislators may want to address during the budget process. For details on agency budgets, please refer to the "Subcommittee Books" prepared by Legislative Finance.

2. **Statewide Operations (line 16)** refers to appropriations that are typically not reviewed by operating budget subcommittees. Most of these items—debt service, retirement system costs and petroleum tax credits—are often considered to be nondiscretionary.

The Governor's request for UGF appropriations for statewide items declined \$1.25 billion (62%) from FY14. Roughly half of that amount is attributable to fund capitalizations that were not expected to be repeated in FY15. The other half is attributable to a proposal to use the constitutional budget reserve fund (CBRF) to make payments to public retirement systems on behalf of public employers. Those payments have typically come from the general fund. The proposal to use the CBRF is not permanent; the proposal would appropriate \$500 million annually from the general fund for several years after FY15.

Retirement system funding will almost certainly be a topic during the 2014 session. State assistance for retirement (under the current method to pay off unfunded liability) constitutes a major portion of projected deficits.

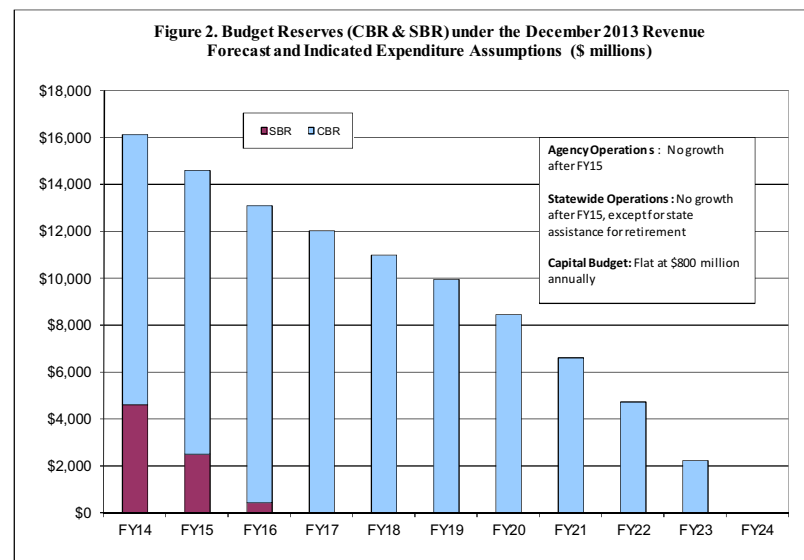
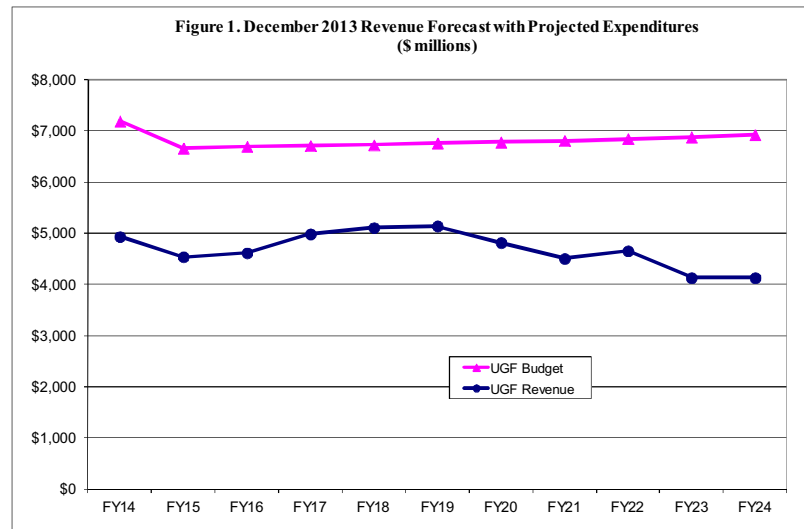
3. **Capital Appropriations (line 29)** in the Governor's request total \$426 million UGF, which is \$370 million less than the FY14 UGF capital budget adopted by the legislature. As noted above, the legislature typically adds a substantial amount to the Governor's capital request. Any projection of legislative additions would be purely speculative.
4. **Transfers (line 40)** is the portion of the fiscal summary that 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 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).

The Future

The December 2013 revenue forecast is shown below, along with one scenario for future expenditures. Projected expenditures are based on the following assumptions:

1. Agency operations are unchanged from the FY15 level. Based on the 7.2% annual growth that has occurred during the past eight years, this will be a very difficult target to hit.
2. Statewide operations are flat, with the exception of increases for retirement costs as projected by the state's actuaries (without the Governor's proposal).
3. Capital budgets are set at \$800 million annually.

Figure 1 shows that deficits are expected throughout the forecast period. Figure 2 shows that reserves will last until FY24 if the revenue forecast and expenditure assumptions are accurate.



The implications of the figures are severe:

1. Simply constraining expenditure growth is insufficient—current levels of expenditures are unsustainable without additional revenue.
2. Failure to reduce the projected deficits will result in a very hard landing—without reserves to draw upon, the budget would have to be reduced by \$2.5 billion annually in order to live within our means.
3. Revival of the standard fiscal policy options—imposition of broad based taxes, reduction or elimination of Permanent Fund Dividends and large reductions in capital budgets—may not eliminate deficits.

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 FY15 budget:

- Agency summaries (operating budget on pages 14 & 15 and capital budget beginning on page 75) provide a quick comparison of the Governor's proposed budget with FY14 spending.
- Narratives on individual agency operating budgets begin on page 85.
- Language sections of both operating and capital bills (with analysis) begin on pages 22 and 83, respectively.

“Subcommittee Books” and detailed agency binders are available in the Finance Committee rooms.

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State of Alaska Fiscal Summary--FY14 and FY15 (Part 1)

(\$ millions)

FY15 Governor's Request															Change in UGF	
FY14 Management Plan																
	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				
REVENUE	4,964.9	970.5	5,935.4	564.8	2,971.2	9,471.4	4,532.0	868.4	5,400.4	327.8	3,109.6	8,837.8	(432.9)	-8.7%		
1	Unrestricted General Fund Revenue (Spring 2013) (2)						4,532.0	-	4,532.0	-	-	4,532.0				
2	Carryforward (3)															
3	Designated General Fund Revenue (4)							868.4	868.4			868.4				
4	Other State Funds and Federal Receipts			564.8	2,969.5	3,534.3				327.8	3,109.6	3,437.4				
5																
APPROPRIATIONS																
TOTAL OPERATING APPROPRIATIONS	6,410.4	743.4	7,153.7	528.1	2,042.2	9,723.9	5,145.8	758.1	5,903.9	3,285.9	2,017.8	11,207.6	(1,264.5)	-19.7%		
Agency Operations	4,406.2	721.4	5,127.6	466.5	2,001.4	7,595.4	4,390.7	737.3	5,128.0	498.4	1,990.1	7,616.5	(15.4)	-0.4%		
Current Fiscal Year Appropriations (Includes Fiscal Notes)	4,386.2	721.4	5,107.6	466.5	2,001.4	7,575.4	4,370.7	737.3	5,108.0	498.4	1,990.1	7,596.5	(15.4)	-0.4%		
Agency Operations (Non-Formula)	2,297.0	647.5	2,944.5	463.5	914.8	4,322.8	2,266.4	652.4	2,918.8	495.6	903.1	4,317.4	(30.6)	-1.3%		
K-12 Formula and Pupil Transportation	1,216.2	10.5	1,226.7	20.8	20.8	1,247.5	1,225.6	10.0	1,235.6	2.8	20.8	1,256.4	9.4	0.8%		
Other Formula Programs	873.0	63.4	936.3	2.8	1,063.9	2,003.0	878.7	74.9	953.6	2.8	1,066.2	2,022.6	5.7	0.7%		
Revised Programs Legislatively Approved				0.2	1.9	2.1										
Veetoes (non-additive)	(1.4)		(1.4)	(0.1)	(0.3)	(1.8)										
Duplicated Authorization (non-additive) (5)				734.7		734.7				725.4		725.4		0.0%		
Supplemental Operating Appropriations	20.0	0.0	20.0	0.0	0.0	20.0	20.0	0.0	20.0	0.0	0.0	20.0				
Statewide Operations	2,004.2	22.0	2,026.2	61.6	40.8	2,128.5	755.1	20.8	775.9	2,787.4	27.7	3,591.1	(1,249.1)	-62.3%		
Current Fiscal Year Appropriations	2,004.2	22.0	2,026.2	61.6	40.8	2,128.5	755.1	20.8	775.9	2,787.4	27.7	3,591.1	(1,249.1)	-62.3%		
Debt Service	207.4	20.8	228.2	54.5	17.5	300.1	231.6	19.3	250.9	50.3	5.2	306.5	24.2	11.7%		
Fund Capitalization	1,146.0	1.2	1,147.2	7.1	23.3	1,177.5	518.3	1.5	519.8	7.1	22.5	549.4	(627.7)	-54.8%		
Local Government Support	600.0		600.0			600.0	60.0		60.0			60.0		0.0%		
Oil & Gas Investment Tax Credits	600.0		600.0			600.0	450.0		450.0			450.0	(150.0)	-25.0%		
AIDEA Capitalization (Fiscal Note)	125.0		125.0			125.0							(125.0)	-100.0%		
In-State Pipeline Fund	355.0		355.0			355.0	3.3		3.3			3.3	(351.7)	-99.1%		
Other Fund Capitalization	6.0	1.2	7.2	7.1	23.3	37.5	5.2	1.5	6.7	7.1	22.5	36.1	(1.0)	-14.0%		
Retirement Costs: Actuarial Recommendation	633.8		633.8			633.8	5.2		5.2	702.9		708.1	(628.5)	-99.2%		
Retirement Costs: Additional Contributions										2,027.1		2,027.1				
Special Appropriations	17.1		17.1	42.0		17.1							(17.1)	-100.0%		
Duplicated Authorization (non-additive) (5)																
TOTAL CAPITAL APPROPRIATIONS	796.2	212.8	1,008.9	34.8	929.0	1,972.7	426.3	106.0	532.3	41.9	1,091.8	1,666.1	(369.9)	-46.5%		
Current Fiscal Year Appropriations	796.2	212.8	1,008.9	34.8	929.0	1,972.7	426.3	106.0	532.3	41.9	1,091.8	1,666.1	(369.9)	-46.5%		
Project Appropriations & RPLs (Revised Programs)	769.2	212.8	981.9	34.8	929.0	1,945.7	426.3	106.0	532.3	41.9	1,091.8	1,666.1	(342.9)	-44.6%		
Fund Capitalization	27.0		27.0			27.0							(27.0)	-100.0%		
Projects Funded with General Obligation Bonds (non-additive)																
Projects Funded with Other Debt Proceeds (non-additive)				35.0		35.0				15.0		15.0				
Capital Veetoes (non-additive)																
Duplicated Authorization (non-additive) (5)				58.3		58.3				42.2		42.2				
Money on the Street (includes all fund sources) (6)	796.2	212.8	1,008.9	93.1	929.0	2,031.0	426.3	106.0	532.3	84.1	1,091.8	1,706.3	(369.9)	-46.5%		
Pre-Transfers Authorization (unduplicated)	7,206.6	956.1	8,162.7	562.8	2,971.2	11,696.7	5,572.1	864.1	6,436.3	3,327.8	3,109.6	12,873.7	(1,634.4)	-22.7%		
Pre-Transfers Surplus/(Deficit)	(2,241.7)						(1,040.1)									

State of Alaska Fiscal Summary--FY14 and FY15 (Part 1)

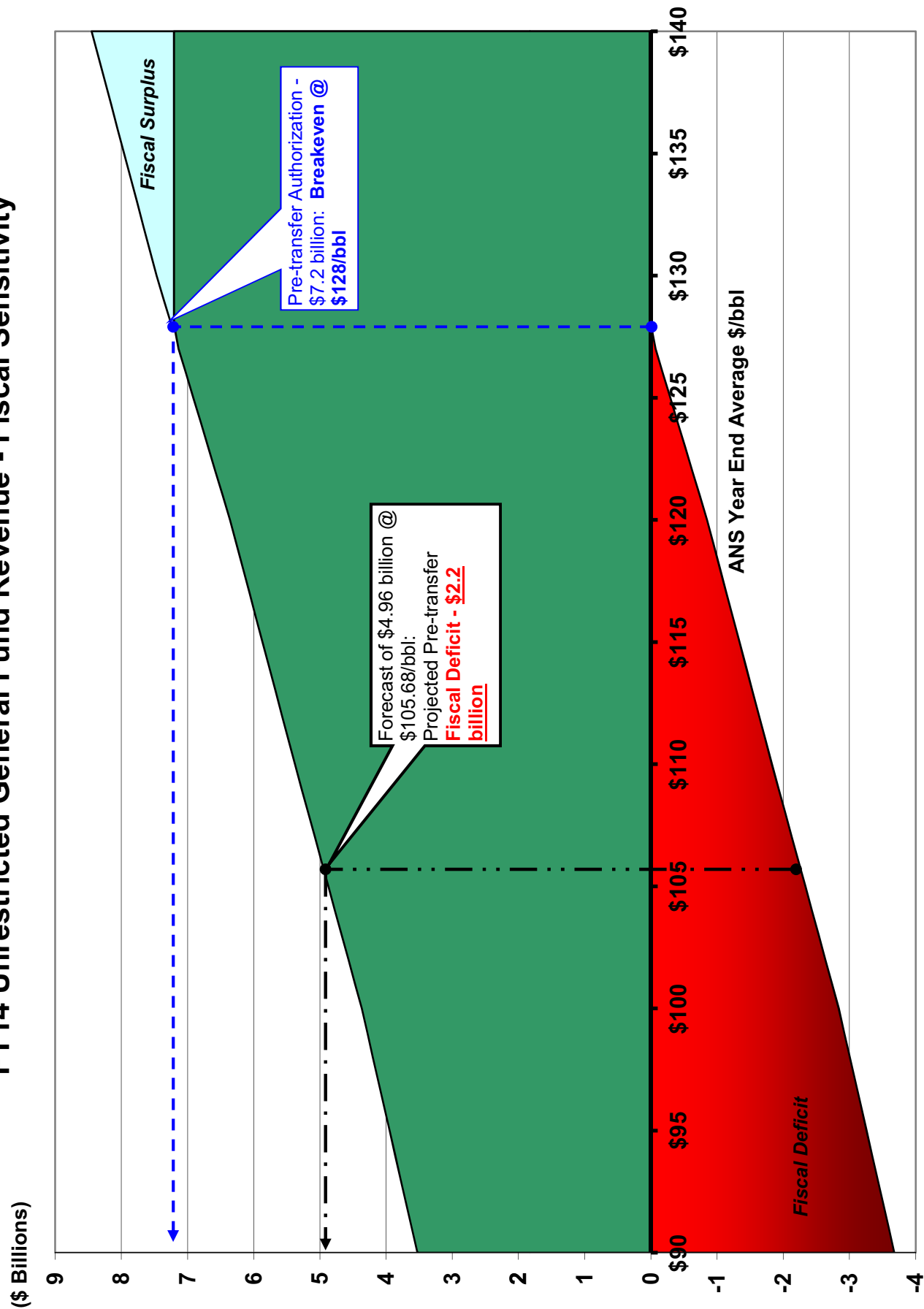
(\$ millions)

FY14 Management Plan														FY15 Governor's Request					Change in UGF	
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FY14 Management Plan																				

Notes:

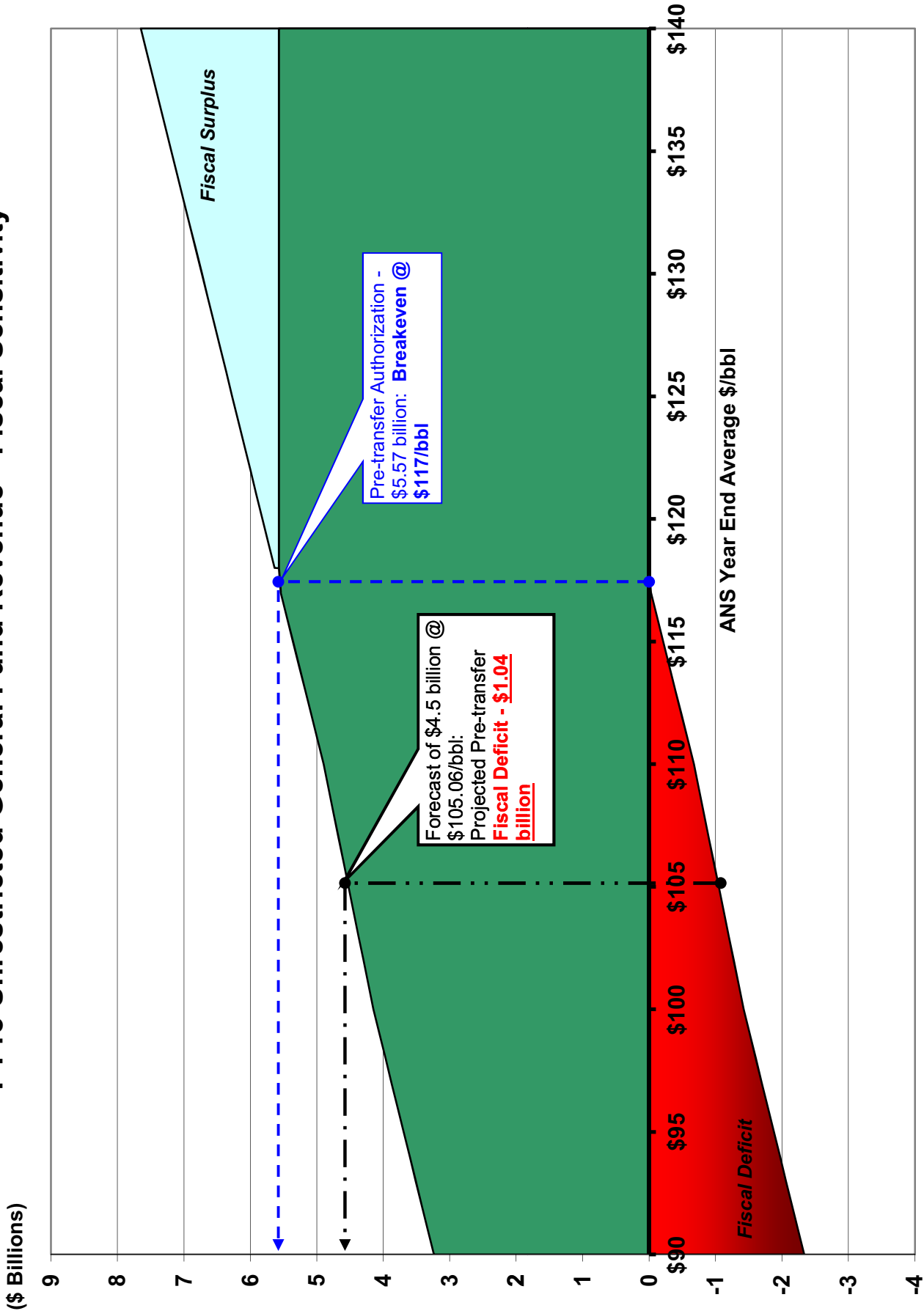
- (1) Although Permanent Fund earnings may be appropriated for any purpose, the legislature traditionally excludes them from the definition of available revenue. Appropriations of Permanent Fund earnings are reported in lines 54-58 of the summary. Permanent Fund earnings and balance information is reported in part 2 of the Fiscal Summary.
- (2) The Department of Revenue's Fall 2013 oil forecast for FY14 is 0.508 mbd at \$105.68 per barrel; the FY15 forecast is 0.498 mbd at \$105.06 per barrel.
- (3) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations or reappropriations. Total carryforward into FY15 will be unknown until the close of FY14.
- (4) 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.
- (5) Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
- (6) Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.
- (7) "Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.
- (8) The post-transfer withdrawal necessary to balance the budget is anticipated to be \$1.9 billion in FY14 and \$1.1 billion in FY15.
- (9) Amounts shown on line 58 can be considered duplicated appropriations—they are included in the operating or capital budgets above. The Designated General Fund column include amounts associated with the dividend program. Amounts in the Other column reflect gross earnings of the Permanent Fund spent for purposes other than operation of the corporation.

FY14 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on DOR Fall 2013 forecast and include revenue not directly affected by oil prices.

FY15 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on DOR Fall 2013 forecast and include revenue not directly affected by oil prices.

State of Alaska Fiscal Summary-- FY14 and FY15 (Part 2)

(\$ millions)

Approximate Balances of Reserve Accounts

	FY14			FY15				
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund (no appropriations allowed)	36,616.0	1,666.0	0.0	38,282.0	38,282.0	1,689.0	0.0	39,971.0
Undesignated Reserves	20,844.0	2,511.9	4,347.6	19,008.3	19,008.3	2,902.8	6,257.5	15,653.6
Total Excluding Permanent Fund	16,789.9	631.9	2,323.6	15,098.2	15,098.2	461.8	4,110.5	11,449.5
Constitutional Budget Reserve Fund (cash)	11,620.6	618.2	0.0	12,238.8	12,238.8	458.9	3,000.0	9,697.7
Statutory Budget Reserve Fund	4,711.3	0.0	1,949.5	2,761.8	2,761.8	0.0	1,110.5	1,651.2
Alaska Housing Capital Corporation Fund	458.0	13.7	374.1	97.7	97.7	2.9	0.0	100.6
Permanent Fund Earnings Reserve Account	4,054.1	1,880.0	2,024.0	3,910.1	3,910.1	2,441.0	2,147.0	4,204.1
Designated Reserves	2,729.1	1,366.1	1,393.8	2,701.3	2,701.3	1,399.6	1,340.8	2,760.0
Alaska Capital Income Fund	88.3	20.0	96.9	11.3	11.3	22.0	22.0	11.3
Alaska Higher Education Investment Fund	419.1	26.2	12.0	433.3	433.3	27.1	16.5	443.9
Public Education Fund	1,201.4	1,192.7	1,191.4	1,202.7	1,202.7	1,220.6	1,200.6	1,222.7
Revenue Sharing Fund	180.0	60.0	60.0	180.0	180.0	60.0	60.0	180.0
Power Cost Equalization Endowment	840.2	67.2	33.5	873.9	873.9	69.9	41.7	902.2
Reserves (Excluding Permanent Fund Principal)	23,573.0	3,878.0	5,741.5	21,709.6	21,709.6	4,302.4	7,598.4	18,413.6
Unrestricted General Fund Appropriations				6,914.4				5,642.5
Years of Reserves (Reserves/UGF Appropriations)				3.14				3.26

Operating Budget

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Agency Summary - FY15 Operating Budget - Total Funds											
Agency	13 Actual	14 CC	14 Auth	14 MgtPin	Adj Base	Gov	14 MgtPin to Gov	Adj Base to Gov			
Administration	308,333.8	337,965.2	338,032.0	338,032.0	337,921.1	343,895.9	5,863.9	1.7%	5,974.8	1.8%	
Commerce, Community & Econ Dev	192,337.3	204,526.2	210,756.4	210,756.4	188,477.8	207,345.9	(3,410.5)	-1.6%	18,868.1	10.0%	
Corrections	318,893.3	333,584.3	334,066.8	334,066.8	334,983.0	332,895.9	(1,170.9)	-0.4%	(2,087.1)	-0.6%	
Education & Early Dev	1,543,658.4	1,564,477.6	1,567,348.6	1,567,348.6	1,534,917.0	1,576,178.2	8,829.6	0.6%	41,261.2	2.7%	
Environmental Conservation	80,011.3	85,500.1	87,927.1	87,927.1	87,522.0	88,587.5	660.4	0.8%	1,065.5	1.2%	
Fish and Game	188,609.3	217,114.6	218,081.4	218,081.4	216,515.0	216,071.2	(2,010.2)	-0.9%	(443.8)	-0.2%	
Governor	31,384.1	30,296.0	32,898.7	32,898.7	27,296.4	32,748.9	(149.8)	-0.5%	5,452.5	20.0%	
Health & Social Services	2,377,279.3	2,653,426.1	2,665,937.0	2,665,937.0	2,651,447.6	2,669,542.6	3,605.6	0.1%	18,095.0	0.7%	
Labor & Workforce Dev	159,350.5	190,763.2	191,706.5	191,706.5	190,951.1	185,080.9	(6,625.6)	-3.5%	(5,870.2)	-3.1%	
Law	93,208.5	95,252.4	96,922.6	96,922.6	91,337.6	93,458.4	(3,464.2)	-6.1%	2,120.8	-12.6%	
Military & Veterans' Affairs	53,412.8	64,513.1	64,471.2	64,471.2	69,294.8	60,543.2	(3,928.0)	-2.7%	(8,751.6)	-1.0%	
Natural Resources	177,522.1	170,289.4	172,975.0	172,975.0	169,889.0	168,271.8	(4,703.2)	0.3%	(1,617.2)	0.6%	
Public Safety	192,673.3	204,933.9	205,243.7	205,243.7	204,800.5	205,939.8	696.1	0.3%	1,139.3	0.6%	
Revenue	311,625.6	348,322.6	349,314.9	349,314.9	348,742.6	371,989.2	22,674.3	6.5%	23,246.6	6.7%	
Transportation & Public Facilities	630,652.0	629,234.6	631,041.5	631,041.5	630,876.0	630,919.7	(121.8)	0.0%	43.7	0.0%	
University of Alaska	848,003.5	914,223.9	914,222.7	914,222.7	919,465.1	912,790.8	(1,431.9)	-0.2%	(6,674.3)	-0.7%	
Alaska Court System	110,294.6	114,569.8	114,569.8	114,569.8	114,421.0	116,441.4	1,871.6	1.6%	2,020.4	1.8%	
Legislature	61,716.5	74,208.2	76,495.5	76,495.5	75,135.3	79,196.2	2,700.7	3.5%	4,060.9	5.4%	
Branch-wide Unallocated Approp	-	45,328.5	36,000.0	36,000.0	36,000.0	30,000.0	(6,000.0)	-16.7%	(6,000.0)	-16.7%	
Agency Budgets Total	7,678,966.2	8,278,529.7	8,308,011.4	8,308,011.4	8,229,992.9	8,321,897.5	13,886.1	0.2%	91,904.6	1.1%	
Statewide Items											
Debt Service	287,814.0	335,152.8	338,618.2	338,618.2	338,618.2	317,247.3	(21,370.9)	-6.3%	(21,370.9)	-6.3%	
State Assistance to Retirement	613,865.2	633,780.6	633,780.6	633,780.6	633,780.6	2,735,241.6	2,101,461.0	331.6%	2,101,461.0	331.6%	
Special Appropriations	7,060.0	-	17,081.3	17,081.3	-	-	(17,081.3)	-100.0%	-	#DIV/0!	
Fund Capitalization	564,619.0	776,009.2	1,181,009.2	1,181,009.2	701,009.2	552,687.6	(628,321.6)	-53.2%	(148,321.6)	-21.2%	
Statewide Items Total	1,473,358.2	1,744,942.6	2,170,489.3	2,170,489.3	1,673,408.0	3,605,176.5	1,434,587.2	66.1%	1,931,768.5	115.4%	
Statewide Total											
Unrestricted General (UGF)	5,591,638.4	5,946,816.4	6,390,372.0	6,390,372.0	5,825,031.0	5,125,830.7	(1,264,541.3)	-19.8%	(699,200.3)	-12.0%	
Designated General (DGF)	666,751.1	743,177.1	743,351.3	743,351.3	745,727.7	758,097.3	14,746.0	2.0%	12,369.6	1.7%	
Other State Funds (Other)	1,118,970.7	1,294,458.4	1,304,522.8	1,304,522.8	1,294,675.8	4,025,340.5	2,720,817.7	208.6%	2,730,664.7	210.9%	
Federal Receipts (Fed)	1,774,964.2	2,039,020.4	2,040,254.6	2,040,254.6	2,037,966.4	2,017,805.5	(22,449.1)	-1.1%	(20,160.9)	-1.0%	
Fund Transfers (non-additive)	963,675.1	1,596,360.1	1,748,251.5	1,748,251.5	2,112,351.5	(778,037.9)	(2,526,289.4)	-144.5%	(2,890,389.4)	-136.8%	

Agency Summary - FY15 Operating Budget - General Funds										
Agency	13 Actual	14 CC	14 Auth	14 MgtPln	Adj Base	Gov	14 MgtPln to Gov	Adj Base to Gov		
Administration	107,049.0	111,847.6	111,709.9	111,709.9	111,715.0	112,369.6	659.7	654.6	0.6%	0.6%
Commerce, Community & Econ Dev	127,832.3	139,617.1	140,090.7	140,090.7	123,882.9	138,300.3	(1,790.4)	14,417.4	-1.3%	11.6%
Corrections	300,046.3	313,661.0	314,122.7	314,122.7	315,038.1	312,736.6	(1,386.1)	(2,301.5)	-0.4%	-0.7%
Education & Early Dev	1,303,146.7	1,304,153.6	1,306,973.0	1,306,973.0	1,274,592.4	1,315,400.0	8,427.0	40,807.6	0.6%	3.2%
Environmental Conservation	46,914.8	49,089.4	51,071.6	51,071.6	50,712.4	50,712.4	(359.2)	-	-0.7%	0.0%
Fish and Game	87,261.6	90,154.1	90,614.6	90,614.6	89,400.1	89,205.1	(1,409.5)	(195.0)	-1.6%	-0.2%
Governor	30,656.4	29,568.6	32,171.1	32,171.1	26,567.8	32,020.3	(150.8)	5,452.5	-0.5%	20.5%
Health & Social Services	1,223,718.1	1,309,566.0	1,320,351.2	1,320,351.2	1,310,359.3	1,328,734.4	8,383.2	18,375.1	0.6%	1.4%
Labor & Workforce Dev	65,246.4	68,424.9	68,941.0	68,941.0	68,321.9	68,074.2	(866.8)	(247.7)	-1.3%	-0.4%
Law	65,422.1	64,518.5	66,103.6	66,103.6	60,579.9	63,160.2	(2,943.4)	2,580.3	12.2%	4.3%
Military & Veterans' Affairs	22,802.9	22,455.8	22,326.3	22,326.3	27,148.7	25,050.8	2,724.5	(2,097.9)	-4.0%	-7.7%
Natural Resources	120,457.8	106,877.8	109,029.5	109,029.5	105,855.5	104,632.7	(4,396.8)	(1,222.8)	-0.1%	-1.2%
Public Safety	171,586.2	178,736.6	179,011.6	179,011.6	178,651.7	178,881.0	(130.6)	229.3	-0.1%	0.1%
Revenue	41,125.0	42,585.4	43,274.2	43,274.2	42,779.7	42,005.3	(1,268.9)	(774.4)	-2.9%	-1.8%
Transportation & Public Facilities	363,937.1	351,475.0	351,809.2	351,809.2	351,397.3	349,633.1	(2,176.1)	(1,764.2)	-0.6%	-0.5%
University of Alaska	642,465.7	676,773.4	676,772.2	676,772.2	682,594.6	675,220.3	(1,551.9)	(7,374.3)	-0.2%	-1.1%
Alaska Court System	107,511.6	111,092.3	111,092.3	111,092.3	111,344.3	113,048.8	1,956.5	1,704.5	1.8%	1.5%
Legislature	61,336.9	73,805.2	76,092.5	76,092.5	74,732.3	78,793.2	2,700.7	4,060.9	3.5%	5.4%
Branch-wide Unallocated Approp	-	41,506.4	36,000.0	36,000.0	36,000.0	30,000.0	(6,000.0)	(6,000.0)	-16.7%	-16.7%
Agency Budgets Total	4,888,516.9	5,085,908.7	5,107,557.2	5,107,557.2	5,041,673.9	5,107,978.3	421.1	66,304.4	0.0%	1.3%
Statewide Items										
Debt Service	218,516.6	228,152.8	228,152.8	228,152.8	228,152.8	250,871.4	22,718.6	22,718.6	10.0%	10.0%
State Assistance to Retirement Funds	613,865.2	633,780.6	633,780.6	633,780.6	633,780.6	5,241.6	(628,539.0)	(628,539.0)	-99.2%	-99.2%
Special Appropriations	7,060.0	-	17,081.3	17,081.3	-	-	(17,081.3)	-	-100.0%	#DIV/0!
Fund Capitalization	530,430.8	742,151.4	1,147,151.4	1,147,151.4	667,151.4	519,836.7	(627,314.7)	(147,314.7)	-54.7%	-22.1%
Statewide Items Total	1,369,872.6	1,604,084.8	2,026,166.1	2,026,166.1	1,529,084.8	775,949.7	(1,250,216.4)	(753,135.1)	-61.7%	-49.3%
Statewide Total										
Statewide Total	6,258,389.5	6,689,993.5	7,133,723.3	7,133,723.3	6,570,758.7	5,883,928.0	(1,249,795.3)	(686,830.7)	-17.5%	-10.5%
Unrestricted General (UGF)	5,591,638.4	5,946,816.4	6,390,372.0	6,390,372.0	5,825,031.0	5,125,830.7	(1,264,541.3)	(699,200.3)	-19.8%	-12.0%
Designated General (DGF)	666,751.1	743,177.1	743,351.3	743,351.3	745,727.7	758,097.3	14,746.0	12,369.6	2.0%	1.7%
Fund Transfers (non-additive)	963,675.1	1,594,415.7	1,746,307.1	1,746,307.1	2,110,407.1	2,221,692.1	475,385.0	111,285.0	27.2%	5.3%

Positions: Authorized Count, Vacancy Factors and Legislative Control

The Governor's FY15 operating budget request decreases permanent full-time (PFT) positions by 101 from the FY14 Management Plan. Departments also added 17 PFTs (to the number authorized by the legislature) in FY14, so the net decrease from the FY14 authorized level is 84. Overall, the Governor's FY15 statewide budget contains 24,874 total positions (full-time, part-time, and temporary).

Permanent Full-time Positions Only					
Agency	FY14 Authorized	FY14 Mgt Plan	FY15 Governor	Changes in Positions by Agencies in FY14	Position Changes Requested in FY15
Administration	1,051	1,057	1,052	6	-5
Commerce, Community & Econ Dev	558	565	564	7	-1
Corrections	1,860	1,861	1,857	1	-4
Education & Early Dev	335	334	332	-1	-2
Environmental Conservation	559	561	561	2	0
Fish and Game	933	939	930	6	-9
Governor	155	156	147	1	-9
Health & Social Services	3,502	3,504	3,489	2	-15
Labor and Workforce Dev	837	825	809	-12	-16
Law	576	576	569	0	-7
Military & Veterans Affairs	339	339	333	0	-6
Natural Resources	759	757	751	-2	-6
Public Safety	885	885	885	0	0
Revenue	885	886	880	1	-6
Transportation	3,189	3,195	3,180	6	-15
University of Alaska	4,727	4,727	4,727	0	0
Alaska Court System	767	767	767	0	0
Legislature	254	254	254	0	0
Agency Budgets Total	22,171	22,188	22,087	17	-101

AS 39.25 (The 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. A count of positions (i.e., Position Control Numbers (PCNs)) does not necessarily equate to a head count 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 regarding how positions are funded. There are a variety of reasons for both concern and confusion.

- Funding requested for FY15 positions is about 22% of the total operating budget (\$2.5 billion). Perhaps more pertinent, personal services funding is 33% of the operating budget, excluding grants.
- Positions are difficult to delete.
- Positions not authorized by the legislature are added or deleted every year (in Management Plan and beyond). As noted above, 17 positions added in the FY14 Management Plan were not authorized by the legislature.
- Legislators are often surprised when agencies claim that services cannot be performed because they have insufficient funding to fill "fully funded" vacant 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.

- **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 (less the savings attributable to turnover). 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 the Office of Management and Budget (OMB) and increase with the number of full-time positions.

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 Inter-Agency 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.

- **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, a Commissioner’s Office contains a budget request for Inter-Agency (I/A) receipts to fund a new Deputy Commissioner position. 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 core 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 shows a low vacancy rate may “hide” a problem if budgeted funding sources fail to materialize. For example, excess federal authorization overstates the amount of cash available 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 more than 50%.

- **Increased charges for DOA's "core services".** Charges for core services provided by the Department of Administration—including Risk Management, Personnel, Information Technology Services, the Public Building Fund and the Working Reserve Account—vary, and increases may have to be absorbed by departments.
 - **Vacancy factors** are discussed below.
5. **If an agency cannot afford to fill a position, why the reluctance to delete it?** There are 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:

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 July 19, 2013 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 15th 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.

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.

