

# **The Fiscal Year 2016 Budget:**

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

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*Legislative Finance Division*

[www.legfin.akleg.gov](http://www.legfin.akleg.gov)

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

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

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

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## Introduction

As required by law, the Governor released his FY16 budget proposal to the public and the legislature by December 15, 2014. The operating budget submitted is an unendorsed “work in progress” that the Governor intends to modify.

The Legislative Finance Division prepared this overview of the Governor’s proposal in accordance with AS 24.20.211-.231. The division must analyze the budget as it was submitted; amendments will be reviewed after the Governor submits them and will be included in the “Subcommittee Books” the division produces as a foundation for reviewing the budget of each agency. Because the December 15 budget is merely a placeholder, this overview focuses on the broad topic of the fiscal situation rather than specifics of the Governor’s proposal.

### Alaska’s Fiscal Situation

Alaska’s immense deficits are headline news. An FY16 deficit is no surprise—last year’s forecast was for annual deficits into the foreseeable future—but the enormity of the FY15 and FY16 deficits is staggering. A discussion of the situation—how it happened, how deficits affect reserve balances, and options to close the fiscal gap—follows.

The fiscal sensitivity graphs prepared last session (see page 12 for updated charts) to show the revenue impact of changes in oil prices did not include prices below \$90 per barrel. At a current market price near \$50 per barrel, revenue is far short of projections.

The June 2014 fiscal summary for FY15 showed \$4.5 billion in revenue and a projected deficit of \$1.3 billion. The Department of Revenue (DOR) December 2014 forecast for FY15 is for revenue of \$2.6 billion—and that looks optimistic given the continued decline in both price and production—giving a deficit of \$3.5 billion in FY15. As shown in Figure 1, the \$2.15 billion increase in the deficit is attributable almost entirely to the decline in the price of oil. The \$199 million increase in expenditures is attributable primarily to an increase in refundable oil production tax credits purchased by the State.

**Figure 1. FY15 and FY16 Fiscal Gap**

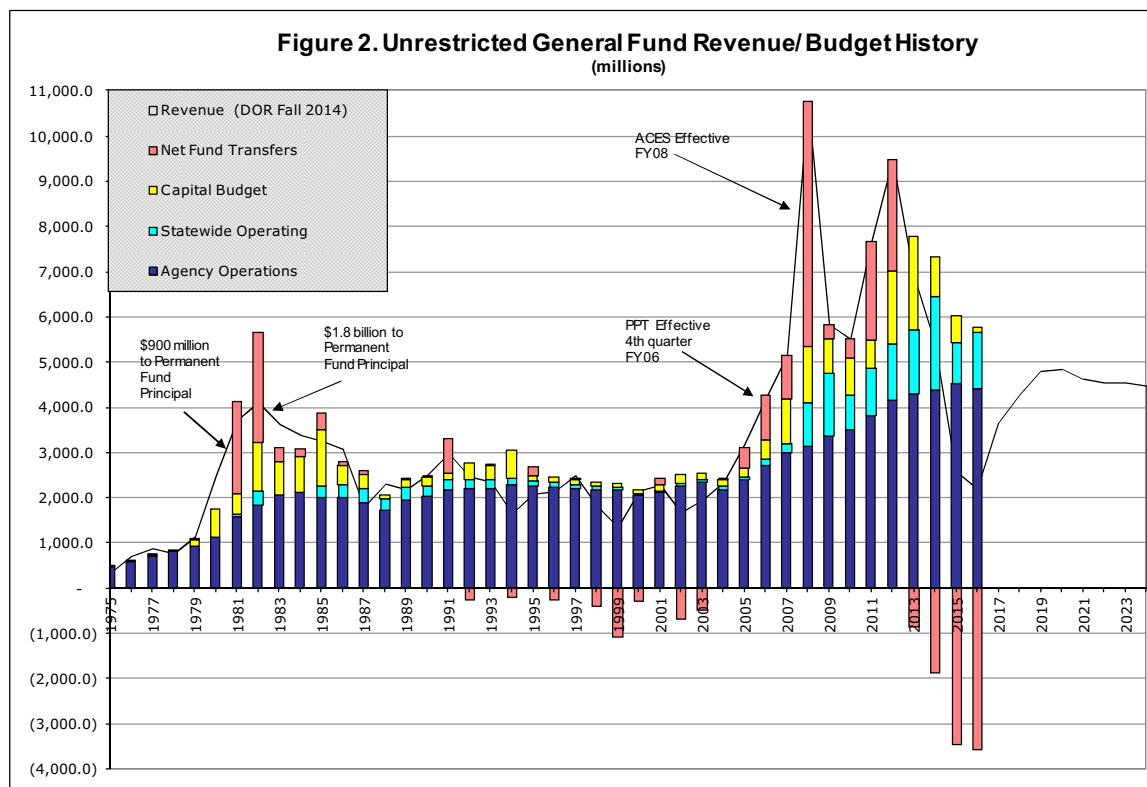
	FY15			FY16	
	June 2014	December 2014	Change (June to Dec)	December 2014	Change (FY15 to FY16)
Price (per bbl)	\$ 105.06	\$ 76.31	\$ (28.75)	\$ 66.03	\$ (10.28)
Production (bbls/day)	495,900	509,500	13,600	524,100	14,600
Unrestricted GF Revenue	\$ 4,522.9	\$ 2,575.0	\$ (1,947.9)	\$ 2,196.7	\$ (378.3)
GF Budget	\$ 5,839.4	\$ 6,037.9	\$ 198.5	\$ 5,779.0	\$ (258.9)
<b>Surplus/(Deficit)</b>	<b>\$ (1,316.5)</b>	<b>\$ (3,462.9)</b>	<b>\$ (2,146.4)</b>	<b>\$ (3,582.3)</b>	<b>\$ (119.4)</b>

The revenue forecast of \$2.2 billion in FY16 is based on a \$10 decline in the price of oil (to \$66.03) and a 3% increase in production. Some would consider both projections optimistic—the price of oil is now under \$50 and some forecasters believe the price will drop to near \$40, and oil production in FY15 is running 4% below projections.

The fiscal summary based on the Governor's December 15 budget (see page 10) shows unrestricted general funds spending of \$5.8 billion.<sup>1</sup> Although the FY16 budget is about \$260 million less than the FY15 budget, Figure 1 shows that the projected FY16 deficit of \$3.6 billion is almost \$120 million larger than the FY15 deficit.

While it is clear that oil prices have a huge impact on Alaska's fiscal gap, a deficit always involves both revenues and expenditures. The implications of this point are critical to finding a sustainable fiscal path that legislators and citizens find acceptable.

Finding that path requires an understanding of the current fiscal path and options to modify it. Figure 2 shows a history of unrestricted general fund revenue and spending.



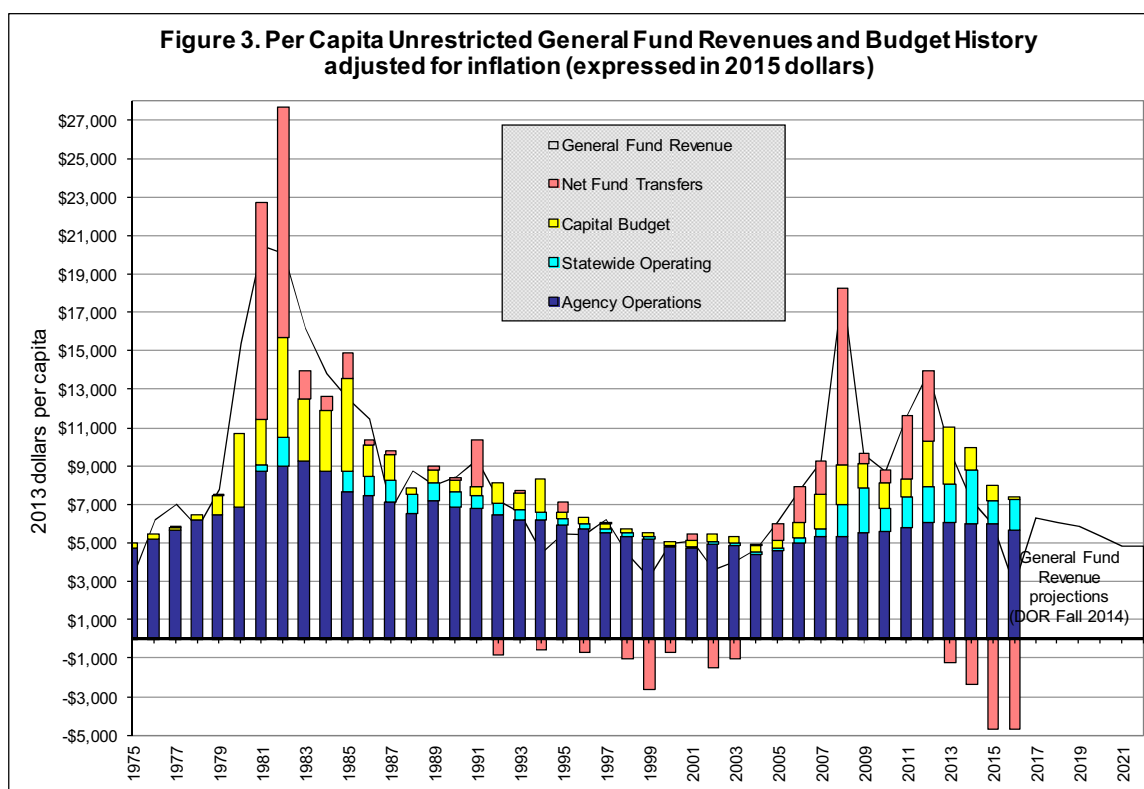
<sup>1</sup> The Governor's fiscal summary released on December 15 shows expenditures of \$5.4 billion and a fiscal gap of \$3.2 billion. The \$400 million difference between the Governor's fiscal summary and the Legislative Finance version is the addition of \$175 million to purchase production tax credits (per the December Revenue Sources book) and the reclassification of \$257 million for state assistance to retirement systems from "other funds" to unrestricted general funds. The Governor's amended budget is expected to incorporate these changes.

Take-away points from Figure 2 include:

1. The expenditure growth starting in FY05 (and coinciding with massive increases in revenue) is not sustainable, given declining oil production and the DOR price forecast.
2. Surpluses from FY05 through FY12 allowed the state to build tremendous reserves (the red bars).
3. Deficits (red bars below the axis) beginning in FY13 are burning through reserves at a very rapid rate.
4. The revenue forecast assumes a healthy recovery in market prices (to \$110 in FY17, climbing to over \$130 after FY21).
5. Without expenditure reductions or revenue enhancements, deficits are likely to exceed \$1 billion annually after FY16, even with the price recovery incorporated in the DOR forecast.

### Agency Operating Costs

While the fiscal situation has stimulated criticism of the legislature as guilty of irresponsible spending, Figure 3 brings perspective to that criticism. After adjusting for population growth and inflation, spending on agency operations in recent years is less



than during the 1980s. A long downward trend in the cost of agency operations reversed beginning in FY05, but that should not be surprising given that:

1. Negotiated increases for state employees added about \$150 million annually.
2. Health costs for state employees increased by almost \$6,500 per employee per year from FY06 to FY15 (which—with an 11% increase in the number of employees—translates to a total cost of about \$75 million annually).
3. Retirement contributions approximately doubled (to 22%), adding about \$130 million to the cost of operating state government.

The legislature has minimal control over salary, health and retirement costs. With the addition of K-12 funding and Medicaid—formula programs that account for \$485 million and \$414 million, respectively, of the expenditure growth—these cost drivers account for about two-thirds of the \$1.9 billion increase in annual spending between FY06 and FY15.

### **Statewide Operating Costs**

Turning to statewide operating costs—costs that are not attributable to any particular agency—Figure 2 shows that costs prior to FY08 were so small they could be considered insignificant. The spending category was comprised almost entirely of debt service, which was declining annually because no general obligation debt had been issued in many years.