Debt Service Summary Table											
(\$ thousands)											
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15Gov	FY14 to FY15Gov	Comments
ADRF Debt Payments											Starting FY11, the budget does not capitalize the ADRF. Payments for debt service are appropriated directly (instead of through the ADRF).
GO Bonds	43,132.9	44,371.3	43,865.8	48,722.1	1,039.0	3,107.0	-	-	-	-	
Certificates of Participation (COPs)	13,147.6	11,170.1	8,061.3	8,036.3	-	-	-	-	-	-	
School Debt Reimbursement	66,935.0	70,497.0	73,621.2	77,045.3	-	-	-	-	-	-	
Administrative Systems Replacement	-	2,302.0	-	-	-	-	-	-	-	-	
Subtotal	123,215.5	128,340.4	125,548.3	133,803.7	1,039.0	3,107.0	-	-	-	-	
Direct Debt Payments											
GO Bonds	1,904.6	67.7	20.5	222.8	57,721.1	81,081.5	81,089.2	85,342.9	88,070.2	2,727.3	UGF, Interest & Federal Rcpts
Certificates of Participation (COPs)	-	-	-	-	8,009.5	6,943.5	6,982.5	1,795.8	4,569.2	2,773.4	UGF
One-time Defeasance - COPs	-	-	-	-	-	24,000.0	-	-	-	-	UGF
School Debt Reimbursement	27,000.0	24,500.0	23,400.0	23,000.0	106,258.5	108,145.6	120,386.3	128,263.1	128,910.2	647.1	UGF & School Fund
International Airport Revenue Bonds	45,426.3	49,085.7	50,027.4	50,028.7	50,047.9	41,571.5	41,208.4	42,212.1	50,733.0	8,520.9	IARF, PFC's, Fed
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	-	-	35,700.0	-	(35,700.0)	IARF, IACF
Clean Water Fund Bonds	1,535.3	831.8	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	1,601.7	(97.1)	ACWF Receipts
Drinking Water Fund Bonds	1,075.3	1,109.8	1,115.0	1,670.0	2,973.2	2,724.6	1,863.6	1,805.0	1,691.7	(113.3)	ADWF Receipts
Sport Fish Hatchery Revenue Bonds	8,219.0	7,000.0	7,500.0	8,900.0	7,500.0	7,500.0	7,500.0	7,500.0	7,500.0	-	Sport Fish License Surcharge
Capital Project Reimbursement (HB 528)	10,209.9	10,459.0	8,036.2	5,548.9	5,707.3	6,071.0	5,888.9	5,601.3	5,472.0	(129.3)	UGF
DOA for Atwood Building	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1	3,467.0	3,467.0	3,467.0	3,467.0	-	UGF
DOA for Linn Pacillo Parking Garage	-	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	-	UGF
Anchorage Jail (Capital Lease)	5,091.8	5,102.0	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	4,110.9	2.2	UGF
One-time Defeasance - Anchorage Jail	-	-	-	-	-	25,000.0	-	-	-	-	UGF
Spring Creek Correctional Center	-	-	1,755.6	-	-	-	-	-	-	-	UGF
Yukon-Kuskokwim Correctional Center	-	-	951.8	-	-	-	-	-	-	-	UGF
Goose Creek Correctional Center	-	-	-	17,813.4	17,816.5	17,813.7	17,815.8	17,820.0	17,817.9	(2.1)	UGF, includes Trustee Fees for FY15
AHFC State Capital Project Bonds	31,935.0	6,138.6	6,139.6	6,139.9	6,140.8	6,139.0	10,779.3	10,880.3	10,535.0	(345.3)	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	16,400.0	27,600.0	29,800.0	25,200.0	23,600.0	23,500.0	24,000.0	23,900.0	23,700.0	(200.0)	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	152,268.3	138,804.7	142,657.9	151,403.2	300,363.4	363,738.4	330,181.1	373,398.5	351,482.3	(21,916.3)	
TOTAL Debt Service/Reimbursement	275,483.8	267,145.1	268,206.2	285,206.9	301,402.4	366,845.4	330,181.1	373,398.5	351,482.3	(21,916.3)	
Debt Payments by Type											
GO Bonds	45,037.5	44,439.0	43,866.3	48,944.9	58,760.1	84,188.5	81,089.2	85,342.9	88,070.2	2,727.3	COP's, Atwood Building, Parking Garage, Anchorage Jail, Goose Creek Prison
Lease - Purchase Financing	21,706.5	23,182.2	22,630.5	37,724.2	37,704.6	84,556.3	35,670.0	30,495.0	33,268.5	2,773.5	Creek Prison
Revenue Bonds	53,645.3	56,085.7	57,527.4	58,928.7	57,547.9	49,071.5	48,708.4	85,412.1	58,233.0	(27,179.1)	International Airport, Sport Fish
Debt Reimbursement	104,144.9	105,456.0	105,057.4	105,594.2	111,965.8	114,216.6	126,275.2	133,864.4	134,382.2	517.8	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	48,335.0	33,738.6	35,939.6	31,339.9	29,740.8	29,639.0	34,779.3	34,780.3	34,235.0	(545.3)	AHFC, NTSC
Short-Term Financing	2,614.6	4,243.6	3,165.0	2,675.0	5,683.2	5,173.4	3,659.0	3,503.8	3,293.4	(210.4)	Clean and Drinking Water

Language Sections of the Governor's FY15 Operating Budget

Sec. 4. 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, 2015.

In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The purpose of this section is to emphasize that supplemental operating appropriations are expected to be limited to needs that are truly unanticipated.

Sec. 5. COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services because of reclassification of job classes during the fiscal year ending June 30, 2015.

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

Sec. 6. 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, 2015, 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, 2015, and submit a report to the legislature on October 1, 2015, that describes and justifies all transfers to and from the personal services line by executive branch agencies for the entire fiscal year ending June 30, 2015.

A similar section was added by the legislature in FY09 and has appeared in operating budgets since then. 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. 7. ALASKA AEROSPACE CORPORATION. Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2015, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations for the fiscal year ending June 30, 2015.

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.

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. However, federal funds appropriated in section 1 are now zero, so this section will apply if 1) a federal launch contract is signed or 2) a private contract exceeds the \$3.7 million authorized in section 1.

Sec. 8. ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$7,464,800 of the adjusted net income from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2015.

Subsection (a) is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the state as a FY15 dividend payment. The amounts available for dividends in FY13 and FY14 were \$27.3 million and \$10.6 million, respectively.

***Legislative Fiscal Analyst Comment:** The statutory dividend is the lesser of \$103 million or 75% of the corporation's change in net assets in the most recently completed fiscal year (AS 18.56.089(c)). The Alaska Housing Finance Corporation (AHFC)'s net income declined precipitously due to a declining market share as federal mortgage programs offered mortgages at low rates. The situation persists, so that dividends may stay at historically low levels for several years.*

***Legislative Fiscal Analyst Recommendation:** The language in subsection (a) refers to "adjusted net income" while the statute refers to "change in net assets." Although the terms may have the same meaning, use of the statutory language is preferable.*

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2015, 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) \$7,190,300 for debt service on the bonds described under ch. 1, SSSLA 2002;
- (3) \$2,344,700 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection (b) makes no appropriation; it informs the legislature that AHFC will retain the entire amount of the FY15 dividend in order to pay debt service on three AHFC-financed capital projects authorized by past legislatures. Debt service to be paid by AHFC for these projects in FY15 is \$10,535,000.

***Legislative Fiscal Analyst Comment:** At the request of the State, AHFC issued corporate debt in order to avoid higher interest rates that bonds with debt service subject to appropriation might command. This is the second year that debt service for these projects exceeds the amount of the dividend. The implications are that:*

1. the State will receive no spendable AHFC dividend for FY15;

2. AHFC will pay \$3,070,200 more in debt service than the corporation retains in dividends; and
3. the \$3 million in FY15 debt service will reduce future net income and dividends.

Legislative Fiscal Analyst Recommendation: Because debt service payments exceed the dividend calculation, the language of section (b) should be revised to clarify that AHFC will pay the full amount of debt service. Suggested language is:

(b) The Alaska Housing Finance Corporation shall retain the amount set out in (a) of this section for the purpose of paying debt service for the fiscal year ending June 30, 2015, in the following estimated amounts:

Legislative Fiscal Analyst Comment: There are three bond issues cited in subsection (b), yet four are cited in statute. One issue has been fully repaid. Outstanding balances on the remaining bond issues are:

- \$9 million for University dormitories (paid off in 2024);
- \$68.3 million for the 2002 bonds (paid off in 2022); and
- \$80.8 million for the 2004 bonds (paid off in 2041).

(c) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2015, is appropriated to the budget reserve fund (AS 37.05.540(a)).

Subsection (c) appropriates any “unused” portion of the dividend to the statutory budget reserve fund.

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.

Legislative Fiscal Analyst Recommendation: Although subsection (c) is not expected to apply in FY15—because the dividend is zero—the language should be retained because the FY15 language serves as a starting point for the FY16 appropriation bill.

Appropriate the “unused” balance of dividends to the Alaska Capital Income Fund (AS 37.05.565), as was done in the FY13 and FY14 budgets. This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.

(d) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during the fiscal year ending June 30, 2015, and all income earned on assets of

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

Subsection (d) appropriates certain FY15 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.

(e) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2015, for housing loan programs not subsidized by the corporation.

(f) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2015, for housing loan programs and projects subsidized by the corporation.

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

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

Sec. 9. 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, 2015, estimated to be \$1,150,000,000, 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, 2015.

Subsection (a) appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and for administrative and associated costs. Earnings in FY15 (as calculated on the last day of the fiscal year) will be used to pay PFDs in October of 2015 and to pay administrative and associated costs throughout FY15.

Funding: The projected \$1.15 billion dividend transfer includes funding for administrative and associated costs. Administrative and associated costs for FY15 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 the fiscal year ending June 30, 2015, estimated to be \$975,000,000, 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. It transfers money from the Earnings Reserve Account to principal.

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during the fiscal year ending June 30, 2015, 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 \$714 million during FY15.

(d) The income earned during the fiscal year ending June 30, 2015, 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 (d) appropriates FY15 earnings associated with the *State vs. Amerada Hess* settlement (held within the Permanent Fund) to the Alaska Capital Income Fund. The Capital Income Fund was established in FY05 and is customarily appropriated for capital projects.

Funding: The *Amerada Hess* settlement refers to a portion of the Permanent Fund that is "fenced off" from the rest of the Permanent Fund principal. Based on the expected rate of return on Permanent Fund investments, the earnings on this \$425 million portion are projected to be \$22 million per year.

Legislative Fiscal Analyst Comment: *Capitalization of a 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.*

Sec. 10. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. (a) The sum of \$10,665,000 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, 2015, 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 \$10.67 million. Dividends for FY13 and FY14 were \$20.4 million and \$20.7 million, respectively. By statute (AS 44.88.088) the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. 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, 2015, is appropriated to the budget reserve fund (AS 37.05.540(a)).

Subsection (b) appropriates the "unused" portion of the dividend to the Statutory Budget Reserve Fund.

***Legislative Fiscal Analyst Recommendation:** Appropriate the "unused" balance of dividends to the Alaska Capital Income Fund (AS 37.05.565), as was done in the FY13 and FY14 budgets. This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

Sec. 11. DEPARTMENT OF ADMINISTRATION. (a) The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2015.

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

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

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

with legislative remedies would cause difficulty in situations that require immediate action.

Funding: This provision has no FY15 fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations.

(b) The amount necessary to fund the uses of the working reserve account described in AS 37.05.510(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2015.

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

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

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

Funding: This provision has no FY15 fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

The FY15 estimated amount required for working reserves is \$40.4 million, a decrease of \$3 million from FY14.

New Subsection

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$50,000, is appropriated to the state agency secured by the bond for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2015.

Subsection (c) permits the Alaska Oil and Gas Conservation Commission (AOGCC) to collect on a performance bond, should that action become necessary. The language was not considered necessary in the past because there was little concern that reclamation efforts would be required. AOGCC reported some difficulty in working with an operator during FY13 and requested the language as a precautionary measure.

Legislative Fiscal Analyst Comment: *Similar language in section 18(c) applies to the Department of Natural Resources.*

Legislative Fiscal Analyst Recommendation: *Replace sections 11(c) and 18(c) with a single section that does not limit the agencies affected by settlement of reclamation bonds.*

Sec. 12. 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, 2015, under AS 41.15.180(j) is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2015, 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, 2015.

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

Legislative Fiscal Analyst Comment: *National Forest receipts consist of national forest income received by DCCED for the portion of national forests located within the unorganized borough. By law, 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.*

AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution has not been made.

Under AS 41.15.180(j) lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection (a) takes money that would otherwise be spent in unorganized areas within the unorganized borough and appropriates it to local governments within the unorganized borough.

(b) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2015.

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

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

Historically, the department has submitted decrements to reduce Federal Receipt authorization based on declining National Forest Receipt revenue. The program was scheduled to sunset in FY08, but the \$700 billion Economic Rescue Package (H.R. 1424—signed into law on October 3, 2008) extended the program's funding through FY13.

In October 2013, Congress adopted a one-year reauthorization (for FY14) at approximately 95% of the FY13 authorization level.

Historical National Forest Receipt revenue levels are:

- FY10 - \$18,760.5
- FY11 - \$15,857.6
- FY12 - \$15,381.8
- FY13 – \$13,878.3
- FY14 Estimated - \$13,200.0
- FY15 Estimated - \$600.0

Legislative Fiscal Analyst Recommendation: *Retain subsections (a) and (b) despite the uncertain outlook for FY15. If there is no program, the language does no harm; if the program is reauthorized, Alaska will be ready to distribute money to communities.*

(c) If the amount necessary to make payments in lieu of taxes for cities in the unorganized borough under AS 44.33.020(a)(20) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make those payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2015.

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

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

(d) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2013, estimated to be \$8,500,000, and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2015, to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These "pass-through" amounts (estimated to be \$8.5 million) are excluded from Legislative Finance reports on the operating bill.

(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2013, estimated to be \$1,900,000, and deposited in the general fund under AS 43.76.380(d) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2015, to qualified regional seafood development associations.

Funding: These "pass-through" amounts (estimated to be \$1.9 million) are excluded from Legislative Finance reports on the operating bill.

(f) The amount necessary, estimated to be \$41,355,000, and not to exceed \$44,248,400, 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, 2015.

Subsection (f) appropriates money from the Power Cost Equalization Endowment to the Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. For the first time, projected program costs are less than the seven percent payout that can occur under the statutory formula (AS 42.45.070-.085). The higher allowable payout is attributable primarily to an FY11 deposit of \$400 million to the endowment fund.

Funding: Total program cost is projected to be \$41.4 million, an increase of \$1 million from FY14. In FY14, \$7.3 million of program costs are expected to require general funds. The endowment payout is expected to fully cover program costs with a payout of about 6.4% in FY15 and 5.2% in FY16.

Legislative Fiscal Analyst Recommendation: Replace "not to exceed \$44.3 million" with language that caps the payout at seven percent of the average balance (per AS 42.45.070-.085).

Our fund history shows a three-year average balance of \$652.2 million. A seven percent payout would allow an appropriation of \$45.6 million. Although the maximum payout is unlikely to be needed now or in the future, the language should be set up in a way that allows it to be carried into future years with minimal changes.

(g) If the amount appropriated in (f) 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 \$0, 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, 2015.

Subsection (g) is an open-ended general fund appropriation to AEA for the PCE program. Because the allowable endowment payout is expected to fully cover program costs, this language is not expected to be required in FY15 or later.

(h) The following amounts are appropriated from the specified sources to the Alaska Seafood Marketing Institute for seafood marketing activities for the fiscal year ending June 30, 2015:

(1) the unexpended and unobligated balance, estimated to be \$13,115,300, of the program receipts from the seafood marketing assessment (AS 16.51.120) and other program receipts of the Alaska Seafood Marketing Institute on June 30, 2014;

(2) the sum of \$1,711,200 from the program receipts of the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2015, which is approximately equal to 20 percent of the program receipts of the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2015;

(3) the sum of \$7,772,200 from the general fund, for the purpose of matching industry contributions collected by the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2013;

(4) the sum of \$4,500,000 from federal receipts.

(i) It is the intent of the legislature

(1) that the Alaska Seafood Marketing Institute limit expenditure of the appropriation in (h)(1) of this section to 80 percent of the program receipts collected for the fiscal year ending June 30, 2014;

(2) to limit the amount appropriated from the general fund to the Alaska Seafood Marketing Institute for the purpose of matching industry contributions for seafood marketing activities to not more than \$9,000,000 in a fiscal year, regardless of the amount of industry contributions; and

(3) that the Alaska Seafood Marketing Institute evaluate and consider in-state advertising firms to provide advertising services before using an out-of-state advertising firm.

Legislative Fiscal Analyst Comment: The FY12, FY13 and FY14 operating bills included similar language that outlined a funding methodology for the Alaska Seafood Marketing Institute (ASMI). The methodology was designed to:

- Match (with general fund appropriations) contributions by the seafood industry in the most recently closed fiscal year, limited to \$9 million annually;
- Enhance planning efforts by limiting expenditures of current year program receipts to approximately 20% of receipts collected in the most recently closed fiscal year;
- Stabilize the funding stream by allowing all unspent program receipts to be carried forward; and
- Provide federal receipt authorization sufficient to use all available federal funding.

As in FY14, the requested amount of GF match in subsection (3) (\$7.8 million) is less than the \$9 million maximum envisioned by legislators who drafted the funding methodology. The amount requested is a policy decision that meets the guidelines of subsection (i)(2). However, there is little reason to continue to outline the funding mechanics and intent if the language is not a factor in determining the amount of general fund appropriations.

Legislative Fiscal Analyst Recommendation: Section 13(h) and (i) can be removed and the appropriations placed in section 1. Doing so would add ASMI funding to the subcommittee process. It would also permit ASMI to stop the planning and analysis that is required to follow the mechanics outlined in the above language. Note, however, that there is no reason the planning and analysis could not continue without the language.

Sec. 13. DEPARTMENT OF CORRECTIONS. If any portion of the federal receipts appropriated in sec. 1 of this Act to the Department of Corrections, Anchorage Correctional Complex, for housing federal prisoners for the fiscal year ending June 30, 2015, is not received, an amount equal to the difference between the amount of federal receipts appropriated and the amount of federal receipts received is appropriated from the general fund to the Department of Corrections, Anchorage Correctional Complex, for the purpose of paying costs of inmate incarceration for the fiscal year ending June 30, 2015.

Section 13 is a general fund appropriation of an unspecified amount (not to exceed the amount of federal receipt authority in section 1—now \$5,033.8) that is designed to ensure that the Anchorage Correctional Complex has sufficient operating funds. The federal government reimburses the Complex for the cost of housing federal prisoners. The amount of federal receipts varies from year to year, depending primarily on the number of federal prisoners and the length of their stay. Based on reports that federal receipts exceeded authorization by as much as \$2.5 million, a \$2 million fund change increasing federal authorization and reducing general funds was incorporated in the FY14 budget.

Language similar to section 13 was also incorporated to ensure that total funding would match the Governor's request.

***Legislative Fiscal Analyst Comment:** It now appears that federal receipts collected during FY14 will be closer to \$3 million rather than to the \$5 million authorized in the FY14 budget. If so, the "backstop" language will replace uncollected federal receipts with general funds. This will add approximately \$2 million to FY14 general fund expenditures.*

Funding: The Governor assigned no cost to section 13. Based on a review of recent federal collections, it appears that collections during FY15 are likely to be about \$3.2 million. If so, then section 13 will appropriate an additional \$1.8 million to the Anchorage Correctional Complex. Legislative Finance has added a transaction for this amount to the Governor's request.

Sec. 14. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. The sum of \$25,000,000 is appropriated from the general fund to the Department of Education and Early Development to be distributed as state aid to districts according to the average daily membership for each district adjusted under AS 14.17.410(b)(1)(A) - (D) for the fiscal year ending June 30, 2015.

***Legislative Fiscal Analyst Comment:** Similar language was used in FY13 and FY14 to increase funding for K-12 education without increasing the base student allocation. Proposing a repeat of state aid in FY15 prevents a decline in K-12 funding.*

Deleted Section

Section 16 in the FY14 operating budget bill reappropriated up to \$6 million from behavioral health grants to Medicaid services. The grant funding was a one-time, multi-year (FY13-FY15) appropriation of \$9 million of general funds.

***Legislative Fiscal Analyst Comment:** The reappropriation was accompanied by a \$6 million decrement in Medicaid services, which was expected to be restored in FY15. Instead, the Governor requested a reduction of \$3.2 million of "excess general fund match."*

Sec. 15. DEPARTMENT OF FISH AND GAME. An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.46.210 in fiscal year ending June 30, 2014, estimated to be \$800,000, and deposited in the general fund is appropriated from the general fund to the Department of Fish and Game for payment in the fiscal year ending June 30, 2015, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

***Legislative Fiscal Analyst Comment:** This section was added in order to treat dive fishery development associations similarly to other regional seafood associations [see section 12(d) and (e)]—assessments will now return to the associations without appearing in the department's budget.*

Funding: These "pass-through" amounts, estimated to be \$800,000, are excluded from Legislative Finance reports on the operating bill.

Sec. 16. 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, 2015.

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

Funding: The estimated impact of this section is zero.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to make those benefit payments is appropriated for that purpose from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2015.

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

Funding: The estimated impact of this section is zero.

(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, 2015.

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

Funding: The estimated impact of this section is zero.

(d) If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2015, exceeds the amount appropriated for the Department of Labor and Workforce Development, Alaska Vocational Technical Center, in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the purpose of operating the center, for the fiscal year ending June 30, 2015.

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

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

Sec. 17. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS. Five percent of the average ending market value in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2012, June 30, 2013, and June 30, 2014, estimated to be \$12,800, 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, 2015.

Section 17 appropriates the payout from the endowment to DMVA. The payout may be used for maintenance, repair and construction of monuments to the military.

Deleted subsection reducing (by \$2 million) UGF if the Alaska Aerospace Corporation did not secure a multi –year commercial launch service contract for the Kodiak launch complex on or before March 1, 2014.

The contingency was met and there are no general funds in the Alaska Aerospace Corporation's budget in FY15. See DMVA narrative for more information.

Sec. 18. DEPARTMENT OF NATURAL RESOURCES. (a) The interest earned during the fiscal year ending June 30, 2015, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be \$150,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2015, June 30, 2016, and June 30, 2017.

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

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

Funding: The estimated earnings are \$150,000, compared to \$250,000 in FY14.

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2015, estimated to be \$50,000, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources for those purposes for the fiscal year ending June 30, 2015.

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

***Legislative Fiscal Analyst Comment:** This section may not be required but does no harm; the appropriation contained in section 26(c)—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 may not be required, it should be retained because the appropriation in section 26(c) is classified as a 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.*

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$50,000, is appropriated to the agency secured by the bond for the fiscal year ending June 30, 2015, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

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

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

***Legislative Fiscal Analyst Comment:** Similar language in section 11(c) applies to the Department of Administration.*

***Legislative Fiscal Analyst Recommendation:** Replace sections 11(c) and 18(c) with a single section that does not limit the agencies affected by settlement of a reclamation bond.*

(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2015, estimated to be \$8,500,000, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2015.

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 was used for several years. This update to the anticipated amount of receipts is a more realistic estimate of FY15 receipts.

Deleted Subsections (e) and (f)

Subsections (e) and (f) were open-ended appropriations to the Division of Oil and Gas. Subsection (e) was to retain experts to examine terms of service for the North Slope gas commercialization project. Subsection (f) was to cover costs related to royalty oil and gas valuation. The estimated costs for these activities were \$600,000 and \$650,000, respectively.

***Legislative Fiscal Analyst Comment:** The Governor requested a base increment of \$650,000 for arbitration of oil and gas royalty issues in section 1 of the operating budget. Money for additional work on the commercialization project was not requested.*

Sec. 19. DEPARTMENT OF REVENUE. 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), estimated to be \$46,000, are appropriated to the Department of Revenue, child support services agency, for child support activities for the fiscal year ending June 30, 2015.

Sec. 20. OFFICE OF THE GOVERNOR. (a) If the 2015 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$70 a barrel on August 1, 2014, the amount of money corresponding to the 2015 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 \$15,000,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs for the fiscal year ending June 30, 2015.

(b) If the 2015 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$70 a barrel on December 1, 2014, the amount of money corresponding to the 2015 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 \$15,000,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs for the fiscal year ending June 30, 2015.

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

2015 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$100 or more	\$15,000,000
99	14,500,000
98	14,000,000
97	13,500,000
96	13,000,000
95	12,500,000
94	12,000,000
93	11,500,000
92	11,000,000
91	10,500,000
90	10,000,000
89	9,500,000
88	9,000,000
87	8,500,000
86	8,000,000
85	7,500,000
84	7,000,000
83	6,500,000
82	6,000,000
81	5,500,000
80	5,000,000
79	4,500,000
78	4,000,000
77	3,500,000
76	3,000,000
75	2,500,000
74	2,000,000
73	1,500,000
72	1,000,000
71	500,000
70	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, 2015.

(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, 10 percent of the total plus or minus three percent;
- (3) to the Department of Health and Social Services and the Department of Corrections, not 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 \$30 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) provides a table that determines, 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 \$30 million appropriation for fuel in its budget transmittal, which corresponds to a forecast oil price in excess of \$100/bbl.

Legislative Fiscal Analyst Comment: The Governor's proposed table has an upper limit of \$30 million (at \$100/bbl), which is \$6 million below the FY14 limit. The official revenue forecast uses a price of \$105.06/bbl.

Deleted Subsection Appropriating Money for a Lump Sum Payment to Employees Represented by the Alaska State Employees Association

The collective bargaining agreement with the ASEA included one-time payments to the employees represented by the association.

Sec. 21. UNIVERSITY OF ALASKA. The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2014, for the issuance of special request university plates, less the cost of issuing the license plates, estimated to be \$2,000, 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, 2015.

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

Deleted Subsection Appropriating \$117,800 to the Juneau Campus for the Center for Mine Training

The Governor requested continuation of funding for this purpose in section 1.

Sec. 22. BANKCARD SERVICE FEES. (a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2015, is appropriated for that purpose for the fiscal year ending June 30, 2015, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

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

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

(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2015, is appropriated for that purpose for the fiscal year ending June 30, 2015, 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 necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2015, is appropriated for that purpose for the fiscal year ending June 30, 2015, 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. 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, 2015, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes for the fiscal year ending June 30, 2015.

Subsection (a) appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year. This is precautionary language; revenue anticipation notes have not been issued by the State for at least 30 years, and may never have been issued.

Legislative Fiscal Analyst Comment: No notes are expected to be issued in FY15.

(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, 2015.

Subsection (b) appropriates general funds to pay principal and interest on state-guaranteed bonds (veteran's mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The primary purpose of the state general obligation pledge is to gain tax-exempt status for the bonds, but it also enhances the credit pledge and marketability of the bonds. The veteran's mortgage bonds have achieved the best credit rating (triple A) on their own. 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 \$1,601,700 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2015.

(d) The sum of \$1,691,700 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2015.

Subsections (c) and (d) appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts and drinking and clean water bond receipts (see sections 25(h) and (i)). 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. These

subsections take advantage of the ability to use earnings on 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 to match federal receipts.

(e) The sum of \$5,472,003 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2015, 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	\$1,216,125
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Matanuska-Susitna Borough (deep water port and road upgrade)	707,863
(B) Aleutians East Borough/False Pass (small boat harbor)	110,286
(C) City of Fairbanks (fire headquarters station replacement)	869,108
(D) City of Valdez (harbor renovations)	213,188
(E) Aleutians East Borough/Akutan (small boat harbor)	358,508
(F) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	334,624
(G) City of Unalaska (Little South America (LSA) Harbor)	367,445
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Copper Valley Electric Association (cogeneration projects)	351,180

Subsection (e) appropriates \$5.5 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). The project list is identical to the FY14 list, with the exception of a dock project in the Lake and Peninsula Borough (\$119.2) that no longer appears on the list because the bonds authorized for reimbursement were fully repaid. The FY15 payment will also be the final appropriation for the City of Fairbanks (fire headquarters station replacement) required to fully repay their authorized bonds..

(f) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2015, estimated to be \$4,569,150, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2015.

Subsection (f) appropriates \$4.6 million for trustee fees (\$2.5) and to make payments on the following COPs:

Fairbanks Virology Lab	\$1,775.2
Alaska Native Medical Center housing project (authorized in Ch 63, SLA 2013, SB 88)	\$2,791.6

***Legislative Fiscal Analyst Comment:** The legislature appropriated \$24 million in FY12 for defeasance of certificates of participation. A veto allowed full defeasance only for the Alaska Psychiatric Institute and the Seafood and Food Safety Lab, with partial defeasance of the Fairbanks Virology Lab. The Alaska Native Medical Center project was added in FY14.*

(g) The sum of \$6,770,505 is appropriated from the general fund to the Department of Administration in the following amounts for the purpose of paying the following obligations to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2015:

- (1) \$3,467,005 for the Robert B. Atwood Building in Anchorage; and**
- (2) \$3,303,500 for the Linny Pacillo Parking Garage in Anchorage.**

Subsection (g) appropriates \$6.8 million for obligations associated with the Atwood Building and a downtown Anchorage parking garage. AHFC purchased the Robert B. Atwood Building for approximately \$39 million in cash and then issued corporate general obligation bonds with debt service offset by lease payments from the state. The state will own the building at the end of the lease.

The Linny Pacillo Parking Garage is a lease-purchase similar to the obligation for the Robert B. Atwood Building.

(h) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2015:

A total of \$83.2 million general funds and \$4.8 million federal funds is appropriated for debt service on general obligation bonds (see table below). Comparable FY14 numbers are \$82.1 million general funds and \$17.0 million federal receipts. The federal receipts diminished as the 2003 B general obligation bonds that were eligible for federal subsidy of debt service matured in FY14.

Summary of Debt Service on Outstanding General Obligation Bonds					
Authorization Year	Bond Issue	Subsection	General Fund Debt Service	Federal Debt Service	Total Debt Service
2002	2012A	1	29,227,750		29,227,750
2008	2009A	2	65,000		65,000
2008	2009A	3	12,891,350		12,891,350
2010	2010A&B	4, 5, 6 & 7	4,737,080	4,421,761	9,158,841
2010	2013A	8, 9 & 10	33,185	427,658	460,843
2010	2013B	11 & 12	16,160,925		16,160,925
2010	2014A	13	20,000,000		20,000,000
	Trustee Fees	14	5,300		5,300
	Arbitrage Rebate	15	100,000		100,000
	Total		83,220,590	4,849,419	88,070,009

(1) the amount necessary, estimated to be \$29,227,750, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A, from the general fund for that purpose;

Series 2012 bonds are refinanced 2003 bonds:

- 2003A general obligation bonds were authorized by voters in 2002 for construction of schools and university facilities (\$236.8 million) and for transportation projects (\$124 million).
- Series 2003B general obligation bonds were authorized by voters in 2002 for road construction (\$102.8 million).

Legislative Fiscal Analyst Comment: Although the 2003B bonds were issued with a general obligation pledge by the state, they are more appropriately referred to as GARVEE bonds. The majority of the debt service is paid using eligible federal-aid highway formula funding coupled with a state matching component. The 2003B bonds were issued with a ten-year amortization and are fully repaid as of FY14.

(2) the sum of \$65,000 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;

(3) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payment made in (2) of this subsection, estimated to be \$12,891,350, from the general fund for that purpose;

Series 2009A general obligation bonds were authorized by voters in 2008 for road construction projects.

***Legislative Fiscal Analyst Comment:** Of the \$315 million bond issue authorized by voters in 2008, approximately \$150 million was not issued. In FY12, the legislature changed the fund source for \$150 million of capital projects from GO bond proceeds to general funds. The authority to issue bonds was reduced by \$150 million at the same time.*

(4) the sum of \$50,500 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2010A, 2010B, and 2010C general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B;

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

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

(7) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B, after payments made in (4), (5), and (6) of this subsection, estimated to be \$4,686,580, from the general fund for that purpose;

Series 2010A, 2010B, and 2010C general obligation bonds were authorized by voters in 2010 for educational facilities.

***Legislative Fiscal Analyst Comment:** The 2010 general election authorized issuance of \$397 million in bonds to finance educational facilities. The Department of Revenue issued \$200 million of bonds in three series in 2010, taking advantage of federal stimulus debt programs. Series A were issued using Build America Bonds (receiving an original 35% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds. 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. Sequestration has subsequently reduced the federal reimbursement rates on the Series A and Series B bonds, reducing the effective subsidy to near 32.5% and 93%, respectively.*

(8) the sum of \$8,200 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A;

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

(10) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, after payments made in (8) and (9) of this subsection, estimated to be \$24,985, from the general fund for that purpose;

(11) the sum of \$92,300 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B;

(12) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B, after the payment made in (11) of this subsection, estimated to be \$16,068,625, from the general fund for that purpose;

The remaining 2010 authorization of \$197 million was used when 2013A and 2013B bonds were sold. Series 2013A and 2013B general obligation bonds were authorized by voters in 2010 for educational facilities.

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

(13) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2014A, estimated to be \$20,000,000, from the general fund for that purpose;

The Series 2014A Bond Anticipation Note sale is anticipated to be sized at approximately \$300 million and will refinance the \$152.1 million of proceeds generated by the 2013 Series C bond Anticipation Note issuance of March, 2013 (for which approximately \$10

million was appropriated in FY14) and finance additional cash flow of approximately \$148 million for the \$453.5 million in general obligation bonds approved for transportation infrastructure in 2012.

The 2013C Bond Anticipation Notes (BANs) were issued with an effective interest rate of under one tenth of a percent at .094%, and it is anticipated that the 2014 issue will have an interest rate below three-tenths of one percent. The BANs are being used to eliminate negative carry on construction funds and better match evolving cash flow needs of the projects while better adhering to IRS limitations on construction fund life.

(14) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, and 2014A, estimated to be \$5,300, from the general fund for that purpose;

Subsection 14 appropriates an estimated \$5,300 for trustee fees on all outstanding GO Bonds.

***Legislative Fiscal Analyst Comment:** These fees have previously been included in the debt service appropriation for each series of bonds. Trustee fees have been separated from other costs of issuing debt because they are annual costs that last for the life of the bonds. Most other costs of issuing debt are one-time costs paid at closing.*

(15) the amount necessary for the purpose of authorizing payment to the United States Treasury for arbitrage rebate on outstanding State of Alaska general obligation bonds, estimated to be \$100,000, from the general fund for that purpose;

Subsection 15 appropriates money that must be remitted to the federal government when earnings on the proceeds of tax-exempt bonds exceed interest costs. This appropriation applies primarily to the extraordinarily low interest rate 2013C Bond Anticipation Notes. A similar provision is likely to be required for the 2014A Qualified School Construction Bonds.

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

Subsection 16 is intended to prevent construction delays by permitting short-term borrowing from the general fund.

(17) if the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds exceeds the amounts

appropriated in this subsection, the additional amount necessary to pay the obligations, from the general fund for that purpose.

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

Legislative Fiscal Analyst Recommendation: The language in subsection 17 is redundant and could be deleted; each subsection referring to individual bond series has language that appropriates the amount necessary—rather than the estimated amount required—for payment of debt service. However, subsection 17 would apply if a series of bonds was overlooked in the budget process. The language does no harm and should be retained.

(i) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2015:

(1) the amount necessary for debt service on outstanding international airports revenue bonds, estimated to be \$5,200,000, from the collection of Federal Aviation Administration approved passenger facility charges at the Alaska International Airports System;

(2) the amount necessary for debt service and trustee fees on outstanding international airports revenue bonds, estimated to be \$398,820, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bonds federal interest subsidy payments due on the series 2010D general airport revenue bonds;

(3) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after payments made in (1) and (2) of this subsection, estimated to be \$41,079,115, from the International Airports Revenue Fund (AS 37.15.430(a)) for that purpose.

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

(j) The sum of \$21,928,750 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, 2015:

FACILITY AND FEES	ALLOCATION
(1) Anchorage Jail	\$ 4,110,900
(2) Goose Creek Correctional Center	17,813,650
(3) Fees	4,200

Subsection (j) 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, which the state also leases.

***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.*

(k) The sum of \$128,910,209 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, 2015, from the following sources:

General fund	\$109,610,209
School Fund (AS 43.50.140)	19,300,000

Subsection (k) 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.

Funding: Anticipated FY15 cigarette tax collections (School Fund) are down from \$21.8 million and \$20.8 million in FY13 and FY14, respectively. As those tax revenues decrease, the general fund portion of school debt reimbursement increases.

(l) 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, 2015. It is the intent of the legislature that revenue collected for the surcharge on fishing licenses that exceeds the payment of debt service, accrued interest, and trustee fees on outstanding bonds may be used for early redemption of the bonds.

Subsection (l) appropriates a majority of a surcharge levied on sport fish licenses authorized under Chapter 94, SLA 2005—and appropriated to the bond redemption fund in section 25(m) of this bill—for payment of sport fish hatchery debt. Annually, up to \$500,000 of the surcharge may be retained for sportfish operations. That amount is appropriated to the Department of Fish and Game in the suggested redraft discussed under section 25(m).