Look at what has happened to statewide operating costs since FY06:

1. Debt service costs have increased by over \$120 million annually, as new bonds were issued to pay for capital projects.
2. Massive investment losses hit retirement systems with billions of dollars in unfunded liability. The State responded by capping municipal and state contribution rates at 22% and making retirement assistance payments to the trust funds. State assistance payments to public employees and teachers retirement systems reached over \$630 million in FY14, and could have been over \$1 billion in FY15.<sup>2</sup>
3. Refundable oil and gas production tax credits went from zero in FY06 to an estimated \$700 million in FY16. When combined with low oil prices, credits are projected to push net revenue from the production tax into negative territory for both FY15 and FY16. For comparison, net revenue from the production tax was over \$2 billion in FY14.

Increases in statewide costs account for a large portion of the increases in operating budgets. A critical point here is that statewide operating costs are much more difficult to unwind than are agency operating costs. Bonds have been issued, investment losses have occurred, and addressing production taxes/credits requires legislation. The situation limits flexibility to address statewide costs. As difficult as it may be to pare back non-formula agency programs, it can be done solely through the appropriation process.

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<sup>2</sup> In FY15, the legislature passed HB 385 (Chapter 14, SLA 2014) and an accompanying fiscal note that appropriated \$3 billion to retirement systems. Without HB 385, state assistance to retirement was expected to exceed \$1 billion annually for several years. State assistance is now expected to be about one-quarter of the pre-HB 385 projections. Put another way, the FY16 deficit would be about \$750 million larger if the legislature had not adopted HB 385. Nearly half of the State's payments are on behalf of municipalities.



## Capital Expenditures

As one might expect, capital expenditures tend to track available revenue. Recent capital budgets have been some of the largest on record, and they coincided with large budget surpluses that were transferred to reserves. Some people, noting the correlation, think the capital budget is easy to cut. It is not; pressure from constituencies, federal match requirements, numerous phased projects—including, but not limited to, several mega projects—and deferred maintenance needs make cuts more difficult to achieve than some believe.

The Governor submitted a very lean, “leveraged money only” capital budget. Some would argue that it may be too lean—that the final product will incorporate “overlooked items” that will be added by amendment or by the legislature.

## The Future

Public reaction to projected \$3.5 billion deficits varies between these extremes:

1. “We must reduce expenditures to balance the budget immediately” to
2. “Why worry?—we have billions of dollars in reserves and rebounding oil prices will save us like they always have.”

Neither position is practical. Of the \$5.7 billion operating budget proposed for FY16, the contractual, statutory, or otherwise “off limits” expenditures listed below sum to \$3.2 billion.

Program	Program Cost (millions)
Debt Service	\$ 228
Retirement Assistance	\$ 263
Production Tax Credits	\$ 700
K-12 Formula	\$ 1,300
Medicaid	\$ 693
<b>Total</b>	<b>\$ 3,184</b>

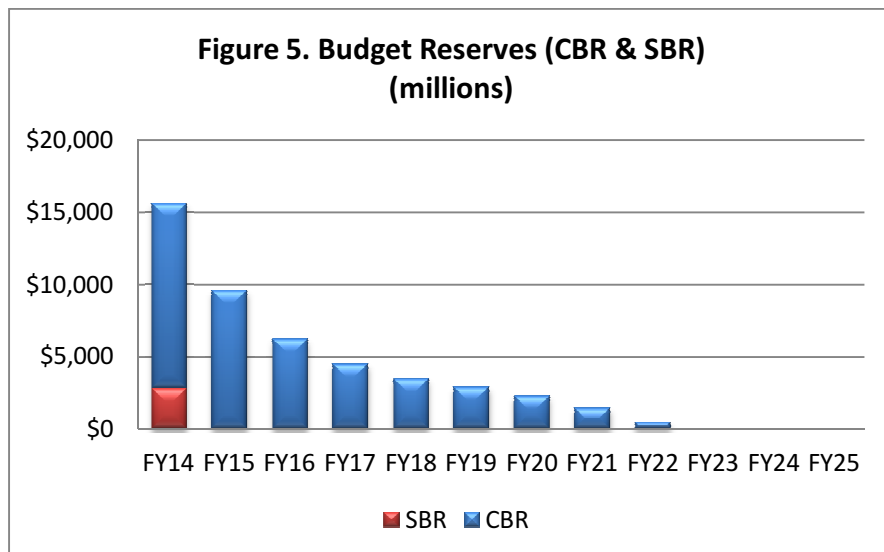
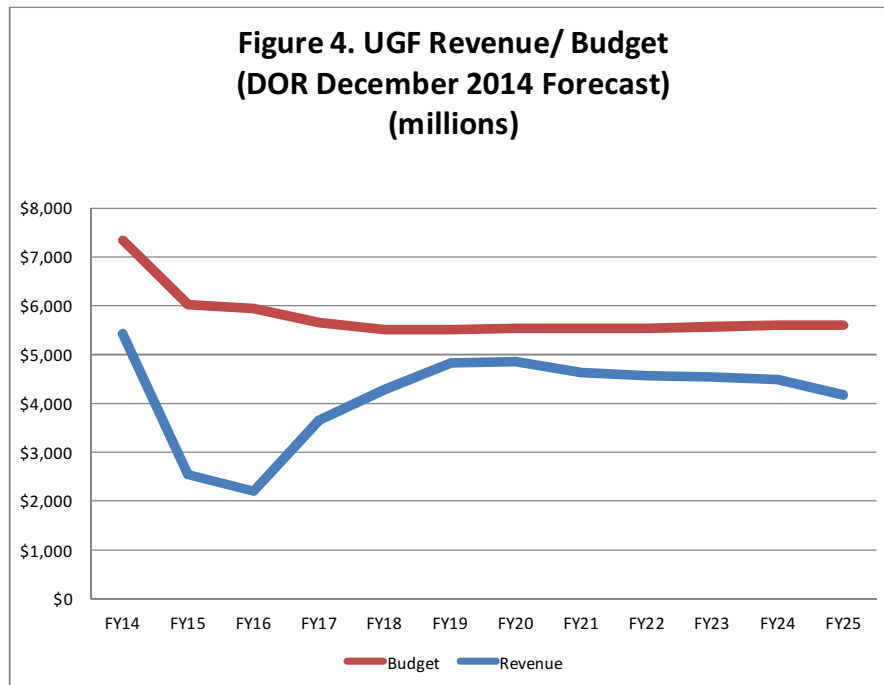
From both mathematical and practical perspectives, it is virtually impossible to cut our way to a balanced budget. To limit spending to the \$2.2 billion FY16 revenue projection, we would have to cut \$1 billion from the programs listed above *plus* eliminate all agencies and non-formula programs. In terms of personnel, unrestricted general funds pay salaries and benefits for approximately half of the 24,000 state employees. Terminating those 12,000 employees would reduce costs by about \$1.3 billion.

Turning to the other extreme: oil prices may recover and the fiscal gap may vanish. Or not. Before opting to postpone corrective action, it is instructive to know the facts and the risk. To say that our large deficits are consuming reserves is stating the obvious. Figures 4 and 5 (next page) bring specifics into the discussion.

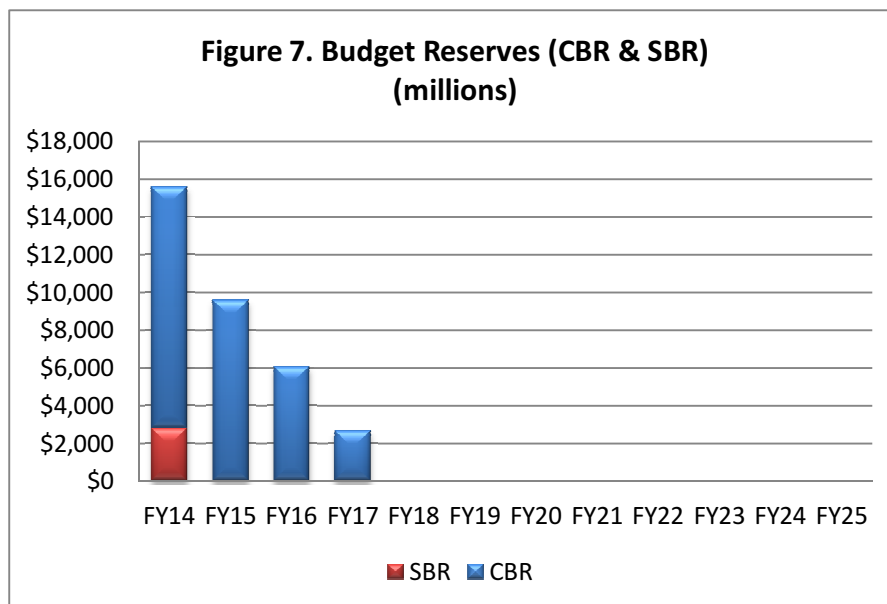
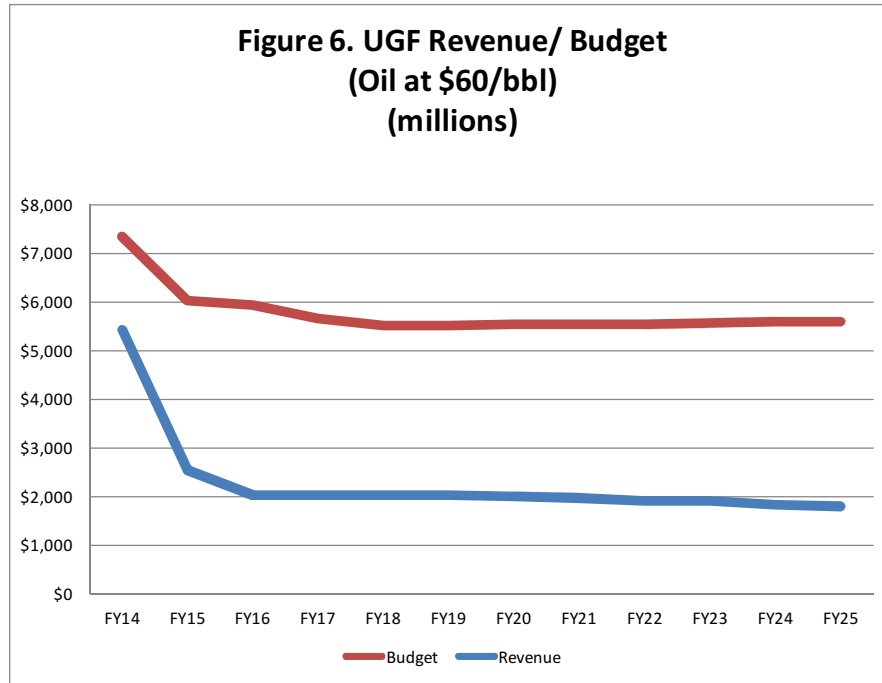
Figure 4 combines the Department of Revenue forecast of unrestricted general fund (UGF) revenue with a scenario of UGF expenditures to determine deficits. Figure 5 shows the effect those deficits have on reserve balances. The expenditure scenario is for “no growth” meaning that agency operating expenditures do not keep pace with inflation.

Figures 4 and 5 show that reserves would last until FY22 under this scenario. Some might argue that this scenario provides little reason to deviate from the current fiscal path—that six years is plenty of time to let events take care of themselves. But examine the risks of delaying action. Even under this arguably optimistic scenario, projected deficits exceed \$1 billion annually after FY22.

When there are no reserves to stabilize expenditures, the budget must be balanced every year. The volatility of oil revenue makes this a risky proposition. Under the DOR revenue forecast, the State would have to cut over \$1 billion (over 20%) from the operating budget or enhance revenue in order to fill the fiscal gap. If revenue failed to meet projections, cuts or revenue enhancements would have to be immediate.



Figures 6 and 7 show what would happen under the same expenditure scenario, but with oil prices at \$60/bbl in FY16 and increasing by inflation thereafter. Reserves are fully consumed in FY18 under this scenario. Furthermore, deficits would continue at \$3.5 billion or more without expenditure reductions or revenue enhancements.