The appropriation in subsection (l) typically exceeds the required debt service payments due on the bonds, allowing the bonds to be paid off ahead of schedule. Language pertaining to early redemption can be removed from intent and included as an appropriation.

Legislative Fiscal Analyst Recommendation: See discussion under section 25(m) for suggestions to clarify the mechanics of the surcharge and payment of debt service on hatchery bonds. Subsection (l) should remain in this section of the bill but be revised as follows:

(l) Amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during the fiscal year ending June 30, 2015, estimated to be \$5,500,000, are appropriated to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds, and for early redemption of those bonds.

(m) The sum of \$4,055,000 is appropriated to the state bond committee for payment of principal and interest, redemption premium, and trustee fees, if any, associated with the early redemption of international airport revenue bonds authorized by AS 37.15.410 - 37.15.550, for the fiscal year ending June 30, 2015, from the International Airports Revenue Fund (AS 37.15.430(a)).

Subsection (m) appropriates \$4 million for the early redemption of airport revenue bonds as part of the master debt management plan for the AIAS.

Sec. 24. FEDERAL AND OTHER PROGRAM RECEIPTS. a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation, that are received during the fiscal year ending June 30, 2015, 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 under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2015, 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 under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2015, 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.

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.

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.

Sec. 25. FUND CAPITALIZATION. (a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2015, estimated to be \$24,800, are appropriated to the Alaska children's trust grant account (AS 37.14.205(a)):

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

Subsection (a) appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY15 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates. Before FY12, these receipts were deposited to principal; the Children's Trust board may now spend from the grant account without further appropriation.

The Alaska Children's Trust was created by Chapter 19, SLA 1988. The legislature appropriated \$6 million from the investment loss trust fund to the principal of the trust in Chapter 123, SLA 1996. The trust was established to provide a continuing source of revenue for grants to community-based programs for the prevention of child abuse and neglect. During recent fiscal years, the principal of the endowment was granted to the Friends of the Children's Trust.

(b) The sum of \$1,502,700 is appropriated from that portion of the dividend fund (AS 43.23.045(a)) that would have been paid to individuals who are not eligible to receive a permanent fund dividend because of a conviction or incarceration under AS 43.23.005(d) to the crime victim compensation fund (AS 18.67.162) for the purposes of the crime victim compensation fund (AS 18.67.162).

Subsection (b) capitalizes the Crime Victim Compensation Fund (CVCVF) with a portion of what is commonly known as "PFD Criminal Funds." The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

***Legislative Fiscal Analyst Comment:** Beginning in FY12, PFD Criminal Funds were concentrated in only two appropriations—the Crime Victim Compensation Fund and Inmate Health Care in the Department of Corrections. The intent was to minimize the many confusing fund source changes (swapping GF and PFD Criminal Funds) caused by year-to-year volatility in the amount of funding available. The Department of Corrections was intended to be the only agency with a variable amount of PFD Criminal Funds.*

PFD Criminal Funds are exchanged dollar-for-dollar with general funds in the Department of Corrections. Every dollar appropriated to the Crime Victim Compensation Fund reduces the amount of PFD Criminal Funds that is available to the Department of Corrections, thereby increasing the general fund appropriation to the Department of Corrections.

The legislature has discretion in choosing an amount to appropriate to the CVCF; there is no statutory direction. The amount appropriated for this purpose in FY13 was \$1,798,000. The amount appropriated in FY14 was \$1,116,400. The Governor requested an increase to \$1,502,700 for FY15. The FY15 request maintains the FY15 funding level of the Violent Crimes Compensation Board at the FY14 level of \$2,536,800.

(c) The amount received under AS 18.67.162 as program receipts, estimated to be \$34,000, including donations and recoveries of or reimbursement for awards made from the crime victim compensation fund (AS 18.67.162), during the fiscal year ending June 30, 2015, is appropriated to the crime victim compensation fund (AS 18.67.162).

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

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

(d) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2015, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

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

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

(e) The sum of \$5,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

Subsection (e) capitalizes the Disaster Relief Fund with \$5 million of general funds. The FY12 capitalization of the fund was \$7.5 million of general funds and \$8.2 million was spent. FY13 general fund capitalization was \$5 million and \$4.7 million was spent. FY14 general fund capitalization was again \$5 million.

***Legislative Fiscal Analyst Comment:** Disasters—and their costs—are unpredictable. Note, however, that appropriating too little to the fund will prompt a supplemental funding request in the future.*

(f) An amount equal to 20 percent of the revenue collected under AS 43.20.030(c), not to exceed \$60,000,000, is appropriated from the general fund to the community revenue sharing fund (AS 29.60.850).

Subsection (f) appropriates 20% of receipts from the corporate income tax, to a limit of \$60 million, for revenue sharing.

***Legislative Fiscal Analyst Comment:** The revenue sharing fund was established with a 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 FY15 distribution to communities will be \$60 million (1/3 of the balance).*

With the repeal of the progressive portion of the oil and gas production tax in FY14, the source of money for revenue sharing became the corporate income tax. Anticipated corporate tax receipts for FY15 are \$591 million, with \$464 million of the total associated with petroleum. If the funding mechanics are unchanged, revenue sharing will receive \$60 million annually unless annual receipts from the corporate income tax fall below \$300 million.

Funding: The full \$60 million potential amount of the appropriation is included in all Legislative Finance Division and Office of Management and Budget reports.

(g) 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 exceed the balance of the fund, estimated to be \$450,000,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

***Legislative Fiscal Analyst Comment:** Oil and gas tax credit claims have proven difficult to forecast; actual claims have exceeded projected claims by a wide margin in some years. This appropriation to purchase tax credits is open-ended to ensure that the fund balance is sufficient to purchase all claims presented.*

Funding: The estimated impact of a similar provision in the FY14 budget was \$400 million, and the estimate was increased to \$550 million with the adoption of Chapter 10, SLA 2013 (SB 21) changes to the petroleum tax regime. The Department of Revenue has requested transfers totaling \$600 million through December 2013 and expects no additional transfers to purchase credits during FY14. The table below shows a history of appropriations to the fund and payments from it.

Legislative Fiscal Analyst Recommendation: Reduce the FY15 estimate of the amount needed to purchase credit certificates by \$265 million. Figures provided by the Department of Revenue indicate that the fund has been carrying a balance. Subsection (g)—and similar appropriations in the past—were designed to limit transfers to the fund to “the amount by which tax credit certificates presented for purchase exceed the balance of the fund.” According to the table below, annual transfers to the fund have been roughly equal to the amount required to purchase credits presented in a year, rather than to the “amount of credits presented less the fund balance.”

Reducing the estimate will not affect the ability to purchase credits, nor will it reduce the cost of purchasing the credits presented.

OIL & GAS TAX CREDIT FUND									
(\$ Millions)									
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14 YTD	FY15 GOV*
Beginning Fund Balance	-	0.0	610.0	270.5	273.9	275.1	267.8	264.8	264.8
Transfers from the General Fund	54.6	625.0	(164.6)	250.5	450.0	345.0	366.0	588.0	-
Transfers for Earnings		39.1	18.2	3.3	1.4	0.7	0.4	0.5	-
Total Transfers into the Fund	54.6	664.1	(146.4)	253.8	451.4	345.7	366.4	588.5	-
Estimate of Remaining Transfers from the GF	-	-	-	-	-	-	-	11.5	450.0
TOTAL TRANSFERS INTO THE FUND	54.6	664.1	(146.4)	253.8	451.4	345.7	366.4	600.0	450.0
Actual Transfers from the Fund	54.6	54.1	193.1	250.5	450.2	353.0	369.4	225.5	-
Estimate of Remaining Transfers from the Fund	-	-	-	-	-	-	-	374.5	450.0
TOTAL TRANSFERS FROM THE FUND	54.6	54.1	193.1	250.5	450.2	353.0	369.4	600.0	450.0
Ending Fund Balance	0.0	610.0	270.5	273.9	275.1	267.8	264.8	264.8	264.8
Estimated Need from General Fund		225.0	(15.0)	250.4	180.0	400.0	400.0	600.0	450.0
Difference (Estimate vs Transfers to Fund)	54.6	439.1	(131.4)	3.4	271.4	(54.3)	(33.6)	(11.5)	(450.0)
NOTES:									
FY07-FY13 Actuals based on information provided by the Department of Revenue 11/27/2013									
Tax Credits are paid on a calendar year basis.									
*FY15 Gov - no funding has been transferred into the Fund - the FY15 Gov Request includes an estimated need of \$450.0.									

Deleted Subsection Capitalizing the Trauma Fund

The trauma fund was created in FY11. The purpose of the fund is to make grant awards to certified trauma centers in the state. The Commissioner of the Department of Health and Social Services may make awards from the fund without further appropriation.

Funding: Appropriations to the fund are discretionary, with no statutory guidelines. The legislature appropriated \$2.5 million to the fund in FY11, skipped

an appropriation in FY12, appropriated \$2.0 million in FY13 and \$1 million in FY14. The Governor requested no deposit to the trauma fund in FY15.

Deleted Subsection Capitalizing the Sustainable Energy Transmission and Supply Development Fund

The FY14 appropriation of \$125 million to the fund was to advance the use of North Slope gas in the Fairbanks area.

(h) The sum of \$9,246,360 is appropriated to the Alaska clean water fund (AS 46.03.032(a)) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$1,594,200
Federal receipts	7,652,160

(i) The sum of \$7,494,690 is appropriated to the Alaska drinking water fund (AS 46.03.036(a)) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$1,684,200
Federal receipts	5,810,490

Subsections (h) and (i) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The state typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See section 23(d) for further discussion.

(j) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act is appropriated to the election fund for use in accordance with 42 U.S.C. 15404(b)(2).

Subsection (j) allows the Election Fund to retain interest earned. The purpose of the fund is to provide states with money for election administration improvements (primarily equipment and accessibility aids).

Funding: The Governor did not submit a FY15 capital project using money from the Election Fund and no projects were requested in FY14.

Earnings on the fund were \$33,800 in FY13. No estimate for earnings was included in the FY14 budget. Legislative Finance added a transaction for the estimated \$35,000 earnings during FY15.

New Subsection

(k) The interest and other income earned during the fiscal year ending on June 30, 2014, on money in the in-state natural gas pipeline fund (AS 31.25.100), estimated to be \$3,300,000, is appropriated to the in-state natural gas pipeline fund (AS 31.25.100).

Subsection (k) allows the in-state pipeline fund to retain earnings. The fund was created in FY14 for the purpose of furthering the development of a gas pipeline.

(l) 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, 2014, estimated to be \$50,000, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection (l) appropriates earnings of the Bond Bank to its earnings reserve fund. Earnings were zero in FY13 and are expected to be zero in FY14.

(m) 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).

Subsection (m) appropriates the amount collected under the surcharge on sport fish licenses—implemented by Chapter 94, SLA 2005 (SB 147)—from the sport fish enterprise account, where the revenue is deposited, to the bond redemption fund. The appropriation is for payment of debt service on, and early redemption of, bonds authorized for hatchery construction.

Funding: The amount in subsection (m) is overstated; the anticipated amount of the appropriation is \$4.96 million for debt service and \$540,250 for early redemption.

Legislative Fiscal Analyst Comment: *The mechanics of the surcharge/debt service are as follows:*

- (1) All proceeds from a surcharge levied on sport fishing licenses are deposited into the enterprise account within the Fish and Game Fund (F&G Fund). At present, temporarily holding money associated with the revenue bonds is the only purpose of the account.*
- (2) The amount required to make debt service payments is appropriated from the enterprise account to the bond redemption account. See suggested language for section 25(m)(1).*
- (3) Once the amount required to make the minimum debt service payment is transferred, the balance of the enterprise account (not to exceed \$500,000) is appropriated from the enterprise account to Sport Fish so it can be used for sport fish operations. This transfer currently occurs in section 1 of this bill, but should appear as section 15(b) because of the contingent nature of the appropriation.*
- (4) Any remaining balance in the enterprise account (including earnings) is transferred to the bond redemption account to be used for early redemption of the bonds. See suggested language for section 25(m)(2).*
- (5) If proceeds from the surcharge are insufficient to make the required debt service payments, a limited amount of federal receipts may be used to fill the gap. Backstop language now appears in section 26(h). However, because the backstop*

appropriation is a fund capitalization, it should appear in section 25. See section 25(m)(3) below for suggested revisions to section 26(h).

Legislative Fiscal Analyst Recommendation: *The mechanics of the surcharge could be clarified by revising all four subsections of this bill—1, 15, 25 and 26—that address the surcharge for fish and game revenue as follows:*

25(m)(1) *The amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2015, estimated to be \$4,959,750 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for that purpose. (Note: 25(m)(1) replaces fund capitalization language that now appears in section 25(m).)*

15(b) *After the appropriation made in section 25(m)(1) of this act, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), not to exceed \$500,000, is appropriated to the department of fish and game for sport fish operations for the fiscal year ending June 30, 2015. (Note: subsection 15(b) replaces an appropriation that currently appears in section 1 of this bill.)*

25(m)(2) *After the appropriations made in sections 25(m)(1) and 15(b) of this act, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), estimated to be \$540,250, is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for early redemption of outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2015. (Note: 25(m)(2) clarifies a fund capitalization now made in section 25(m).)*

25(m)(3) *If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) under section 25(m)(1) of this act are less than the amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2015, federal receipts equal to the lesser of \$2,024,063 or the deficiency balance, estimated to be zero, are appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2015. (Note: This fund capitalization language replaces the current language in section 26(h).)*

Sec. 26. 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 loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2015, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

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

Funding: The amount of the loan origination fee is capped by regulation at 5% and set by the corporation. For FY15, 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.

(c) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2014, and money deposited in that account during the fiscal year ending June 30, 2015, estimated to be \$50,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).

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

Funding: The agency projects a transfer of approximately \$50,000. The authorization to spend will go to the Mining, Land and Water allocation (see section 18(b)).

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

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

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

Legislative Fiscal Analyst Recommendation: *Because Municipal Bond Bank reserves can be spent without appropriation, deposits to reserves are classified as fund capitalization. This subsection should be moved to section 25.*

(e) The sum of \$1,202,568,100 is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsection (e) appropriates \$1.2 billion to the Public Education Fund (PEF).

Legislative Fiscal Analyst Comment: *The amount appropriated is the projected amount of K-12 funding required for FY16. 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 effective date of subsection (e) is December 1, 2014. The delayed date was chosen for cash-flow purposes.

(f) 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, 2014, estimated to be \$2,700,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2014, estimated to be \$6,700,000, from the surcharge levied under AS 43.55.300.

Subsection (f) appropriates (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY14 collections from the four cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.03 to \$0.04.

Legislative Fiscal Analyst Comment: *The balance of this fund has been declining for years, and was projected to reach zero by FY15. A one-time deposit from the State of Alaska v. BP Exploration settlement extended the horizon of the fund through FY15. The department projects that the fund will be insufficient to cover costs in FY16. Unless the surcharge revenue is increased or spill prevention expenditures are reduced, the likely*

outcome is that appropriations from the prevention account will need to be replaced with general funds. Doing so will add about \$6.5 million to the FY16 general fund budget.

(g) 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, 2014, estimated to be \$700,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2014, from the surcharge levied under AS 43.55.201, estimated to be \$1,700,000.

Subsection (g) appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY14 collections from the \$0.01 per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.02 to \$0.01.

***Legislative Fiscal Analyst Comment:** Per AS 43.55.221(d), the surcharge is suspended when the balance of the response account exceeds \$50 million. The Commissioner of Revenue reported that the surcharge was suspended effective January 1, 2013. The surcharge was reimposed effective July 1, 2013, and remains in place today. The report for the quarter ended December 31, 2013 has not yet been prepared, but the balance is expected to continue to be below the threshold and the surcharge is expected to continue through FY14.*

(h) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise account (AS 16.05.130(e)), not to exceed \$2,024,063, as reimbursement for the federally allowable portion of the principal balance payment on sport fishing revenue bonds 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 (h) is intended to clarify that the department may use up to \$2 million of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds [see Section 23(l)]. In recognition that use of federal receipts for debt service is not necessary, subsection (h) transfers the receipts to the Fish and Game Fund (F&G fund), where it is available for purposes more traditionally associated with the fund.

Funding: The section is intended to transfer funds between accounts within the Fish and Game Fund; there is no direct fiscal impact.

***Legislative Fiscal Analyst Comment:** This backstop language is based on the premise that the amount of federal receipts allowed to be used for debt service reimbursement was deposited in the enterprise account. Subsection (h) would then transfer those federal receipts to the F&G fund.*

The language is ineffective because federal receipts have not been—and will not be—deposited in the enterprise account.

However, the ability to use federal receipts for debt service payments was an important component of the bond sale agreement. Suggested language under section 25(m)(3) provides for use of federal funds if necessary.

Legislative Fiscal Analyst Recommendation: *The appropriation of federal funds to the bond redemption fund should appear in section 25 with other fund capitalization language. Remove the language from the fund transfers section of the bill and incorporate revised language in section 25.*

- (i) **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, 2015, estimated to be \$375,000, are appropriated to the fish and game fund (AS 16.05.100).**

Legislative Fiscal Analyst Comment: *Because these facilities were constructed with F&G Funds, the federal government has indicated that facility user fees must be appropriated to the F&G Fund.*

- (j) **The interest earned during the fiscal year ending June 30, 2015, by the Alaska marine highway system fund (AS 19.65.060(a)), estimated to be \$88,700, is appropriated to the Alaska marine highway system fund (AS 19.65.060(a)). It is the intent of the legislature that the interest earned on the balance of the Alaska marine highway system fund (AS 19.65.060(a)) be accounted for separately from the program receipts from vessel operations.**

Subsection (j) appropriates interest earned on the Alaska Marine Highway System (AMHS) Fund to the fund. Until FY13, these earnings accumulated in the general fund.

- (k) **The sum of \$39,921,078 is appropriated from the general fund to the regional educational attendance area and small municipal school district school fund (AS 14.11.030).**

Subsection (k) appropriates \$39.9 million to the REAA School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of *Kasayulie vs. State of Alaska*, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 provide a remedy for perceived constitutional violations.

Legislative Fiscal Analyst Comment: *Although created in Ch.93, SLA 2010, this fund did not become effective until July 1, 2012 (FY13). The enabling language is identical to that of the School Construction Fund (AS 14.11.005) and the Major Maintenance Grant Fund (AS 14.11.007), with the exception that guidelines establish the minimum amount to be appropriated for REAA school construction.*

The distinction may be important. Because the legislature's practice is to limit fund transfers as much as possible in order to encourage budget clarity, the appropriations for school maintenance and construction appear as direct general fund appropriations for projects rather than as appropriations to a fund and then from a fund. The unique position of the REAA Fund as a court remedy may make that simplification less than ideal for funding rural school construction. Ideally, there should be a way to identify a fund balance if appropriations for REAA school construction in any year are less than guidelines suggest.

The consent decree for the Kasayulie vs. State case required the Governor to include funding for two REAA schools in his FY13 capital budget. Both the Emmonak school (\$36.1 million) and the Koliganek school (\$24.9 million) were included. Both appropriations eventually used general funds and showed as allocations under the school construction grant fund. Clearly, FY13 appropriations for rural school construction exceeded the \$35.5 million that met the guidelines of AS 14.11.025.

The REAA School Fund was used directly to pay for FY14 school construction in Nightmute (\$33 million) and Kuinerramiut (\$13.2 million). In addition, \$25 million was appropriated from the REAA fund for the Kwethluk school (which is to be replaced in FY15, per the consent decree).

Kwethluk is the number one project on the November 5, 2013 School Construction Grant Fund list. The Governor requested \$31.5 million (which will be combined with the \$25 million from FY14) to replace the facilities.

(l) The interest earned during the fiscal year ending on June 30, 2015, by the regional educational attendance area and small municipal school district school fund (AS 14.11.030), estimated to be \$75,000, is appropriated to the regional educational attendance area and small municipal school district school fund (AS 14.11.030).

Subsection (l) appropriates interest earned on the Regional Educational Attendance Area School Fund to the fund. The fund was established in FY11 as a mechanism for funding rural schools. By statute, interest does not accumulate in the fund; it must be appropriated to it.

(m) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2015, is appropriated to the fish and game fund (AS 16.05.100):

- (1) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15)), estimated to be \$425,000;**
- (2) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)), estimated to be \$5,000;**
- (3) fees collected for sanctuary access permits (AS 16.05.050(a)(15)), estimated to be \$83,000.**

Legislative Fiscal Analyst Comment: *A federal audit found the department in violation of federal rules that require program receipts from projects that used F&G Funds to flow into the F&G Fund.*

(n) The sum of \$20,000,000 is appropriated from the general fund to the renewable energy grant fund (AS 42.45.045(a)).

Subsection (n) appropriates \$20 million from the general fund to the Renewable Energy Grant Fund for energy grant appropriations.

Funding: To date, \$227.5 million has been appropriated to and from the Renewable Energy Fund for projects.

***Legislative Fiscal Analyst Comment:** Funds established for the purpose of making grants 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. The Governor's proposed capital bill appropriates (in section 1) \$20 million from the fund to the Alaska Energy Authority, but does not specify grantees or projects.*

***Legislative Fiscal Analyst Recommendation:** To comply with enabling statutes, the legislature should add a list of grantees to the appropriation bill. Compiling the list of grantees has typically required coordination with the Alaska Energy Authority.*

Deleted Subsection Capitalizing the Power Project Fund

The FY14 operating budget deposited \$10 million into the power project fund, which is a loan fund. The appropriation was contingent on approval by the Alaska Energy Authority of a \$9.1 million loan to the Cordova Electric Cooperative for the Humpback Creek hydroelectric project. The loan was approved on December 5, 2013.

New Subsection

(o) The sum of \$448,000 is appropriated to the Alaska clean water administrative operating account (AS 46.03.034(a)(1)) in the Alaska clean water administrative fund (AS 46.03.034) from the Alaska clean water administrative income account (AS 46.03.034(a)(2)) for the Department of Environmental Conservation's operational and administrative costs necessary to manage the Alaska clean water administrative fund and for such other purposes permitted by federal law.

New Subsection

(p) The sum of \$448,000 is appropriated to the Alaska drinking water administrative operating account (AS 46.03.038(a)(1)) in the Alaska drinking water administrative fund (AS 46.03.038) from the Alaska drinking water administrative income account (AS 46.03.038(a)(2)) for the Department of Environmental Conservation's operational and

administrative costs necessary to manage the Alaska drinking water administrative fund and for such other purposes permitted by federal law.

The Department of Environmental Conservation has been collecting a 0.5% fee on all loans made from the clean water and drinking water funds since December 2000. The June 30, 2013 balances of the income accounts were \$6.7 million and \$3.6 million for the clean water and drinking water administrative funds, respectively.

Beginning in FY15, the department will request an annual appropriation from the income account to the operating account, making money available to administer the clean water and drinking water programs. Because the appropriations in subsections (o) and (p) simply transfer money within the clean water and drinking water administrative funds, no transactions are shown in the budget. Appropriations from the operating accounts to allocations in DEC appear in section 1.

Legislative Fiscal Analyst Recommendation: Increase the amounts in subsections (o) and (p) by \$100,000. The transfers to the operating accounts match the amounts appropriated from the accounts in section 1. Matching amounts will pose a problem in the future as salary adjustments and other adjustments are spread to various fund codes. Because subsections (o) and (p) transfer money within a fund, changing the amounts will not increase the budget.

Sec. 27. RETIREMENT SYSTEM FUNDING. (a) The sum of \$1,881,370,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution for the fiscal year ending June 30, 2015.

(b) The sum of \$1,118,360,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution for the fiscal year ending June 30, 2015.

The appropriations in **subsections (a) and (b)** include amounts determined by the state's actuaries for the public employees (PERS) and teachers (TRS) retirement systems. They also include substantial deposits in excess of the annual required contribution as determined by the state's actuaries.

Legislative Fiscal Analyst Comment: During recent years, Alaska's public 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.

Because the State caps employer contribution rates—and makes direct contributions to retirement accounts to bring total contributions to the actuarially required amount—the general fund cost of paying off the unfunded liability is substantial and is increasing rapidly.

The unspecified amount of extra contributions in subsections (a) and (b) are part of the Governor's plan to reduce future general fund costs by capping annual state assistance payments to the retirement plans.

Funding: *Because the FY15 appropriations are from the Constitutional Budget Reserve Fund, they do not appear as general fund appropriations. After FY15, the Governor proposes a return to the use of general funds for assistance payments.*

Legislative Fiscal Analyst Recommendation: *Because a supermajority vote is required to access the Constitutional Budget Reserve Fund (CBRF) for this purpose, the legislature may wish to individually identify the required contribution amounts and the “extra” contributions. Doing so may facilitate changes to fund sources and/or amounts that might be required if the Governor's plan is not accepted as proposed.*

Per the Governor's plan to use \$3 billion from the CBRF to fund retirement systems, the amount in subsection (b) should be changed to \$1,118,630. The amount of the transaction for the deposit is correct; the amount shown in (b) is a typographical error.

If the CBRF is used for this purpose, the amount appropriated in section 1 from the general fund for management fees associated with the CBRF (\$3.1 million in FY14) should be reduced.

(c) The sum of \$5,241,619 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, 2015.

A \$49 million FY08 supplemental appropriation to the Judicial Retirement Fund was designed to eliminate the accumulated unfunded liability of the system. Large investment losses in FY09 re-opened the unfunded liability gap. The unfunded liability is now estimated to be \$65 million.

Legislative Fiscal Analyst Comment: *In the 2012 session, the legislature appropriated \$50 million to eliminate the unfunded liability of the judicial retirement system (thereby eliminating the associated 25-year stream of annual payments to pay off the unfunded liability). The Governor vetoed the appropriation.*

New Subsection

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

A supermajority vote is required to appropriate money from the reserve fund, as is proposed in subsections (a) and (b).

Sec. 28. 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, 2015, of the following ongoing collective bargaining agreements:

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

Subsection (a) appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1. The list changes from year to year, depending on which employees are affected by salary and benefit adjustments.

(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, 2015, for university employees who are not members of a collective bargaining unit and to implement the terms for the fiscal year ending June 30, 2015, of the following collective bargaining agreements:

- (1) University of Alaska Federation of Teachers;**
- (2) Fairbanks Firefighters Union, IAFF Local 1324.**

Subsection (b) appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

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

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

Subsections (a) and (b) are routinely amended as various bargaining units reach agreement.

Sec. 29. SHARED TAXES AND FEES. (a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated to the Department of Revenue from the general fund for payment to local governments and other entities in the fiscal year ending June 30, 2015:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	2014	\$25,400,000
Fishery resource landing tax (AS 43.77)	2014	6,700,000
Aviation fuel tax (AS 43.40.010)	2015	200,000
Electric and telephone cooperative tax (AS 10.25.570)	2015	4,100,000
Liquor license fee (AS 04.11)	2015	900,000
Cost recovery fisheries (AS 16.10.455)	2015	1,500,000

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

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

(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 2014 according to AS 43.52.230(b), estimated to be \$11,200,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2015.

Subsection (b) appropriates \$11.2 million of Commercial Vessel Passenger “Head” Tax receipts to the first seven ports of call.

Funding: Revenue distributed to the ports totaled \$14.5 million for FY13 and is expected to be about \$15.4 million in FY14 and \$11.2 million in FY15. These “pass-through” taxes are excluded from Legislative Finance reports on the operating bill.

Legislative Fiscal Analyst Comment: *The legislature amended the statutes for the Commercial Vessel Passenger Head Tax effective October 31, 2010. The head tax was reduced from \$46 to \$34.50, with \$5 shared with the first 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 less revenue available for funding port and harbor projects. \$1.5 million of the \$3.2 million (with carryforward) available for funding ports and harbors was appropriated for that purpose in FY14. The amount available in FY15 for funding capital projects is expected to be about \$6.7 million (with carryforward).

Deleted Subsection

The Governor’s request deletes the following language that was included in operating bills in recent years:

(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.

The language is intended to allow a municipality to avoid a situation in which cash flows to a local government and then back to the state.

Legislative Fiscal Analyst Recommendation: *As written, the language allows a local government to choose whether to pass money back and forth or to net out the cash flows.*

The legislature may wish to consider adding stronger language that applies to revenue sharing and school debt reimbursement as well as to shared taxes. The language could allow the state to withhold payments to local governments and apply the withholding to balances owed to the state for retirement contributions and other purposes.

Sec. 30. AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009. (a) The unexpended and unobligated balance on June 30, 2014, 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 administration and operation of departmental programs, for the fiscal year ending June 30, 2015.

(b) The unexpended and unobligated balance on June 30, 2014, 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 administration and operation of departmental programs, for the fiscal year ending June 30, 2015.

Section 30 extends the lapse date—through the end of FY15—of FY14 operating authorization associated with the American Recovery and Reinvestment Act of 2009. There is no new ARRA money included in the Governor's FY15 request.

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, 2015, 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.

Section 31 allows departments to use money appropriated for FY15 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

Sec. 32. BUDGET RESERVE FUND. If the unrestricted state revenue available for appropriation in the fiscal year ending June 30, 2015, is insufficient to cover general fund appropriations made for the fiscal year ending June 30, 2015, the amount necessary to balance revenue and general fund appropriations or to prevent a cash deficiency in the general fund is appropriated from the budget reserve fund (AS 37.05.540(a)) to the general fund.

Section 32 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 brought the balance to about \$5.2 billion, and a \$776.4 million draw from savings in FY13 left a balance of about \$4.7 billion at the end of FY13. Unlike the Constitutional Budget Reserve Fund (CBRF), the SBR can be accessed with a simple majority vote.

Funding: The estimated value of this appropriation is at least \$1.1 billion.

Legislative Fiscal Analyst Comment: *The FY14 estimated draw from savings is \$1.9 billion, reducing the balance of the SBR to approximately \$2.8 billion. The Governor's FY15 budget request leaves a deficit of \$1.1 billion. That number does not include the following:*

- *Approximately \$700 million of general fund assistance to public retirement systems. The Governor proposes using the Constitutional Budget Reserve Fund for this purpose. If the proposal fails to receive a supermajority vote from the legislature, the assistance would presumably come from the general fund.*
- *Any general funds for capital projects added by the legislature.*

Sec. 33. LAPSE OF APPROPRIATIONS. The appropriations made by secs. 8(c), 9, 10(b), and 25 - 27 of this Act are for the capitalization of funds and do not lapse.

Section 33 ensures that money deposited into various funds will not lapse if not expended during FY15.

Sec. 34. RETROACTIVITY. The appropriation made in sec. 12(h)(1) of this Act and those portions of the appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2014 program receipts or the unexpended and unobligated balance on June 30, 2014, of a specified account are retroactive to June 30, 2014, solely for the purpose of carrying forward a prior fiscal year balance.

Section 34 ensures that unexpended receipts and balances carry forward into FY15 before they lapse.

Sec. 35. Section 26(e) of this Act takes effect December 1, 2014.

Section 35 refers to the deposit to the Public Education Fund intended to fund FY16 K-12 formula costs. The delayed date was chosen for cash-flow purposes.

Sec. 36. Except as provided in sec. 35 of this Act, this Act takes effect July 1, 2014.

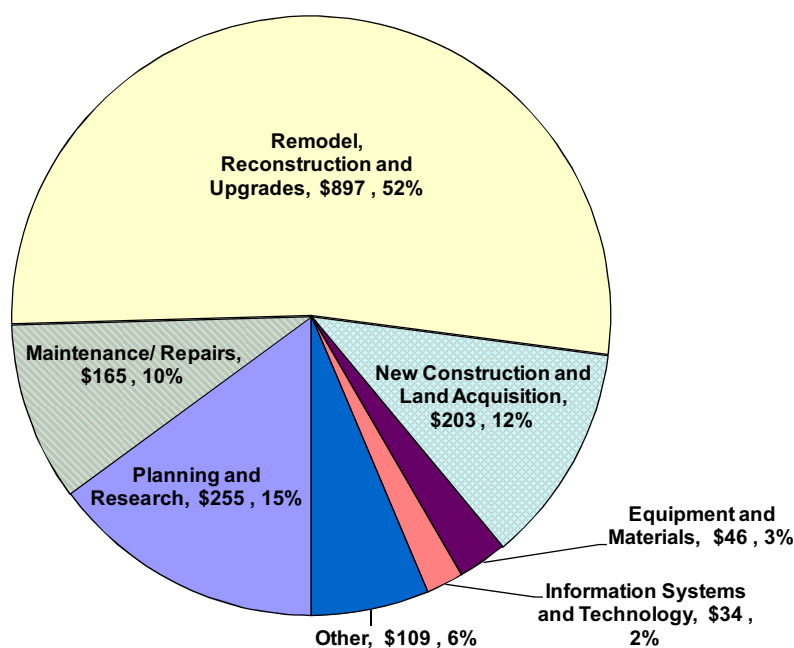
Capital Budget

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Capital Budget

The Governor has proposed a capital budget of \$1.71 billion (\$1.67 billion of non-duplicated funds) for FY15. The budget includes \$426.3 million of unrestricted general funds, \$106.0 million of designated general funds, \$84.1 million of other state funds and \$1,091.8 million of federal funds. The pie chart below provides a categorical breakdown of the proposed capital spending plan.

Capital Project Categorization
(All Funding Sources in Millions)



CONSTRUCTION - \$1.1 BILLION

Construction projects—both new and reconstruction—comprise 64% of the Governor's proposed capital budget. New construction involves adding infrastructure (square footage) to the state's capital stock, and typically includes road extensions, runway extensions, and new buildings. Reconstruction involves modifying or improving existing roads or space and comprises the majority of capital construction.

As might be expected, the DOT&PF budget contains most of the construction projects. The Surface Transportation Program and the Airport Improvement Program (along with associated state match) total \$702 million of the \$897 million in construction projects. Other substantial construction projects/ programs include the following:

- **Kwethluk K-12 School Replacement (Kasayulie settlement) - \$31.5 million;**
- **Village Safe Water Projects (New First Time Service) - \$30.9 million;**
- **Village Safe Water Expansion/ Upgrades (Existing Service) - \$21 million;**

- **AHFC Weatherization and Home Energy Rebates - \$29 million;**
- **State Library, Archives and Museum Facility - \$15 million.** The SLAM has received \$103 million to date, and including this request, needs an additional \$37.2 million to fund the guaranteed maximum bid for completion;
- **UAA and UAF Engineering Buildings - \$10 million each.** The UAA and UAF Engineering Buildings have received a total of \$77.6 and \$65.3 million, respectively. Unrestricted General Funds necessary for completion is estimated at \$45.6 million for UAA, and \$33.3 million for UAF. Both of those figures include the \$10 million per building proposed by the Governor; and
- **Blood Bank of Alaska Facilities Expansion - \$7 million.** During the last five years, the Blood Bank has received a total of \$26.2 million from the state for its facilities expansion project. Along with its own secured funding of \$3.05 million, they have a total of \$29.25 million. The project is estimated to cost a total of \$51.5 million, and with the Governor's proposed \$7 million, there remains a shortfall of \$15.25 million.

MAINTENANCE/REPAIRS - \$165 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 10% of the Governor's total capital budget.

In January of 2007, the Legislative Finance Division compiled a list that showed a state-wide deferred maintenance backlog of \$954 million. By January of 2012, the backlog totaled approximately \$2.3 billion. The Governor announced a plan in the FY11 budget proposal to reduce the backlog by spending \$100 million of general funds each year for five years. The legislature has funded nearly all of the first four years of the plan (see table below). The Governor's FY15 capital bill contains \$100 million for year five.

	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year
	FY11	FY12	FY13	FY14	FY15 Gov	Total
Administration	7,250.0	7,250.0	7,250.0	7,017.0	7,250.0	36,017.0
Corrections	6,500.0	5,000.0	5,000.0	4,840.0	5,000.0	26,340.0
Education & Early Development	1,700.0	1,700.0	1,700.0	1,845.0	1,700.0	8,645.0
Environmental Conservation	200.0	200.0	200.0	-	200.0	800.0
Fish and Game	2,000.0	1,400.0	1,400.0	1,355.0	1,400.0	7,555.0
Health and Social Services	7,000.0	7,000.0	7,000.0	6,774.0	7,000.0	34,774.0
Labor & Workforce Development	1,000.0	1,000.0	1,000.0	968.0	1,000.0	4,968.0
Military and Veterans Affairs	4,000.0	4,000.0	4,000.0	3,872.0	4,000.0	19,872.0
Natural Resources	4,000.0	4,000.0	4,000.0	3,872.0	4,000.0	19,872.0
Public Safety	1,350.0	1,350.0	1,350.0	1,307.0	1,350.0	6,707.0
Transportation & Public Facilities	25,000.0	27,100.0	27,100.0	26,230.0	27,100.0	132,530.0
University of Alaska	37,500.0	37,500.0	37,500.0	30,000.0	37,500.0	180,000.0
Court System	2,500.0	2,500.0	2,500.0	2,420.0	2,500.0	12,420.0
Total	100,000.0	100,000.0	100,000.0	90,500.0	100,000.0	490,500.0

Most recent estimates by the Office of Management and Budget continue to show a deferred maintenance **backlog totaling just over \$2 billion** (see table below).