## **Corrective Action**

As discussed above, it is virtually impossible to cut our way out of a \$3.5 billion structural deficit. It is also virtually impossible to cut our way out of a \$1 billion structural deficit. That does not imply that cuts are useless tools to help close the fiscal gap. It simply means that cuts alone are unlikely to be sufficient.

That places revenue enhancements firmly on the discussion table. The list of potential actions includes:

1. Implementing a personal income tax.
2. Implementing a statewide sales tax.
3. Implementing a statewide property tax.
4. Increasing other taxes (such as motor fuels, corporate income or health care provider taxes).
5. Increasing fees.
6. Reducing or eliminating tax credits and other indirect expenditures.
7. Using Permanent Fund earnings.
8. Adopting financial strategies such as collateralization and securitization.

Revenue enhancements have several elements in common. They:

1. Typically require legislation, so they cannot be accomplished solely through the appropriation process.
2. May take substantial time to go from adoption to generation of revenue.
3. Are almost universally unpopular with citizens, who often have an entitlement mentality with regard to government services and to their (lack of) responsibility to pay for those services.
4. Are topics that legislators are reluctant to propose, which is understandable given the prevalent attitude of citizens.

## **Further Analysis**

Although the fiscal summary (on page 10) 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 Governor's FY16 budget submitted on December 15:

- Agency summaries (operating budget on pages 15 and capital budget beginning on page 75) provide a quick comparison of the Governor's proposed budget with FY15 spending.
- Narratives on individual agency operating budgets begin on page 87. Although the December 15 budget is a work-in-progress, many of the budget adjustments are expected to remain, and the issue analysis will remain valid.
- Language sections of both operating and capital bills (with analysis) begin on pages 29 and 84, respectively.

"Subcommittee Books" with more detail on each agency will be available in the Finance Committee rooms soon after the Governor submits amendments.

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## State of Alaska Fiscal Summary--FY15 and FY16 (Part 1)

(\$ millions)

		FY15 Management Plan					FY16 Governor's Request					Change in UGF				
		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%	
<b>REVENUE</b> (Excludes Permanent Fund Earnings) (1)		2,575.0	959.8	3,534.8	638.7	3,139.7	7,313.2	2,196.7	857.7	3,054.4	619.6	3,239.2	6,913.2	(378.3)	-14.7%	
1	Unrestricted General Fund Revenue (Fall 2014) (2)	2,551.5	-	2,551.5	-	-	2,551.5	2,196.7	-	2,196.7	-	-	2,196.7	-	-	
2	Carryforward (3)	23.5	0.2	23.7	3.3	0.4	27.3	-	-	-	-	-	-	-	-	
3	Designated General Fund Revenue (4)	-	959.6	959.6	-	-	959.6	-	857.7	857.7	-	-	857.7	-	-	
4	Other State Funds and Federal Receipts	-	-	-	635.4	3,139.3	3,774.7	-	-	-	619.6	3,239.2	3,858.8	-	-	
<b>APPROPRIATIONS</b>																
<b>TOTAL OPERATING APPROPRIATIONS</b>		5,443.0	772.6	6,215.5	3,573.6	2,019.9	11,809.1	5,672.4	818.1	6,490.5	603.2	2,027.6	9,121.4	229.4	4.2%	
<b>Agency Operations</b>		4,523.0	751.7	5,274.7	517.7	1,992.2	7,784.7	4,416.6	792.7	5,209.3	554.5	1,998.9	7,762.7	(106.4)	-2.4%	
7	Current Fiscal Year Appropriations (Includes Fiscal Notes)	4,503.0	751.7	5,254.7	517.7	1,992.2	7,764.7	4,396.6	792.7	5,189.3	554.5	1,998.9	7,742.7	(106.4)	-2.4%	
8	Agency Operations (Non-Formula)	2,263.4	668.8	2,932.2	514.8	904.2	4,369.2	2,256.9	701.7	2,958.6	551.7	910.8	4,423.1	(24.5)	-1.1%	
9	K-12 Foundation Formula and Pupil Transportation	1,244.6	10.0	1,254.6	-	20.8	1,275.4	1,266.9	13.0	1,280.9	-	20.8	1,290.7	12.3	1.0%	
10	Other Formula Programs	975.0	74.9	1,049.9	2.8	1,067.2	2,119.9	880.8	78.0	958.7	2.8	1,067.3	2,028.9	(94.2)	-9.7%	
11	Revised Programs Legislatively Approved	-	-	-	0.1	-	0.1	-	-	-	-	-	-	-	-	
12	Veboes (non-additive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
13	Duplicated Authorization (non-additive) (5)	-	-	-	736.4	-	736.4	-	-	-	744.1	-	744.1	-	0.0%	
14	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	-	-	
<b>Statewide Operations</b>		919.9	20.9	940.8	3,055.9	27.7	4,024.4	1,255.8	25.5	1,281.3	48.7	28.7	1,358.7	335.8	36.5%	
16	Current Fiscal Year Appropriations	919.9	20.9	940.8	3,055.9	27.7	4,024.4	1,255.8	25.5	1,281.3	48.7	28.7	1,358.7	335.8	36.5%	
17	Debt Service	218.8	19.3	238.1	50.3	5.2	293.7	228.3	23.9	252.2	43.3	5.2	300.7	9.4	4.3%	
18	Fund Capitalization	682.5	1.6	684.1	5.6	22.5	712.1	765.0	1.6	766.6	5.4	23.5	795.4	82.5	12.1%	
19	Local Government Support	52.0	-	52.0	-	-	52.0	60.0	-	60.0	-	-	60.0	8.0	15.4%	
20	Oil & Gas Production Tax Credits	625.0	-	625.0	-	-	625.0	700.0	-	700.0	-	-	700.0	75.0	12.0%	
21	Other Fund Capitalization	5.5	1.6	7.1	5.6	22.5	35.1	5.0	1.6	6.6	5.4	23.5	35.4	(0.5)	-7.1%	
22	Retirement Costs: Actuarial Recommendation	5.2	-	5.2	702.9	-	708.1	282.5	-	282.5	-	-	282.5	257.3	4908.4%	
23	Retirement Costs: Additional Contributions	-	-	-	2,297.1	-	2,297.1	-	-	-	-	-	-	-	-	
24	Judgments, Claims and Settlements	13.4	-	13.4	-	-	13.4	-	-	-	-	-	-	(13.4)	-	
25	Veboes (non-additive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
26	Duplicated Authorization (non-additive) (5)	-	-	-	15.3	-	15.3	-	-	-	12.2	-	12.2	-	-	
<b>TOTAL CAPITAL APPROPRIATIONS</b>		594.9	164.5	759.4	65.1	1,119.7	1,944.2	106.7	-	106.7	16.4	1,211.5	1,334.6	(488.2)	-82.1%	
28	Current Fiscal Year Appropriations	594.9	164.5	759.4	65.1	1,119.7	1,944.2	106.7	-	106.7	16.4	1,211.5	1,334.6	(488.2)	-82.1%	
29	Project Appropriations & RPLs (Revised Programs)	594.9	164.5	759.4	65.1	1,119.7	1,944.2	106.7	-	106.7	16.4	1,211.5	1,334.6	(488.2)	-82.1%	
30	Projects Funded with Other Debt Proceeds (non-additive)	-	-	-	172.5	-	172.5	-	-	-	10.7	-	10.7	-	-	
31	Capital Veboes (non-additive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
32	Duplicated Authorization (non-additive) (5)	-	-	-	200.9	-	200.9	-	-	-	13.6	-	13.6	-	-	
33	Money on the Street (includes all fund sources) (6)	594.9	164.5	759.4	265.9	1,119.7	2,145.0	106.7	-	106.7	30.0	1,211.5	1,348.2	(488.2)	-82.1%	
<b>Pre-Transfers Authorization (unduplicated)</b>		6,037.8	937.0	6,974.9	3,638.7	3,139.7	13,753.3	5,779.0	818.1	6,597.2	619.6	3,239.2	10,456.0	(258.8)	-4.3%	
<b>Pre-Transfers Surplus/(Deficit)</b>		(3,462.9)	-134.5%	of UGF Revenue	-	-	-	(3,582.3)	-163.1%	of UGF Revenue	-	-	-	-	-	-
January 16, 2015																
<b>Transfers (7)</b>		67.7	22.8	90.5	(3,000.0)	-	(2,909.5)	80.2	39.6	119.7	-	-	119.7	12.4	18.3%	
37	Current Fiscal Year Transfers	67.7	22.8	90.5	(3,000.0)	0.0	(2,909.5)	80.2	39.6	119.7	0.0	0.0	119.7	12.4	18.3%	
38	Designated Reserves (Public Education Fund)	58.4	-	58.4	-	-	58.4	16.4	-	16.4	-	-	16.4	(42.0)	-71.9%	
39	Undesignated Reserves (Alaska Housing Capital Corp)	(63.1)	-	(63.1)	-	-	(63.1)	-	-	-	-	-	-	63.1	-100.0%	
40	Oil & Hazardous Substance Fund	8.4	3.4	11.8	8.4	-	11.8	10.0	7.5	17.5	-	-	17.5	1.6	18.9%	
41	REAA School Fund	40.0	-	40.0	-	-	40.0	38.8	-	38.8	-	-	38.8	(1.2)	-3.0%	
42	AMHS Fund	0.1	-	0.1	-	-	0.1	-	-	-	-	-	-	(0.1)	-100.0%	
43	Renewable Energy Fund	20.0	-	20.0	-	-	20.0	15.0	-	15.0	-	-	15.0	(5.0)	-25.0%	
44	Vaccine Assessment Account	4.0	18.5	22.5	0.9	-	22.5	-	31.2	31.2	-	-	31.2	-	-	
45	Other Funds	-	0.9	0.9	(3,000.0)	-	(2,999.1)	-	0.9	0.9	-	-	-	-	-	
46	Veboes (non-additive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Post-Transfers Authorization (unduplicated)</b>		6,105.6	959.8	7,065.4	638.7	3,139.7	10,843.8	5,859.2	857.7	6,716.9	619.6	3,239.2	10,575.7	(246.4)	-4.0%	
<b>Post-Transfer Balance to/(from) the SBR (8)</b>		(3,530.6)	-137.1%	of UGF Revenue	-	-	-	(3,662.5)	-166.7%	of UGF Revenue	-	-	-	-	-	-

January 16, 2015

## State of Alaska Fiscal Summary--FY15 and FY16 (Part 1)

(\$ millions)																
FY15 Management Plan						FY16 Governor's Request						Change in UGF				
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds			%
<b>Permanent Fund</b>	-	2,268.0	2,268.0	8.5	-	2,276.5	-	-	2,378.6	2,378.6	8.6	-	2,387.1	-		
Permanent Fund Dividends	-	1,342.0	1,342.0	-	-	1,342.0	-	-	1,405.0	1,405.0	-	-	1,405.0	-		
Deposits to Principal	-	867.0	867.0	-	-	867.0	-	-	905.0	905.0	-	-	905.0	-		
Alaska Capital Income Fund	-	23.0	23.0	-	-	23.0	-	-	23.0	23.0	-	-	23.0	-		
Other Uses of Earnings (Included In op or cap budget) (9)	-	36.0	36.0	8.5	-	44.5	-	-	45.6	45.6	8.6	-	54.1	-		
<b>Total Authorization (unduplicated)</b>	<b>6,105.6</b>	<b>3,191.8</b>	<b>9,297.4</b>	<b>638.7</b>	<b>3,139.7</b>	<b>13,075.8</b>		<b>5,859.2</b>	<b>3,190.7</b>	<b>9,049.9</b>	<b>619.6</b>	<b>3,239.2</b>	<b>12,908.7</b>	<b>(246.4)</b>	<b>-4.0%</b>	
<b>FISCAL YEAR SUMMARY</b>	<b>6,037.8</b>	<b>3,169.0</b>	<b>9,206.9</b>	<b>3,638.7</b>	<b>3,139.7</b>	<b>15,985.3</b>		<b>5,779.0</b>	<b>3,151.1</b>	<b>8,930.2</b>	<b>619.6</b>	<b>3,239.2</b>	<b>12,789.0</b>	<b>(258.8)</b>	<b>-4.3%</b>	
Agency Operations	4,523.0	751.7	5,274.7	517.7	1,992.2	7,784.7		4,416.6	792.7	5,209.3	554.5	1,998.9	7,762.7	(106.4)	-2.4%	
Statewide Operations	919.9	20.9	940.8	3,055.9	27.7	4,024.4		1,255.8	25.5	1,281.3	48.7	28.7	1,356.7	335.8	36.5%	
<b>Total Operating</b>	<b>5,443.0</b>	<b>772.6</b>	<b>6,215.5</b>	<b>3,573.6</b>	<b>2,019.9</b>	<b>11,809.1</b>		<b>5,672.4</b>	<b>818.1</b>	<b>6,490.5</b>	<b>603.2</b>	<b>2,027.6</b>	<b>9,121.4</b>	<b>229.4</b>	<b>4.2%</b>	
<b>Capital</b>	<b>594.9</b>	<b>164.5</b>	<b>759.4</b>	<b>65.1</b>	<b>1,119.7</b>	<b>1,944.2</b>		<b>106.7</b>	<b>-</b>	<b>106.7</b>	<b>16.4</b>	<b>1,211.5</b>	<b>1,334.6</b>	<b>(488.2)</b>	<b>-82.1%</b>	
Unallocated Appropriation of Permanent Fund Earnings	0.0	2,232.0	2,232.0	0.0	0.0	2,232.0		0.0	2,333.0	2,333.0	0.0	0.0	2,333.0	0.0		
<b>Transfers (non-additive)</b>	<b>67.7</b>	<b>22.8</b>	<b>90.5</b>	<b>(3,000.0)</b>	<b>-</b>	<b>(2,909.5)</b>		<b>80.2</b>	<b>39.6</b>	<b>119.7</b>	<b>-</b>	<b>-</b>	<b>119.7</b>	<b>12.4</b>	<b>18.3%</b>	

January 16, 2015

**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 50-54 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 2014 oil forecast for FY15 is 0.510 mbd at \$76.31 per barrel; the FY16 forecast is 0.524 mbd at \$66.03 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 FY16 will be unknown until the close of FY15.

(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.

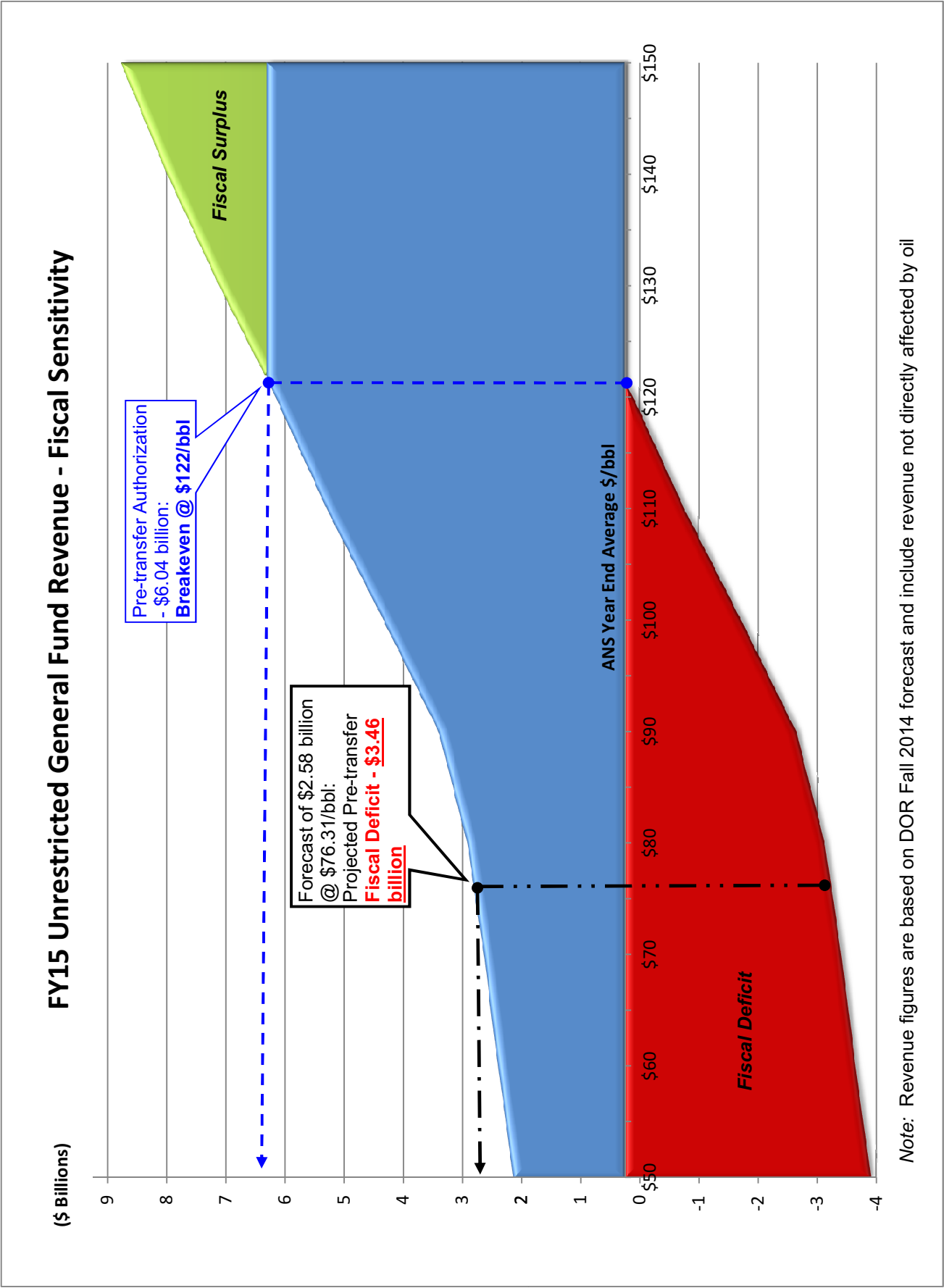
(5) Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will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

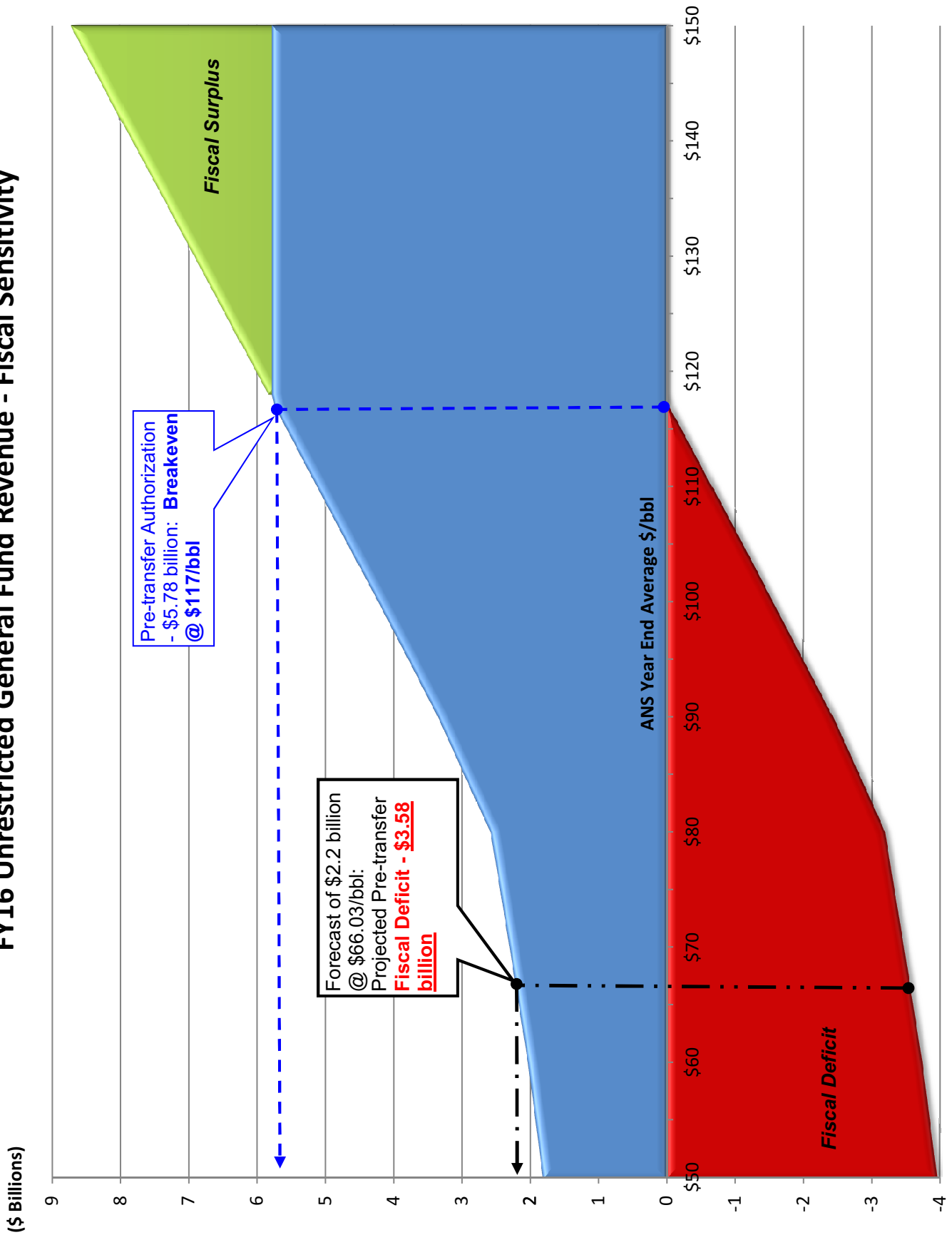
(8) The post-transfer withdrawal necessary to balance the budget is anticipated to be \$3.5 billion in FY15 and \$3.7 billion in FY16.

(9) Amounts shown on line 54 can be considered duplicated appropriations--they are included in the operating or capital budgets above. The Designated General Funds column includes 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.





## FY16 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on DOR Fall 2014 forecast and include revenue not directly affected by oil

## State of Alaska Fiscal Summary-- FY15 and FY16 (Part 2)

(\$ millions)

### Approximate Balances of Reserve Accounts

	FY15				FY16			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
<b>Permanent Fund Principal -- Market Value</b> (no appropriations allowed)	45,002.0	1,688.0	0.0	46,690.0	46,690.0	1,681.0	0.0	48,371.0
<b>Undesignated Reserves</b>	21,858.2	2,986.5	8,823.7	16,021.0	16,021.0	3,191.0	5,981.5	13,230.5
<b>Total Excluding Permanent Fund</b>	15,647.1	270.5	6,593.7	9,323.9	9,323.9	357.0	3,662.5	6,018.4
Constitutional Budget Reserve Fund (cash)	12,806.2	270.5	3,739.6	9,337.1	9,337.1	357.0	3,662.5	6,031.6
Statutory Budget Reserve Fund	2,791.0	-	2,791.0	0.0	0.0	-	-	0.0
Alaska Housing Capital Corporation Fund	49.9	-	63.1	(13.2)	(13.2)	-	-	(13.2)
<b>Permanent Fund Earnings Reserve Account</b>	6,211.1	2,716.0	2,230.0	6,697.1	6,697.1	2,834.0	2,319.0	7,212.1
<b>Designated Reserves</b>	2,897.0	1,485.0	1,435.7	2,946.3	2,946.3	1,466.1	1,372.3	3,040.0
Alaska Capital Income Fund	75.8	23.0	72.7	26.1	26.1	23.0	-	49.1
Alaska Higher Education Investment Fund	460.6	28.8	16.6	472.8	472.8	29.5	17.3	485.0
Public Education Fund	1,202.7	1,303.0	1,244.6	1,261.1	1,261.1	1,272.4	1,256.0	1,277.5
Revenue Sharing Fund	180.0	52.0	60.0	172.0	172.0	60.0	57.3	174.7
Power Cost Equalization Endowment	977.8	78.2	41.7	1,014.4	1,014.4	81.1	41.7	1,053.8
<b>Reserves (Excluding Permanent Fund Principal)</b>	24,755.1	4,471.5	10,259.4	18,967.3	18,967.3	4,657.1	7,353.8	16,270.5
Unrestricted General Fund Appropriations				6,105.6				5,859.2
Years of Reserves (Reserves/UGF Appropriations)				3.11				2.78

## **Operating Budget**

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## **The Role of Unallocated Reductions in the Budget Process**

An unallocated reduction is a budget reduction that lacks specifics about where a cut is to be taken and the impact the cut may have. The validity of using unallocated reductions in the budget process is a matter of opinion. Strong negative opinions regarding unallocated reductions are based on beliefs that:

1. Use by the legislature is abdication of the power of appropriation—unallocated reductions allow the executive branch to make decisions that are the responsibility of the legislature; and
2. Use by the executive branch is unacceptable—how can the legislature be expected to accept a reduction without knowing the impact of the proposal?