Deferred Maintenance Backlog by Agency (millions)					
	Jan-11	Jan-12	Jan-13	Nov-13	Difference Jan-13 to Nov-13
Administration	80.6	50.3	48.7	59.3	10.6
Corrections	88.8	102.9	87.4	74.6	(12.8)
Court System	12.6	9.8	8.1	6.8	(1.3)
Education & Early Development	30.0	20.5	12.6	16.7	4.1
Environmental Conservation	0.2	0.2	-	0.2	0.2
Fish and Game	4.4	3.1	2.0	1.4	(0.6)
Health & Social Services	18.8	19.2	17.1	25.2	8.1
Labor & Workforce Development	49.2	49.0	31.5	21.3	(10.2)
Military & Veterans Affairs	25.8	50.0	27.9	46.5	18.6
Natural Resources	83.0	69.1	74.1	75.5	1.4
Public Safety	2.7	6.7	6.7	6.2	(0.5)
Transportation & Public Facilities	454.3	751.4	673.8	515.2	(158.6)
Airports	83.5	54.7	49.2	50.2	1.0
Harbors	19.1	15.5	16.0	15.9	(0.1)
Facilities	24.7	39.4	33.1	32.8	(0.3)
Highways	305.9	624.9	558.7	403.9	(154.8)
AMHS Vessels/Terminals	21.1	16.9	16.8	12.4	(4.4)
University of Alaska	773.4	1,185.8	1,200.7	1,203.0	2.3
Total	1,623.8	2,318.0	2,190.6	2,051.9	(138.7)

Several points are worth mentioning in this regard.

1. With a consistent funding stream and focus on deferred maintenance, agencies have become better at identifying and estimating the cost of projects. With sustained funding, the expectation is that the backlog will decrease. Initially, however, the backlog has increased as a result of improved agency processes and estimates.
2. As projects are addressed and removed from the backlog, new projects are identified and added. The net change is unknown.
3. Even assuming zero growth in new projects, the existing backlog will cost more to address over time as inflationary pressures increase the cost of construction. Furthermore, the longer projects are delayed, the further in disrepair they become and the more they cost to complete.
4. Assuming the \$2 billion backlog, a modest 2.5% inflation on the cost of construction, zero new growth in the backlog of projects, and an annual \$100 million appropriation, it would take almost 30 years to address the entire backlog.
5. If we were to exclude highways, assuming those costs will be addressed with Federal-Aid Highway funds through the STIP (a common occurrence), the backlog would drop by roughly 20% and could be addressed in 20 years.

The numbers in the deferred maintenance backlog should be considered gross approximations. 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.

“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.”

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? 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 - \$255 MILLION

Another 15% of the budget falls into the planning and research category. These projects involve planning, design, and engineering prior to construction and any projects involving research and study. Significant state funded projects under this category include:

- **Susitna-Watana Hydroelectric Project - \$10 million.** \$173.3 million has been appropriated through FY14 with current projections estimating a need for an additional \$327 million (including the \$10 million in the Governor’s budget) to complete licensing, engineering and design for the project through FY17 (the estimated total project cost is \$5.2 billion).
- **Ambler Mining District Access Project - \$8.5 million.** This project will provide access for exploration and development of potential mineral resources within the Ambler mining district. \$17.75 million has been appropriated to date.
- **Chinook Initiative - \$10 million UGF.** This project will continue to implement the Department of Fish and Game’s Chinook salmon research plan, developed in response to significant declines in Chinook salmon returns statewide. \$7.5 million was appropriated for FY14 to begin this initiative.

Other non-state funded planning appropriations include the federal highway and airport pre-construction appropriations. At \$65 million and \$10 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 typically include network upgrades, 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. Significant state funded projects under this category include:

- **Alaska Railroad Corporation (ARRC) Positive Train Control - \$15 million.** In an effort to maximize passenger safety, the Federal Government has required ARRC to equip every locomotive with computer systems for monitoring and regulating speeds through given sections of track and monitoring other trains to prevent collisions and derailments. \$19.1 million was added to the capital budget during the 2013 session, and it is estimated that approximately \$69.7 million will be needed through FY18.
- **Electronic Filing/ Records Management System - \$4.4 million.** \$9.1 million has been appropriated to date for the implementation of a digital filing and records management system for the Alaska Court System. Another \$6.4 million is estimated to be needed for project completion.

EQUIPMENT/MATERIALS - \$46 MILLION

This category, totaling 3% of the request, contains projects involving the purchasing of equipment and materials. Significant projects include:

- State Equipment Fleet replacement - \$15 million;
- Various rural and international airport snow removal and safety equipment - \$8.8 million;
- Trooper and VPSO Equipment - \$1.5 million; and
- Federal Transit Administration Grants (buses) - \$10 million.

OTHER - \$109 MILLION

The “Other” category, at 6% 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, 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 recent years to remove operating items from the capital budget.

Notable projects in the “Other” category include:

- Alaska Digital Teaching Initiative Demonstration Project - \$5 million;
- Intensive Game Management Research and Implementation - \$4 million;
- Habitat Enhancement for Wildlife - \$1 million;

- Clean and Drinking Water Subsidy Funding - \$3.1 million;
- State Homeland Security Grants - \$4.5 million;
- AHFC Homeless Assistance Program - \$8 million;
- DOT&PF Statewide Safety Program - \$21.5 million; and
- DOT&PF Whittier Tunnel Maintenance and Operations - \$2.5 million.

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.

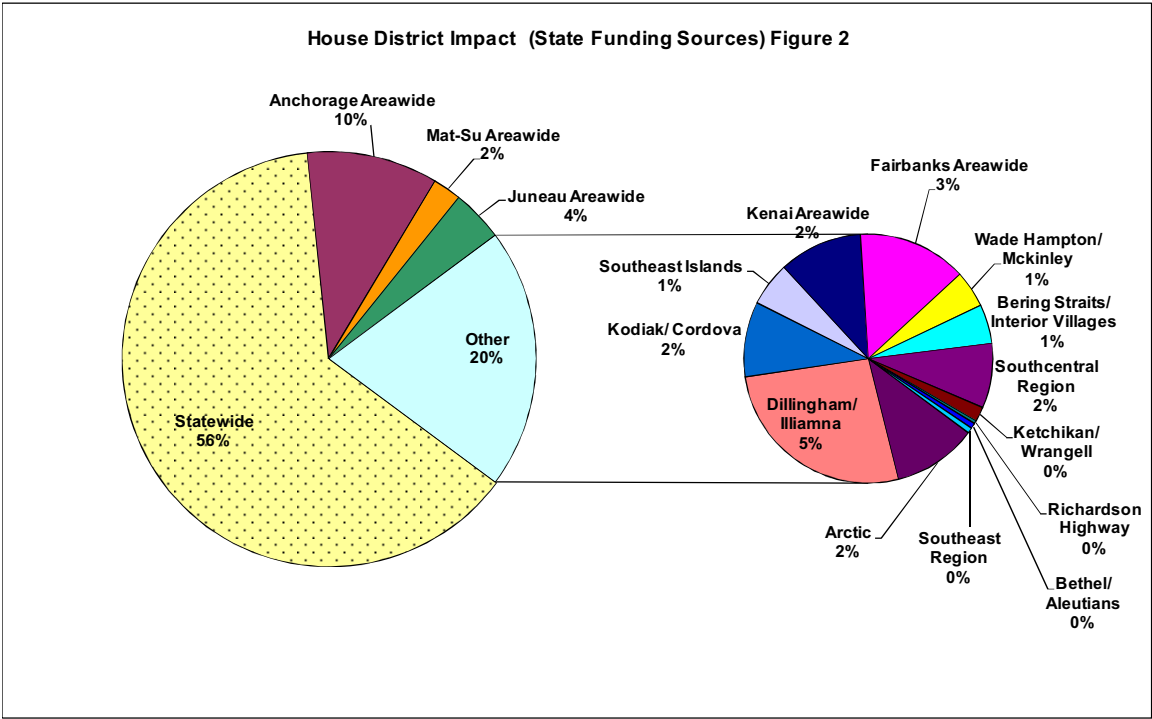
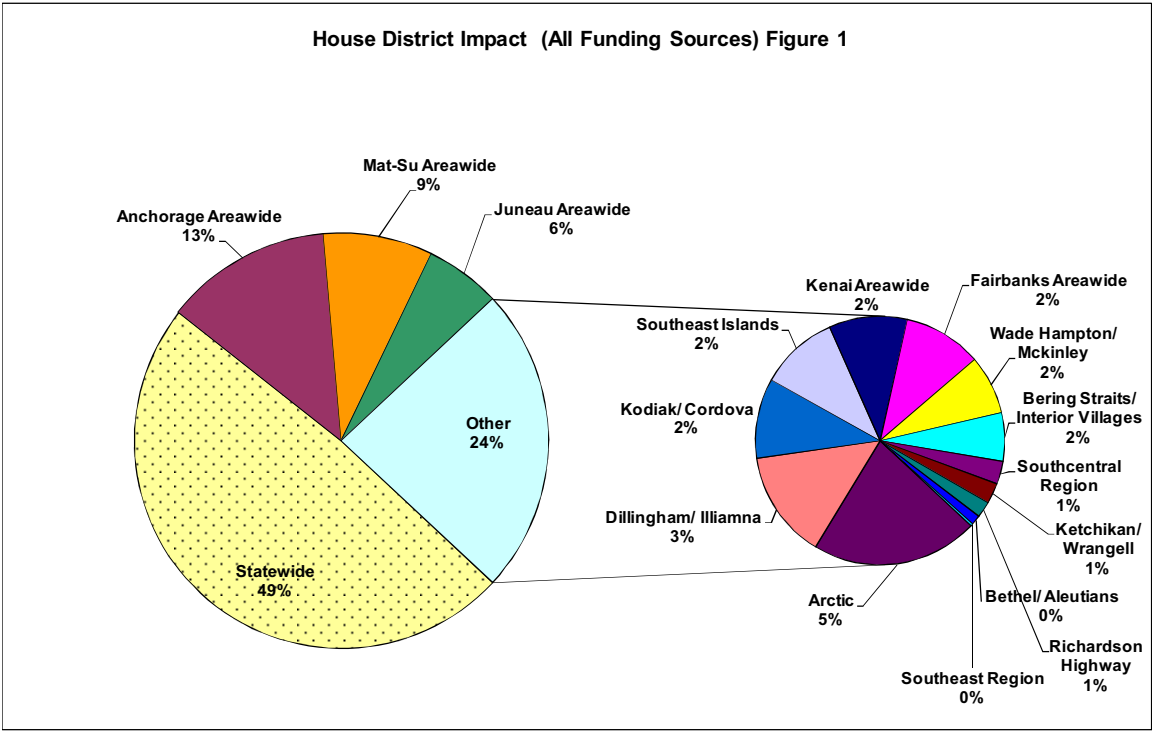
The rules used to define the projects in each group are provided in the table below.

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

Distribution by House District

Figures 1 and 2 (next page) show the proportional breakdown of the Governor's capital request by house district on an "impact" basis.¹ Figure 1 contains all funding sources, while Figure 2 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 page 82 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.

¹ 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.



Capital Budget Summary

(\$ Thousands)

Agency Comparison - All Funds (Includes MH)				FY15 Governor's Budget by House District				
Agency	FY14 Budget (1)	FY15 Gov	Change FY14-FY15	House District	HD #	General Funds	Other State Funds	Federal Funds
Administration Commerce, Community & Econ Dev Corrections	64,875.9	12,700.0	(52,175.9)	Fairbanks Areawide	1-5	16,548.2	1,147.4	23,866.2
	427,781.4	106,545.0	(321,236.4)	Richardson Highway	6	550.0	-	8,200.0
	6,565.0	5,000.0	(1,565.0)	Mat-Su Areawide	7-11	13,468.6	-	132,180.0
Education and Early Development Environmental Conservation	138,016.5	53,216.9	(84,799.6)	Anchorage Areawide	11-27	26,796.6	36,447.1	159,083.3
	79,573.2	69,347.7	(10,225.5)	Kenai Areawide	28-30	13,567.0	-	28,000.0
Fish and Game Office of the Governor	17,605.0	20,700.0	3,095.0	Southcentral Region	7-30	10,500.0	-	1,500.0
	-	-	-	Juneau Areawide	31-32	25,097.2	-	75,450.0
Health and Social Services	60,445.0	9,626.6	(50,818.4)	Ketchikan/ Wrangell	33	2,360.7	-	8,501.5
Labor and Workforce Development Law	6,968.0	9,170.0	2,202.0	Southeast Islands	34	7,127.9	-	34,800.0
	1,800.0	-	(1,800.0)	Southeast Region	31-34	888.0	-	318.0
Military and Veterans Affairs Natural Resources	28,751.5	30,503.1	1,751.6	Kodiak/ Cordova	35	12,217.0	-	30,085.0
	32,242.5	27,655.0	(4,587.5)	Dillingham/ Iliamna	36	33,200.8	-	24,165.9
Public Safety	6,082.0	7,050.0	968.0	Bethel/ Aleutians	37	850.0	-	4,182.0
Revenue	105,953.0	90,170.1	(15,782.9)	Wade Hampton/ Mckinley	38	6,000.0	-	25,362.5
Transportation & Public Facilities University of Alaska	978,093.5	1,182,176.4	204,082.9	Bering Straits/ Interior Villages	39	6,376.4	-	19,405.0
	33,888.7	77,500.0	43,611.3	Arctic	40	13,720.0	-	75,025.0
Alaska Court System	15,120.0	6,900.0	(8,220.0)	Statewide	1-40	343,068.9	46,489.5	441,715.3
Legislature	250.0	-	(250.0)					
Fund Capitalization (2)	27,000.0	-	(27,000.0)					
Total Capital - "Money on the Street" (3)	2,031,011.2	1,708,260.8	(322,750.4)	Total		532,337.1	84,084.0	1,091,839.8
Unrestricted General Funds	796,179.1	426,290.2	(369,888.9)	Unrestricted General Funds		426,290.2	-	-
Designated General Funds	212,750.5	106,046.9	(106,703.6)	Designated General Funds		106,046.9	-	-
Other State Funds	93,080.9	84,084.0	(8,996.9)	Other State Funds		-	84,084.0	-
Federal Funds	929,000.7	1,091,839.8	162,839.1	Federal Funds		-	-	1,091,839.8

Notes:

- 1) The FY14 Budget column includes approved RPL's through the 1/13/2014 meeting of the Legislative Budget and Audit Committee.
2) Fund Capitalization refers to funding appropriated to a program not requiring further appropriation for expenditure (e.g.- AGIA Reimbursement Fund).
3) "Money on the Street" is the total amount of funding for capital projects. Duplicated fund sources are not removed because doing so would understate the amount of funding going toward capital projects.

Language Sections of the Governor's FY15 Capital Budget

Sec. 4. FEDERAL AND OTHER PROGRAM RECEIPTS. (a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation, that are received during the fiscal year ending June 30, 2015, 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 under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2015, 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 under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2015, 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. Similar language in the operating budget applies only to operating authorizations.

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. The Legislative Finance Division reports no dollar value on appropriations made in this section.

Subsection (b) permits state funding authorization to be reduced if unanticipated non-state funding is received for projects funded by state 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.

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

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

Section 5 allows an agency to receive insurance claim settlement payments directly from a third party. Without this provision, settlements would remain in the general fund and would not be available to offset an agency's loss without a specific appropriation.

Sec. 6. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM. 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, 2014, estimated to be \$2,800,000, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

Section 6 appropriates the entire amount received (estimated at \$2.8 million for FY15) 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, 0.5% 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. Grantees are typically selected during the session and a list is often submitted as part of the amendment process.

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. 7. LAPSE. (a) The appropriation made in sec. 6 of this Act is for capital projects and lapses under AS 37.25.020.

(b) The appropriation made in sec. 5(1) of this Act is for the capitalization of funds and does not lapse.

Legislative Fiscal Analyst Recommendation: Add language similar to that included in recent capital bills to make it clear to departments that named-recipient grants should be classified as capital grants.

“A grant awarded in this Act to a named recipient under AS 37.05.316 is for a capital project and lapses under AS 37.25.020.”

Legislative Fiscal Analyst Recommendation: Add intent language to the effect that capital project reports required by AS 37.25.020, and AS 37.07.060(b)(3)(B) should be provided to the legislature and should include the following information for each capital project:

1. Agency under which the project is recorded;
2. Year and amount of original appropriation;
3. Years and amounts of additional appropriations;
4. Expenditures for each fiscal year through the most recently completed year;
5. Estimated amount required to complete the project;
6. Anticipated completion date of the project; and
7. Balance available for lapse.

For each project with no expenditures during the most recently completed fiscal year, agencies should provide a statement showing the amount lapsed at the end of the most recently completed fiscal year or describe reasons the project was not terminated.

Sec. 8. This Act takes effect July 1, 2014.

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Agency Narratives and Funding Summaries

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Department of Administration

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$111,847.6			
FY14 Fiscal Notes	-			
CarryForward	214.8			
Misc Adjustments	-			
Agency Transfers	284.2			
Vetoed	(636.7)			
FY14 Management Plan (GF only)	\$111,709.9	(\$137.7)	-0.1%	
One-time Items Removed	(499.0)			
Agency Transfers	201.1			6
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(237.9)			5
FY15 Contractual Salary Increases	540.9			
FY15 Adjusted Base Budget (GF only)	\$111,715.0	\$5.1	0.0%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	654.6			
FY15 Governor's Agency Request (GF only)	\$112,369.6	\$654.6	0.6%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			\$654.6	
Administrative Hearings	501.7	470.9	(30.8)	
Finance	6,813.9	6,608.3	(205.6)	
Retirement and Benefits	161.1	161.0	(0.1)	
Lease Administration	130.4	0.0	(130.4)	
Facilities	1,027.0	1,157.4	130.4	
Enterprise Technology Services	1,681.7	1,679.0	(2.7)	
Alaska Oil & Gas Conservation Commission	6,509.2	7,259.2	750.0	2
Public Defender Agency	25,661.1	25,654.0	(7.1)	
Alaska Public Offices Commission	1,542.1	1,617.3	75.2	3
Motor Vehicles	16,353.7	16,429.4	75.7	4
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	222,407.0	227,727.2	5,320.2	1
Federal Funds (all allocations)	3,799.1	3,799.1	-	
Total Non-General Funds (all allocations)	\$226,206.1	\$231,526.3	\$5,320.2	
Position Changes (From FY14 Authorized to Gov)	1,131	1,122	(9)	5
PFT	1,051	1,052	1	
PPT	19	15	(4)	
Temp	61	55	(6)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	7,250.0	-	7,250.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	5,450.0	-	5,450.0	
Other	-	-	-	
TOTAL CAPITAL	\$12,700.0	\$0.0	\$12,700.0	

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. The department's core services are as follows:

- legal, advocacy, and regulatory services;
- family support; and
- enterprise support services.

Direct public services are provided through the Division of Motor Vehicles; 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).

BUDGET SUMMARY

The FY15 Department of Administration general fund operating budget submitted by the Governor is \$654.6 above the FY15 Adjusted Base [(\$246.3) Unrestricted General Funds (UGF) and \$900.9 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. Health Plans Administration – Third Party Administrator Contract Increase for New Health Contract: \$5.5 million Group Health and Life Benefits Fund (Other).** The new AlaskaCare contracts for third party administrator (TPA) services became effective on January 1, 2014. The Request for Proposals issued for this contract followed the recommendation of the department's Health Consultant and separated the TPA services into four major components: Medical Claims Administration and Managed Network, Healthcare Management, Pharmacy Benefit Management, and Dental Claims Administration and Managed Network. Aetna, winner of three components, and Moda Health (formerly Oregon Dental Services), winner of the dental component, are the new contractors. With the assistance of the department's Health Consultant, the department estimates the additional cost of \$5.5 million for the new contracts and an increase in the number of lives covered. Actual service fees for each contract will be computed and a budget amendment may be offered.
- 2. Alaska Oil and Gas Conservation Commission (AOGCC)**
 - **Petroleum Measurement Technical Support: \$750.0 AOGCC Receipts (DGF).** The AOGCC is currently soliciting proposals for professional petroleum measurement technical consulting support in examining custody transfer and well testing and allocation metering applications submitted by operators to the AOGCC, analysis of current industry standards for petroleum measurement practices, revisions to AOGCC regulations and industry guidance documents, development of petroleum measurement inspection procedures, and training of AOGCC staff with new measurement technologies. Due to the recent increase in new developments in Alaska and the aging of the equipment in the existing fields, AOGCC has been

receiving a large number of applications to install or alter custody transfer measurement equipment and facilities for well testing and allocation purposes. This increment will allow the AOGCC to contract with an expert in petroleum measurement to conduct technical reviews and make recommendations to the AOGCC. Additionally, the AOGCC would like this expert to assist in updating regulations, develop a more robust petroleum measurement inspection program, and train AOGCC staff in some of the newer technologies in the oil and gas industry.

- **Settlement of Claims Against Reclamation Bonds: \$50.0 SDPR (Other).** This new language in the Governor's request will provide the authority for reclamation of state land by utilizing bonding funds if necessary.

Legislative Fiscal Analyst Comment: In FY13, AOGCC was working with an operator to assure they met the regulations outlined in 20 AAC.25 and were having some difficulty. The department thought it may be necessary to collect on their performance bond but the only language in the bill was in reference to the Department of Natural Resources; therefore, the Governor's request includes similar language for AOGCC in FY15. The \$50.0 is an estimate.

3. **Alaska Public Offices Commission (APOC) – Add GF/PR to Fully Realize Receipts Related to Lobbyist Registration: \$75.2 GF/Program Receipts (DGF).** The APOC anticipates an increase in staff overtime to meet statutory timelines for all complaints and advisory opinion requests. This increment would allow APOC to spend lobbyist registration receipts. APOC is held to a timeline of one day to accept or reject all complaints and advisory requests. When filers request expedited consideration (generally during an election period), the Commission must turn the request around within two days. APOC must provide a staff report within 30 days of receiving a complaint and respond within seven days of accepting a request for an advisory opinion request.
4. **Motor Vehicles – Maintenance and Software Expenditures: \$78.0 GF/Program Receipts (DGF).** Motor Vehicles includes two increments for the following enhancements:
 - **Maintenance Contract for Drivers' License Testing System – \$50.0 GF/PR.** This increment funds an annual maintenance fee for the new Knowledge Test System (KTS). AS 28.15.081 requires DMV to examine every applicant's knowledge of traffic laws, driving safety, and the effects of drinking and driving. The existing testing system is available in 13 of 31 offices, and those offices without a KTS must administer a paper test, which is then scored manually by DMV clerks who enter the data into a web-based program. Capital project funds have already been approved for a new KTS replacement and invitations to bid will be initiated in FY14. However, DMV does not have authority to spend receipts to cover an annual maintenance fee for the software needed to run this system.
 - **Automation of the Vehicle Identification Number (VIN) Decoder to Improve Services – \$28.0 GF/PR.** The Division of Motor Vehicles is requesting \$28.0 to purchase VIN decoding software. Currently, DMV processes approximately 750,000 vehicle transactions a year and multiple pieces of information must be manually entered for each vehicle. VIN decoding software would allow a VIN number to be entered with the remaining information to populate automatically. Use of this software will not only decrease data entry time and errors, it will improve the accuracy of the data reported to the National Motor Vehicle Title Information System (NMVTIS).

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 5. Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Administration are shown below.

Description	Funding Amount	Fund Group
Position Deletions	(\$246.3)	UGF
<ul style="list-style-type: none"> 5 PFT positions/ 5 Temp positions 	(\$2.3)	DGF
	(\$360.6)	Other
Health Insurance and Working Reserve Rate Decreases	(\$187.3)	UGF
<ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(\$50.6)	DGF
	(\$157.0)	Other
<ul style="list-style-type: none"> Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$1.1)	Fed

OTHER ISSUES

- 6. Transfer Responsibility for the Nome Office Building from Department of Transportation & Public Facilities: \$201.1 UGF.** The Nome Office Building has historically been managed by the Department of Transportation and Public Facilities. In FY14, the management of the building and funding for operations is being transferred to the Department of Administration, Division of General Services.
- 7. Legal & Advocacy Appropriation.** Steady workload increases each year for the last 25 years have generated incremental and supplemental funding needs for the Office of Public Advocacy and the Public Defender Agency. No additional increases related to workload have been requested in the initial FY15 Governor's request. Amendments may follow; as stated by the department, "due to the inherently unpredictable nature of the caseload, it is a significant challenge for the Office of Public Advocacy to maintain and provide the core services to clients as efficiently as possible while operating within budgetary parameters." As a "down flow" agency, it reacts to the actions of the other state agencies and systems (including the Office of Children's Services, Adult Protective Services, the Attorney General Human Services Section, the District Attorney's Office, the Court System, and other public and private entities). The Public Defender Agency is in a similar circumstance as they continue to experience increases in court appointments across the state. "The increase in caseload continues to present substantial challenges regarding document processing, client communication, and case review and preparation." Additionally, the Department of Law has implemented a new plea agreement policy that is expected to increase case processing costs in the short term.
- 8. Bargaining Unit Negotiations.** According to the department, the state expects to reach agreement with five bargaining units in FY14 which will be implemented in FY15. Funding for these agreements will be requested later in the legislative session. These units are as follows:
- Alaska Vocation Technical Center Teachers' Association (AVTECTA);
 - Inlandboatmen's Union of the Pacific (IBU);

- Marine Engineers' Beneficial Association (MEBA);
- Masters, Mates and Pilots (MM&P); and
- Public Safety Employees Association (PSEA).

Negotiations for successor agreements for three other bargaining unit contracts will begin in FY15 with implementation in FY16 (Alaska Correctional Officers Association – ACOA; Teachers' Education Association of Mt. Edgecumbe—TEAME; and Labors, Trades and Crafts, Local 71—LTC).

ORGANIZATIONAL CHANGES

Overall, there are no significant organizational or structural changes requested. For clarity, two small allocations funded by interagency receipts were eliminated – General Services Facilities Maintenance and ETS Facilities Maintenance.

CAPITAL REQUEST

The Governor's FY15 Department of Administration capital budget includes four projects and totals \$12.7 million of state funds (\$8.45 million UGF/ \$1.25 million DGF/ and \$3.0 million Other funds). Significant projects are highlighted below:

- **Enterprise Technology Services (ETS) – Uninterrupted Power Supply (UPS) Replacement for Juneau Data Center: \$1.2 million UGF.** This project will replace an obsolete UPS device and add an automatic failover system to the enterprise Juneau Data Center UPS complex. Industry best practices require that ETS configure the UPS complex so that if one UPS fails, the load transfers to the remaining UPS. The current, older UPS that is installed is not capable of this technology upgrade.
- **Motor Vehicles – Replace Outdated Information Technology Infrastructure: \$900.0 GF/PR (DGF).** This project will replace outdated and out of warranty DMV servers and storage devices and ensure DMV services are not interrupted or unavailable due to hardware failures. The enhancements will ensure that Alaskans at home, traveling or deployed by the military around the world can access DMV services at any time.
- **Motor Vehicles – Real-Time Driving Records: \$350.0 GF/PR (DGF).** The addition of a DMV real time driving record system will change insurance companies' access to Alaskan drivers' records and will allow for insurance quotes to be given on the same day via real-time updates. This project also affords other authorized organizations real-time access to Alaska driving records.
- **Statewide Deferred Maintenance, Renewal, Repair and Equipment Projects: \$7.25 million UGF and \$3 million Public Building Fund (Other).** Additional funding is needed for projects that are 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 (SATS) infrastructure and Enterprise Technology Services (ETS) facilities.

RETIREMENT APPROPRIATIONS

STATE ASSISTANCE TO RETIREMENT: \$3 Billion Total [\$5.2 million UGF/ \$3 Billion CBR Fund (Other)]—Section 27 Governor's Operating Budget Bill. The Governor has proposed a one-time \$3 billion appropriation from the Constitutional Budget Reserve (CBR) (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Administration for deposit in the defined benefit plan accounts of the public employees and teachers retirement systems. This will enable annual state retirement assistance appropriations to stabilize at \$500 million per year in the future and will increase the funding ratios by 10%. As in previous years, direct appropriations for costs associated with these systems are segregated from the department's budget in order to avoid overstating the Department of Administration's budget. The FY15 total in direct assistance to retirement is \$3,005,241.6.

Legislative Fiscal Analyst Comment: *A typographical error in the bill needs to be corrected in order to appropriate the intended amount. The bill appropriates \$270,000 less than intended.*

Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$139,617.1			
FY14 Fiscal Notes	253.1			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	220.5			
Vetoed	-			
FY14 Management Plan (GF only)	\$140,090.7	\$473.6	0.3%	
One-time Items Removed	(16,623.1)			
Agency Transfers	-			
Temporary Increments (IncTs)	150.0			
FY15 Health Insurance & Working Reserve Reductions	(104.3)			7
FY15 Contractual Salary Increases	369.6			
FY15 Adjusted Base Budget (GF only)	\$123,882.9	(\$16,207.8)	-11.6%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(65,458.9)			
FY15 Governor's GF Increments/Decrements/Fund Changes	79,876.3			
FY15 Governor's Agency Request (GF only)	\$138,300.3	\$14,417.4	11.6%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			\$14,417.4	
Community & Regional Affairs	8,153.1	8,144.4	(8.7)	7
Corporations, Business & Professional Licensing	11,642.6	11,529.8	(112.8)	6, 7, 8
Economic Development	3,249.6	19,249.6	16,000.0	1
Serve Alaska	259.1	214.4	(44.7)	7
Alcoholic Beverage Control Board	1,628.4	1,728.4	100.0	4
Alaska Energy Authority Power Cost Equalization	40,351.0	41,355.0	1,004.0	2
Alaska Seafood Marketing Institute	25,119.1	22,598.7	(2,520.4)	3
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	43,102.5	46,931.4	3,828.9	1, 5 & 7
Federal Funds (all allocations)	21,492.4	22,114.2	621.8	7
Total Non-General Funds (all allocations)	\$64,594.9	\$69,045.6	\$4,450.7	
Position Changes (From FY14 Authorized to Gov)	571	574	3	
PFT	558	564	6	
PPT	1	1	-	
Temp	12	9	(3)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	19,000.0	-	19,000.0	
Maintenance and Repairs	330.0	-	330.0	
Remodel, Reconstruction and Upgrades	13,750.0	2,620.0	16,370.0	
New Construction and Land Acquisition	21,500.0	2,800.0	24,300.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	15,600.0	-	15,600.0	
Other	24,945.0	6,000.0	30,945.0	
TOTAL CAPITAL	\$95,125.0	\$11,420.0	\$106,545.0	

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 sustainable economic growth;
- regulate and enforce consumer protection and 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 with achieving maximum local self-government and foster volunteerism statewide.

The department consists of core agencies including the Divisions of: Banking & Securities, Corporations, Business and Professional Licensing, Community and Regional Affairs, Insurance, and Economic Development. Various corporate agencies are also part of the department, including: Alaska Industrial Development and Export Authority, Alaska Energy Authority, Alaska Gasline Development Corporation, Alaska Railroad Corporation, Alcoholic Beverage Control Board, Alaska Seafood Marketing Institute, and the Regulatory Commission of Alaska.

BUDGET SUMMARY

The FY15 Department of Commerce, Community, and Economic Development general fund operating budget submitted by the Governor is \$14.4 million above the FY15 Adjusted Base [\$8.7 million Unrestricted General Funds (UGF) and \$5.7 million 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.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. **Economic Development – Tourism Marketing Program: \$16 million UGF / \$2.7 million Statutory Designated Program Receipts (Other).** This increment will provide operating funds in the Division of Economic Development's base budget for an on-going Tourism Marketing Campaign. This campaign will include a multi-media program intended to create awareness and demand among prospective visitors in North America and several international markets. It will also provide travel planning information designed to encourage Alaska bookings. Key program elements include: printing and distribution of the *Official State of Alaska Vacation and Travel Information* publication, development and promotion of the TravelAlaska.com website, advertising (including print, television, and internet), direct mail, media and travel/trade programs, and market research.
2. **Alaska Energy Authority Power Cost Equalization (PCE): \$8,264.0 Power Cost Equalization Endowment (DGF).** The Alaska Energy Authority (AEA) is requesting a total of \$41.4 million for the PCE program in FY15. The projected program costs are based on a variety of factors; the key assumptions are that an increase in the base rate or "floor" will be more than offset by increases in the cost of fuel in participating communities.

For the first time, projected program costs are less than the seven percent payout from the PCE Endowment allowable under the statutory formula (AS 42.45.070-085). The higher allowable payout

is attributable primarily to an FY11 deposit of \$400 million to the endowment fund. The estimated amount of general funds required to subsidize the PCE Program is zero.

Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates up to a maximum of \$44.2 million from the PCE Endowment and then general funds in the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 12(f) & (g) in the discussion of operating language in the FY15 Overview book.

3. Alaska Seafood Marketing Institute (ASMI) Funding. The FY12, FY13 and FY14 operating bills included similar language that outlined a funding methodology for the Alaska Seafood Marketing Institute (ASMI). The methodology was designed to:

- Match (with UGF appropriations) contributions by the seafood industry in the most recently closed fiscal year, limited to \$9 million annually;
- Enhance planning efforts by limiting expenditures of current year program receipts to approximately 20 percent of receipts collected in the most recently closed fiscal year;
- Stabilize the funding stream by allowing all unspent program receipts to be carried forward; and
- Provide federal receipt authorization sufficient to use all available federal funding.

Legislative Fiscal Analyst Comment: As in FY14, the requested amount of General Fund Match (\$7.8 million) is less than the \$9 million envisioned by legislators who drafted the funding methodology. The amount requested is a policy decision and it meets the guidelines. However, there is little reason to continue to outline the funding mechanics and intent if the language is not a factor in determining the amount of general fund appropriations. See additional comments under section 12(i) in the discussion of operating language in the FY15 Overview book.

4. Alcoholic Beverage Control Board – Funding to Continue the Underage Drinking Enforcement Program: \$100.0 General Fund Program Receipts (GF/PR) (DGF). The department is requesting continued funding for the Underage Drinking Enforcement program. In FY14, the legislature appropriated one-time funding of \$100.0 GF/PR to replace uncollectible Inter-agency Receipt Authority. This program was previously funded by a reimbursable services agreement (RSA) with the Department of Health and Social Services, Division of Juvenile Justice; however, the federal funding for this program ended on December 31, 2012. The FY15 Governor's request adds it to the base.

The Underage Drinking Enforcement program has been in place for over ten years, checks approximately 800 alcoholic beverage retailers for compliance in refusing to sell alcohol to underage persons each year and has an 87% rate of compliance. Although other programs share in the credit for this low rate, the Alcoholic Beverage Control Board believes the compliance check program is an important factor.

5. Alaska Gasline Development Corporation (AGDC) Merit Increases: \$627.0 In-State Natural Gas Pipeline Fund (Other). This increment will provide AGDC's thirty-two exempt positions with employee merit increases in FY15. Total salary and benefit costs range from \$97.9 annually for a Community Relations Representative to \$576.3 annually for the President of AGDC. The average annual total salary and benefit cost for a position at AGDC is \$194.1. Funding for all AGDC positions comes from the In-State Natural Gas Pipeline which was capitalized with \$355 million UGF in FY14.

6. Corporations, Business & Professional Licensing – Big Game Commercial Services Board Reductions: (\$50.0) Receipt Supported Services (DGF) & (1) Temporary Position. The Big Game Commercial Services Board has received approximately \$65.0 and one temporary investigator position since FY10 to provide additional

compliance with licensing requirements. The FY15 Governor's Request reduces this funding by \$50.0 and eliminates the temporary position. The remaining \$15.0 will provide travel and supply costs for existing investigation staff to continue field inspections during the hunting season.

- 7. Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Commerce, Community & Economic Development are shown below.

Description	Funding Amount	Fund Group
Position Deletions	(\$44.7)	UGF
• 2 PFT positions	(\$62.8)	DGF
	(\$44.8)	Fed
Health Insurance and Working Reserve Rate Decreases	(\$26.7)	UGF
• Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month)	(\$88.0)	DGF
	(\$78.2)	Other
• Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56%	(\$4.0)	Fed

OTHER

- 8. Corporations, Business & Professional Licensing (CBPL) – License Fees.**

Per statute [AS 08.01.065(c)], DCCED is required to set professional boards' license fees approximately equal to the cost of regulation. In FY13, \$3.4 million of UGF was appropriated to CBPL to reimburse various professional licensing boards for historical indirect cost overpayments that were associated with the Business License and Corporations Program. This supplemental appropriation was to ensure that carryforward balances were made whole as of June 30, 2012 and would serve as a starting point for the following fiscal year and beyond.