While it may be true that bottom-up budgeting—detailed analysis of funding requirements for specific programs that roll up into a budget request—leaves little room for unallocated reductions, the fact is that budgeting is not necessarily a bottom-up process.

Unallocated reductions are a consequence of top-down budgeting. When the legislature sets spending targets, it is using top-down policy decisions to reach a goal. The legislature then looks to the executive branch for help with identifying specific cuts. If no specifics are forthcoming, the legislature either fails to meet its spending targets or must use unallocated reductions to achieve the spending goal. When used in this manner, unallocated reductions reflect a lack of time required to identify specifics and/or an attitude that executive branch personnel are in a better position to convert a policy decision to reductions that minimize negative impacts on services.

When the executive branch sets spending targets, it is also applying top-down policy decisions to reach a goal. It may take substantial time and effort to identify specific cuts that meet the spending targets. A new governor and new agency heads may not have the time required to identify specifics within the statutory requirements for submitting budget requests to the legislature. Unallocated reductions are placeholders for specific cuts that should be identified later in the budget process.

Criticism of unallocated reductions proposed by the Governor should be withheld until the amendment deadline in mid-February. By that time, specific reductions should replace many of the unallocated reductions in order to allow the legislature to deliberate the impact of proposed reductions.

The final budget is likely to contain unallocated reductions proposed by both the Governor and the legislature. As noted, unallocated reductions are tools that help the Governor and legislature reach policy goals. It may take substantial time to determine specific actions in response to top-down goals.

The following narratives identify unallocated reductions in the Governor's December 15 budget submittal. Legislative Finance did not analyze the unallocated reductions—the reductions are not endorsed by Governor Walker, may change in size or location, and are early placeholders in a lengthy process. If unallocated reductions remain in the final budget, the legislature may wish to request agency reports that outline how the reductions were spread and the programmatic impact they had.

A summary of unallocated reductions contained in the December 15 budget submittal follows. Intentionally or otherwise, some of the reductions are placed in specific appropriations that do not allow the reductions to be spread throughout an agency.

<b>FY16 Unallocated Reductions in the December 15 Governor's Request</b>		
<b>Agency</b>	<b>Appropriation</b>	<b>Reduction</b>
Department of Administration	Agency Unallocated Appropriation	(1,110.0)
Department of Commerce, Community and Economic Development	Executive Administration	(200.0)
Department of Corrections	Agency Unallocated Appropriation	(3,925.0)
Department of Education and Early Development	Education Support Services	(16.1)
Department of Education and Early Development	Commissions and Boards	(303.9)
Department of Environmental Conservation	Agency Unallocated Appropriation	(370.0)
Department of Fish and Game	Administration and Support	(1,310.0)
Office of the Governor	Executive Office	(400.0)
Department of Health and Social Services	Departmental Support Services	(4,800.0)
Department of Labor and Workforce Development	Agency Unallocated Appropriation	(300.0)
Department of Law	Agency Unallocated Appropriation	(970.0)
Department of Military and Veterans' Affairs	Agency Unallocated Appropriation	(310.0)
Department of Natural Resources	Agency Unallocated Appropriation	(1,100.0)
Department of Public Safety	Agency Unallocated Appropriation	(2,300.0)
Department of Revenue	Agency Unallocated Appropriation	(525.0)
Department of Transportation and Public Facilities	Administration and Support	(1,510.0)
University of Alaska	University of Alaska	(6,050.0)
<b>TOTAL</b>		<b>(25,500.0)</b>

Agency Summary - FY16 Operating Budget - Total Funds											
Agency	14 Actual	15 CC	15 Auth	15MgtPin	16Adj Base	16Gov	15MgtPin to 16Gov	16Adj Base to 16Gov			
Administration	322,047.7	347,558.3	348,365.7	348,365.7	348,928.8	347,767.8	(597.9)	-0.2%	(1,161.0)	-0.3%	
Commerce, Community & Econ Dev	197,288.0	204,941.5	215,332.4	215,332.4	207,789.7	215,277.0	(55.4)	0.0%	7,487.3	3.6%	
Corrections	326,888.8	330,811.7	333,040.5	333,040.5	335,187.2	331,288.6	(1,751.9)	-0.5%	(3,898.6)	-1.2%	
Education & Early Dev	1,543,182.5	1,547,274.6	1,698,061.9	1,698,061.9	1,557,687.6	1,616,730.1	(81,331.8)	-4.8%	59,042.5	3.8%	
Environmental Conservation	83,042.2	87,079.9	87,560.9	87,560.9	88,481.4	87,714.4	153.5	0.2%	(767.0)	-0.9%	
Fish and Game	194,352.5	215,271.2	215,272.6	215,272.6	217,105.3	216,795.3	1,522.7	0.7%	(310.0)	-0.1%	
Governor	28,396.1	32,748.9	34,338.1	34,338.1	26,377.9	28,977.9	(5,360.2)	-15.6%	2,600.0	9.9%	
Health & Social Services	2,394,376.3	2,670,908.7	2,692,324.5	2,692,324.5	2,695,795.7	2,703,218.3	10,893.8	0.4%	7,422.6	0.3%	
Labor & Workforce Dev	152,358.0	184,097.6	185,306.7	185,306.7	184,775.3	185,174.3	(132.4)	-0.1%	399.0	0.2%	
Law	94,602.3	93,401.4	95,401.4	95,401.4	89,405.0	94,310.0	(1,091.4)	-1.1%	4,905.0	5.5%	
Military & Veterans' Affairs	57,989.2	60,337.7	60,337.1	60,337.1	54,818.9	63,356.0	3,018.9	5.0%	8,537.1	15.6%	
Natural Resources	207,238.3	167,814.2	178,330.4	178,330.4	165,755.0	184,600.2	6,269.8	3.5%	18,845.2	11.4%	
Public Safety	197,134.6	206,438.8	206,581.4	206,581.4	207,882.2	210,138.4	3,557.0	1.7%	2,256.2	1.1%	
Revenue	316,135.5	372,264.2	376,050.9	376,050.9	371,237.0	404,995.6	28,944.7	7.7%	33,758.6	9.1%	
Transportation & Public Facilities	633,792.9	629,036.8	629,036.8	629,036.8	633,130.2	640,188.3	11,151.5	1.8%	7,058.1	1.1%	
University of Alaska	853,261.8	918,070.0	924,863.7	924,863.7	940,282.1	937,870.5	13,006.8	1.4%	(2,411.6)	-0.3%	
Branch-wide Unallocated Approp	-	27,000.0	27,000.0	27,000.0	27,000.0	20,000.0	(7,000.0)	-25.9%	(7,000.0)	-25.9%	
Judiciary	112,570.7	115,479.7	115,676.9	115,676.9	117,705.4	118,937.4	3,260.5	2.8%	1,232.0	1.0%	
Legislature	64,658.6	76,676.2	78,077.9	78,077.9	79,249.2	79,459.1	1,381.2	1.8%	209.9	0.3%	
<b>Agency Budgets Total</b>	<b>7,779,316.0</b>	<b>8,287,211.4</b>	<b>8,500,959.8</b>	<b>8,500,959.8</b>	<b>8,348,593.9</b>	<b>8,486,799.2</b>	<b>(14,160.6)</b>	<b>-0.2%</b>	<b>138,205.3</b>	<b>1.7%</b>	
<b>Statewide Items</b>											
Debt Service	312,650.3	302,517.2	305,790.6	305,790.6	305,790.6	309,504.4	3,713.8	1.2%	3,713.8	1.2%	
State Assistance to Retirement	633,780.6	5,241.6	3,005,241.6	3,005,241.6	5,241.6	262,519.9	(2,742,721.7)	-91.3%	257,278.3	49.1	
Special Appropriations	7,192.9	-	13,366.8	13,366.8	-	-	(13,366.8)	-100.0%	-	-	
Fund Capitalization	1,246,590.3	540,387.6	715,387.6	715,387.6	714,887.6	798,875.4	83,487.8	11.7%	83,987.8	11.7%	
<b>Statewide Items Total</b>	<b>2,200,214.1</b>	<b>848,146.4</b>	<b>4,039,786.6</b>	<b>4,039,786.6</b>	<b>1,025,919.8</b>	<b>1,370,899.7</b>	<b>(2,668,886.9)</b>	<b>-66.1%</b>	<b>344,979.9</b>	<b>33.6%</b>	
<b>Statewide Total</b>	<b>9,979,514.9</b>	<b>9,135,357.8</b>	<b>12,540,761.6</b>	<b>12,540,761.6</b>	<b>9,374,513.7</b>	<b>9,857,698.9</b>	<b>(2,683,062.7)</b>	<b>-21.4%</b>	<b>483,185.2</b>	<b>5.2%</b>	
Unrestricted General (UGF)	6,345,793.5	5,055,471.7	5,422,983.5	5,422,983.5	5,251,223.3	5,652,367.2	229,383.7	4.2%	401,143.9	7.6%	
Designated General (DGF)	668,711.8	748,595.3	772,562.4	772,562.4	783,227.7	818,141.8	45,579.4	5.9%	34,914.1	4.5%	
Other State Funds (Other)	1,187,297.9	1,311,827.9	4,325,271.2	4,325,271.2	1,315,794.4	1,359,540.9	(2,965,730.3)	-68.6%	43,746.5	3.3%	
Federal Receipts (Fed)	1,777,711.7	2,019,462.9	2,019,944.5	2,019,944.5	2,024,268.3	2,027,649.0	7,704.5	0.4%	3,380.7	0.2%	
<b>Fund Transfers</b>	<b>1,560,275.2</b>	<b>2,211,692.1</b>	<b>(677,478.1)</b>	<b>(677,478.1)</b>	<b>2,385,458.2</b>	<b>2,452,732.0</b>	<b>3,130,210.1</b>	<b>-462.0%</b>	<b>67,273.8</b>	<b>2.8%</b>	