The need for this appropriation highlighted a long-term deficiency in CBPL's accounting practices. To ensure that the fiscal accounting for the boards improves, FY13 & FY14 legislative intent language instructed DCCED to follow the statute and directed the department to submit a six-year report (on a template developed by Legislative Finance Division) annually to the legislature that includes at least the following information for each licensing board:

- revenues from license fees;
- revenues from other sources;
- expenditures by line item, including separate reporting for investigative costs, administrative costs, departmental and other cost allocation plans;
- number of licensees;
- carryforward balance; and
- potential license fee changes based on statistical analysis.

This intent language was included to allow the legislature the ability to analyze each of the forty boards in detail and verify that each board was setting fees according to cost of regulation.

Legislative Fiscal Analyst Comment: Given the documented imbalance between revenue and expenditures of some boards, the legislature may wish to obtain more detail on this topic. Intent specified that the annual report would be released by November 1, 2013; however, the report is not available for analysis.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY15 Department of Commerce, Community and Economic Development capital budget totals \$106.5 million—\$53.1 million UGF/ \$42 million DGF/ \$11.4 million Federal Receipts. 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*. Projects requested by DCCED include:

- **Alaska Energy Authority – Susitna-Watana Hydroelectric Project:** \$10 million UGF;
- **Alaska Industrial Development and Export Authority – Ambler Mining District Access:** \$8.5 million AIDEA Dividend (UGF);
- **Alaska Energy Authority – Bulk Fuel Upgrades:** \$7.3 million (\$5.8 million UGF/ \$1.5 million Federal Receipts);
- **Matanuska-Susitna Borough – Bogard Road Extension East:** \$5 million UGF;
- **Matanuska-Susitna Borough – Rail Extension to Port MacKenzie:** \$5 million UGF;
- **Alaska Energy Authority – Rural Power Systems Upgrades:** \$5.12 million (\$4.0 million UGF/ \$1.12 million Federal Receipts);
- **Alaska Energy Authority – Renewable Energy Projects Round Seven:** \$20 million Renewable Energy Fund (DGF);
- **Alaska Railroad Corporation – Positive Train Control:** \$15 million Alaska Capital Income Fund (DGF); and
- **Blood Bank of Alaska – Facilities and Services Expansion:** \$7 million Alaska Capital Income Fund (DGF).

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

- **Economic Development Initiative:** \$400.0 UGF. Funding to continue a multi-faceted, multi-agency marketing initiative started in FY13 to promote the State of Alaska as a place to visit, invest, grow and innovate.

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Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$313,661.0			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	461.7			
Vetoed	-			
FY14 Management Plan (GF only)	\$314,122.7	\$461.7	0.1%	
One-time Items Removed	(461.7)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(703.1)			4
FY15 Contractual Salary Increases	2,080.2			
FY15 Adjusted Base Budget (GF only)	\$315,038.1	\$915.4	0.3%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	1,800.0			7
FY15 Governor's GF Increments/Decrements/Fund Changes	(4,101.5)			
FY15 Governor's Agency Request (GF only)	\$312,736.6	(\$2,301.5)	-0.7%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$2,301.5)	
Out-of-State Contractual	583.2	300.0	(283.2)	6
Anchorage Correctional Complex	27,568.3	29,368.3	1,800.0	7
Pt. MacKenzie Correctional Farm	2,500.0	0.0	(2,500.0)	1
Regional and Community Jails	10,203.4	10,486.6	283.2	3
Physical Health Care	36,362.7	34,761.2	(1,601.5)	2
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	14,511.1	14,725.5	214.4	4,5
Federal Funds (all allocations)	5,433.8	5,433.8	0.0	4,7
Total Non-General Funds (all allocations)	\$19,944.9	\$20,159.3	\$214.4	
Position Changes (From FY14 Authorized to Gov)	1,861	1,857	(4)	
PFT	1,860	1,857	(3)	
PPT	1	-	(1)	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	5,000.0	-	5,000.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$5,000.0	\$0.0	\$5,000.0	

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.

BUDGET SUMMARY

The FY15 Department of Corrections general fund operating budget submitted by the Governor is \$2,301.5 *below* the FY15 Adjusted Base [(\$700.0) Unrestricted General Funds (UGF) and (\$1,601.5) 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.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 1. Combine Point MacKenzie Correctional Farm (PMCF) with Goose Creek Correctional Center (GCCC): (\$2.5 million) UGF.** The department anticipates a savings of \$2.5 million UGF from combining PMCF and the Goose Creek Correctional Center (GCCC) components. The merger will allow the department to efficiently share resources and meet the daily operational needs of both facilities. Housing all prisoners and administrative functions within Goose Creek will allow the Point MacKenzie Farm to continue as a working farm camp by transporting prisoners from GCCC each day with minimal security staff required. The empty PMCF housing units (capacity 112 beds) will be available for future use.
- 2. Reduce Permanent Fund Criminal Funds/Inmate Physical Health Care: (\$1.6 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 available PFD Criminal Funds is volatile. For FY15, the Department of Revenue calculated the amount available for appropriation to be \$9.95 million (\$1.25 million less than in FY14). Of the \$9.95 million available PFD Criminal Funds, \$8.45 million is requested in DOC/Inmate Health Care (\$1.6 million less than FY14) with the remaining \$1.5 million requested for the Crime Victim Compensation Fund (CVCF).
- 3. Regional Community Jails – Increase Due to Consumer Price Index: \$283.2 UGF.** The Regional and Community Jails Program provides funding to 15 communities for the short-term confinement of persons detained under state law. This increase would be offset by an associated decrement in the Out-of-State Contractual component, which was significantly reallocated due to the new Goose Creek Correctional Center. There are now fewer than 20 prisoners housed out of state. Please see item #6 for additional information on transfers from the Out-of-State Contractual allocation.

- 4. Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Corrections are shown below.

Description	Funding Amount	Fund Group
Health Insurance and Working Reserve Rate Decreases	(\$701.6)	UGF
<ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(\$1.5)	DGF
<ul style="list-style-type: none"> Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$2.2)	Other
	(\$13.9)	Fed

MENTAL HEALTH TRUST AUTHORITY TEMPORARY INCREMENTS

5. Inmate Health Care/Behavioral Health Care: \$475.8 MHTAAR (Other).

FY15 will be the seventh year of zero-based budgeting for Mental Health Trust Authority Authorized Receipts (MHTAAR) – meaning that all MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year.

The Mental Health Trust is recommending \$475.8 (\$129.3 more than FY14 Authorized) in FY15 MHTAAR funding (including \$1.4 in salary adjustments) for the MH Trust Disability Justice Initiative as follows:

- \$260.0 IncT (FY14-FY16) to continue the Assess, Plan, Identify, & Coordinate re-entry project;
- \$120.0 IncT (FY15-FY19) for a rural re-entry & fetal alcohol syndrome education pilot program;
- \$69.4 IncT (FY15-FY19) for a Research Analyst;
- \$10.0 IncT (FY15-FY17) to expand DOC training for DOC mental health staff; and
- \$15.0 IncT (FY15-FY17) to maintain training for DOC mental health staff.

OTHER

6. Out-of-State Contractual – Transfer Funding from Out-of-State Contractual to Various Components for Departmental Support: \$3,379.2

UGF. With the new Goose Creek Correctional Center now fully operational, 100% of the offenders housed at the out-of-state contract facility in Hudson, Colorado, have been returned to Alaska. Authority within the Out-of-State Contractual budget component has been transferred out accordingly while \$300.0 will remain for the 15 inmates institutionalized in various state or federal prisons for medical needs that cannot be met in Alaska and/or protective custody. Funding is transferred out as follows:

- \$2,609.7 and five positions to Goose Creek Correctional Center to support operational needs and costs;
- \$419.5 to Inmate Transportation for increased in-state transports associated with the 1,050 inmates returned to Alaska;

- \$175.0 to Physical Health Care to assist with the in-state health care costs for offenders; and
- \$175.0 to the Institutional Director's Office for a Reimbursable Services Agreement with the Department of Law for an additional attorney.

- 7. Anchorage Correctional Complex (ACC)/General Funds to Offset a Shortfall of Federal Receipts (Operating Budget Language Section 13).** The federal government reimburses the ACC for the cost of housing federal prisoners. The amount of federal receipts varies from year to year, depending primarily on the number of federal prisoners and the length of their stay. Section 13 is designed to ensure that the Anchorage Correctional Complex has sufficient operating funds and appropriates an unspecified amount of UGF (not to exceed the \$5,033.8 of federal receipt authority appropriated in section 1). This language (and a UGF reduction) was added in the FY14 budget based on reports that federal receipts exceeded authorization by as much as \$2.5 million. In FY15, it appears that the federal authorization is greater than the amount the department expects to receive.

Legislative Fiscal Analyst Comment: The Governor assigned no cost to language section 13. Based on a review of recent federal collections, it appears that collections during FY15 are likely to be about \$3.2 million. If so, then section 13 will appropriate an additional \$1.8 million to the Anchorage Correctional Complex. Legislative Finance has added a language transaction for this amount to the Governor's request.

ORGANIZATIONAL CHANGES

The Point MacKenzie Correctional Farm was consolidated into the Goose Creek Correctional Center allocation.

CAPITAL REQUEST

The Agency's \$5 million UGF capital budget is comprised of the following deferred maintenance projects:

- Eagle River – Combined Hiland Mountain Correctional Center, \$205.0 UGF;
- Seward - Spring Creek Correctional Center, \$400.0 UGF;
- Nome- Anvil Mountain Correctional Center, \$150.0 UGF;
- Kenai – Wildwood Correctional Center, \$1,045.0 UGF;
- Sutton - Palmer Correctional Center, \$550.0 UGF;
- Fairbanks – Fairbanks Correctional Center, \$700.0 UGF;
- Bethel – Yukon-Kuskokwim Correctional Center, \$250.0 UGF;
- Anchorage – Anchorage Correctional Complex, \$800.0 UGF; and
- Juneau – Lemon Creek Correctional Center, \$900.0 UGF.

Department of Education and Early Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$1,304,153.6			
FY14 Fiscal Notes	2,080.9			
CarryForward	81.6			
Misc Adjustments	563.2			
Agency Transfers	93.7			
Vetoed	-			
FY14 Management Plan (GF only)	\$1,306,973.0	\$2,819.4	0.2%	
One-time Items Removed	(27,675.3)			
Agency Transfers	(4,791.4)			9
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(48.5)			5
FY15 Contractual Salary Increases	134.6			
FY15 Adjusted Base Budget (GF only)	\$1,274,592.4	(\$32,380.6)	-2.5%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	9,434.8			
FY15 Governor's GF Increments/Decrements/Fund Changes	31,372.8			
FY15 Governor's Agency Request (GF only)	\$1,315,400.0	\$40,807.6	3.2%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			\$40,807.6	
Foundation Program	1,126,248.0	1,158,874.9	32,626.9	1,6
Pupil Transportation	75,466.0	76,773.9	1,307.9	6
Boarding Home Grants	3,749.5	4,710.8	961.3	2
Special Schools	3,691.7	3,693.3	1.6	
School Finance & Facilities	1,854.0	1,636.2	(217.8)	5
Student and School Achievement	12,389.3	12,011.2	(378.1)	5
Pre-Kindergarten Grants	-	2,000.0	2,000.0	7
Mt. Edgecumbe Boarding School	4,674.3	4,680.1	5.8	
Program Administration & Operations	4,000.0	5,500.0	1,500.0	3
Alaska Performance Scholarship Awards	8,000.0	11,000.0	3,000.0	3
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	26,387.6	26,887.6	500.0	4,8
Federal Funds (all allocations)	233,937.0	233,890.6	(46.4)	5
Total Non-General Funds (all allocations)	\$260,324.6	\$260,778.2	\$453.6	
Position Changes (From FY14 Authorized to Gov)	367	363	(4)	5
PFT	335	332	(3)	
PPT	14	14	-	
Temp	18	17	(1)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	1,700.0	-	1,700.0	
Remodel, Reconstruction and Upgrades	31,516.9	-	31,516.9	
New Construction and Land Acquisition	15,000.0	-	15,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	5,000.0	-	5,000.0	
TOTAL CAPITAL	\$53,216.9	\$0.0	\$53,216.9	

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:

- distribute public school funding to school districts and other educational institutions;
- provide fiscal accountability, compliance and oversight;
- develop, implement and maintain school effectiveness programs; and
- maintain active partnerships for Pre-K through 20 and lifelong learning.

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.

BUDGET SUMMARY

The FY15 Department of Education and Early Development general fund operating budget submitted by the Governor is \$40.8 million above the FY15 Adjusted Base [\$36,803.5 Unrestricted General Funds (UGF) and \$4,004.1 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. K-12 Foundation Program – Additional State Aid to School Districts for Fixed Cost Increases: \$25 million UGF.** For FY15, the Governor requested a fourth year of funding outside the Foundation formula to provide additional resources for school districts to manage high energy costs and rising expenditures related to fixed costs. This will help school districts maintain services at the current level. As with previous appropriations (\$20 million in FY12 and \$25 million in both FY13 and FY14), the requested funding would be disbursed in the same manner as state Foundation formula aid to districts. The amount approximates a base student allocation (BSA) of \$100.
- 2. K-12 Support Boarding Home Grants – Addition of Four New Statewide Residential Programs: \$961.3 UGF.** Per AS 14.16.200, certain districts that have been approved to operate a statewide residential education program are eligible to receive reimbursement for the costs incurred by the district in operating that program. The initial FY07 legislation pertained to three programs -- the Galena City School District, Nenana City School District, and Lower Kuskokwim School District. Chapter 48, SLA 2013 (SB 47) amended this statute for the existing three programs and provided an approval process for the addition of new programs. The FY14 fiscal note added \$1.66 million in base funding for increased stipends. The Governor's FY15 request reflects an increment of \$961.3 for four new programs that have been approved by the department. New funding is for the monthly stipend reimbursements and for one round-trip ticket per student, at the least expensive means, beginning in FY15.

3. Alaska Higher Education Investment Fund Increases—\$4.5 Million Total (DGF).

- **Alaska Commission on Postsecondary Education / Program Administration & Operations: \$1.5 Million - Alaska Higher Education Investment Fund (DGF); and**
- **Alaska Performance Scholarship Awards: \$3.0 Million - Alaska Higher Education Investment Fund (DGF)**

Chapter 74, SLA 2012 (HB 104) established the Alaska Higher Education Investment Fund, the earnings of which will pay for Alaska Performance Scholarships (APS) and AlaskAdvantage Education Grants (AEG). In addition to establishing the fund, AS 37.14.750 delineates that one-third of the appropriation be allocated for AlaskAdvantage Education Grants and two-thirds of each year's appropriation be allocated for Alaska Performance Scholarship Awards. In FY14, those amounts were \$4 million and \$8 million, respectively. The Governor's FY15 request is based on \$11 million for scholarships and \$5.5 million for grants.

- **AlaskAdvantage Education Grant** recipients receive an average award of \$1,878. The awards are made relative to the pool of applicants specific to a given academic year. The applicant pool is ranked in order of greatest to least financial need and AlaskAdvantage Education Grants are awarded until available funds are exhausted or all eligible applicants are awarded, whichever occurs first.
- **Alaska Performance Scholarship Award** assumptions are based on an average award level of \$3,548 for each recipient. The total request is based on FY14 eligibility and utilization rates plus estimated participation levels, including an allowance for 2011 through 2013 graduates who elect to begin or continue their postsecondary training in Alaska in FY15.

Legislative Fiscal Analyst Comment: On September 1, 2012, the Alaska Higher Education Investment Fund was capitalized with a \$400 million deposit from receipts of the Alaska Housing Capital Corporation [Chapter 5, FSSLA 2011, (SB 46), Sec. 20, p. 159]. The Department of Revenue has invested Higher Education Investment Fund monies to achieve a long-term investment return objective of 6.25% and, to date, has met that objective. At current projected utilization rates, annual funding for scholarships and grants is expected to be less than 4% of the current fund balance, which at December 31, 2013 was approximately \$443 million.

4. Alaska State Council on the Arts (ASCA) – Rasmuson Foundation Harper Arts Touring Program: \$160.0 Statutory Designated Program Receipts (Other).

The Governor's request includes base funding to allow for increased management and administration of the Harper Arts Touring Program sponsored by the Rasmuson Foundation. A new program—the Youth Cultural Heritage program—is also being added to support strategies for youth that focus on cultural heritage within arts education. The program provides grants to eligible nonprofit organizations and school-based programs to directly engage youth in cultural heritage programs and events, and to provide exposure to cultural materials, traditional instruments, and tools associated with cultural celebration and practice. This program helps to provide access to high quality performing arts in communities throughout Alaska, including traveling arts and cultural exhibits. The Rasmuson Foundation has notified the Alaska State Council on the Arts of its interest in renewing ASCA's services for the Harper Arts Touring grant administration for the foreseeable future. No general fund match requirement and no new positions are needed with this added responsibility.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

5. Unspecified Reductions in Expenditure Levels, Vacant Position Deletions, and Health Insurance and Working Reserve Rate Decreases.

The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Education and Early Development are shown below.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$435.6)	UGF
Position Deletions <ul style="list-style-type: none"> 2 PFT positions/ 1 Temp position 	(\$164.4) (\$46.4)	UGF Fed
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$46.8) (\$1.7) (\$64.7) (\$21.1)	UGF DGF Other Fed

6. 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 \$1,123,874.9 UGF for the Foundation Program and \$76,773.9 UGF for Pupil Transportation reflect the statutory formula. Total funding for K-12 education formula programs is increasing by \$8.9 million. The increase includes legislative changes passed in Chapter 69, SLA 2013 (SB 57) which adjusts the pupil transportation per student amount available to a school district under AS 14.09.010(a) annually on October 1 in fiscal years 2014, 2015, and 2016 according to changes in the Consumer Price Index.

Beginning in FY09, the legislature adopted a multi-year education plan presented by an Education Task Force. The recommendations [adopted in Chapter 9, SLA 2008 (HB 273)]:

- 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 2,400 intensive-needs students who experience health conditions and disabilities requiring daily monitoring and assistance with their school day activities.

The Governor's request reflects the same Base Student Allocation for FY15 (\$5,680) that applied in FY11 through FY14.

Section 26(e) of the Governor's operating budget bill appropriates \$1.2 billion from the general fund to the Public Education Fund (PEF). The appropriation to the PEF is to fund FY16 K-12 Foundation Program and Pupil Transportation costs.

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 FY16 costs to the Public Education Fund while withdrawing FY15 costs from the fund.

7. **Pre-Kindergarten Grants – Restore Pre-Kindergarten Program to Current Level of Service: \$2 million UGF.** This request restores the Pre-Kindergarten grant program for FY15 to the \$2 million one-time funding level of FY14. This program continues to serve eight school districts and approximately 350 students in 15 communities. 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. The FY15 program will continue to focus on connections across classroom, school, and communities systems. Eventually, it is anticipated that this project will provide the framework and guidance for the creation of local programs in a variety of urban, rural, and remote sites.
8. **Student and School Achievement – Mental Health Trust Authority Grant for the Alaska Autism Resource Center: \$100.0 MHTAAR (Other).** The Alaska Autism Resource Center (AARC) provides information, resources, and training about autism to individuals in rural, remote, and urban areas. The AARC supports all Alaskans, birth through life, whether directly affected by autism, living with someone with autism, community members (first responders, service providers, caregivers, medical providers), and others wanting to learn more about autism. The AARC provides information about available services, referral information, newly diagnosed support, training, and consultation. MHTAAR funding is used to continue building partnerships with agencies across the State, to develop new training and coursework, to assist families in connecting with each other, and to work toward building relationships with more tribal entities.
9. **Alaska Challenge Youth Academy: Agency Transfer-Out (\$4,791.4) UGF.** Chapter 72, SLA 2013 (HB 180) established the Alaska Military Youth Academy (AMYA) within the Department of Military and Veterans' Affairs as part of the National Guard Youth Program established under 32 U.S.C. 509. It also repealed AS 14.30.740 [the funding formula for the Alaska Challenge Youth Academy (ACYA) that was in the Department of Education and Early Development (DEED)]. In FY15, instead of appropriating funding to DEED to be transferred to AMYA using a statutory funding formula, the funding is being directly appropriated to AMYA. All general funds within the department's ACYA allocation are being transferred to the Department of Military and Veterans' Affairs Alaska Military Youth Academy allocation.

Legislative Fiscal Analyst Comment: In future budgets, AMYA will be required to request changes to the level of funding through increments and decrements in the budget process, instead of receiving changes automatically through the funding formula.

ORGANIZATIONAL CHANGES

Other than the transfer out of the Alaska Challenge Youth Academy which eliminates that allocation in the Department of Education and Early Development, there are no significant organizational or structural changes requested.

CAPITAL REQUEST

The Department of Education and Early Development's FY15 capital budget includes \$53.2 million in general funds for the following projects:

- **State Library, Archives and Museum Facility Construction Funding: \$15 million UGF.** This request is for partial funding for the remaining construction phase of the new State Library,

Archives and Museum combined facility. Funding will be used for construction completion, exhibits, furnishings, and landscaping. A total of \$102.95 million has been appropriated in past years. It is anticipated that occupancy and move-in will begin January 2016;

- **Kwethluk K-12 Replacement School – Kasayulie: \$31.5 million REAA Fund (DGF).** Kwethluk is the number one project on the current School Construction Grant Fund list, for the design and construction of a K-12 replacement school. The 34,576 square feet of facilities, built from 1956-1986, plus two portables, built in 1998 and 2002, will be replaced. In accordance with the Consent Decree and Settlement Agreement for Kasayulie v. State, Kwethluk K-12 Replacement was designated to be included in the FY15 budget request. In FY14, \$25 million was also appropriated from the REAA Fund which allowed for the design, planning and foundation work to begin on this project;
 - **Alaska Digital Teaching Initiative Three-Year Demonstration Project: \$5 million UGF.** This request is designed as a state demonstration project to build on Alaska's strengths in digital teaching. Supplementary funding for ten school districts, selected over the three-year period, will emphasize collaboration and expansion of technology-based, interactive courses. A focus on delivering science, technology, engineering, and math (STEM) courses at the high school and middle school levels will be the primary emphasis for the demonstration project with the ultimate goal of increasing the statewide high school graduation rate to 90% by 2020; and
- Legislative Fiscal Analyst Comment:** This project proposes operating grants to school districts similar to the Pre-Kindergarten grant process. Rather than being proposed as a capital project, this funding should be changed to a multi-year increment in the language section of the operating budget bill.
- **Mt. Edgecumbe High School (MEHS) Deferred Maintenance: \$1.7 million UGF.** Deferred maintenance is an ongoing necessity at MEHS, which was constructed in 1940 as a boarding school and includes 13 buildings covering 100,000 square feet. Projects will be addressed according to the Capital Improvement Projects (CIP) Master Plan, or as MEHS facility management identifies health and safety priorities. The remaining deferred maintenance projects on the current MEHS CIP Master Plan are estimated to cost \$22.5 million, which is approximately \$4.5 million each year from FY15 through FY20, not including cost escalation factors that are experienced as a result of inflation.

SCHOOL DEBT REIMBURSEMENT

The school debt reimbursement program is shown in a separate section of the FY15 Overview book that addresses debt obligations.

Department of Environmental Conservation

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$49,089.4			
FY14 Fiscal Notes	1,434.7			
CarryForward	332.6			4
Misc Adjustments	-			
Agency Transfers	214.9			
Vetoed	-			
FY14 Management Plan (GF only)	\$51,071.6	\$1,982.2	4.0%	
One-time Items Removed	(564.6)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(111.9)			2
FY15 Contractual Salary Increases	317.3			
FY15 Adjusted Base Budget (GF only)	\$50,712.4	(\$359.2)	-0.7%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	-			
FY15 Governor's Agency Request (GF only)	\$50,712.4	\$0.0	0.0%	
↓				
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			\$0.0	
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	11,610.7	12,612.7	1,002.0	3,5
Federal Funds (all allocations)	25,198.9	25,262.4	63.5	1,3
Total Non-General Funds (all allocations)	\$36,809.6	\$37,875.1	\$1,065.5	
Position Changes (From FY14 Authorized to Gov)	566	565	(1)	
PFT	559	561	2	
PPT	-	-	-	
Temp	7	4	(3)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	200.0	-	200.0	
Remodel, Reconstruction and Upgrades	17,228.2	16,900.0	34,128.2	
New Construction and Land Acquisition	6,580.0	25,350.0	31,930.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	3,089.5	-	3,089.5	
TOTAL CAPITAL	\$27,097.7	\$42,250.0	\$69,347.7	

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 regulatory standards and other requirements for protection of human health and the environment;
- issue permits and other authorizations for emissions, discharges and disposal – and monitor compliance with those authorizations;
- provide financial assistance in the form of grants or low-interest loans for public drinking water, wastewater and solid waste facilities;
- oversee oil discharge prevention and contingency planning and conduct drills to lower the probability and severity of spills;
- respond to oil spills, other releases of hazardous substances and contaminated sites;
- operate the State Environmental Health Lab providing testing not available through commercial laboratories;
- safeguard the quality of food and seafood offered to the public;
- house the Office of the State Veterinarian which regulates the import and export of domestic animals and responds to animal disease outbreaks;
- regulate pesticides and certain types of use;
- monitor and report on the quality of the environment and changes that could impact human health;
- educate and assist the public, communities, businesses and industry on all forms of environmental matters;
- interact with federal agency counterparts at the Environmental Protection Agency (EPA), the Food & Drug Administration (FDA), the United States Department of Agriculture (USDA), the Pipeline and Hazardous Materials Safety Administration (PHMSA), the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), and others on federal environmental law and how it is applied in Alaska; and
- investigate violations and enforce state environmental law.

BUDGET SUMMARY

The FY15 Department of Environmental Conservation general fund operating budget submitted by the Governor shows no increase over the FY15 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. Contaminated Sites Program – Increased Federal Receipt Authority: \$959.5.** The Spill Prevention and Response Contaminated Sites Program has an opportunity to receive increased federal grants to perform contaminated site cleanup and oversight of cleanup activities of military facilities, formerly used defense sites, and other federally contaminated sites. The state must exercise regulatory oversight of cleanup activities to ensure compliance with state

standards. These funds will come from multiple federal agencies including the Department of Defense, U.S. Coast Guard, Federal Aviation Administration, and the Bureau of Land Management. No general funds or response funds are required for this work. An identical amount of federal receipt authority was requested and approved in a FY14 RPL. No new positions are required to accomplish this work and available funds are unaffected by sequestration.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 2. Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Environmental Conservation are shown below.

Description	Funding Amount	Fund Group
Health Insurance and Working Reserve Rate Decreases	(\$57.7)	UGF
<ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(\$54.2)	DGF
<ul style="list-style-type: none"> Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$23.4)	Other
	(\$42.8)	Fed

3. Net Zero Fund Changes

- Office of the Commissioner – Replace Uncollectible Authority: \$90.0 Interagency Receipts/ (\$90.0) EVOS Trust (Other).** This change amounts to a technical update to funding sources in this allocation. Authorization to spend Exxon Valdez Oil Spill Trust funding is substantially overstated. During the past several fiscal years, funding received has ranged from a high of \$4,100 to a low of zero. This fund change replaces EVOS authority with budgeted interagency receipt authority for an existing unbudgeted reimbursable services agreement with all divisions of the department for department-wide workforce development activities.
- Replace Declining Federal Receipts with Fees for Loans Made from the Clean/Drinking Water Funds.**
 - Administration/ Administrative Services Allocation :** \$48.0 CleanWater (Other)/ \$48.0 DrinkWater (Other)/ (\$96.0) Federal Receipts; and
 - Water/ Facility Construction Allocation:** \$400.0 CleanWater (Other)/ \$400.0 DrinkWater (Other)/ (\$800.0) Federal Receipts.

Each drinking water and wastewater project loan issued by the Municipal Grant and Loan program is charged a 0.5% administrative fee. These changes from Federal Receipt authority to funds from the Clean Water and Drinking Water Funds will allow the department to access administrative fees that have been collected to maintain the loan processing capacity and to cover expenses associated with managing the loans. Under federal and state law, the state may use these fee receipts only for the purpose of managing loans made under the program. This change will maintain the department's capacity to administer the programs.

OTHER ISSUES

4. **Laboratory Services – *Carryforward* funds for the Recreational Shellfish Beach Monitoring Pilot Program (SB 46 [Ch. 5, FSSLA2011] FY12-FY15).** \$332.6 UGF remains available between FY14-FY15 for this pilot program to collaborate with four communities to monitor recreational shellfish harvesting areas for paralytic shellfish poison (PSP). This multi-year project was authorized in FY12 and was initiated after several Alaskans eating recreational and subsistence harvested shellfish became ill or died from shellfish-related pathogens. All four communities have signed a Memorandum of Agreement and have been submitting samples for testing. Haines, Kodiak, and Sand Point have each had some samples that tested about 80 ug/100g, which is considered an unsafe level of PSP for shellfish consumption, but the majority of samples submitted indicate PSP is at acceptable levels. Kachemak Bay Research Reserve has had no samples that tested positive for PSP, and has expanded their beach monitoring to beaches in Clam Gulch, Port Graham Bay, and Jakalof Bay.
5. **Air Quality – *Fiscal Note* additions for HB 4 (Ch. 11, SLA2013): \$106.0 Gas Pipeline Fund (Other).** This is the second year of funding required for Air Quality to meet the directives outlined in HB4 (2013) which mandated the Alaska Gasline Development Corporation move forward with building a small-diameter in-state gas pipeline. The increase reflects the need for additional term contractors to work on construction and permit applications in FY15. The process involves pre-application assistance, data reviews, modeling, engineering plan review and approval for air quality permits in conjunction with development of the pipeline. The Air Quality Division assumes four construction applications in FY15. This includes one Prevention of Significant Deterioration (PSD) permit and three Minor Source Specific (MSS) permits. Operation permits and compliance reviews would begin in FY17.
6. **Declining Balance of the Oil and Hazardous Substance Release Prevention and Response Fund.** Both the legislature and the department recognize that the declining balance of this fund is a problem. Projections show that revenues collected from the four-cent per barrel conservation surcharge are not adequate to fund spill prevention and response programs. The surcharge revenue is the primary funding source for the prevention account and that revenue is not sufficient to sustain Alaska's core spill prevention and response program over the long term. Beginning with FY16, it is anticipated that annual funding available from this account will be at least \$6 million less than will be required to continue the current level of service.

In FY14, the legislature added intent that (among other things) DEC provide recommendations at the beginning of the 2014 session to identify ways to finance and manage the oil and hazardous substance release prevention and response fund as a viable, long-term funding source for the state's core spill prevention and response initiatives. Although the department is exploring options to address the declining balance of the fund, the Governor's budget submission does not address this issue.

ORGANIZATIONAL CHANGES

The Department of Environmental Conservation added an appropriation for Air Quality to the FY15 budget. Two allocations—Air Quality Director and Air Quality are contained within this appropriation. In previous budget submissions, these two allocations were part of the Environmental Health appropriation; however, the departmental RDU (Results Delivery Unit) organization had reflected Air Quality as a separate division within the department. This structural change is intended to bring budgetary and organizational clarity and bring all structures into sync.

CAPITAL REQUEST

The agency's \$69.3 million capital budget, of which \$23.5 million is UGF, includes the following:

- **Village Safe Water and Wastewater Infrastructure Projects: \$51.5 million Total (\$8,750.0 G/F Match/ \$500.0 Statutory Designated Program Receipts (Other)/ \$42,250.0 Federal Receipts).** This request provides financial and technical assistance to rural communities to plan, design and construct water and sewer system improvements. Of the total amount, 60% will provide first-time service to communities and 40% will be used for expansions, upgrades, and replacements of existing service.
- **Drinking Water Capitalization Grant – Subsidy Funding: \$2,526.3 Alaska Drinking Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue 30% of the funding as subsidies (a loan forgiveness process).
- **Clean Water Capitalization Grant – Subsidy Funding: \$563.2 Alaska Clean Water Fund (Other).** The federal Clean Water Capitalization Grant requires states to issue subsidies (a loan forgiveness process). The subsidy amount required was identified under grant terms the Environmental Protection Agency has identified for Alaska.
- **Municipal Water, Sewage, and Solid Waste Facilities Grants: \$14,558.2 UGF.** 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.
- **Deferred Maintenance, Renewal, Repair and Equipment: \$200.0 UGF.** This project will address deferred maintenance items in the state Environmental Health Laboratory Building. Examples of immediate deferred maintenance needs in the lab include water main back-flow backup, autoclave, door locks, and window blast films.

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$90,154.1			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	460.5			
Vetoed	-			
FY14 Management Plan (GF only)	\$90,614.6	\$460.5	0.5%	
One-time Items Removed	(3,679.8)			
Agency Transfers	-			
Temporary Increments (IncTs)	2,115.5			
FY15 Health Insurance & Working Reserve Reductions	(224.2)			3
FY15 Contractual Salary Increases	574.0			
FY15 Adjusted Base Budget (GF only)	\$89,400.1	(\$1,214.5)	-1.3%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	(195.0)			
FY15 Governor's Agency Request (GF only)	\$89,205.1	(\$195.0)	-0.2%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$195.0)	
SE Region Commercial Fisheries Management	10,214.4	10,195.1	(19.3)	3
Central Region Commercial Fisheries Management	9,541.1	9,524.1	(17.0)	3
AYK Region Commercial Fisheries Management	8,214.1	8,540.1	326.0	2 & 3
Westward Region Commercial Fisheries Management	10,721.3	10,696.3	(25.0)	3
Headquarters Fisheries Management	13,429.5	13,344.6	(84.9)	3
Commercial Fisheries Special Projects	1,647.0	1,577.7	(69.3)	3
Sport Fisheries	7,076.6	6,962.5	(114.1)	3
Wildlife Conservation	6,461.3	6,333.7	(127.6)	3
Wildlife Conservation Special Projects	1,516.5	1,462.0	(54.5)	3
Boards and Advisory Committees	1,660.3	1,651.0	(9.3)	3
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	63,362.8	63,153.0	(209.8)	
Federal Funds (all allocations)	63,752.1	63,713.1	(39.0)	1 & 3
Total Non-General Funds (all allocations)	\$127,114.9	\$126,866.1	(\$248.8)	
Position Changes (From FY14 Authorized to Gov)	1,719	1,683	(36)	3
PFT	933	930	(3)	
PPT	718	699	(19)	
Temp	68	54	(14)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	10,000.0	-	10,000.0	
Maintenance and Repairs	1,900.0	-	1,900.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	950.0	2,850.0	3,800.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	2,250.0	2,750.0	5,000.0	
TOTAL CAPITAL	\$15,100.0	\$5,600.0	\$20,700.0	

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:

- **Management:**
Provide opportunities to utilize fish and wildlife resources; expand existing and develop new programs to increase harvest opportunities; protect and improve habitat and access to fishing and hunting opportunities and resources; protect the state's sovereignty to manage fish and wildlife resources; optimize participation in hunting and fishing activities; improve harvest monitoring and assessment.
- **Stock Assessment and Research:**
Ensure sustainability and harvestable surplus of fish and wildlife resources; improve existing fish and wildlife stock assessment and research capabilities; expand stock assessments; invest in new technologies; anticipate changing conditions (e.g., climate change, invasive species).
- **Customer Service and Public Involvement:**
Provide accurate and meaningful information to all customers and involve the public in management of fish and wildlife resources; enhance public communications materials and delivery; improve Boards of Fisheries and Game and other regulatory processes; increase publication in scientific literature; improve management and scientific reporting; improve licensing/permitting services; improve education and viewing programs within department.

BUDGET SUMMARY

The FY15 Department of Fish & Game general fund operating budget as submitted by the Governor is \$195.0 *below* the FY15 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. Wildlife Conservation – Population Assessment and Species Research: \$1 Million Federal Receipts.** The department anticipates an increase in available federal funding from the Pittman-Robertson Wildlife Restoration program. The program derives its receipts from federal excise taxes on the manufacture of guns, firearms, archery equipment, and ammunition. The federal excise taxes collected are distributed to states annually for propagation and management of wildlife. The State of Alaska receives the maximum allocation of five percent of national tax receipts and the required match is 25 percent from non-federal sources. States have two years to obligate the funds; if a state does not obligate its allocation within the specified timeframe, it will be re-allocated to other states. The department is not requesting additional matching funds and states it will absorb the estimated \$333.3 of match within its exiting budget.

The purpose of Wildlife Restoration projects is the restoration, conservation, management, and enhancement of wild birds and wild mammals, and the provision for public use of and benefits from these resources. The division is requesting additional Federal Receipts to do the following:

- Cover inflationary costs for research projects statewide;

- Continue to support research projects evaluating sheep, moose, bear and small game; and
- Continue concentrated work on moose populations in Game Management Units 15A and 15C on the Kenai Peninsula. This effort was initiated in FY12 and general funds for this program are scheduled to be eliminated in FY15.

Legislative Fiscal Analyst Comment: The legislature should be concerned that the recent flow of federal funds associated with national sales of firearms and ammunition has more to do with political events than with a permanent increase in hunting/sporting activities. If that is the case, then the legislature should be concerned that the program enhancements requested by the department are unsustainable unless federal funding is eventually replaced with general funds.

Until FY06, Wildlife Conservation was funded primarily with federal funds and the Fish & Game Fund. Increased program activities along with declining Fish & Game Fund revenue (due to declining sales of non-resident licenses and tags) resulted in requests for UGF. Since FY06, general funds have increased from \$1.4 million (4% of the budget) to \$7.8 million (16% of the budget). Spending a temporary bulge in receipts on ongoing programs may start another round of requests for general funds.

In FY14, the legislature appropriated an additional \$2 million Federal Receipt authority and \$500.0 in a combination of UGF/General Fund Match to Wildlife Conservation to meet an increase of available Pittman-Robertson Wildlife Restoration Funds.

The department also submitted a Revised Program/Legislative (RPL #11-4-0262) to Legislative Budget and Audit Committee on January 13, 2014 requesting \$750.0 Federal Receipt authority to utilize available Pittman-Robertson Wildlife Restoration Funds. The federal funds would allow the department to purchase digital cameras and software and outfit two survey aircraft that will complete aerial photocensus work on caribou herds and other big game species. The department will be using \$200.0 from an existing capital appropriation of Fish & Game Funds for equipment to meet most of the required match and the remaining amount will come from the Wildlife Conservation's operating budget.

The legislature may want to request further details from the department on how it will absorb an increase of approximately \$583.0 for the required match of an additional \$1.75 million in Federal Receipts.

- Population Assessment & Species Research: \$1,000.0 Federal Receipts = \$333.3 required match
- Aerial Photocensus: \$750.0 Federal Receipts = \$250.0 required match

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 2. Commercial Fisheries AYK Region Fisheries Mgmt –Tanana River Sonar Project: \$375.0 UGF.** The legislature appropriated two temporary increments totaling \$375.0 UGF (\$200.0 UGF for FY13 through FY15 and \$175.0 UGF for FY14 through FY15) to support operational costs of the Tanana River sonar project. The department is requesting to move this funding from temporary increments to the base budget. The objective of this project is to provide daily estimates of king, chum, and coho salmon entering the Tanana River for in-season and post-season use to manage Tanana River fisheries, and by extension, provide additional information useful in managing overall Yukon River salmon fisheries.

3. Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases. The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Fish and Game are shown below.

Description	Funding Amount	Fund Group
Position Deletions	(\$570.0)	UGF
<ul style="list-style-type: none"> 10 PFT positions 	(\$509.8)	Other
<ul style="list-style-type: none"> 10 PPT positions 	(\$739.0)	Fed
<ul style="list-style-type: none"> 14 temporary positions 		
Health Insurance and Working Reserve Rate Decreases	(\$203.6)	UGF
<ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(\$20.6)	DGF
<ul style="list-style-type: none"> Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$84.9)	Other
	(\$109.1)	Fed

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY15 Department of Fish and Game capital budget totals \$20.7 million (\$14.9 million UGF/ \$200.0 thousand Other Funds/ \$5.6 million Federal Receipts). Projects requested include:

- **Chinook Initiative:** \$10 million UGF;
- **Statewide Facility Deferred Maintenance Projects:** \$1.4 million UGF;
- **Sport Fish Recreational Boating Access:** \$3 million [\$2,250.0 Federal Receipts/ \$750.0 GF Match (UGF)];
- **Facilities, Vessels, and Aircraft Maintenance, Repair and Upgrades:** \$500.0 UGF; and
- **Storage Structures for Hunter Education and Shooting Ranges:** \$800.0 [\$600.0 Federal Receipts/ \$200.0 Fish & Game Funds (Other)].

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

- **Intensive Game Management Research and Implementation:** \$4 million (\$2 million UGF/ \$2 million Federal Receipts); and
- **Habitat Enhancement for Wildlife:** \$1 million (\$250.0 UGF / \$750.0 Federal Receipts).

Office of the Governor

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$29,568.6			
FY14 Fiscal Notes	-			
CarryForward	2,685.1			
Misc Adjustments	-			
Agency Transfers	0.8			
Vetoed	(83.4)			
FY14 Management Plan (GF only)	\$32,171.1	\$2,602.5	8.8%	
One-time Items Removed	(5,685.9)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(78.3)			5
FY15 Contractual Salary Increases	160.9			
FY15 Adjusted Base Budget (GF only)	\$26,567.8	(\$5,603.3)	-17.4%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	5,452.5			
FY15 Governor's Agency Request (GF only)	\$32,020.3	\$5,452.5	20.5%	
↓				
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Appropriation			\$5,452.5	
Commissions/Special Offices	2,395.4	2,351.3	(44.1)	3,5
Executive Operations	16,263.3	18,581.6	2,318.3	1,2,5
Gov State Facilities Rent	1,221.8	1,171.8	(50.0)	4
Office of Management & Budget	2,914.8	2,682.8	(232.0)	5
Elections	3,772.5	7,232.8	3,460.3	
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	529.2	529.2	-	
Federal Funds (all allocations)	199.4	199.4	-	
Total Non-General Funds (all allocations)	\$728.6	\$728.6	\$0.0	
Position Changes (From FY14 Authorized to Gov)	175	167	(8)	5
PFT	155	147	(8)	
PPT	-	-	-	
Temp	20	20	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

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

BUDGET SUMMARY

The FY15 Office of the Governor unrestricted general fund operating budget is \$5,457.4 above the FY15 Adjusted Base. This increase is due primarily to two one-time items:

- An appropriation of \$3 million UGF to address domestic violence does not appear in the base. Although the domestic violence initiative is a continuing program, funding does not appear in the FY15 base because the initiative has been funded on a "one-time" basis for several years.
- The Governor requested \$3,693.8 UGF for the costs of FY15 statewide primary and general elections. The request follows the election cycle and is treated as a one-time request for FY15.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Public Hearings: \$30.0 UGF.** Under AS 15.45.195, if an initiative is to appear on a ballot, the lieutenant governor or a designee shall hold two or more public hearings concerning the initiative in each judicial district of the state. The Governor requested \$30.0 for this purpose in FY15. An initiative associated with mining activity in Bristol Bay will be on the ballot, and two other initiatives—dealing with marijuana and the minimum wage—will appear on the ballot pending approval of signatures.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 2. Domestic Violence and Sexual Assault: \$3,000.0 UGF.** This increment replaces \$3 million of UGF that was appropriated as a one-time-item in FY14. The appropriation to the Governor's Office is intended to ensure that agency efforts to combat domestic violence and sexual assault are coordinated—\$2.95 million of the money is earmarked for transfer to various agency programs.
- 3. Redistricting Board.** The Redistricting Board carried \$2.2 million of UGF authorization into FY14. Although no additional funding is requested for FY15, the unspent balance from FY14 will be carried forward into FY15. That amount will not be known until the end of FY14.
- 4. Reduced Lease Costs: (\$50.0) UGF.** Less space is required by the Human Rights Commission and the Redistricting Board.

5. Unspecified Reductions in Expenditure Levels, Vacant Position Deletions, and Health Insurance and Working Reserve Rate Decreases. The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Office of the Governor are shown below.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$561.6)	UGF
Position Deletions <ul style="list-style-type: none">8 PFT positions	(\$654.8)	UGF
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none">Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month)Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56%	(\$78.3) (\$1.9) (\$0.4)	UGF Other Fed

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL BUDGET

The Governor's Office has no projects in the FY15 capital budget.

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Department of Health and Social Services

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$1,309,566.0			
FY14 Fiscal Notes	-			
CarryForward	9,000.0			
Misc Adjustments	-			
Agency Transfers	1,785.2			
Vetoed	-			
FY14 Management Plan (GF only)	\$1,320,351.2	\$10,785.2	0.8%	
One-time Items Removed	(11,715.3)			
Agency Transfers	-			
Temporary Increments (IncTs)	360.0			
FY15 Health Insurance & Working Reserve Reductions	(656.4)			3
FY15 Contractual Salary Increases	2,019.8			
FY15 Adjusted Base Budget (GF only)	\$1,310,359.3	(\$9,991.9)	-0.8%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	18,375.1			3
FY15 Governor's Agency Request (GF only)	\$1,328,734.4	\$18,375.1	1.4%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Appropriation			\$18,375.1	
Alaska Pioneer Homes	52,904.5	52,798.6	(105.9)	
Behavioral Health	97,299.1	96,399.1	(900.0)	4
Children's Services	92,145.0	91,787.7	(357.3)	1,5
Health Care Services	12,070.0	11,768.7	(301.3)	7
Juvenile Justice	55,957.1	55,951.9	(5.2)	
Public Assistance	183,533.7	183,733.7	200.0	6,9,10,11
Public Health	73,934.0	71,934.4	(1,999.6)	8
Senior and Disabilities Svcs	42,244.1	41,951.5	(292.6)	
Departmental Support Services	25,298.3	24,666.0	(632.3)	9
Human Svcs Comm Matching Grant	1,785.3	1,785.3	0.0	
Community Initiative Grants	881.9	881.6	(0.3)	
Medicaid Services	672,306.3	695,075.9	22,769.6	2
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	91,922.6	90,324.3	(1,598.3)	3,4
Federal Funds (all allocations)	1,249,165.7	1,250,483.9	1,318.2	1,2,5,6,8
Total Non-General Funds (all allocations)	\$1,341,088.3	\$1,340,808.2	(\$280.1)	
Position Changes (From FY14 Authorized to Gov)	3,679	3,650	(29)	3
PFT	3,502	3,489	(13)	
PPT	64	60	(4)	
Temp	113	101	(12)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	7,000.0	18.9	7,018.9	
Remodel, Reconstruction and Upgrades	462.9	94.8	557.7	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	2,050.0	-	2,050.0	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$9,512.9	\$113.7	\$9,626.6	

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 activities:

- Provide quality of life in a safe living environment for Alaskans;
- Manage health care coverage for Alaskans in need;
- Facilitate access to affordable health care for Alaskans;
- Strengthen Alaskan families;
- Protect vulnerable Alaskans; and
- Promote personal responsibility and accountable decisions by Alaskans.

BUDGET SUMMARY

The FY15 Department of Health and Social Services general fund operating budget submitted by the Governor is \$18.4 million (1.4%) above the FY15 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. **Children's Services/Family Preservation – Expand the “Strengthening Families Alaska” to Rural Communities in Alaska’s Northern and Western Regions: \$250.0 UGF.** While most tribal and tribal organization programs allocate resources to deal with child maltreatment *after* it has occurred, the Strengthening Families program is designed to prevent child abuse and neglect, reduce adverse childhood experiences, strengthen families, and support optimal child development. Alaska has one of the highest rates of child maltreatment in the United States (with a rate of 16.7 children maltreated per 1,000 compared to the national average rate of 10.1 per 1,000 children). The maltreatment rate tends to be higher in rural communities. This funding will be used to support the maintenance of current programs (\$38.0) and expand the Strengthening Families Protective Factors approach in rural locations in the Northern and Western regions of Alaska (\$212.0).

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Medicaid Services is \$22.8 million UGF (3.4%) above the FY15 Adjusted Base and \$16.8 million (2.5%) above the FY14 Management Plan.** According to the July 2013 Executive Summary of the *Long-term Forecast of Medicaid Enrollment and Spending in Alaska: Supplement 2012-2032*—the latest such document available, the average annual rate of growth in Medicaid spending is projected to be 7.6 percent for the overall program; however, *state* spending for Medicaid “will grow at a 7.9 percent annual rate due to faster growth in the utilization of services associated with lower rates of federal financial participation.” If the FY15 budget grew at the long-term projected rate of 7.9 percent in state spending, FY15 Medicaid spending would be \$54 million above the amount available in FY14—that is \$37 million less than the Governor requested. The department notes that the 7.9 percent growth rate is a long-term forecast that may not apply to FY15.

Legislative Fiscal Analyst Comment: Projections included in the Governor’s transaction notes indicate that the FY15 budget may be underfunded by at least \$26.7 million GF (if the FY14 funding levels are accurate). The significant shortfalls are highlighted below.

- **Behavioral Health Medicaid Services: \$7 million GF.** While the department projects a 1.2% growth in Behavioral Health Medicaid Services between FY14 and FY15, the Governor's budget request is \$9.2 million (11.2%) *below* the FY14 Management Plan.
- **Health Care Medicaid Services: \$14.5 million GF.** Growth in Health Care Medicaid Services is projected to be 6.8% (meaning that another \$22.4 million GF would be needed in FY15). The Governor requested \$7.96 million (an increase of 2.4% over the FY14 MP but well short of the \$22.4 million projected need).
- **Senior and Disabilities Medicaid Services: \$5.2 million GF.** Growth is projected to be 9.2% between FY14 and FY15 (which would require an increase of \$23 million GF). The Governor requested \$18 million.

To ensure that the Medicaid budget is adequately funded, the subcommittee may wish to review the Medicaid projection methodology and assumptions.

3. Unspecified Reductions in Expenditure Levels, Vacant Position Deletions, Health Insurance and Working Reserve Rate Decreases.

The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Health and Social Services are shown below.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$3,044.6)	UGF
	(\$121.3)	Fed
Position Deletions that Include Funding Reductions	(\$647.1)	UGF
• 11 PFT positions	(\$152.3)	Other
• 1 PPT position	(\$554.1)	Fed
• 3 Temp positions		
Health Insurance and Working Reserve Rate Decreases	(\$623.6)	UGF
• Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month)	(\$32.8)	DGF
	(\$96.9)	Other
• Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56%	(\$225.1)	Fed

4. Behavioral Health

- **Behavioral Health Administration – Reduce Expenditure Level: (\$650.0) UGF (-7.9%).** The division plans to reduce funding by delaying recruitment of vacant positions (\$340.0) and limiting contractual services (\$310.0).

Legislative Fiscal Analyst Comment. The department's plan to reduce funding by delaying recruitment appears to be a short-term solution. If the positions are eventually filled, will the department's funding be sufficient in FY16 and beyond?

- **Services for Severely Emotionally Disturbed Youth – Reduce Expenditure Level: (\$250.0) UGF (-1.7%).** The department will restrict funding for the Bring the Kids Home Youth Individual Service agreements. The purpose of the agreements is to provide individual, specialized services for seriously emotionally disturbed (SED) youth under the age of 21 whose

behavior poses a significant, immediate risk of harm to themselves or others that is not expected to abate while the youth remains in the home or for whom there are no appropriate behavioral health services available to help youth improve or help prevent further regression in the home.

Legislative Fiscal Analyst Comment: The legislature may wish to ask how many children this reduction will impact.

- **Behavioral Health Grants** – As amended in last year's budget, a one-time, multi-year appropriation of \$3 million GF was appropriated for Behavioral Health Grants for FY14 through FY15.

Legislative Fiscal Analyst Comment: Because all one-time funding is removed from the base budget, the legislature may not realize that an unspecified portion of this appropriation will be available to the department in FY15. The legislature may wish to ask DHSS for an update on plans and expenditures for this program.

5. Children's Services

- **General Fund Reductions in Children's Service Management and Children's Services Training: (\$607.3) UGF.** The department has not decided exactly what services will be impacted but has stated that it will focus remaining resources on core services and attempt to minimize impact on service delivery.
- **Subsidized Adoptions & Guardianship: \$2.2 million Fed Rcpts (a 20% increase from the Adjusted Base).** This funding will maintain the federal Title IV-E foster care participation rate for FY15. Projected program expenditure growth exceeds the available federal receipt authority within the component.

Legislative Fiscal Analyst Comment: The legislature may wish to ask about the match rate for this funding. If there is a match requirement, how is the department going to meet the match with no GF increase?

- ## 6. Public Assistance/Permanent Fund Dividend Hold Harmless Program Growth: \$250.0 PFD Fund (DGF) (1.4% increase).
- State law mandates that recipients of public assistance programs not lose benefits due to receipt of the Alaska Permanent Fund Dividend. This request reflects the funding needed to cover an expected caseload growth in Tribal Assistance Programs.

- ## 7. Health Care Services – General Fund Reductions and the Deletion of 2 PFT Positions: (\$301.3) GF.
- The department has not decided exactly what services will be impacted but has stated that it will utilize performance framework to focus resources on core services and minimize impact on service delivery.

8. Public Health

- **Chronic Disease Prevention and Health Promotion – Reduction of the Tobacco Use Education & Cessation Fund (TUECF) to Promote Long-Term Sustainability of the Tobacco Use Education & Cessation Programs: (\$1,600.0) DGF (a 16% Program Reduction).** The Tobacco Prevention and Control program is primarily supported by the Tobacco Use Education and Cessation Fund (TUECF). In the early years of the program, expenditures were lower than revenues and the fund built up a significant balance (up to \$16 million). In recent years appropriations from the TUECF have exceeded revenues—which has resulted in a drawdown of the fund balance. In order to sustain program expenditures from the TUECF for the long-term, a sufficient balance must be maintained to provide cash flow and annual expenditures need to be in line with revenues. The Governor's \$1.6 million reduction is requested to help achieve this balance.

Legislative Fiscal Analyst Comment. To help address the revenue/expenditure imbalance, the legislature reduced TUECF by \$746.4 in FY14. The combination of the FY14 reduction and this \$1.6 million reduction may be larger than is needed for long-term sustainability. For example, the beginning carryforward balances projections are \$12.1 million in FY15 and \$10.7 million by FY22. The legislature may wish to revise the reduction to allow for a phased drawdown of the fund.

- **Various Public Health Allocations – Vacant PCN Deletions and Unspecified UGF Reductions: (\$899.6) UGF.** The Governor's budget deleted a total of five PFT positions, three temporary positions and \$401.4 UGF from various Public Health allocations. In addition, another \$498.2 UGF for unspecified reductions was decremented.
- **Epidemiology – Replace Uncollectible Program Receipts to Accommodate Additional Fee Receipts from Disease Treatment: \$500.0 GF/Prgm (DGF) and (\$500.0) SDPR (Other).** Additional authorization is needed due to an increase in the collection of fees for chronic and infectious disease testing.

OTHER ISSUES

9. **Public Assistance/Adult Public Assistance (APA).** In the FY14 budget, the legislature granted \$2 million of the department's \$2.244 million request to fund increases in the APA program (particularly in the Aid to the Disabled and Blind category). According to notes in the FY14 budget submission, as the population in Alaska ages, the department expects an overall increase in the number of individuals served by the program to continue to increase by more than 5 percent per year.

Legislative Fiscal Analyst Comment: If the costs of this \$61.8 million program increased by 5 percent, an additional \$3 million would be needed in FY15. The legislature may wish to ask about the impacts of under-funding increased need.

10. **Public Assistance/General Relief Assistance (GRA).** Although General Relief Assistance is designed to meet basic needs (such as shelter, utilities, food and clothing), approximately 90% of GRA expenditures are for funeral and burial expenses for indigent people. In FY14, the legislature approved \$1 million of the Governor's \$1.14 million request because the department indicated that consistent double-digit growth in the GRA program over recent years is likely to continue. No additional funding was requested in FY15.

Legislative Fiscal Analyst Comment: The department did not request additional funding in FY15. If double digit increases (of 10 percent) had occurred, another \$290.5 would be needed. The legislature may wish to ask about the impacts of not funding increased need.

11. **Public Assistance/Energy Assistance Program.** The FY15 funding request for the Energy Assistance Program is virtually equivalent to the FY14 request. In FY14, the legislature removed the open-ended language appropriation requested by the Governor and added intent that the department develop regulations to allow rationing of benefits. The Governor's FY15 request is virtually identical to the FY14 request and the Governor did not request an open-ended language appropriation.

Legislative Fiscal Analyst Comment: If funding appropriated in section 1 is not sufficient to fully fund the program, the department will prorate benefits in FY15.

ORGANIZATIONAL CHANGES

- **Public Health/Tobacco Prevention and Control.** Because Chronic Disease Prevention and Health Promotion has programmatic and fiscal oversight of the functions of the Tobacco Prevention and

Control programs, the department requested that all funding in the Tobacco Prevention and Control allocation be transferred to the Chronic Disease Prevention and Health Promotion allocation.

- The **Community Health Grants** allocation was moved from the Health Care Services appropriation to the Public Health appropriation.
- Transfer **Emergency Medical Services Grants** from the Emergency Medical Services Grants component to the Emergency Programs component which has programmatic and fiscal oversight.

CAPITAL BUDGET

DHSS has proposed a total capital budget of \$9.6 million, which is comprised of \$9.5 million of state funds and \$113.7 in federal funds. A variety of projects are being requested. The largest projects are listed below:

- **MH Home Modification and Upgrades to Retain Housing (HD 1-40): \$1,050.0 (\$750.0 UGF and \$300.0 MHTAAR).** This competitive capital grant program provides housing modifications for persons with special needs to allow them to remain in their homes—thereby potentially reducing the cost of providing supported housing or institutional housing.
- **Alaska Veterans and Pioneer Home Deferred Maintenance, Renovation, Repair and Equipment: \$4 Million UGF.**
- **Non-Pioneer Homes Deferred Maintenance, Renewal, Repair and Equipment: \$3 Million UGF.** The bulk of the funding (\$2.75 million) is requested for work on several of the Youth Facilities.

Department of Labor and Workforce Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$68,424.9			
FY14 Fiscal Notes	-			
CarryForward	370.6			
Misc Adjustments	-			
Agency Transfers	145.5			
Vetoed	-			
FY14 Management Plan (GF only)	\$68,941.0	\$516.1	0.8%	
One-time Items Removed	(1,042.9)			
Agency Transfers	-			
Temporary Increments (IncTs)	326.8			
FY15 Health Insurance & Working Reserve Reductions	(83.8)			3
FY15 Contractual Salary Increases	180.8			
FY15 Adjusted Base Budget (GF only)	\$68,321.9	(\$619.1)	-0.9%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	(247.7)			2,3
FY15 Governor's Agency Request (GF only)	\$68,074.2	(\$247.7)	-0.4%	
↓				
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Appropriation			(\$247.7)	
Commissioner and Administrative Services	7,923.4	7,847.7	(75.7)	
Labor Standards and Safety	7,419.1	7,328.6	(90.5)	
Employment Security	4,024.4	4,148.7	124.3	1,5
Business Partnerships	19,593.9	19,463.5	(130.4)	2,5
Vocational Rehabilitation	6,012.3	5,982.1	(30.2)	
Alaska Vocational Technical Center	10,652.1	10,606.9	(45.2)	4,5
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	23,030.5	21,769.1	(1,261.4)	
Federal Funds (all allocations)	99,598.7	95,237.6	(4,361.1)	
Total Non-General Funds (all allocations)	\$122,629.2	\$117,006.7	(\$5,622.5)	
Position Changes (From FY14 Authorized to Gov)	928	900	(28)	3
PFT	837	809	(28)	
PPT	77	77	-	
Temp	14	14	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	8,000.0	-	8,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	170.0	-	170.0	
Other	-	-	-	
TOTAL CAPITAL	\$9,170.0	\$0.0	\$9,170.0	

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. 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.

BUDGET SUMMARY

The FY15 Department of Labor and Workforce Development general fund operating budget submitted by the Governor is \$247.7 *below* the FY15 Adjusted Base [(\$399.5) Unrestricted General Funds (UGF)/ \$151.8 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. **Employment Security/Employment and Training Services – Job Center Operating Costs: \$125.0 Training Bldg Fund (DGF).** The Training and Building Fund (TBF) (AS 23.20.130) contains penalty and interest associated with nonpayment of contributions to the Unemployment Insurance Fund. Penalty and interest collections have increased as division staff have focused on employers with delinquent accounts. This additional funding will be used to support the Alaska Job Center Network at existing staffing levels. Without the additional funding, the department will need to look at reducing staff beyond the five positions that were already deleted from this component in the operating budget submitted by the Governor.

Legislative Fiscal Analyst Comment: As revenue declined in past years, the department's TBF authorization declined from a little over \$1 million in FY10 to \$665.0 in FY14—the FY14 authorization is \$231.4 less than anticipated revenue. Now that revenue is increasing, the department is requesting additional expenditure authority to replace some lost federal and I/A Receipts.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Business Partnerships/Workforce Investment Board – Reduce Expenditure Level by Deleting a Vacant Gasline Training Program Administrator Position: (\$159.6) UGF (and 1 PFT Position).** The Gasline Training Program Administrator position has been vacant since October 2013 and this position's duties will be assumed by other staff.

3. **Unspecified Reductions in Expenditure Levels, Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Labor and Workforce Development are shown below.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$159.6)	UGF
Position Deletions <ul style="list-style-type: none"> 10 PFT positions 	(\$246.8) (\$6.2) (\$261.4) (\$461.1)	UGF DGF Other Fed
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$53.5) (\$30.3) (\$35.8) (\$135.5)	UGF DGF Other Fed

4. **Alaska Vocational Technical Center (AVTEC)**

- Delete a Vacant Full-Time AVTEC Instructor Position: (\$51.5) UGF and (\$44.7) Fed Receipts.** One permanent full time Seward instructor (and associated funding) that has been vacant since June 2012 has been deleted. The duties of this position have been assumed by other staff.
- Operating Costs Received in FY13 and FY14 not Requested in FY15: \$200.0 UGF.** To allow time for AVTEC to adjust tuition rates, the legislature approved "one-time" UGF increments for operating costs in the FY13 and FY14 budgets. The FY15 budget request did not include another \$200.0 UGF request. In order to maintain services, AVTEC is considering tuition increases for FY15.

Legislative Fiscal Analyst Recommendation: LFD is concerned that the FY15 GF/Prgm Rcpt authorization may be insufficient if AVTEC increases tuition—GF/Prgm Receipt authorization in FY15 is only \$88.8 above the FY13 actual expenditures. The legislature may wish to increase the GF/Prgm Rcpt authorization to ensure that enough authorization exists to allow AVTEC to spend revenue from tuition increases.

5. **Technical Vocational Education Program (TVEP) Receipts (DGF): \$47.6 VoTechEd Funding (DGF).** The Technical Vocational Education Program (TVEP) is a set-aside of employee contributions to unemployment insurance. The receipts are transferred to a separate account in the general fund and, subject to appropriation, are used to support vocational training centers around the state. Legislative appropriations occur in several departments and have been based on a formula set out in statute (AS 23.15.820 – 23.15.850). For FY15, the estimated available receipts of the Alaska Technical and Vocational Education Program is \$10,863.5 (\$103.5 more than the amount available in

FY14). The change in the amount available to the department for distribution based on the allocation outlined in AS 23.15.835(d) is as follows:

- Kotzebue Technical Center Operations Grant: \$9.3
- Alaska Vocational Technical Center: \$17.6
- Northwest Alaska Career and Technical Center: \$3.1
- Southwest Alaska Vocational and Education Center Operations Grant: \$3.1
- Yuut Elitnaurviat, Inc. People's Learning Center Operations Grant: \$9.3
- Delta Career Advancement Center: \$3.1
- New Frontier Vocational Technical Center: \$2.1

ORGANIZATIONAL CHANGES

There were no significant organizational changes.

CAPITAL REQUEST

The Department of Labor and Workforce Development is requesting \$9.2 million UGF in the capital budget for the following three projects:

- **Heavy Equipment Shop/Diesel Shop/Pipe Welding Relocation – Phase 2: \$8 million UGF.** This request will fund the second phase of the Alaska Vocational Technical Center's (AVTEC) Heavy Equipment Shop/Diesel Shop/Pipe Welding Relocation project. Phase 2 will include construction of a 13,000 square foot steel fabricated building and relocation of the Heavy Equipment and Medium/Heavy Truck Technology programs from the current space.
- **Employment and Training Services Public Access Network: \$170.0 UGF.** To address federal and state security compliance findings of potential security threats from public access to the state's network, funding is requested to develop a public access network infrastructure that is independent from the current statewide area network.
- **AVTEC Deferred Maintenance: \$1 million UGF.** This annual request is to pay for deferred maintenance needs at 16 state-owned buildings in Seward.

Department of Law

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$64,518.5			
FY14 Fiscal Notes	-			
CarryForward	2,000.0			
Misc Adjustments	-			
Agency Transfers	137.5			
Vetoed	(552.4)			
FY14 Management Plan (GF only)	\$66,103.6	\$1,585.1	2.5%	
One-time Items Removed	(5,717.5)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(176.5)			3
FY15 Contractual Salary Increases	370.3			
FY15 Adjusted Base Budget (GF only)	\$60,579.9	(\$5,523.7)	-8.4%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	2,580.3			
FY15 Governor's Agency Request (GF only)	\$63,160.2	\$2,580.3	4.3%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Appropriation			\$2,580.3	
Criminal Division	30,425.0	29,333.5	(1,091.5)	4
Civil Division	27,208.7	30,997.6	3,788.9	2,5,6
Administration and Support	2,946.2	2,829.1	(117.1)	
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	28,779.8	29,293.9	514.1	1,3,6
Federal Funds (all allocations)	1,977.9	1,004.3	(973.6)	3
Total Non-General Funds (all allocations)	\$30,757.7	\$30,298.2	(\$459.5)	
Position Changes (From FY14 Authorized to Gov)	579	572	(7)	3
PFT	576	569	(7)	
PPT	3	3	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

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 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 management of the department.

BUDGET SUMMARY

The FY15 Department of Law general fund operating budget as submitted by the Governor is \$2,580.3 above the FY15 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.

PROGRAM EXPANSION

1. **Criminal Appeals/Special Litigation – Increase RSA for Department of Corrections Legal Services: \$225.0 Interagency Receipts (Other).** The Department of Law (DOL) has hired a third attorney to cover their increased caseload for the Department of Corrections (DOC), a result of all Colorado prisoners returning to Alaska. Under DOC's prior contract with the GEO Group, Inc. (Hudson, Colorado), \$175.0 was provided for legal services. This amount covers only 75% of the costs for an additional attorney in Alaska. DOL is requesting the full cost (\$225.0 I/A) as the additional caseload warrants 100% of a full-time attorney.

Legislative Fiscal Analyst Comment: Both departments are aware of the \$50.0 variance and the Department of Law may need to absorb the difference if DOC is unable to fund the full amount.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Natural Resources – Fully Fund Statehood Defense Attorney Added in FY14: \$65.9 UGF.** Two of the agency's Statehood Defense attorneys added in FY14 were funded at three-quarters of the cost to allow time for recruitment. One position was deleted (see item #2) and this increment represents the amount needed to annualize the remaining position.
3. **Unspecified Reductions in Expenditure Levels, Vacant Position Deletions, and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Law are shown on the following page.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$1,136.4)	UGF
Position Deletions <ul style="list-style-type: none"> 7 PFT positions 	(\$1,284.2)	UGF
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$170.6) (\$5.9) (\$76.2) (\$2.2)	UGF DGF Other Fed

4. Criminal Justice Litigation – Restore One-Time Funding for Victim Information and Notification (VINE) System: \$80.0 UGF. The VINE system is a computer-based service that provides prisoner custody status information to victims and other subscribers. Implementing the VINE system in FY14 enables the department to provide automatic notification to victims while at the same time freeing up paralegals' time to perform other victim witness services. Base funding is requested to continue the efforts of VINE.

5. Oil, Gas and Mining: \$5.3 million UGF. The department is requesting funds to continue its role in the construction of a gas pipeline 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.

- **\$3.8 Million UGF** base funding is requested 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 matter. The \$3.8 million request consists of two transactions:
 - **\$2 million maintenance increment to restore FY14 one-time funding; and**
 - **\$1.8 million increment.**

Legislative Fiscal Analyst Comment: The department received a \$2 million UGF reappropriation from unexpended BP Corrosion funding [Ch. 16, SLA 2013 (SB29, Sec. 12(c))] for these efforts that lapses on 6/30/14 (see table on the following page).

- **\$1.5 Million UGF** base funding is requested to restore FY14 one-time funding for work related to the state gas pipeline and to bring North Slope gas to market.

Legislative Fiscal Analyst Comment: Although the department is requesting oil & gas increments as base additions, the legislature has consistently funded these activities with one-time appropriations to promote annual legislative review of what may be varying external costs (see table on the following page).

Department of Law's Oil & Gas Related Funding FY11-FY15

Oil & Gas Related Funding Base and Non-Base FY11-FY15	FY11 Budget		FY12 Budget		FY13 Budget		FY14 Budget		FY15 Request	
	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE
(Non-Gasline) Outside Counsel and Experts for Oil & Gas Matters (Including Pt. Thomson Litigation, FERC on TAPS Tariffs, and TAPS property tax matters)		\$3 million UGF		\$2 million UGF <i>FY11 Supplemental Multi-Year Lapsed 6/30/12</i>		\$5 million UGF		\$2 million UGF	\$3.8 million UGF	
		\$3.87 million UGF <i>FY11 Supplemental</i>		\$3 million UGF <i>FY12 Capital Multi-Year Lapsed 6/30/13</i>	Of this \$3 million, \$1,453.7 was carried forward into FY13			\$2 million UGF <i>Reappropriation from unexpended BP Corrosion Lapses 6/30/14</i>		
Gasline - Preparation of Legislation and Implementation of a Comprehensive Plan to Commercialize North Slope Gas		\$2.5 million UGF		\$2 million UGF		\$2 million UGF		\$1.5 million UGF	\$1.5 million UGF	

6. Commercial and Fair Business – Investigative Services for Consumer Protection Program: \$240.0 Statutory Designated Program Receipts [SDPR (Other)], and a decrease of (\$140.0) UGF.

Recent collections of SDPR funds from several large consumer protection settlements have exceeded the Department of Law's annual SDPR authorization. In FY14, the legislature approved \$100.0 SDPR in one-time funding (half of the department's base request) to contract for additional investigative services with the intent to review progress and consider adding base funding in FY15. The increased level of SDPR collections is unlikely to continue because additional cases with large settlement potential and corresponding SDPR contributions have not been identified. Due to the temporary nature of the surplus, the department requests funding as follows:

- \$100.0 IncM SDPR (maintenance increment) to restore FY14 one-time funding; and
- \$140.0 IncT SDPR (temporary increment) (FY15-FY23) with an offsetting (\$140.0) UGF decrement.

Legislative Fiscal Analyst Comment: The department currently has a balance of \$8.7 million SDPR. This increment would increase annual SDPR authority to approximately \$900.0, which will exhaust the \$8.7 million balance in approximately nine years.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL BUDGET

No capital budget projects are requested.

Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$22,455.8			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	23.6			
Vetoed	(153.1)			
FY14 Management Plan (GF only)	\$22,326.3	(\$129.5)	-0.6%	
One-time Items Removed	(323.6)			
Agency Transfers	4,791.4			4
Temporary Increments (IncTs)	300.0			
FY15 Health Insurance & Working Reserve Reductions	(40.1)			6
FY15 Contractual Salary Increases	94.7			
FY15 Adjusted Base Budget (GF only)	\$27,148.7	\$4,822.4	21.6%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	(2,097.9)			
FY15 Governor's Agency Request (GF only)	\$25,050.8	(\$2,097.9)	-7.7%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$2,097.9)	
Office of the Commissioner	2,939.6	2,898.6	(41.0)	6
Air Guard Facilities Maintenance	1,847.9	1,805.1	(42.8)	3
Alaska Military Youth Academy	4,955.3	4,979.0	23.7	2
Retirement Benefits	740.1	769.9	29.8	1
Alaska Aerospace Corporation	3,322.0	2,460.5	(861.5)	5
Alaska Aerospace Corporation Facilities Maintenance	4,829.9	3,623.8	(1,206.1)	5 & 6
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	16,775.4	12,106.2	(4,669.2)	4, 5 & 6
Federal Funds (all allocations)	25,370.7	23,386.2	(1,984.5)	6
Total Non-General Funds (all allocations)	\$42,146.1	\$35,492.4	(\$6,653.7)	
Position Changes (From FY14 Authorized to Gov)	342	336	(6)	6
PFT	339	333	(6)	
PPT	2	2	-	
Temp	1	1	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	4,100.0	7,903.1	12,003.1	
Remodel, Reconstruction and Upgrades	1,637.5	12,362.5	14,000.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	4,500.0	4,500.0	
TOTAL CAPITAL	\$5,737.5	\$24,765.6	\$30,503.1	

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.

BUDGET SUMMARY

The FY15 Department of Military and Veterans' Affairs general fund operating budget as submitted by the Governor is \$2.1 million *below* the FY15 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.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 1. National Guard and Naval Militia Retirement System Actuarial Adjustment: \$29.8 UGF.** The National Guard and Naval Militia Retirement System Actuarial Valuation dated July 2013 identified the FY15 Total Annual Contribution as \$627.3 to fund this retirement system. There is base funding of \$740.1 UGF within the Alaska National Guard Benefits appropriation and with this increment request there will be a total \$769.9 UGF.