Agency Summary - FY16 Operating Budget - General Funds									
Agency	14Actual	15 CC	15 Auth	15MgtPln	16Adj Base	16Gov	15MgtPln to 16Gov	16Adj Base to 16Gov	
Administration	112,007.8	112,832.0	113,639.4	113,639.4	114,180.3	113,314.1	(325.3)	(866.2)	-0.3%
Commerce, Community & Econ Dev	127,478.6	122,099.6	124,631.3	124,631.3	122,123.6	123,149.5	(1,481.8)	1,025.9	0.8%
Corrections	306,962.4	310,652.4	312,881.2	312,881.2	314,934.2	311,009.2	(1,872.0)	(3,925.0)	-1.2%
Education & Early Dev	1,303,672.6	1,286,496.4	1,437,366.5	1,437,366.5	1,296,738.3	1,358,396.2	(78,970.3)	61,657.9	4.8%
Environmental Conservation	49,368.2	49,204.8	49,685.8	49,685.8	50,181.6	49,524.6	(161.2)	(657.0)	-1.3%
Fish and Game	90,836.0	88,405.1	88,406.5	88,406.5	88,958.2	87,648.2	(758.3)	(1,310.0)	-1.5%
Governor	27,752.5	32,020.3	33,609.5	33,609.5	25,644.0	28,244.0	(5,365.5)	2,600.0	10.1%
Health & Social Services	1,244,340.8	1,328,751.5	1,349,928.3	1,349,928.3	1,351,813.4	1,358,324.8	8,396.5	6,511.4	0.5%
Labor & Workforce Dev	65,399.7	67,086.4	68,295.5	68,295.5	66,617.9	66,981.9	(1,313.6)	364.0	0.5%
Law	63,616.1	62,003.2	64,003.2	64,003.2	57,597.9	61,927.9	(2,075.3)	4,330.0	7.5%
Military & Veterans' Affairs	22,864.7	24,845.3	24,845.3	24,845.3	19,017.5	23,249.0	(1,596.3)	4,231.5	22.3%
Natural Resources	145,432.7	104,025.1	114,541.3	114,541.3	105,476.0	117,759.1	3,217.8	12,283.1	11.6%
Public Safety	178,576.4	177,966.3	178,108.9	178,108.9	179,315.2	181,571.4	3,462.5	2,256.2	1.3%
Revenue	42,798.7	42,488.6	43,638.6	43,638.6	43,290.8	42,953.3	(685.3)	(337.5)	-0.8%
Transportation & Public Facilities	357,946.3	346,772.3	346,772.3	346,772.3	347,893.6	350,280.2	3,507.9	2,386.6	0.7%
University of Alaska	650,823.1	680,499.5	687,293.2	687,293.2	703,441.6	700,358.1	13,084.9	(3,083.5)	-0.4%
Branch-wide Unallocated Approp	-	27,000.0	27,000.0	27,000.0	27,000.0	20,000.0	(7,000.0)	(7,000.0)	-25.9%
Judiciary	110,143.1	112,187.1	112,384.3	112,384.3	114,422.8	115,467.0	3,082.7	1,044.2	0.9%
Legislature	64,320.2	76,286.7	77,688.4	77,688.4	78,859.7	79,099.3	1,410.9	239.6	0.3%
<b>Agency Budgets Total</b>	<b>4,964,339.9</b>	<b>5,051,622.6</b>	<b>5,254,719.5</b>	<b>5,254,719.5</b>	<b>5,107,506.6</b>	<b>5,189,257.8</b>	<b>(65,461.7)</b>	<b>81,751.2</b>	<b>1.6%</b>
<b>Statewide Items</b>									
Debt Service	209,673.7	238,141.3	238,141.3	238,141.3	238,141.3	252,164.2	14,022.9	14,022.9	5.9%
State Assistance to Retirement	633,780.6	5,241.6	5,241.6	5,241.6	5,241.6	262,519.9	257,278.3	257,278.3	4908.4%
Special Appropriations	7,192.9	-	13,366.8	13,366.8	-	-	(13,366.8)	-	-
Fund Capitalization	1,199,533.4	509,061.5	684,061.5	684,061.5	683,561.5	766,567.1	82,505.6	83,005.6	12.1%
<b>Statewide Items Total</b>	<b>2,050,180.6</b>	<b>752,444.4</b>	<b>940,811.2</b>	<b>940,811.2</b>	<b>926,944.4</b>	<b>1,281,251.2</b>	<b>340,440.0</b>	<b>354,306.8</b>	<b>38.2%</b>
<b>Statewide Total</b>									
<b>Statewide Total</b>	<b>7,014,505.3</b>	<b>5,804,067.0</b>	<b>6,195,545.9</b>	<b>6,195,545.9</b>	<b>6,034,451.0</b>	<b>6,470,509.0</b>	<b>274,963.1</b>	<b>436,058.0</b>	<b>7.2%</b>
Unrestricted General (UGF)	6,345,793.5	5,055,471.7	5,422,983.5	5,422,983.5	5,251,223.3	5,652,367.2	229,383.7	401,143.9	7.6%
Designated General (DGF)	668,711.8	748,595.3	772,562.4	772,562.4	783,227.7	818,141.8	45,579.4	34,914.1	4.5%
Fund Transfers	1,560,275.2	2,211,692.1	2,322,521.9	2,322,521.9	2,385,458.2	2,452,732.0	130,210.1	67,273.8	2.8%

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

The Governor's FY16 operating budget request increases permanent full-time (PFT) positions by 24 from the FY15 Management Plan. Departments decremented 14 PFTs (from the number authorized by the legislature) in FY15, so the net increase from the FY15 authorized level is 10. Overall, the Governor's FY16 statewide budget contains 24,914 total positions (full-time, part-time, and temporary).

Permanent Full-time Positions Only					
Agency	FY15 Authorized	FY15 Mgt Plan	FY16 Governor	Changes in Positions by Agencies in FY15	Position Changes Requested in FY16
Administration	1,052	1,055	1,055	3	0
Commerce, Community & Econ Dev	571	576	578	5	2
Corrections	1,871	1,871	1,871	0	0
Education & Early Dev	332	331	331	-1	0
Environmental Conservation	557	557	554	0	-3
Fish and Game	930	921	921	-9	0
Governor	147	148	148	1	0
Health & Social Services	3,501	3,495	3,495	-6	0
Labor and Workforce Dev	809	798	798	-11	0
Law	569	572	576	3	4
Military & Veterans Affairs	333	333	333	0	0
Natural Resources	757	759	759	2	0
Public Safety	885	885	895	0	10
Revenue	882	883	889	1	6
Transportation & Public Facilities	3,180	3,186	3,191	6	5
University of Alaska	4,727	4,712	4,712	-15	0
Judiciary	768	768	768	0	0
Legislature	255	262	262	7	0
<b>Agency Budgets Total</b>	<b>22,126</b>	<b>22,112</b>	<b>22,136</b>	<b>-14</b>	<b>24</b>

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 FY16 positions is about 27% of the total operating budget (\$9.8 billion). Perhaps more pertinent, personal services funding is 45% 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).

- 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;
- in a reclassified PCN;
- 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 can 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** (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 may 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 the 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 the services line may simply indicate that the department
- is having difficulty recruiting and will contract for the services, or
  - must use the funding to pay increased contractual costs for leases, IT services, outside vendor costs, etc.

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 2014 Operating Instructions, the minimum vacancy factor is optional.

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

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

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

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

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

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

- **Allocation size.** Typically, larger allocations have higher vacancy factors. A zero percent vacancy 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 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.

10 Year Debt Service Summary Table											
(\$ thousands)											
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16Gov	FY15 to FY16 Gov
<b>ADRF Debt Payments</b>											
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	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>123,215.5</b>	<b>128,340.4</b>	<b>125,548.3</b>	<b>133,803.7</b>	<b>1,039.0</b>	<b>3,107.0</b>	-	-	-	-	-
<b>Direct Debt Payments</b>											
<i>Pension Obligation Bonds</i>											
GO Bonds	1,904.6	67.7	20.5	222.8	57,721.1	81,081.5	81,089.2	85,342.9	81,393.6	5,000.0	5,000.0
Certificates of Participation (COPs)	-	-	-	-	8,009.5	6,943.5	6,982.5	1,795.8	4,569.2	87,942.2	6,548.6
One-time Defeasance - COPs	-	-	-	-	-	24,000.0	-	-	-	86.0	UGF
School Debt Reimbursement	27,000.0	24,500.0	23,400.0	23,000.0	106,288.5	108,145.6	115,386.3	128,263.1	126,642.4	1,780.6	UGF
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	(7,001.5)	UGF
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	-	-	35,700.0	-	-	UGF
Clean Water Fund Bonds	1,539.3	831.8	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	1,601.7	1,882.7	81.0
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	1,776.5	ACWF 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	5,500.0	5,300.0	84.8
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	4,599.4	ADWF Receipts
DOA for Alwood 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	3,467.0	(200.0)
DOA for Linn Park Building	-	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	(872.6)
DOA for Linn Park Parking Garage	5,091.8	5,102.0	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	3,598.7	1,806.0	UGF
Anchorage Jail (Capital Lease)	-	-	-	-	-	25,000.0	-	-	-	-	UGF
One-time Defeasance - Anchorage Jail	-	-	-	-	-	-	-	-	-	-	UGF
Spring Creek Correctional Center	-	-	-	-	-	-	-	-	-	-	UGF
Yukon-Kuskokwim Correctional Center	-	-	-	-	-	-	-	-	-	-	UGF
Goose Creek Correctional Center	-	-	-	-	-	-	-	-	-	-	UGF
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	17,817.4	(0.5)
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	23,600.0	(167.7)	FY15
<b>Subtotal</b>	<b>152,268.3</b>	<b>136,804.7</b>	<b>142,657.9</b>	<b>151,403.2</b>	<b>300,363.4</b>	<b>363,738.4</b>	<b>325,161.1</b>	<b>373,398.5</b>	<b>339,925.6</b>	<b>343,171.7</b>	<b>3,246.0</b>
<b>TOTAL Debt Service/Reimbursement</b>	<b>275,483.8</b>	<b>267,145.1</b>	<b>268,206.2</b>	<b>285,206.9</b>	<b>301,402.4</b>	<b>366,845.4</b>	<b>325,181.1</b>	<b>373,398.5</b>	<b>339,925.6</b>	<b>343,171.7</b>	<b>3,246.0</b>
<b>Debt Payments by Type</b>											
GO Bonds	45,037.5	44,439.0	43,886.3	48,944.9	58,760.1	84,188.5	81,089.2	85,342.9	81,393.6	87,942.2	6,548.6
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	32,756.2	31,049.1	(1,707.2)
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	56,233.0	54,031.5	(2,201.5)
Debt Reimbursement	104,144.9	105,456.0	105,057.4	105,594.2	111,965.8	114,216.6	121,275.2	133,864.4	132,114.4	133,022.4	908.0
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	34,135.0	33,667.3	(467.7)
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	3,459.2	165.8
											Clean and Drinking Water
											COP's, Alwood Building, Parking
											Garage, Anchorage Jail, Goose
											Creek Prison
											International Airport, Sport Fish
											School Debt, Municipal Capital Debt
											AHFC, NTSC
											165.8



## **Language Sections of the Governor's FY16 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, 2016.

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, 2016.

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.

### **Deleted Section: Legislative Intent Relating to Rights of Crime Victims**

### **Deleted Section: Legislative Intent Relating to a Recidivism Plan**

### **Deleted the Following Section**

**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. Some might argue that the reports are unnecessary in the present period of fiscal restraint; others might argue that the reports gain importance as appropriations are reduced.

**Sec. 6. ALASKA AEROSPACE CORPORATION.** Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2016, 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, 2016.

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.

**Sec. 7. ALASKA HOUSING FINANCE CORPORATION.** (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$19,058,707 of the change in net assets from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2016.

**Subsection (a)** is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the state as a FY16 dividend payment. The amounts available for dividends in FY13, FY14, and FY15 were \$27.3 million, \$10.6 million, and \$7.5 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 dividends may stay at historically low levels for several years.*

(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, 2016, 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) \$7,225,833 for debt service on the bonds described under ch. 1, SSSLA 2002;

(3) \$2,141,470 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 \$10.4 million of the FY16 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 FY16 is \$10,367,303—leaving \$8,691,404 of the dividend to be expended for capital projects.

**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);
- \$48.3 million for the 2002 bonds (paid off in 2022); and
- \$39.1 million for the 2004 bonds (paid off in 2033).

**(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, 2016, 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:** *Appropriate the “unused” balance of dividends to the Alaska Capital Income Fund (AS 37.05.565), as has been done in recent 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, 2016, 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 FY16 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

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

**(e) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under**

(d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2016, 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, 2016, 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. 8. ALASKA PERMANENT FUND CORPORATION.** (a) The amount authorized under AS 37.13.145(b) for transfer by the Alaska Permanent Fund Corporation on June 30, 2016, estimated to be \$1,405,000,000, 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, 2016.