Legislative Fiscal Analyst Comment: The department excluded the Past Service Cost Amortization in the amount of (\$142.6) from the calculation of the Total Annual Contribution. The legislature may prefer to fund this retirement system at the actuarially recommended level by:

- denying the increment request of \$29.8 UGF and
- reducing the Alaska National Guard Benefits appropriation by \$112.8 UGF.

- 2. Alaska Military Youth Academy – General Education Development (GED) Testing Change: \$23.7 UGF.** Effective January 1, 2014, the GED Testing requirements changed nationally from a paper-based to a computer-based format. The estimated increased cost of this change to the Alaska Military Youth Academy (AMYA) is \$67.1. The department is requesting \$23.7 UGF to help offset the increased cost. (See item #3.)

Legislative Fiscal Analyst Comment: In FY14, the department transferred general funds from the STARBASE program to AMYA to off-set increased costs due to the GED Testing change. For FY15, the department is currently analyzing the actual (versus estimated) cost of the new GED program and how it will absorb the difference within its existing budget.

- 3. Air Guard Facilities Maintenance - Closure of the STARBASE Program: (\$42.8) UGF.** On September 30, 2013, the Department of Military and Veterans' Affairs closed the STARBASE program. The FY15 Governor's Requested budget eliminates all remaining general funds associated with the program. A separate revenue reconciliation transaction eliminates all excess federal receipt authorization within the Air Guard Facilities Maintenance allocation, including \$300.0 federal receipt authority associated with the STARBASE program.

Legislative Fiscal Analyst Comment: In FY14, the legislature reduced the STARBASE program's general fund support by \$50.0, from approximately \$85.0 to \$35.0. General funds were used to pay for expenses that were prohibited under the federal award, for example Information Technology services, facility costs, maintenance and utilities.

- 4. Alaska Military Youth Academy Funding Changes: Transfer-In \$4,791.4 UGF and Decrement (\$5,654.7) Inter-Agency (I/A) Receipts.** Chapter 72, SLA 2013 (HB 180) established the Alaska Military Youth Academy (AMYA) within the Department of Military and Veterans' Affairs as part of the National Guard Youth Program established under 32 U.S.C. 509. It also repealed AS 14.30.740 [i.e., the funding formula for the Alaska Challenge Youth Academy (ACYA) that was in the Department of Education and Early Development (DEED)]. In FY15, instead of appropriating funding to DEED to be transferred to AMYA using a statutory funding formula, the funding is being directly appropriated to AMYA. All general funds within the DEED's ACYA allocation are being transferred to AMYA and the excess I/A Receipt authority is being eliminated from AMYA.

Legislative Fiscal Analyst Comment: In future budgets, AMYA will be required to request changes to the level of funding through increments and decrements in the budget process, instead of receiving changes automatically through the funding formula.

- 5. Alaska Aerospace Corporation (AAC) Operations and Maintenance: (\$2,000.0) UGF, (\$1,312.5) Capital Project Improvement Receipts (Other), and \$3,115.5 AAC Receipts (Other).** In FY14, the legislature appropriated \$8,129.2 UGF to the Alaska Aerospace Corporation for operating and maintenance costs of the Kodiak Launch Complex. AAC presented a plan to the legislature that would reduce future UGF support annually by \$2 million. The FY15 budget includes several requested changes:

- Reduce general funds by \$2 million;
- Replace \$1,312.5 of empty Capital Project Improvement Receipt authority with Alaska Aerospace Receipt authority to appropriately account for launch contract revenue; and
- Increase Alaska Aerospace Receipt authority by an additional \$1,803.0 to appropriately account for launch contract revenue.

Legislative Fiscal Analyst Comment: In FY14, the legislature also included contingency language specifying that if AAC does not secure a multi-year commercial launch contract for the Kodiak Launch Complex on or before March 1, 2014, UGF funding appropriated to AAC would be reduced by \$2 million. This contingency was met on May 22, 2013.

- 6. Health Insurance and Working Reserve Rate Decreases and Vacant Position Deletions.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Military & Veterans' Affairs are shown below.

Description	Funding Amount	Fund Group
Position Deletions	(\$108.6)	UGF
• 6 PFT positions	(\$416.3)	Other
	(\$70.3)	Fed
Health Insurance and Working Reserve Rate Decreases	(\$40.1)	UGF
• Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month)	(\$30.3)	Other
• Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56%	(\$32.5)	Fed

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY15 Department of Military and Veterans' Affairs capital budget totals \$30.5 million (\$5,737.5 UGF/ \$24,765.6 Federal Receipts). A summary of the projects is as follows:

- **Fairbanks Veterans Cemetery – Gold Rush Historic Ditch Mitigation:** \$100.0 UGF;
- **Army Guard Construction, Contingency, and Planning:** \$10,000.0 Federal Receipts;
- **State Homeland Security Grant Programs:** \$4,500.0 Federal Receipts;
- **Armory Facilities Projects:** \$4,000.0 (\$1,637.5 UGF/ \$2,362.5 Federal Receipts); and
- **Deferred Maintenance, Renewal, Repair and Equipment Projects:** \$11,903.1 [\$3,680.4 UGF/ \$319.6 GF Match (UGF)/ \$7,903.1 Federal Receipts].

Department of Natural Resources

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$106,877.8			
FY14 Fiscal Notes	189.0			
CarryForward	1,461.5			
Misc Adjustments	-			
Agency Transfers	501.2			
Vetoed	-			
FY14 Management Plan (GF only)	\$109,029.5	\$2,151.7	2.0%	
One-time Items Removed	(3,537.7)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(206.7)			6
FY15 Contractual Salary Increases	570.4			
FY15 Adjusted Base Budget (GF only)	\$105,855.5	(\$3,174.0)	-2.9%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	(1,222.8)			
FY15 Governor's Agency Request (GF only)	\$104,632.7	(\$1,222.8)	-1.2%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$1,222.8)	
Gas Pipeline Project Office	2,616.8	-	(2,616.8)	7
Project Mangement & Permitting	946.3	983.9	37.6	2
Oil and Gas	10,030.7	10,680.7	650.0	8
Forest Management & Development	4,716.8	4,553.0	(163.8)	6
Geological and Geophysical Surveys	5,219.7	5,569.7	350.0	3
Agricultural Development	1,565.9	1,746.9	181.0	9
Parks Management & Access	9,415.5	9,833.0	417.5	4
Fire Suppression Preparedness	17,070.8	16,992.5	(78.3)	6
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	41,508.3	41,820.0	311.7	1,2,5
Federal Funds (all allocations)	22,525.2	21,819.1	(706.1)	
Total Non-General Funds (all allocations)	\$64,033.5	\$63,639.1	(\$394.4)	
Position Changes (From FY14 Authorized to Gov)	1,112	1,103	(9)	6
PFT	759	751	(8)	
PPT	241	240	(1)	
Temp	112	112	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	5,005.0	-	5,005.0	
Maintenance and Repairs	3,550.0	4,700.0	8,250.0	
Remodel, Reconstruction and Upgrades	4,215.0	-	4,215.0	
New Construction and Land Acquisition	2,685.0	1,000.0	3,685.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	3,900.0	-	3,900.0	
Other	550.0	2,050.0	2,600.0	
TOTAL CAPITAL	\$19,905.0	\$7,750.0	\$27,655.0	

Department of Natural Resources

The Department of Natural Resources (DNR) develops Alaska's resources by making them available for maximum use and benefit consistent with the public interest. Core Services include:

- Fostering responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment;
- Providing access to state lands for public and private use, settlement, and recreation;
- Ensuring sufficient data acquisition and assessment of land and resources to foster responsible resource development; and
- Mitigating threats to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geological hazards.

BUDGET SUMMARY

The FY15 Department of Natural Resources general fund operating budget submitted by the Governor is \$1,222.8 *below* the FY15 Adjusted Base [(\$1,490.3) Unrestricted General Funds (UGF)/ \$267.5 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. **In-State Gas Pipeline Activity: \$670.3 Gas Pipeline Fund (Other).** With the passage of HB 4 last session, the **State Pipeline Coordinator's Office (SPCO)** will be tasked with the coordination of DNR divisions in the pre-construction permitting and work associated with the Alaska Gasline Development Corporation's (AGDC) development of an in-state gas pipeline. Per the fiscal note, \$670.3 was identified as needed for FY15. The funding is anticipated to be distributed as follows: SPCO (\$541.5), the Division of Mining Land & Water (\$96.5), and the Office of History & Archaeology (\$32.3). Details of each division's responsibilities and anticipated use of the funding can be seen in the fiscal note.

Legislative Fiscal Analyst Comment: For FY15-16, the fiscal note identifies a need for eight new long-term non-permanent positions (and additional \$1,764.1 of expenditure authority) for pipeline construction oversight. As with all funding from the Gas Pipeline Fund, this funding is classified as interagency receipts that cannot be spent without a signed agreement with the AGDC. Note, however, that Department of Administration did not record the fund code properly and that agencies may access Gas Pipeline funds without AGDC approval.

2. **Office of Project Management and Permitting (OPMP), New Project Coordinator: \$150.5 [\$37.6 UGF, \$112.9 Statutory Designated Program Receipts (Other)].** OPMP is experiencing a significant increase in requests by the oil and gas industry to provide project coordination services. These services are provided via a memorandum of understanding and costs are reimbursed by the industry. In order to meet the demand being put upon the office and accept additional funding from the industry, a new project coordinator position is requested. In addition, this new coordinator would supply support in federal resource planning. These support services cannot use SDPR funding, hence 25% of this increment is unrestricted general funds.

3. **Geologic Materials Center Lease Payment: \$350.0 UGF.** With funding provided via the capital budget, the Department of Administration (DOA) has purchased the old Sam's Club in Anchorage to be the new home of the Geologic Materials Center. The **Geological & Geophysical Surveys'** allocation will incur a projected annual lease cost of \$565.6, to cover operating costs such as utilities, janitorial, snow removal, building security, etc. In addition, DNR is hoping to utilize excess space and move the State Pipeline Coordinator's Office (SPCO) into the building. A capital project is requested in the FY15 capital budget to add this office space for the SPCO.

With the SPCO leasing a portion of the building, DNR's plan to pay the \$565.6 lease includes:

- \$40.0 of existing funding (no longer paid for the existing GMC facility);
- \$72.5 rent collected from the SPCO;
- \$103.1 UGF from the Gas Pipeline Project Office (transferred in the Adjusted Base before it is removed from the budget); and
- \$350.0 requested in this increment.

Legislative Fiscal Analyst Comment: If the sizable FY15 capital funding (\$2.2 million) is not authorized by the legislature and the SPCO is unable to move into the new GMC building, DNR will be \$72.5 short of the amount required to pay lease costs.

4. **Parks Management & Access – Vacant Positions Funding and Staff for South Denali: \$417.5 General Funds [\$150.0 UGF, \$267.5 GF/Prgrm (DGF)].** In order to manage within appropriated resources, the Division of **Parks & Outdoor Recreation** implemented a hiring freeze during FY13. Seven permanent full-time and fourteen temporary positions have been held vacant. According to the department, public complaints about over-flowing trash cans, filthy restrooms and general parks deterioration have risen as a result of the decreased man-power. A portion of this increment (\$382.0) would allow DNR to fill most of the vacant positions and manage them within a 3% vacancy factor (approximately equivalent to holding three to four full-time equivalents open).

This increment also includes \$35.5 for two seasonal positions to maintain the new facilities at the South Denali Visitor Center (Phase 1), expected to open in May of 2015. Phase 1 of the project includes 32 RV campsites, 15 walk-in campsites, four public use cabins, a maintenance/ranger station and six miles of trails. Phase 2 of the project is in the Governor's FY15 capital budget request.

Legislative Fiscal Analyst Comment: If accumulated carry-forward receipts are being used for this increment, GF/Program Receipts may not be a viable long-term funding source. An analysis of available GF/Program Receipts may be prudent.

5. **Kids Don't Float Life Jackets and Education Program Expansion: \$100.0 Boat Receipts (Other).** The **Parks Management & Access** allocation currently has expenditure authorization of \$200.0 boat registration fees for the Kid's Don't Float program. The state collects approximately \$525.0 of receipts annually with \$396.9 total budgeted in FY14. This increment would utilize an additional \$100.0 of the revenue stream to increase education and implementation of the program.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 6. Vacant Position Deletions, and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Natural Resources are shown below.

Description	Funding Amount	Fund Group
Position Deletions <ul style="list-style-type: none"> • 4 PFT positions • 1 PPT position 	(\$242.1) (\$102.2) (\$206.1)	UGF Other Fed
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none"> • Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) • Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$152.1) (\$54.6) (\$67.1) (\$15.9)	UGF DGF Other Fed

- 7. Deletion of Gas Pipeline Office for AGIA: (\$2,616.8) UGF.** The **Gas Pipeline Office**, charged with AGIA license monitoring and compliance under AS 43.90, is removed from the Governor's FY15 budget. The administration contends that AGIA is an improper framework for developing the liquefied natural gas (LNG) pipeline currently envisioned by the Governor and supported by the three major players in the industry: ExxonMobil, BP and ConocoPhillips.

Legislative Fiscal Analyst Comment: The administration's exit strategy for AGIA, and what will replace the AGIA framework, are unclear at this time. There also exists a multi-year operating appropriation for permitting and application processing related to pipeline right-of-way work. The lapse date for this appropriation was extended last session through FY15 and the amount still available beginning FY14 was \$1,161.5. The agency is currently projecting this funding to be fully expended in FY14.

- 8. Oil and Gas Royalty Arbitration: \$650.0 UGF.** Significant funding has been appropriated for oil and gas royalty arbitration in recent years. This funding allows the **Division of Oil and Gas** to contract with the Department of Law for legal counsel necessary for royalty audit disputes, and to provide any necessary economic analysis to support the state's position.

Last session, this funding was removed from section 1 of the bill and placed in language. The agency is requesting the funding be placed back into section 1 of the bill to enhance budget continuity.

Legislative Fiscal Analyst Comment: If this funding is expected to be ongoing, placing the funding in section 1 makes sense. If this funding is expected to be temporary (even if it is for several years), the legislature may opt for a language appropriation, an IncT or IncOTI to ensure that the funding does not "get lost" in the base budget.

- 9. Restore Farm to School Program: \$181.0 UGF.** The Division of Agricultural Development has been a conduit for fostering the relationship between a small Alaska agricultural industry and local schools' food services programs. The Farm to School program was created via Chapter 11, SLA 2010 (HB70) to increase the procurement and use by public schools of food grown in the state. The legislation is scheduled to sunset at the end of FY14, but DNR hopes to continue

the program within the existing statutory authority of the Division of Agriculture. \$181.0 of UGF is requested to be placed in the base budget for FY15 and beyond.

ORGANIZATIONAL CHANGES

Other than the deletion of the Gas Pipeline Project Office, there are no significant changes.

CAPITAL BUDGET

The DNR capital budget totals \$27.7 million (\$17 million GF, \$2.9 million Other State Funds, and \$7.75 million Federal Funds). The budget consists of a diverse mix of projects from mine reclamation to snowmobile trail development and includes \$4 million for parks and forestry deferred maintenance. A few highlights from the agency's capital budget are described below:

- **Unified Permit Automation and Document Management: \$3,900.0 UGF.** The number one capital priority for the agency for the last several years, the Unified Permit Project is an interactive system designed to streamline the permit process by shortening cycle times for land and water use authorizations. The system integrates mapping systems, documents and project related data with individual applicant's case files. To date, \$13.2 million has been appropriated for this project.
- **Geologic Materials Center Office Space Renovation: \$2,165.0 UGF.** This project will build office space for the SPCO in the Geologic Materials Center. The Department of Administration has calculated that moving the State Pipeline Coordinator's Office (SPCO) into the newly acquired building for the Geologic Materials Center will save the state approximately \$900.0 over 10 years and \$3.1 million over 20 years.
- **South Denali Visitor Center Phase 2: \$1,235.0 UGF.** To date, \$20.4 million has been appropriated for the South Denali Visitor Center design and construction. Phase 1 construction is underway and expected to be completed in the summer of 2014. This entails 32 RV campsites, 15 walk-in campsites, four public use cabins, a maintenance/ranger station and six miles of trails. Phase 2 entails continued trail development to in order to provide sustainable hiking opportunities and protection of the environment.
- **Lower Kenai River Park Facility and Access Improvements Phase 1: \$1,000.0 UGF.** A boat launch facility in a premier location on the Lower Kenai River is in the final stages of being acquired through the Exxon Valdez Oil Spill Restoration Program. Upon acquisition, significant improvements are desired to make the facility safe and functional. \$1 million is requested for Phase 1, which entails design work, dock and launch rehabilitation, parking areas and new restrooms. Another million for Phase 2 (FY16) would include construction of a new parking facility, landscaping, signage and additional restroom facilities.
- **Yukon River Crossing Fault Characterization: \$630.0 UGF.** This project would fund geological mapping and hazards assessments to understand threats to existing infrastructure (including the Trans-Alaska Pipeline) and aid engineering of new projects along the Yukon River crossing.
- **Strategic and Critical Minerals Assessment: \$375.0 UGF.** This appropriation would fund the continued assessment of strategic and critical minerals potential in Alaska. This project received \$498.0 startup funding in FY12, \$2.7 million in FY13 and \$2.5 million in FY14. This amount of \$375.0 is significantly lower than the projected need from last year's budget. \$2.3 million dollars is still remaining on prior year appropriations.

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Department of Public Safety

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$178,736.6			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	275.0			
Vetoed	-			
FY14 Management Plan (GF only)	\$179,011.6	\$275.0	0.2%	
One-time Items Removed	(410.1)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(296.6)			11
FY15 Contractual Salary Increases	346.8			
FY15 Adjusted Base Budget (GF only)	\$178,651.7	(\$359.9)	-0.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	229.3			
FY15 Governor's Agency Request (GF only)	\$178,881.0	\$229.3	0.1%	
↓				
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Appropriation			\$229.3	
Fire and Life Safety	4,809.8	4,494.8	(315.0)	6,12
Alaska State Troopers	124,854.3	121,318.1	(3,536.2)	5,6,7,8,9
Village Public Safety Officers	17,663.3	21,091.3	3,428.0	1,2
Domestic Violence/Sexual Assault	11,778.1	12,315.6	537.5	3,10
Statewide Support	18,017.5	18,132.5	115.0	4
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	15,364.5	16,274.5	910.0	11
Federal Funds (all allocations)	10,784.3	10,784.3	-	11
Total Non-General Funds (all allocations)	\$26,148.8	\$27,058.8	\$910.0	
Position Changes (From FY14 Authorized to Gov)	920	924	4	11
PFT	885	885	-	
PPT	18	18	-	
Temp	17	21	4	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	4,350.0	-	4,350.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,500.0	-	1,500.0	
Information Systems and Technology	-	-	-	
Other	-	1,200.0	1,200.0	
TOTAL CAPITAL	\$5,850.0	\$1,200.0	\$7,050.0	

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; and
- 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 provide law enforcement for the investigation of fires for the crime of arson and property crimes involving fire.

BUDGET SUMMARY

The FY15 Department of Public Safety general fund operating budget as submitted by the Governor is \$229.3 above the FY15 Adjusted Base [\$129.3 Unrestricted General Funds (UGF) and \$100.0 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) Program – Add 15 VPSOs: \$3.1 Million UGF.** The department has dramatically increased its rural law enforcement recruiting efforts during the past seven years. This FY15 increment would bring the total authorized VPSO count to 136 (an increase of 95 officers from FY08 levels).

- **\$2,143.0 UGF** for personal services, supplies, liability insurance and travel (base increment); and
- **\$935.7 UGF** for initial training and equipment costs (one-time funding).

Legislative Fiscal Analyst Comment: The subcommittee may wish to have the department explain why one-time costs for 15 VPSOs has increased from \$409.5 in FY14 to \$935.7 in FY15.

Allocation of any added FY15 positions will be based on the geographic need identified in the grantees' FY15 applications. In FY14, 121 VPSOs were allocated to the following 10 grantee entities:

- Aleutian/Pribilof Islands Association, 7 (6 filled);
- Association of Village Council Presidents, 30 (24 filled);
- Bristol Bay Native Association, 15 (12 filled) ;
- Central Council of Tlingit/Haida, 12 (9 filled);
- Chugachmiut, 4 (3 filled);
- Copper River Native Association, 6 (4 filled);
- Kodiak Area Native Association, 8 (6 filled);
- Kawerak, 13 (11 filled);
- Northwest Arctic Borough, 8 (5 filled); and
- Tanana Chiefs Conference, 18 (12 filled).

The Governor has indicated a desire to add 15 positions every year until FY20.

Legislative Fiscal Analyst Comment: Despite heavy recruitment efforts, as of December 31, 2013, 29 of the 121 VPSO positions authorized in FY14 were vacant.

- **VPSO Vacancies** Between FY09 (when the legislature began adding 15 new VPSO positions per year) and FY12, the department and grantees have done an outstanding job of recruiting and filling the positions. However, it appears the program reached a point in FY13 (the last year 15 VPSOs were added) where positions were being created faster than they could be filled. Although the number of new positions added in FY14 was reduced from 15 to 5, the program currently has 29 vacancies and 92 filled positions (last year at this time there were 93 filled positions). The legislature may wish to consider maintaining funding at the current level until there are fewer vacancies.
- **How does the VPSO Program handle excess funding resulting from vacant positions?** DPS monitors grant expenditures throughout the year and amends grant awards as needed or upon request of the grantee. Projected excess (or unexpended) funds may be used for unmet year-end needs of the grantees (e.g., equipment, supplies, construction, etc.). DPS increased its monitoring oversight and made grant process changes in FY13. DPS now holds back monies from grantees with vacant VPSO positions. Also, through grant amendments, DPS will keep tighter control on funding allocated for staff and on non-personal services costs. These grant process changes should control and improve the filling of VPSO positions.

2. Village Public Safety Officers (VPSO) Program – One New Trooper in Dillingham for VPSO Oversight: \$349.3 UGF. The approximately 200% increase in statewide VPSO presence during the past seven years necessitates additional oversight by the Alaska State Troopers. Three new positions were added in FY12 (Kotzebue, Bethel, and Fairbanks), one in FY13 (Anchorage), and most recently one Juneau position was added in FY14. Funding for this Dillingham position is split into two increment requests:

- \$259.2 UGF for ongoing funding to cover personal services, travel, training, and supplies for one new trooper (base increment); and
- \$90.1 UGF to cover training at the academy, IT equipment, portable radios, office equipment, firearms and vehicles (one-time funding).

Legislative Fiscal Analyst Comment: As an alternative to the request for full-year funding for personnel plus one-time costs, the legislature may wish to consider funding only the base increment. This would allow one-time costs to be covered by savings attributable to partial-year filling of the position.

3. **Council on Domestic Violence and Sexual Assault (CDVSA) – Expand Shelter Programs for Children Exposed to Violence: \$250.0 UGF.** Increased funding will expand programs for children exposed to violence who enter domestic violence shelters with adult victims. Some of the programs to be enhanced include:
 - group counseling sessions for children;
 - the use of child advocates who help child residents with safety planning; and
 - training for shelter staff on child development and the impact of domestic violence on children.
4. **Laboratory Services – Strengthen Capacity to Conduct Timely Biological Screening and DNA Analysis in Sexual Assault Cases: \$115.0 UGF.** Funding is requested to re-class a vacant position to a Forensic Scientist III to investigate sexual assault cases. At the beginning of FY14, 72 of the 115 sexual assault cases waiting for biological evidence screening were over 45 days old and 95 of the 109 cases waiting for DNA analysis were over 45 days old. With approximately 25 new sexual assault cases arriving at the laboratory each month, the department has determined an additional Forensic Scientist III is needed to meet the department's goal of processing all of these cases within 45 days.
5. **AST Detachments - User Fees from the Alaska Records Management System (ARMS): \$100.0 GF/PR.** With the department's implementation of the new records management system (ARMS), other law enforcement agencies have recognized the significant benefits of partnering with DPS and have expressed interest in becoming ARMS users. In order for that to occur, there are additional licensing fees that will have to be paid by each user. To effectively charge these other organizations for their participation, DPS needs to have authority to spend these incoming funds for licensing and operational costs.
6. **Alaska Wildlife Troopers (AWT) - Enhance Fish and Wildlife Enforcement in Bristol Bay, Copper River Basin Region and Fairbanks: \$100.0 GF/PR.** Funding will allow AWT to expend revenue collected through the sale of confiscated fish. AWT intends to use the proceeds to expand and enhance the Bristol Bay Commercial Salmon Program as well as to train staff for division-wide enforcement programs. Additionally, AWT would plan for a directed game (moose / caribou) program within the Copper River Basin Region and Fairbanks area. These areas are seeing an increase in serious game violations that are overstressing local law enforcement resources.

Legislative Fiscal Analyst Comment: Originally submitted as a transfer of excess GF/PR authority from the Fire and Life Safety allocation, this item was converted to an increment/decrement pair by Legislative Finance and should be examined carefully for reasons raised in the past when receipts have been proposed as a funding source for operations.

- Although GF/PR is requested, this should be viewed as a UGF increment. Fines and penalties are currently deposited into the general fund. This increment would reduce UGF revenue, which has the same effect as spending UGF on operations.
- Using fines and penalties for operations may create an incentive for an agency to issue more fines and penalties because doing so increases the agency's budget.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

7. **Special Projects - Disband the Alaska Bureau of Highway Patrol: (\$2.2 million) UGF.** The department will disband the Alaska Bureau of Highway Patrol (ABHP), a specialized traffic enforcement and fatal crash investigation team, in two phases. Overall savings are projected to be about \$2.2 million. In Phase I, the department will reassign all State Trooper and support positions to the patrol detachments where the ABHP units are currently located. Over the course of time, as patrol based positions in other communities become vacant through transfers and reassignments, they will be filled with the former ABHP personnel.

In Phase II, the department will reclassify the vacated ABHP trooper positions into administrative support positions. These positions will range from lower level office assistants to research analysts, designed to provide administrative support to the commissioned personnel and shift currently assigned administrative duties from troopers to the support positions, realigning those duties to where they are performed by the most appropriate job class. This will allow for more focused efforts by troopers on direct law enforcement duties.

8. **Alaska State Troopers - Savings Associated with Transfer of Patrol Vessel *Stimson*'s Base of Operations from Dutch Harbor to Kodiak: (\$500.0) UGF.** The mission in the Bering Sea has changed due to the way the fisheries are now managed. The department will relocate the base of operations for the Patrol Vessel *Stimson* from Dutch Harbor to Kodiak with projected savings as follows:
- Rural Trooper Housing, (\$98.3) UGF;
 - Alaska Wildlife Troopers, (\$140.6) UGF; and
 - Alaska Wildlife Troopers Marine Enforcement, (\$261.1) UGF.

9. **Alaska Wildlife Troopers Marine Enforcement - Decommission Patrol Vessel *Wolstad*: (\$500.0) UGF.** The Patrol Vessel *Wolstad* will be decommissioned and replaced by a smaller vessel that better meets the department's needs. An FY13 \$2.4 million UGF capital appropriation to repower the *Wolstad*'s engine and perform other dry dock maintenance proved to be insufficient to complete the work. After carefully reviewing available options and operational needs, the department determined that a smaller, 58 foot vessel will allow DPS to safely operate in Bristol Bay during the peak of the salmon runs to police that valuable fishery at a much reduced cost to the state.

Legislative Fiscal Analyst Comment: The Governor did not include funding for a smaller vessel in the FY15 Capital Request. As of Jan. 6, 2014, approximately \$80.0 of the FY13 capital project had been obligated, leaving an estimated balance of \$2.3 million. In order for these funds to be utilized for a replacement vessel, a capital project scope change would be required.

10. **Council on Domestic Violence and Sexual Assault (CDVSA) – Maintain Existing Services to Victims of DVSA: \$287.5 UGF.** Funding will help cover an increase in basic shelter costs such as utilities, personal services, insurance, and food as well as transportation for victims in rural areas.

Legislative Fiscal Analyst Comment: Although not directly appropriated to the Department of Public Safety, the Governor has requested \$3 million UGF to fund various Sexual Assault and Domestic Violence Prevention programs through the DVSA Office. FY15 marks the fifth year in a row of this request to appropriate money directly to the Governor's Office for centralized disbursement of funds via reimbursable service agreements with the Departments of Corrections, Public Safety, Health and Social Services, and Education and Early Development. The amount to be transferred to DPS is \$910.0 UGF.

- 11. Unspecified Reductions in Expenditure Levels, Vacant Position Deletions, and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Public Safety are shown on the following table.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$640.3)	UGF
Position Deletions <ul style="list-style-type: none"> 1PFT position 	(\$110.9)	UGF
Health Insurance and Working Reserve Rate Decreases <ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$290.0) (\$6.6) (\$7.2) (\$2.3)	UGF DGF Other Fed

- 12. Decrements of Excess GF/PR Authority from Fire and Life Safety to Various Alaska State Trooper (AST) Allocations: \$215.0 GF/PR (Offset by Increments in Other Allocations)** The following items were originally submitted as transfers of excess GF/PR authority from the Fire and Life Safety allocation. Legislative Finance converted the transactions to Increment/Decrement pairs for reasons cited in item 6:

- \$135.0 to AST Detachments for fines, forfeitures, judgments & settlements to offset investigation costs;
- \$40.0 to AST Detachments for public record fees to offset request processing costs; and
- \$40.0 to Statewide Drug and Alcohol Enforcement Unit for judgments and settlements to offset investigation costs.

ORGANIZATIONAL CHANGES

There are no structural changes requested; however, it is worth noting that the Alaska Bureau of Highway Patrol (ABHP) is being disbanded and all ABHP troopers are being reassigned to Alaska State Trooper (AST) Detachments. Additionally, the six AST positions that provide VPSO oversight were transferred from the AST appropriation to the VPSO Program appropriation (along with associated funding of \$1.2 million UGF).

CAPITAL REQUEST

The agency's \$7.05 million capital budget (\$4.85 million UGF, \$1.2 million Federal Receipts, and \$1 million Statutory Designated Program Receipts (Other) can be categorized as follows:

MAINTENANCE AND REPAIRS: \$3.35 million UGF and \$1 million SDPR

- Statewide Facilities Maintenance, Repairs, and Improvements: \$1.35 million UGF
- Statewide Domestic Violence Shelter Improvements: \$1 million UGF and \$1 million SDPR
- Aircraft and Vessel Repair and Maintenance: \$1 million UGF

EQUIPMENT and MATERIALS: \$1.5 million GF

- Alaska State Trooper Law Enforcement Equipment: \$500.0 UGF
- Alaska Wildlife Trooper Law Enforcement Equipment: \$500.0 UGF
- VPSO Equipment : \$500.0 UGF

Legislative Fiscal Analyst Comment Given the flexibility the VPSO program has to utilize savings from unfilled positions for equipment purchases, capital funding might not be necessary for this item.

OTHER: \$1.2 million Federal Receipts

- Marine Fisheries Patrol Improvements: \$1.2 million Federal Receipts

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Department of Revenue

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$42,585.4			
FY14 Fiscal Notes	484.6			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	204.2			
Vetoed	-			
FY14 Management Plan (GF only)	\$43,274.2	\$688.8	1.6%	
One-time Items Removed	(664.2)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(89.9)			1
FY15 Contractual Salary Increases	259.6			
FY15 Adjusted Base Budget (GF only)	\$42,779.7	(\$494.5)	-1.1%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(46.0)			
FY15 Governor's GF Increments/Decrements/Fund Changes	(728.4)			
FY15 Governor's Agency Request (GF only)	\$42,005.3	(\$774.4)	-1.8%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$774.4)	
Tax Division	16,273.1	16,009.8	(263.3)	1 & 3
Treasury Division	6,043.5	6,017.5	(26.0)	1
Alaska Retirement Management Board	382.5	132.5	(250.0)	1
Permanent Fund Dividend Division	8,460.8	8,383.8	(77.0)	1
Child Support Services	9,503.0	9,409.5	(93.5)	1
Commissioner's Office	246.3	206.7	(39.6)	1
Administrative Services	531.3	506.3	(25.0)	1
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	228,378.5	252,141.3	23,762.8	2
Federal Funds (all allocations)	77,584.4	77,842.6	258.2	
Total Non-General Funds (all allocations)	\$77,584.4	\$77,842.6	\$258.2	
Position Changes (From FY14 Authorized to Gov)	937	931	(6)	1
PFT	885	880	(5)	
PPT	34	33	(1)	
Temp	18	18	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	750.0	-	750.0	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	45,000.0	4,700.0	49,700.0	
New Construction and Land Acquisition	19,250.0	-	19,250.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	211.6	158.5	370.1	
Other	12,600.0	7,500.0	20,100.0	
TOTAL CAPITAL	\$77,811.6	\$12,358.5	\$90,170.1	

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 Retirement Management Board; and
 - the Alaska Mental Health Trust Authority.

BUDGET SUMMARY

The FY15 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$774.4 *below* the FY15 Adjusted Base [(\$697.4) Unrestricted General Funds (UGF) and (\$77.0) 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.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. **Unspecified Reductions in Expenditure Levels, Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Revenue are shown below.

Description	Funding Amount	Fund Group
Unspecified Reductions in Expenditure Levels	(\$441.5)	UGF
Position Deletions	(\$255.9)	UGF
<ul style="list-style-type: none"> • 4 PFT positions • 1 PPT position • 1 temporary position 	(\$77.0)	DGF
Health Insurance and Working Reserve Rate Decreases	(\$70.7)	UGF
<ul style="list-style-type: none"> • Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(\$19.2)	DGF
	(\$102.0)	Other
<ul style="list-style-type: none"> • Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$65.1)	Fed

2. **Alaska Permanent Fund Corporation External Management, Custody, and Due Diligence Fees: \$23.8 million PF Gross Earnings (Other).** This request will fund increased management fees based on projected asset value growth and higher fees that are associated with changes in the Permanent Fund's structure and strategies. In addition, the money will be utilized for investment opportunities which require external subject matter specialists, third party fiduciaries and legal review, as well as increased custody fees.

OTHER ISSUES

3. **New Positions Established with Partial Funding.** In FY14, the Tax Division received partial funding for several new positions. The legislature approved \$279.0 of the requested \$372.0 UGF for a new Audit Master position and an Oil & Gas Revenue Auditor position. It also approved \$70.0 of the requested \$148.0 UGF for a new Executive Director position for the Film Office. No additional funding was requested for these positions in the FY15 Governor's Request.

Legislative Fiscal Analyst Comment: The legislature may want to request an update from the department on the status of these new positions and the department's ability to absorb the full cost of the positions within its existing budget. The FY15 Governor's Request includes a decrement of \$32.0 for contractual services, the deletion of four long-term vacant positions, and \$255.9 UGF associated with the deleted positions from the Tax Division (included within item #1).

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY15 Department of Revenue (DOR) capital budget totals \$90.2 million (\$76.8 million UGF/ \$130 thousand DGF/ \$850 thousand Other Funds/ \$12.4 million Federal Receipts).

The Alaska Housing Finance Corporation (AHFC) capital budget makes up the majority of the department's request (99.6% of the budget for FY15). AHFC has over \$89.8 million budgeted for their housing programs (\$76.8 million of UGF, \$850 thousand Other Funds and \$12.2 million of Federal Receipts). A few of the projects requested include:

- **Weatherization Program:** \$29 million (\$27.5 million UGF/ \$1.5 million Federal Receipts);
- **Home Energy Rebate Program:** \$17.5 million UGF;
- **Homeless Assistance Program:** \$8 million [\$6.3 million UGF/ \$850 thousand GF/MH (UGF)/ \$850 thousand MHTAAR (Other)];
- **Supplemental Housing Development Program:** \$7 million UGF;
- **Teacher, Health, Public Safety Professionals, and Village Public Safety Officer (VPSO) Housing Loan Program:** \$6 million UGF; and
- **Senior Citizen's Housing Development Program:** \$4.5 million UGF.

The remainder of the DOR's capital budget request totals \$370 thousand and includes the following:

- **Permanent Fund Dividend Division Computer Replacement Project Phase 3:** \$130 thousand PFD Fund (DGF); and
- **Child Support Services Computer Replacement Project Phase 5:** \$240 thousand [\$158.5 Federal Receipts/ \$81.6 GF Match (UGF)].