**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 FY16 (as calculated on the last day of the fiscal year) will be used to pay PFDs in October of 2016 and to pay administrative and associated costs throughout FY16.

**Funding:** The projected \$1.4 billion dividend transfer includes funding for administrative and associated costs. Administrative and associated costs for FY16 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, 2016, estimated to be \$905,000,000, 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.

**Legislative Fiscal Analyst Comment:** The estimated amount appropriated for dividends and inflation proofing will be updated as Permanent Fund projections are revised.

**(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during the fiscal year ending June 30, 2016, 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 \$445 million during FY16.

**(d) The income earned during the fiscal year ending June 30, 2016, on revenue from the sources set out in AS 37.13.145(d), estimated to be \$23,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).**

**Subsection (d)** appropriates FY16 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 long-term earnings on this \$425 million portion are projected to be \$23 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. 9. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. (a) An estimated \$17,650,000 will be 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, 2016, 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 \$17.65 million. Dividends for FY14 and FY15 were \$20.7 million and \$10.66 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, 2016, 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 recent budgets. This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

**Sec. 10. 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, 2016.

**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 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, 2016.

**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 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 FY16 estimated amount required for working reserves is \$43.8 million, an increase of \$1.3 million from FY15.

**(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 \$150,000, is appropriated to the Alaska Oil and Gas Conservation Commission for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2016.**

**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 15(c) applies to the Department of Natural Resources.*

**Sec. 11. 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, 2016, 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, 2016, 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, 2016.**

**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, 2016.**

**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 - \$18,590.5
- FY11 - \$15,857.6
- FY12 - \$15,381.8
- FY13 - \$13,878.3
- FY14 - \$12,173.6
- FY15 Estimate - \$600.0
- FY16 Estimate - \$600.0

***Legislative Fiscal Analyst Recommendation:*** *Retain subsections (a) and (b) despite the uncertain outlook for FY16. 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, 2016.**

**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 2014, 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, 2016, 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 Division reports on the operating bill.

**(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2014, 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, 2016, to qualified regional seafood development associations for the following purposes:**

- (1) promotion of seafood and seafood by-products that are harvested in the region and processed for sale;**
- (2) promotion of improvements to the commercial fishing industry and infrastructure in the seafood development region;**
- (3) establishment of education, research, advertising, or sales promotion programs for seafood products harvested in the region;**
- (4) preparation of market research and product development plans for the promotion of seafood and their by-products that are harvested in the region and processed for sale;**
- (5) cooperation with the Alaska Seafood Marketing Institute and other public or private boards, organizations, or agencies engaged in work or activities similar to the work of the organization, including entering into contracts for joint programs of consumer education,**

**sales promotion, quality control, advertising, and research in the production, processing, or distribution of seafood harvested in the region;**

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

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

**(f) The amount necessary, estimated to be \$41,355,000, not to exceed the amount determined under AS 42.45.085(a), is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2016.**

**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 second consecutive year, 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. As of June 30, 2014, the endowment fund balance was \$977.9 million.

**Funding:** Total program cost is projected to be \$41.7 million in FY16; the same level of funding as appropriated in FY15. The endowment payout is expected to fully cover program costs with a payout of about 6.4% in FY15, 4.9% in FY16, and 4.5% in FY17.

**(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, 2016.**

**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 FY16 or later.

### **New Subsection**

**(h) The sum of \$345,000 is appropriated from federal receipts for energy projects to the Department of Commerce, Community and Economic Development, Alaska Energy Authority for operating costs associated with emerging energy technology fund data collection for the fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018.**

**Subsection (h)** is a multi-year appropriation (FY16-FY18) of federal receipts for data collection and analysis of emerging energy technology (EETF) grant funded projects. The funding will be used to analyze both federal and state funded projects but no state funds are required to match the federal award. The data collection is expected to be completed by 2018 (when the federal grant award is terminated)

**Funding:** The \$345,000 of federal receipts does not require any state match.

**Deleted Alaska Seafood Marketing Funding and Intent subsections from the language sections and placed funding and wordage in Section 1.**

***Legislative Fiscal Analyst Comment:** ASMI is requesting the same level of funding as in FY15, but the FY16 Governor's request moves the request from a language section to section 1 of the operating budget. The FY16 Governor's budget request consists of \$4,500.0 Federal Receipts, \$4,500.0 General Fund Match (UGF), \$2,883.6 UGF, and \$14,826.5 Statutory Designated Program Receipts (Other). The request also includes carryforward language and intent language consistent with the above language to continue outlining the funding methodology. 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 FY15, the requested amount of GF match in subsection 1 (\$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. However, there is little reason to continue to outline the funding mechanics and intent if the language appropriating up to \$9 million of UGF to match industry contributions is not a factor in determining the amount of general fund appropriations.*

**Deleted contingency language appropriating UGF to the Anchorage Correctional Complex (if federal receipts were not forthcoming).**

Open-ended language included in the FY14 and FY15 operating budgets made a general fund appropriation 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. Although the amount of federal receipts varies from year to

year, depending primarily on the number of federal prisoners and the length of their stay, the Governor did not include this language in his FY16 Request.

**Legislative Fiscal Analyst Comment:** *According to the department, the language is no longer needed because DOC is entering into another agreement with the federal government to provide transportation and guard services for medical coverage. The amount DOC receives as a result of this contract should cover the shortfall.*

**Sec. 12. DEPARTMENT OF FISH AND GAME. (a)** An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.76.210 in the fiscal year ending June 30, 2015, 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, 2016, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

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

**(b)** After the appropriation made in sec. 22(l) 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, 2016.

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

**Sec. 13. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. (a)** If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2016.

**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, 2016.**

**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 fishermen's fund (AS 23.35.060) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2016.**

**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, 2016, 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, 2016.**

**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. 14. 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, 2013, June 30, 2014, and June 30, 2015, 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, 2016.

**Section 14** appropriates the payout from the endowment to DMVA. The payout may be used for maintenance, repair and construction of monuments to the military.

**Sec. 15. DEPARTMENT OF NATURAL RESOURCES.** (a) The interest earned during the fiscal year ending June 30, 2016, 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, 2016, June 30, 2017, and June 30, 2018.

**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.

**(b)** The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2016, 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, 2016.

**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 23(i)—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 23(i) 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 Department of Natural Resources for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2016.**

**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 10(c) applies to the Department of Administration.*

**(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2016, 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, 2016.**

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

**Funding:** The estimated impact of this section is \$8.5 million of federal receipts.

**(e) If any portion of the federal receipts appropriated to the Department of Natural Resources for division of forestry wildland firefighting crews is not received, that amount is appropriated from the general fund to the Department of Natural Resources, fire suppression preparedness, for the purpose of paying costs of the division of forestry wildland firefighting crews for the fiscal year ending June 30, 2016.**

**Subsection (e)** appropriates unrestricted general funds to replace federal funds in the event that federal grant funding fails to fully materialize. The department supports three "Hotshot" professional firefighting crews at \$375.0 each through competitive federal grants. Competition for this federal funding has increased, and this language ensures that the department can retain these crews by using general funds if Alaska does not secure federal grants.

**Funding:** The maximum expected impact of this section is \$1,125.0 of unrestricted general funds.

***Legislative Fiscal Analyst Recommendation:*** *For clarification, the Hotshot crews could be placed in a separate allocation in section 1. Associated costs are not presently identifiable in the budget system. The language of subsection (e) could be modified to include an estimated cost and/or a "not to exceed" value.*

**Sec. 16. 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, 2016.

**Section 16** appropriates (to the Child Support Services Division) receipts collected to recover the costs of paternity testing.

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

**Sec. 17. UNIVERSITY OF ALASKA.** The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2015, for the issuance of special request university plates, less the cost of issuing the license plates, estimated to be \$1,000, 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, 2016.

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

#### **Deleted Section**

**UNIVERSITY OF ALASKA. (b)** The sum of \$12,500,000 is appropriated from the general fund to the University of Alaska, Fairbanks campus, for heating costs for the fiscal year ending June 30, 2015. The appropriation made in this subsection is contingent on the University of Alaska Fairbanks' coal-fired plant using diesel as its primary fuel source for at least 60 consecutive days.

Because there was concern that the University of Alaska Fairbanks would incur huge heating costs if its coal-fired plant malfunctioned, the legislature added a contingent appropriation to the FY15 operating budget. At this point, the contingency has not been met.

The Governor's request does not include this language.

**Sec. 18. OFFICE OF THE GOVERNOR. (a)** If the 2016 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$70 a barrel on August 1, 2015, the amount of money corresponding to the 2016 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 \$10,000,000, 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, 2016.

**(b)** If the 2016 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$70 a barrel on December 1, 2015, the amount of money corresponding to the 2016 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 \$10,000,000 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, 2016.



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

2016 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$97 or more	\$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, 2016.

(e) The governor shall allocate amounts appropriated in (a) and (b) of this section to departments as needed to offset the effects of higher fuel and utility costs for the fiscal year ending June 30, 2016.

**Subsections (a) and (b)** appropriate an estimated \$20 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)** replaces specific percentage allocations to the various departments (see below) with the ability to distribute funding to departments on an “as needed” basis.

***OLD Distribution subsection***

*(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, 15 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.*

***Legislative Fiscal Analyst Recommendation:*** Retain the FY15 version of subsection (e). Agency allocations in the FY15 version of subsection (e) were present at the recommendation of Legal Services. Their reasoning is that a lack of sideboards relinquishes the power of appropriation to the executive branch.

**Funding:** OMB included a \$20 million appropriation for fuel in its budget transmittal, which corresponds to a forecast oil price at \$90/bbl.

***Legislative Fiscal Analyst Recommendation:*** At the December 15<sup>th</sup> official forecast price of \$66.03/bbl, no funding would be distributed and, if the language remains, the estimated cost for this section should be changed to zero.

**Sec. 19. BANKCARD SERVICE FEES.** (a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2016, is appropriated for that purpose for the fiscal year ending June 30, 2016, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

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

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

**(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2016, is appropriated for that purpose for the fiscal year ending June 30, 2016, to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.**

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

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

**(c) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2016, is appropriated for that purpose for the fiscal year ending June 30, 2016, 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 Division reports on the grounds that the state has no effective control over the money.

**Sec. 20. DEBT AND OTHER OBLIGATIONS. (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2016, 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, 2016.**

**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.

<b><i>Legislative Fiscal Analyst Comment:</i></b> No notes are expected to be issued in FY16.
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**(b) The amount required to be paid by the state for the principal of 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 the principal of and interest on those bonds for the fiscal year ending June 30, 2016.**

**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 amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2016, estimated to be \$1,682,700, 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).**

**(d) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2016, estimated to be \$1,776,500, is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565).**

**Subsections (c) and (d)** appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts and drinking and clean water bond receipts (see sections 22(h)-(k)). 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 \$4,599,354 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2016, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:**

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	\$1,219,300
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Matanuska-Susitna Borough	709,463
(deep water port and road upgrade)	
(B) Aleutians East Borough/False Pass	111,377
(small boat harbor)	
(C) City of Valdez (harbor renovations)	213,381
(D) Aleutians East Borough/Akutan	348,108
(small boat harbor)	
(E) Fairbanks North Star Borough	336,124
(Eielson AFB Schools, major maintenance and upgrades)	
(F) City of Unalaska (Little South America (LSA) Harbor)	366,745
(3) Alaska Energy Authority	
(A) Kodiak Electric Association	943,676
(Nyman combined cycle cogeneration plant)	
(B) Copper Valley Electric Association	351,180
(cogeneration projects)	

**Subsection (e)** appropriates \$4.6 million to various state agencies for reimbursement of municipal (and other public entity) debt service on projects authorized in Ch. 115, SLA 2002 (HB 528). The project list is identical to the FY15 list, except for deletion of a (now debt-free) fire headquarters station in the City of Fairbanks.