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

Department of Transportation and Public Facilities				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$351,475.0			
FY14 Fiscal Notes	34.9			
CarryForward	11.3			
Misc Adjustments	-			
Agency Transfers	288.0			
Vetoed	-			
FY14 Management Plan (GF only)	\$351,809.2	\$334.2	0.1%	
One-time Items Removed	(400.0)			
Agency Transfers	(201.1)			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(642.7)			3
FY15 Contractual Salary Increases	831.9			
FY15 Adjusted Base Budget (GF only)	\$351,397.3	(\$411.9)	-0.1%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	(1,764.2)			
FY15 Governor's Agency Request (GF only)	\$349,633.1	(\$1,764.2)	-0.5%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$1,764.2)	
Transportation Management & Security	1,012.9	894.7	(118.2)	3
Statewide Administrative Services	3,127.6	2,762.4	(365.2)	3,4
Statewide Information Services	2,674.9	2,259.9	(415.0)	4
Program Development	563.0	519.5	(43.5)	3
Measurement Standards and Commercial Vehicle Enforcement	4,912.1	4,826.0	(86.1)	3
Statewide Design and Engineering Services	1,320.4	950.3	(370.1)	3
Central Design and Engineering Services	1,335.0	997.3	(337.7)	4,5
Northern Design and Engineering Services	667.3	434.7	(232.6)	4,5
Southeast Design and Engineering Services	857.1	525.5	(331.6)	4,5
Central Construction and CIP Support	612.4	411.2	(201.2)	4
Northern Construction and CIP Support	604.3	404.4	(199.9)	4
Central Region Facilities	8,049.0	8,502.7	453.7	1
Traffic Signal Management	1,846.2	1,855.1	8.9	
Central Highways and Aviation	53,298.5	53,388.8	90.3	2,3,6
Northern Highways and Aviation	67,822.6	68,039.9	217.3	2,6
Southeast Highways and Aviation	15,644.7	15,585.4	(59.3)	3
Marine Engineering	2,253.6	2,313.6	60.0	7
Marine Shore Operations	8,034.2	8,200.2	166.0	7
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	275,633.1	278,441.0	2,807.9	3,4,5,8
Federal Funds (all allocations)	3,845.6	2,845.6	(1,000.0)	9
Total Non-General Funds (all allocations)	\$3,845.6	\$2,845.6	(\$1,000.0)	
Position Changes (From FY14 Authorized to Gov)	3,820	3,801	(19)	3
PFT	3,193	3,180	(13)	
PPT	397	395	(2)	
Temp	230	226	(4)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	6,403.5	213,709.4	220,112.9	
Maintenance and Repairs	51,728.8	24,010.0	75,738.8	
Remodel, Reconstruction and Upgrades	96,663.9	629,523.8	726,187.7	
New Construction and Land Acquisition	13,500.0	63,950.0	77,450.0	
Equipment and Materials	24,328.7	17,638.8	41,967.5	
Information Systems and Technology	1,019.7	3,450.0	4,469.7	
Other	2,150.0	34,100.0	36,250.0	
TOTAL CAPITAL	\$195,794.6	\$986,382.0	\$1,182,176.6	

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 254 state-owned airports, 5,619 miles of state roads, 720 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, for an approximate total of 8,020 light and heavy duty vehicles and attachments.

BUDGET SUMMARY

The FY15 Department of Transportation and Public Facilities general fund operating budget submitted by the Governor is \$1,764.2 (0.5%) *below* the FY15 Adjusted Base [(\$1,353.8) Unrestricted General Funds (UGF)/ (\$410.4) 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.

NEW PROGRAMS/PROGRAM EXPANSION

1. Central Region Facilities - New Facilities' Operating Costs: \$453.7 UGF.

A total of 10 new facilities (88,359 square feet) have been added to the **Central Region Facilities'** inventory for the FY14/FY15 budget. These include several sand storage and snow removal equipment buildings, the Dutch Harbor hangar, the Seward maintenance shop at Crownpoint, and the Anchorage materials warehouse and projects office. An increment of \$453.7 to cover building operations costs, such as heating fuel, electricity, supplies, insurance and travel to perform maintenance is requested.

Legislative Fiscal Analyst Comment: Excluded from this budget request, but typically requested in recent years, is maintenance funding for additional lane miles added via the capital budget. The agency is expecting approximately 127 new lane miles to be added to the inventory through FY15 with an approximate cost of \$960.0 to maintain those new miles. As the budget is currently constructed, those new costs will be covered with existing resources.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. Rural Airport Maintenance Contracts and Insurance: \$303.8 UGF. As the cost of living and doing business in rural communities has risen, pressure to increase contracts for rural airport maintenance has likewise increased. The FY14 Governor's budget request for Central Region Highways and Aviation included \$132.5 UGF to address this rising pressure on maintenance contracts, but the request was denied by the legislature. For the FY15 budget, \$137.5 is requested for the **Central Region** and \$166.3 for **Northern Region Highways and Aviation**.

3. Vacant Position Deletions and Health Insurance and Working Reserve Rate Decreases. The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Department of Transportation and Public Facilities are shown below.

Description	Funding Amount	Fund Group
Position Deletions	(\$442.0)	UGF
<ul style="list-style-type: none"> 13 PFT positions 	(\$50.0)	DGF
<ul style="list-style-type: none"> 2 PPT position 	(\$1,021.0)	Other
<ul style="list-style-type: none"> 4 Temp position 		
Health Insurance and Working Reserve Rate Decreases	(\$484.4)	UGF
<ul style="list-style-type: none"> Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) 	(158.3)	DGF
<ul style="list-style-type: none"> Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$557.3)	Other
	(\$2.6)	Fed

4. Expanded Use of CIP Receipts in Lieu of General Funds: \$2,019.5 CIP Receipts (Other)/ (\$2,019.5) UGF. Just over \$2 million of unrestricted general funds have been removed from this budget and are being replaced with CIP Receipts. The allocations where this occurs are both directly and indirectly impacted by the capital budget.

Replacement of GF with CIP Receipts	
Allocation	UGF
Statewide Administrative Services	(291.8)
Statewide Information Systems	(415.0)
Statewide Design & Engineering	(370.1)
Central Region Design & Engineering	(223.8)
Northern Region Design & Engineering	(153.1)
Southeast Region Design & Engineering	(164.6)
Central Region Construction & CIP Support	(201.2)
Northern Region Construction & CIP Support	(199.9)
Total	(2,019.5)

The agency plans to replace general funds by increasing the indirect charge (via their indirect cost allocation plan) applied to all direct capital project expenditures.

Legislative Fiscal Analyst Comment: The agency is increasing their ICAP rates to replace general funds. This budget tool has been used in the past by the legislature, but the agency has generally opposed it when brought up in budget discussions. Their proposal to increase indirect rates perhaps provides insight into how tight the FY15 budget has become.

The current federally approved maximum rate varies by transportation mode, but averages to 5.45%. The average rate being applied for the FY14 budget is 3.41% and the FY15 rate will be higher. If further general fund reductions are desired by the finance committees, the ICAP rates could be increased further toward the maximum federally approved rates.

5. **Partial Conversion of Funding Sources for Right-of-way and Utilities Programs: \$360.4 CIP Receipts (Other)/ (\$360.4) GF/ Program Receipts (DGF).** Central, Northern, and Southeast Region Design and Engineering Services allocations all contain GF/Program Receipts collected as a result of various activities associated with right-of-way permitting and inspections. These receipts have historically been budgeted in excess of actual collections, causing the agency to utilize other funding sources in the budget to make up the difference. As alternative funding sources have become tighter, the agency is requesting CIP receipts to replace uncollectible GF/Program Receipts. See discussion of CIP Receipts in item #3
6. **Alaska Railroad Signal Crossing Agreement Renewal: \$123.0 UGF.** An agreement with the Alaska Railroad Corporation (ARRC) provides for inspection and routine maintenance on all DOT&PF automated crossing signals installed on ARRC property. The **Central and Northern Region Highways and Aviation** allocations include increments of \$72.0 and \$51.0, respectively, for these costs.

Legislative Fiscal Analyst Comment: The maintenance agreement with ARRC was signed in March of 2012, and inspection and maintenance costs associated with that agreement have been incurred by the agency for some time now. This increment would cover a budget shortfall previously absorbed within existing resources.
7. **Marine Highway System Maintenance Crew and Port of Bellingham Lease Increase: \$226.0 UGF.** Two increments are included in the budget for the Marine Highway System. \$60.0 is included in the **Marine Engineering** allocation for a new maintenance crewman for shore facilities (primarily dock maintenance). An existing position will be utilized and partial funding will be found within the budget. Also, the **Marine Shore Operations** allocation includes an additional \$166.0 of UGF to address the Port of Bellingham lease increase as a result of the inflationary cost adjustment provision within the lease.
8. **International Airport Systems' Office: \$1,000.0 International Airport Revenue Funds (Other).** In an effort to operate the two state international airports (in Anchorage and Fairbanks) as an International Airport System, some functions are being consolidated within the **International Airport Systems' Office**. An increase of \$1 million of International Airport Revenue Funds is budgeted to cover some previously existing costs moved into the System Office as well as costs associated with upgraded technology and systems. The \$1 million is broken down as follows:

Existing Costs	
200.0	Business and Economic Development Projects
250.0	Legal Services
150.0	Airport Technical Representative Contract
New Costs	
220.0	Maintenance Costs for Common Use Passenger Processing System (CUPPS)
110.0	Revenue Accounting System Replacement Project
70.0	Airport Operations Database
1,000.0	Total

Legislative Fiscal Analyst Comment: It is not clear at this time where the existing costs have been recorded in the budget, but the subcommittee may want to investigate the possibility of removing them from the previous location.

- 9. Excess Federal Authority in the Anchorage International Airport Safety Office: (\$1,000.0) Federal Receipts.** The Anchorage International Airport Safety allocation has approximately \$2.3 million of federal receipt authority in their budget of which approximately \$600.0 is realized each year.

Legislative Fiscal Analyst Comment: In order to offset the \$1 million increase to the International Airport Systems' Office (Item #9), the agency has decremented a commensurate amount of excess federal receipt authority. Because it appears that federal receipts are still over-authorized by about \$700.0, subcommittees may wish to further decrease the federal authorization in this allocation.

OTHER ISSUES

- 10. Fuel/Utility "Trigger" Appropriation (DOT&PF Maximum \$22.5 million UGF).** The oil price "trigger" appropriation created by the legislature is again included in the Governor's budget. As in FY14, 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 \$105.06 (the Department of Revenue's Fall Forecast price for FY15) on August 1st would result in disbursement of **\$15 million, of which DOT&PF would receive 65% plus or minus 10%** (as decided by the Governor's Office).

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.

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Legislative Fiscal Analyst's Overview of the Governor's FY2015 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$676,773.4			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	(1.2)			
Agency Transfers	-			
Vetoed	-			
FY14 Management Plan (GF only)	\$676,772.2	(\$1.2)	0.0%	
One-time Items Removed	(117.8)			5
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	-			
FY15 Contractual Salary Increases	5,940.2			9
FY15 Adjusted Base Budget (GF only)	\$682,594.6	\$5,822.4	0.9%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(0.8)			
FY15 Governor's GF Increments/Decrements/Fund Changes	(7,373.5)			
FY15 Governor's Agency Request (GF only)	\$675,220.3	(\$7,374.3)	-1.1%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			(\$7,374.3)	
Budget Reductions/Additions - Systemwide	(6,561.9)	(21,408.9)	(14,847.0)	3,7
Statewide Services	30,464.6	30,509.6	45.0	4
Anchorage Campus	224,384.1	228,040.7	3,656.6	1,4
Kenai Peninsula College	15,755.1	15,775.1	20.0	4
Kodiak College	4,478.0	4,488.1	10.1	4
Matanuska-Susitna College	10,645.0	11,266.0	621.0	1,4
Prince William Sound Community College	6,678.7	6,703.2	24.5	4
Bristol Bay Campus	2,550.0	2,556.4	6.4	4
Chukchi Campus	1,545.5	1,546.8	1.3	4
Fairbanks Campus	212,700.2	215,167.5	2,467.3	1,4
Interior-Aleutians Campus	3,778.4	3,780.2	1.8	4
Kuskokwim Campus	5,534.8	5,543.3	8.5	4
Northwest Campus	2,330.5	2,332.7	2.2	4
Juneau Campus	38,726.5	39,317.9	591.4	1,4,5
Ketchikan Campus	4,695.0	4,706.0	11.0	4
Sitka Campus	7,114.7	7,120.3	5.6	4
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	86,017.8	86,717.8	700.0	2,6
Federal Funds (all allocations)	150,852.7	150,852.7	-	
Total Non-General Funds (all allocations)	\$236,870.5	\$237,570.5	\$700.0	
Position Changes (From FY14 Authorized to Gov)	4,949	4,949	0	
PFT	4,727	4,727	-	
PPT	222	222	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	37,500.0	-	37,500.0	
Remodel, Reconstruction and Upgrades	20,000.0	-	20,000.0	
New Construction and Land Acquisition	20,000.0	-	20,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$77,500.0	\$0.0	\$77,500.0	

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). Core services (in priority order) are as follows:

- Student instruction;
- Research: Advancing knowledge, basic and applied; and
- Service: Sharing knowledge to address community needs.

BUDGET SUMMARY

The FY15 University of Alaska (UA) general fund operating budget submitted by the Governor is \$7,374.3 below the FY15 Adjusted Base [(\$12,658.8) Unrestricted General Funds (UGF)/ \$5,284.5 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. New Facilities– Estimated Operating Costs & Leases: \$5.9 million Total [\$2,150.0 UGF/ \$3,789.9 University Receipts (DGF)]. Additional operating and maintenance costs associated with the following facilities are included in the Governor's request:

- **\$3,399.9 Total [\$1,610.0 UGF/ \$1,789.9 University Receipts (DGF)]: UAA AK Airlines Center (Sports Arena) Operating Costs.** This funding is needed for operating costs of this 196,000 gross square foot facility, which is scheduled to be operational in July 2014. In FY11, this project was funded as part of a state general obligation bond package;
- **\$615.0 Total [\$540.0 UGF/ \$75.0 University Receipts (DGF)]: UAA Mat-Su Valley Center for Arts and Learning Operating Costs.** Startup, operating and maintenance costs connected with this 30,000 gross square foot facility are needed, including the recruitment and hiring of personnel to manage and operate the theatre/auditorium. The Center is scheduled to be operational in July 2014. In FY11, this project was also funded as part of the state general obligation bond package. Startup of operating and maintenance costs connected with this facility are needed, plus the recruitment and hiring of personnel to manage and operate the theatre/auditorium;
- **\$425.0 University Receipts (DGF): UAS Freshmen Residence Hall Operating Costs – Juneau Campus.** This request will provide money to cover ongoing costs associated with the Fall 2014 opening of the new 35,000 gross square foot Juneau campus facility; and
- **\$1,500.0 University Receipts (DGF): UAF Public Private Partnership Housing Development.** As part of the “Student Life: Transforming the UAF Experience” project, the University of Alaska Fairbanks proposes to provide new student housing units through a public private partnership (P3) arrangement. With construction beginning as early as August 2014, a 90-bed dormitory will be the beginning phase in this plan to increase the quality and quantity of available housing within the campus core. This increment will provide UAF the use of housing receipts to make lease payments.

2. **New Mental Health Trust Authority Recommendations – Anchorage Campus: \$145.0 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** The Governor’s FY15 request includes ten Anchorage Campus projects supported by the MH Trust Authority, seven of which are ongoing (shown in the budget as maintenance requests) plus three first-year increments. Trustees approve operating and capital budgets and provide annual recommendations to the Governor and the legislature. The FY15 first-year Mental Health increment requests are as follows:
- **Workforce Development Grant – Administrative Costs (FY15-FY17): \$35.0 MHTAAR.** These funds will be used through the Anchorage Office of Health Program Development to fund administrative costs such as implementing the Alaska Health Workforce Coalition contract and the Results Based Accountability project;
 - **Workforce Development Grant – Special Projects (FY15-FY17): \$35.0 MHTAAR.** These funds will be used through the Anchorage Office of Health Program Development to ensure that the work of the Alaska Health Workforce Coalition (AHWC) continues; and
 - **Workforce Development Grant – Vacancy Study (IncOTI): \$75.0 MHTAAR.** The Trust Workforce Development Focus Area, in partnership with the University of Alaska, the Alaska Area Health Education Center, and the Department of Labor and Workforce Development, is investing in a health workforce vacancy study to determine the extent of openings within health-related occupations.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

3. **Budget Reductions/ Additions – Systemwide – Unspecified Reductions in Expenditure Level: (\$14.9 million) UGF.** In accordance with the Governor’s desire to cut state spending, the University of Alaska’s FY15 budget submission reflects an unspecified 4% Unrestricted General Fund *reduction*. If this level is maintained, the Board of Regents will allocate cuts and align budgets with projected available revenue to manage all University resources. UA’s authorized position count was not reduced, but vacancies may ensue depending on the ability to reduce personal services.
4. **University of Alaska Utility Cost Increases: \$1,415.0 University Receipts (DGF).** This request covers the projected FY15 utility and fuel cost increases, estimated at a 7.6% increase over FY14. The unrestricted general fund portion of the increase is expected to be offset through a utility fuel trigger mechanism [Section 20(e)(2)] in the Governor’s bill, and, if necessary, a request for supplemental funding.
5. **Continue Funding for the Director of the UAS Center for Mine Training/ Assistant Professor of Mining: \$117.8 Total [\$90.0 UGF/ \$27.8 University Receipts (DGF)].** The Director of the Center for Mine Training was created after receiving a \$300.0 donation from Hecla Greens Creek (HGC) in June 2011. This position is responsible for teaching courses to support the Hecla Greens Creek Mine Training Career Pathway. The Director works in cooperation with University of Alaska Mining and Petroleum Training Service (MAPTS) to provide free Mine Safety and Health Administration (MSHA) training and entry-level miner training that leads to jobs in local mines. This position was added by the legislature as a one-time increment in FY14. The Governor has requested base funding for this program in the FY15 budget.

6. Ongoing Mental Health Trust Authority Recommendations – Anchorage Campus: \$1.72 million Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other). The Governor’s FY15 request includes seven ongoing increments supported by the MH Trust Authority. The list of Trustee-approved operating items to maintain current mental health services is as follows:

- **Workforce Development Grant – Trust Training Cooperatives & Alaska Rural Behavioral Health Training Academy – IncT (FY14-FY17): \$955.0 MHTAAR;**
- **Substance Abuse – Center for Alcohol Policy Partnership – IncT (FY14-FY15): \$30.0 MHTAAR;**
- **Workforce Development Grant – Workforce Development Coordinator – IncT (FY14-FY17): \$180.0 MHTAAR** (a shared workforce development position wholly funded by the Trust to act as the single point of contact for the University and the Trust on all health workforce projects and activities);
- **Beneficiary Projects Grant – Partners in Policymaking: \$200.0 MHTAAR;**
- **Workforce Development Grant – Specialized Skills and Services Training on Serving Cognitively Impaired Offenders: \$65.0 MHTAAR;**
- **Workforce Development Grant – Interpersonal Violence Prevention for Beneficiaries: \$80.0 MHTAAR; and**
- **Workforce Development Grant – Technical Assistance & Implementation of Disability Abuse Response Teams (D.A.R.T.) in Targeted Communities: \$210.0 MHTAAR.**

7. Technical Vocational Education Program (TVEP) Receipts Funding: \$51.8 TVEP Receipts (DGF). According to Chapter 47, SLA 2008 (HB 2), 50% of TVEP funding is allocated to the University. For FY15, the University expects to receive a total of \$5,431.8 (of the estimated \$10.9 million of total TVEP receipts)—an increase of \$51.8 over FY14. University funding is statutorily allocated to UA Systemwide 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: The Governor’s FY15 budget maintains a single appropriation structure, and this entire increase is reflected in the Budget Reductions/Additions – Systemwide allocation. 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.

OTHER ISSUES

8. Legislative Intent – Establishing a Ratio for General Fund Support for the University of Alaska. The FY14 operating budget conference committee continued to discuss methodologies for stabilizing/reducing the state’s UGF share of 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 submits a FY15 budget in which requests for unrestricted general fund increments do not exceed the amount of additional University Receipts requested for that year. It is the intent of the legislature that future budget requests of 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: Discussion of these ratios is proving helpful for long-term planning on the part of the University and the legislature. The Governor's proposed budget from FY14 to FY15 includes a *reduction of \$7.4 million in general funds* [(\$12,658.8) UGF and \$5,284.5 DGF (primarily University Receipts including tuition)], which complies with legislative intent.

9. **Contractual Salary and Health Increases.** The budget includes a total of \$5,940.2 in previously negotiated salary and benefit increases. These salary adjustments are funded by an even split of UGF and University Receipts (DGF). As of the Governor's December budget submission, the FY15 increases include the University of Alaska Federation of Teachers (UAFT), University of Alaska Fire Fighters Union (FFU), and Non-Unionized UA staff. Still under negotiation are contracts for Local 6070 (Alaska Higher Education Crafts & Trade Employees), United Academics Faculty (UNAC), and University of Alaska Adjuncts (UNAD).

Legislative Fiscal Analyst Comment: The contract for Local 6070 (Alaska Higher Education Crafts & Trade Employees) expired on December 31, 2012; and the UNAC and UNAD contracts expired on December 31, 2013. No requests for funding new agreements will be included in the budget until collective bargaining agreements have been negotiated, ratified and approved by the UA Board of Regents.

BOARD OF REGENTS' REQUEST

The Governor's budget is less than the Board of Regents' request by \$23.4 million (\$21.4 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 Governor's FY15 budget maintains the FY14 single appropriation budget structure. For years the University operated with a single appropriation (which maximizes flexibility). The legislature created seven appropriations in FY09 in order to allow more legislative oversight and control, and the multiple appropriations were supported through FY13. In FY14, the legislature agreed to a single appropriation to allow for continuous budget adjustments and the management of University budget resources.

CAPITAL REQUEST

There are four project requests totaling \$77.5 million in the University's FY15 capital budget:

- **UAA Engineering Building: \$10.0 million Total [\$5.0 million UGF/ \$5.0 million University Receipts (DGF)].** UAA engineering is experiencing dramatic growth in its enrollments with a near doubling of the entire program in the past five years. Current enrollment is over 1,000 students. The existing engineering building was built in the early 1980s and is undersized for UAA's program to meet industry demand. This project includes the construction of a new Engineering and Industry laboratory/classroom building (approximately 81,500 gross square feet); the renovation and repurposing of the existing three-story School of Engineering building; and a new multi-story parking facility with approximately 500 spaces required by the Municipality of Anchorage to accommodate the parking demand, as well as replace the existing parking displaced by the new building. The total project cost is \$123.2 million, of which \$77.6 million has been received to date.
- **UAF Engineering Building: \$10.0 million Total [\$5.0 million UGF/ \$5.0 million University Receipts (DGF)].** As part of the University of Alaska Statewide Engineering Expansion

Initiative, the University of Alaska Fairbanks (UAF) has seen a 100% increase in student enrollment and graduation of baccalaureate trained engineers, and has started construction on the UAF Engineering Facility at the Fairbanks campus. This new facility will allow for better integration of UAF's engineering research and graduate programs, and addresses critical classroom needs as well. The total project cost is \$108.6 million, of which \$65.3 million UGF has been received to date.

- **University Receipt Authority for Capital Projects: \$20.0 million University Receipts (DGF).** This capital request is an estimate of the University Receipt authority needed for expenditure on FY15-FY16 projects at the main and community campuses. This authority provides the University the flexibility needed to respond to opportunities that arise during the year.
- **Deferred Maintenance, Renewal and Repurposing: \$37.5 million UGF.** The University owns and maintains over 400 buildings, totaling 6.7 million square feet, with an adjusted value of almost \$3 billion. The current deferred maintenance, renewal and repurposing backlog exceeds \$1.2 billion. This is the fifth year of the Governor's \$100 million per year commitment to address the state's deferred maintenance backlog. This portion has been assigned to UA in the past based on the square footage of the state's facilities, excluding roads.

Alaska Court System

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$111,092.3			
FY14 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Agency Transfers	-			
Vetoed	-			
FY14 Management Plan (GF only)	\$111,092.3	\$0.0	0.0%	
One-time Items Removed	(196.8)			
Agency Transfers	-			
Temporary Increments (IncTs)	-			
FY15 Health Insurance & Working Reserve Reductions	(335.5)			6
FY15 Contractual Salary Increases	784.3			
FY15 Adjusted Base Budget (GF only)	\$111,344.3	\$252.0	0.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY15 Governor's GF Increments/Decrements/Fund Changes	1,704.5			
FY15 Governor's Agency Request (GF only)	\$113,048.8	\$1,704.5	1.5%	
FY15 Governor's Increments, Decrements, Fund Changes and Language	FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation			\$1,704.5	
Appellate Courts	7,288.6	7,308.7	20.1	4
Trial Courts	86,761.8	88,367.0	1,605.2	1,2,3,4,5,7,8
Administration and Support	10,692.1	10,742.1	50.0	4
Commission on Judicial Conduct	405.4	414.6	9.2	
Judicial Council	1,112.5	1,132.5	20.0	9
Non-General Fund Agency Summary	FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)	1,401.1	1,967.0	565.9	10
Federal Funds (all allocations)	1,675.6	1,425.6	(250.0)	
Total Non-General Funds (all allocations)	\$3,076.7	\$3,392.6	\$315.9	
Position Changes (From FY14 Authorized to Gov)	838	838	0	
PFT	767	767	-	
PPT	50	50	-	
Temp	21	21	-	
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	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	4,400.0	-	4,400.0	
Other	-	-	-	
TOTAL CAPITAL	\$6,900.0	\$0.0	\$6,900.0	

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 Alaska Commission on Judicial Conduct, and the Alaska Judicial Council.

BUDGET SUMMARY

The FY15 Alaska Court System's general fund operating budget is \$1,704.5 (all Unrestricted General Funds) above the FY15 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 – Wide Area Network (WAN) Bandwidth Expansion: \$636.1 UGF.** The Court System has been experiencing network congestion, especially at many of its rural locations. For improved transmission of data, the agency is in need of increased bandwidth to allow electronic information to efficiently traverse the Court System's network.
Legislative Fiscal Analyst Comment: In FY14, the Court System requested \$691.7 and received \$350.0 for this item.
2. **Trial Courts – Security Screening Services: \$400.0 UGF.** The legislature has funded contracted security screening services (akin to airport screening) for the seven superior courts with multiple superior court judges in Anchorage, Fairbanks, Juneau, Ketchikan, Palmer, Kenai, and Bethel. The Court System is requesting funding to contract for one full-time security guard to be hired for each superior court location at which there are currently no security services: Nome, Kotzebue, Barrow, Kodiak, Sitka, and Dillingham.
3. **Trial Courts - Increased Caseload Due to Implementation of Policy Restricting Cases That Will Be Considered for Sentencing Plea Agreements: \$200.0 UGF.** The Department of Law implemented a new policy in July 2013 that it would not enter plea agreements in certain serious felony and sex offense cases. The court anticipates that since fewer cases will be resolved through plea bargains, the number of cases brought to jury trials and grand juries will increase. This request will cover the court's anticipated cost increases associated with more criminal trials.

- 4. Various Allocations – Update Operating Systems and Replace Outdated Equipment: \$175.0 UGF.** Automation of its case management system requires the Court System to regularly update its operating systems to be compatible with updated software versions and licensing requirements as well as replace outdated equipment. The Court System is requesting additional base funding in three separate increments for a planned, life-cycle approach to continually evaluate and improve its base of technological equipment:

- **\$25.0 UGF** – Appellate Courts;
- **\$100.0 UGF** – Trial Courts; and
- **\$50.0 UGF** – Administration and Support.

Legislative Fiscal Analyst Comment: The Court System is endeavoring to have a base budget of \$600.0 for this item. Prior additions to base funding include: FY06-\$125.0, FY10-\$125.0, FY11-\$100.0, and FY12-\$75.0. The remaining balance of \$175.0 was requested (within the Trial Courts allocation) and denied in FY13 and FY14.

- 5. Trial Courts – Interpreter and Translation Services: \$25.0 UGF.** Federal legislation requires courts to provide language assistance to participants in court matters. This funding would expand interpreter and translation services and provide interpreter training to bilingual court employees.

Legislative Fiscal Analyst Comment: The Court System received \$25.0 in FY11, \$25.0 in FY12 and \$10.0 in FY14 for this program. Each year the Court System has seen a substantial increase in the number of Limited English Proficient parties, particularly the self-represented (pro se) litigants, and is trying to incrementally obtain a base level of funding for these activities.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

- 6. Health Insurance and Working Reserve Rate Decreases.** The Governor's FY15 budget request contains several reductions common to all agencies. Reductions for the Court System are shown on the following table.

Description	Funding Amount	Fund Group
<p>Health Insurance and Working Reserve Rate Decreases</p> <ul style="list-style-type: none"> • Health Insurance decrease from \$1,389 to \$1,371 per month (a decrease of \$18/month) • Working Reserve Rate (i.e., leave cash-in, terminal leave and unemployment insurance) decrease from 3.94% to 3.56% 	(\$335.5)	UGF

- 7. Trial Courts – Increased Overhead: \$173.8 UGF.** FY15 operating cost increases include:

- **\$23.5 UGF** for utility cost increases in Fairbanks and Emmonak.
- **\$46.0 UGF** for facility maintenance services including snow removal, janitorial services, and other service contracts; and

- **\$104.3 UGF** for existing lease increases:
 - \$68.9, Nome, Dillingham, Unalaska, Homer, Glennallen, Bethel, Cordova, Kake, and Sand Point;
 - \$27.1, Juneau; and
 - \$8.3, Palmer.

8. Trial Courts - Costs for Court Appointed Visitors in Conservatorship Cases No Longer Funded by OPA: \$107.0 UGF. In FY14, the Office of Public Advocacy (OPA) determined that it could no longer fund the costs for court appointed visitors in conservatorship cases. The court, therefore, must now pay the fees associated with these required court appointed visitors.

Legislative Fiscal Analyst Comment: OPA's enabling statute (AS 44.21.410) requires them to provide court visitors and experts in *guardianship* proceedings under AS 13.26.131; *conservatorship* cases are not specified. Although OPA has historically paid contractors to perform the court visitor function in conservatorship cases, they will no longer pay for services they are not required to provide. OPA's FY15 budget does not show a decrement for this purpose.

9. Judicial Council – Partially Restore Advertising Budget: \$20.0 UGF. The Judicial Council received decrements in both FY13 (\$20.0 UGF) and FY14 (\$19.0 UGF) with the intent of eliminating funds for:

- public notification of Council meetings and hearings;
- solicitation of public comments regarding judicial applicants and judges; and
- advertising the Council's judicial performance evaluations and retention recommendations.

According to the Council, without an advertising budget it will be unable to conduct the outreach necessary to receive public input on judicial vacancies and retention.

10. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: \$460.3 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other). FY15 will be the seventh year of zero-based budgeting for Mental Health Trust Authority Authorized Receipts (MHTAAR) funding – meaning that all MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year. For FY15, The Mental Health Trust Authority is recommending \$460.3 (\$144.9 less than FY14 Authorized) in MHTAAR funding for the MH Trust Disability Justice Initiative. The Court System's FY15 request includes:

- **\$245.9 IncT (FY15-FY17)** – maintain the Fairbanks Juvenile Therapeutic Court;
- **\$204.4 IncT (FY14-FY16)** – continue Juneau Mental Health Court funding to provide a therapeutic court alternative for Trust beneficiaries. The program's objective is to identify the underlying reasons for an individual's contact with the criminal justice system, and develop and monitor court-ordered treatment plans;
- **\$10.0 IncOTI** – provide training to Therapeutic Court professionals.

The only item not continued from FY14 is **\$139.9 MHTAAR** for the Alaska Safety Action Program (ASAP) Therapeutic Case Management and Monitoring position in Barrow. The Barrow Therapeutic Court is currently not operating due to staff turnover, community dynamics, and other variables. The Court System and the Trust are currently reassessing this court's operations and will reconsider funding in FY16.

CAPITAL REQUEST

As a separate branch of state government, the Alaska Court System has the constitutional authority to submit its budget request directly to the legislature. As a courtesy, the Court System sends its operating and capital requests to the Governor for forwarding to the legislature. This allows the budgets for all three branches to be introduced in the Governor's budget bills.

The Governor transmitted the court's operating budget as it was submitted, but reduced or eliminated several capital projects as shown below.

Court System Priority	Project	FY15 Court System Capital Funding Request <i>(in thousands)</i>	FY15 Court System Funding Included in Capital Bill <i>(in thousands)</i>	Variance
1)	Electronic Filing System	\$4,400.0	\$4,400.0	\$0.0
2)	Juneau Superior Court Remodel	\$1,201.2	\$0.0	(\$1,201.2)
3)	Court Security Projects	\$1,691.2	\$0.0	(\$1,691.2)
4)	Statewide Remodel Projects	\$2,838.5	\$0.0	(\$2,838.5)
5)	Court Communications Equipment	\$1,624.0	\$0.0	(\$1,624.0)
6)	Replace Worn Furnishings and Repair Specialized Finishes in Public Use Spaces	\$628.2	\$0.0	(\$628.2)
7)	Deferred Maintenance Projects	\$2,512.2	\$2,500.0	(\$12.2)
8)	Statewide Building Code and Energy Upgrade for Court Buildings	\$1,092.3	\$0.0	(\$1,092.3)
9)	Conversion of Audio Records to Digital Format – Phase 1	\$484.2	\$0.0	(\$484.2)
	TOTAL	\$16,471.8	\$6,900.0	(\$9,571.8)

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Alaska Legislature

All Dollars in Thousands

		(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)		\$73,805.2			
	<i>FY14 Fiscal Notes</i>	642.3			
	<i>CarryForward</i>	1,645.0			
	<i>Misc Adjustments</i>	-			
	<i>Agency Transfers</i>	-			
	<i>Vetoed</i>	-			
FY14 Management Plan (GF only)		\$76,092.5	\$2,287.3	3.1%	
	<i>One-time Items Removed</i>	(2,011.6)			
	<i>Agency Transfers</i>	-			
	<i>Temporary Increments (IncTs)</i>	166.3			
	<i>FY15 Health Insurance & Working Reserve Reductions</i>	-			
	<i>FY15 Contractual Salary Increases</i>	485.1			
FY15 Adjusted Base Budget (GF only)		\$74,732.3	(\$1,360.2)	-1.8%	
	<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
	<i>FY15 Governor's GF Increments/Decrements/Fund Changes</i>	4,060.9			
FY15 Governor's Agency Request (GF only)		\$78,793.2	\$4,060.9	5.4%	
<div> <div></div> <div>FY15 Governor's Increments, Decrements, Fund Changes and Language</div> </div>		FY15 Adjusted Base Budget (GF Only)	FY15 Governor's Request (GF only)	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Allocation				\$4,060.9	
	Legislative Audit	5,735.4	6,456.3	720.9	
	Legislative State Facilities Rent	2,236.6	5,576.6	3,340.0	
Non-General Fund Agency Summary		FY15 Adjusted Base Budget	FY15 Governor's Request	Change from FY15 Adj Base to FY15 Governor's Request	See Note:
Other State Funds (all allocations)		403.0	403.0	-	
Federal Funds (all allocations)		-	-	-	
Total Non-General Funds (all allocations)		\$403.0	\$403.0	\$0.0	
Position Changes (From FY14 Authorized to Gov)		539	539	0	
	PFT	254	254	-	
	PPT	285	285	-	
	Temp	-	-	-	
Governor's Capital Request		State Funds (GF + Other)	Federal Funds	Total	See Note:
	Planning and Research	-	-	-	
	Maintenance and Repairs	-	-	-	
	Remodel, Reconstruction and Upgrades	-	-	-	
	New Construction and Land Acquisition	-	-	-	
	Equipment and Materials	-	-	-	
	Information Systems and Technology	-	-	-	
	Other	-	-	-	
TOTAL CAPITAL		\$0.0	\$0.0	\$0.0	

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.

BUDGET SUMMARY

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally reviewed by legislative leadership. The draft budget is \$2.7 million above the spending level authorized for FY14. Significant issues are summarized below.

- Legislative Audit requests the second (and final) year of a temporary increment of \$100.0 for information technology training and consulting.
- Legislative Audit requests \$720.9 for state agency performance audits associated with HB 30. The increment brings the total associated with the audits to \$1,363.2.
- A multi-year appropriation of \$750.0 for a large mine development study (FY11 through FY14) is removed from the FY15 request.
- The budget removes \$375.0 of FY12 and FY13 funding for the Alaska Arctic Policy Commission, that was available through FY14. Fiscal note funding for the Commission is reduced by \$200.3, leaving \$66.3 available for the Commission's work in FY15.
- The budget adds \$3,340.0 for rent associated with the Anchorage Legislative Information Office.
- The budget contains \$500.0 of FY13 funding for Council of State Governments conferences scheduled in Anchorage during the interim between the 2014 and 2015 legislative sessions.
- The FY15 budget includes \$30.4 to cover FY15 increases in working reserves and workers compensation rates.

There are no capital projects or organizational changes requested.

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