**(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, 2016, estimated to be \$4,655,200, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2016.**

**Subsection (f)** appropriates \$4.7 million for trustee fees (\$2.5 million) and to make payments on the following COPs:

Fairbanks Virology Lab	\$1,763,800
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Alaska Native Medical Center housing project	
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(authorized in Ch 63, SLA 2013, SB 88)	\$2,888,900
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**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, 2016:**

**(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, 2016:**

A total of \$83.1 million general funds and \$4.8 million federal funds is appropriated for debt service on general obligation bonds (see table below). Comparable FY15 numbers are \$73.3 million general funds, \$3.3 million other state funds, and \$4.9 million federal receipts.

<b>Summary of Debt Service on Outstanding General Obligation Bonds</b>					
<b>Authorization Year</b>	<b>Bond Issue</b>	<b>Subsection</b>	<b>General Fund Debt Service</b>	<b>Federal Debt Service</b>	<b>Total Debt Service</b>
2008	2009A	1	37,700	-	37,700
2008	2009A	2	12,887,000	-	12,887,000
2010	2010A&B	3,4,5 & 6	4,737,080	4,421,761	9,158,841
2002	2012A	7	29,121,925	-	29,121,925
2010	2013A	8,9,10	33,185	427,658	460,843
2010	2013B	11,12	16,170,500	-	16,170,500
2010	2015A	13	20,000,000	-	20,000,000
	Trustee Fees	14	5,300		5,300
	Arbitrage Rebate	15	100,000		100,000
	<b>Total</b>		<b>83,092,690</b>	<b>4,849,419</b>	<b>87,942,109</b>

**(1) the sum of \$37,700 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;**

**(2) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payment made in (1) of this subsection, estimated to be \$12,887,000, 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, \$150 million will not be 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.*

**(3) 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;**

**(4) 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;**

**(5) the sum of \$12,000 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2010A and 2010B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B;**

**(6) 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 (3), (4), and (5) of this subsection, estimated to be \$4,725,080, from the general fund for that purpose;**

Series 2010A, 2010B, and 2010C general obligation bonds were issued as 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 programs. Series A were issued using Build America Bonds (receiving an original 35% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds (paid off in 2015). All authorized bonds are not sold at the same time because IRS rules (for tax exempt status) require complete*

*expenditure of bond proceeds within three years of bond issuance. Bonds are issued in specific series as cash is needed for projects. Sequestration subsequently reduced the federal reimbursement rates on the Series A and Series B bonds, reducing the effective subsidy to near 32.5% and 93%, respectively.*

**(7) the amount necessary, estimated to be \$29,121,925 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 was 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 were fully repaid as of FY14.*

**(8) the sum of \$22,000 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 \$11,185, from the general fund for that purpose;**

**(11) the sum of \$221,500 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 \$15,949,000, 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 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 2015A, estimated to be \$20,000,000, from the general fund for that purpose;**

The Series 2015A Bond Anticipation Notes (BANs) sale is anticipated to be sized at approximately \$300 million. The sale will refinance \$170 million of 2014A BANs and provide up to \$130 million for projects authorized in the 2012 Transportation Act.

It is anticipated that the 2015 BANs will have an interest rate below two-tenths of one percent. The BANs are being used to better match evolving cash flow needs of construction projects and adhere to IRS limitations on arbitrage and construction fund spending.

**(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 2015A, 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. The provision is also likely to apply to 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.*

**(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, 2016:**

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

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

**(3) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after payments made in (1) and (2) of this subsection, estimated to be \$38,132,650, 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 \$19,623,350 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, 2016:

FACILITY AND FEES	ALLOCATION
(1) Anchorage Jail	\$1,806,000
(2) Goose Creek Correctional Center	17,813,150
(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 \$128,423,009 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, 2016, from the following sources:

General fund	\$104,523,009
School Fund (AS 43.50.140)	23,900,000

**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:** Per the DOR Fall 2014 Revenue Sources book, FY16 cigarette tax collections (School Fund) are projected at \$18.1 million, down from \$21.0 million in FY14 and a projected \$19.6 million in FY15. As those tax revenues decrease, the general fund portion of school debt reimbursement increases.

**Legislative Fiscal Analyst Recommendation:** Based on FY16 revenue projections for the School Fund, the amount appropriated in subsection (k) appears to be overstated by \$5.8 million. This is not the case. The Governor's budget appropriates a \$5.8 million balance in the School Fund that has been building up during the past few years.

**(l) The amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during fiscal year ending June 30, 2016, estimated to be \$5,300,000, are appropriated to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds, for early redemption of those 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 22(l) 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 section 12(b).

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.

**Legislative Fiscal Analyst Recommendation:** *Placing an “and” in the final clause would clarify that the appropriation is intended to refer to both scheduled payments and “early redemption” payments.*

#### **New Subsection**

**(m) The amount necessary for payment of the cost of issuance of pension obligation bonds, estimated to be \$5,000,000, is appropriated from the general fund for that purpose.**

**Legislative Fiscal Analyst Comment:** *The Governor’s Office has indicated that this provision will be removed via amendment. The cost of issuing pension obligation bonds (POBs) is high relative to other debt, and POBs typically carry a relatively high interest rate as well. POBs could reduce state assistance to retirement systems if earnings on the bond proceeds were invested at a higher rate of return than the interest rate on the POBs. Likewise, state costs would increase if investment returns failed to cover debt service on POBs.*

**Sec. 21. FEDERAL AND OTHER PROGRAM RECEIPTS. (a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the 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, 2016, 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, 2016, 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, 2016, 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. 22. FUND CAPITALIZATION. (a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2016, estimated to be \$23,000, 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 FY16 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) 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 (b)** appropriates \$60 million to the Community Revenue Sharing Fund. This is \$8 million more than the \$52 million appropriated in FY15.

**Legislative Fiscal Analyst Comment:** *The revenue sharing fund was established with a FY08 supplemental appropriation of \$180 million. Per AS 29.60.850, as long as the fund balance is at least \$60 million on June 30 of the prior fiscal year, the department shall distribute one-third of that balance in the next fiscal year.*

*After the initial appropriation of \$180 million, appropriations to, and distributions from the fund were \$60 million until FY15. In FY15, the deposit decreased by \$8 million (to \$52 million). Because the distribution is based on the year-end balance, communities still received \$60 million in FY15. However, the impact of the FY15 appropriation on the year-end balance means that about \$2.7 million less will be distributed to communities in FY16.*

**Funding:** The full \$60 million request will increase payments in FY17 and thereafter to approximately \$59 million (assuming that \$60 million annual deposits continue).

**Legislative Fiscal Analyst Recommendation:** *To be consistent with current statute, “20 percent of” should be deleted from the first line of subsection (b). Amendments to AS 29.60.850 removed reference to “20 percent” and changed the source of funding from the progressive provisions of the oil production tax to the corporate income tax.*

**(c) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2016, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).**

**Subsection (c)** 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.

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

**Subsection (d)** capitalizes the Disaster Relief Fund with \$5 million of general funds. Over the past few years, the following amounts have been appropriated and expended.

- FY12: \$7.5 million UGF appropriated and \$8.2 million was spent.
- FY13: \$5 million UGF appropriated and \$4.7 million was spent.
- FY14: \$37.5 million UGF appropriated and \$37.5 million was spent.
- FY15: \$5 million UGF appropriated and the amount expended is to be determined.

**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. As of December 9, 2014, the balance of the Disaster Relief Fund was \$9.4 million.*

(e) 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, production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceeds the balance of the fund, estimated to be \$525,000,000, 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 Department of Revenue's Fall 2014 Forecast estimate is \$700 million for FY16. In addition, the FY15 estimate is \$625 million (not the \$450 million anticipated at the end of last session).

**Legislative Fiscal Analyst Recommendation:** *Increase the FY16 estimate to \$700 million to reflect the Department of Revenue's December 2014 projection.*

(f) 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, 2015, estimated to be \$50,000, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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

(g) 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 (g) 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.

(h) The amount of federal receipts awarded or received for capitalization of the Alaska clean water fund during the fiscal year ending June 30, 2016, less the amount expended for

administering the loan fund and other eligible activities, estimated to be \$8,376,000, is appropriated from federal receipts to the Alaska clean water fund (AS 46.03.032(a)).

(i) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska clean water fund during the fiscal year ending June 30, 2016, estimated to be \$1,675,200, is appropriated from Alaska clean water fund revenue bond receipts to the Alaska clean water fund (AS 46.03.032(a)).

(j) The amount of federal receipts awarded or received for capitalization of the Alaska drinking water fund during the fiscal year ending June 30, 2016, less the amount expended for administering the loan fund and other eligible activities, estimated to be \$6,103,050, is appropriated from federal receipts to the Alaska drinking water fund (AS 46.03.036(a)).

(k) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska drinking water fund during the fiscal year ending June 30, 2016, estimated to be \$1,769,000, is appropriated from Alaska drinking water fund revenue bond receipts to the Alaska drinking water fund (AS 46.03.036(a)).

Subsections (h), (i), (j) and (k) 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 20(c) and (d) for further discussion.

***Legislative Fiscal Analyst Comment:*** While the appropriations are similar to amounts in recent years, the Governor's requested language replaces specific appropriation amounts with open-ended language.

(l) The amount required for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2016, estimated to be \$4,893,125 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.

(m) After the appropriations made in sec. 12(b) of this Act and (l) of this section, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), estimated to be \$406,875, 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, 2016.

(n) If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) in (m) of this section are less than the amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2016, federal receipts equal to the lesser of \$2,110,125 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, 2016.



Several subsections appropriate funding to pay Sport Fish Hatcheries debt service, trustees fees and early redemption of the bonds. The following outlines the mechanics of the surcharge/debt service 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) **Subsection 22(l)** transfers the amount required to make the minimum required debt service payments from the enterprise account to the bond redemption account.
- (3) **Subsection 20(l)** appropriates the amount necessary (estimated to be \$5.3 million) from the Alaska Fish and Game Revenue Bond Redemption Fund to the State Bond Committee to pay the minimum debt service, trustee fees and for early redemption of the sport fish hatchery bonds.
- (4) Once the amount required to make the minimum debt service payment is transferred, **subsection 12(b)** appropriates the balance of the enterprise account (not to exceed \$500,000) from the enterprise account to Sport Fish so it can be used for sport fish operations.
- (5) **Subsection 22(m)** transfers any remaining balance in the enterprise account (including earnings) to the bond redemption account to be used for early redemption of the bonds.
- (6) If proceeds from the surcharge are insufficient to make the required debt service payments, **subsection 22(n)** is intended to clarify that the department may use up to \$2,110,125 of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds.

**Funding:** Total debt service appropriations are \$4.9 million appropriated in subsection (l) for required FY16 debt service while the subsection (m) appropriation for \$406,875 is for early redemption of the bonds.

**(o) 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, 2016, is appropriated to the crime victim compensation fund (AS 18.67.162).**

**Subsection (o)** 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 (o) does not appropriate income from the fund, so income will remain in the general fund.

**Legislative Fiscal Analyst Recommendation:** Increase the FY16 estimate to \$125.0 to reflect collections and donations in recent years.

(p) The sum of \$1,510,100 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 (p)** capitalizes the Crime Victim Compensation Fund (CVCF) 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 over the past few years has been:

- FY13: \$1,798,000
- FY14: \$1,116,400
- FY15: \$1,502,700

The Governor’s request of \$1,510,100 is slightly more (\$7.4) than was received in FY15 for the Violent Crimes Compensation Board.

(q) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act, estimated to be \$35,000, is appropriated to the election fund for use in accordance with 42 U.S.C. 15404(b)(2).

**Subsection (q)** 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 FY16 capital project using money from the Election Fund and no projects were requested in FY14 or FY15.

### **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, \$1 million in FY14 and \$500,000 in FY15. The Governor's FY16 request did not include a deposit to the Trauma Care Fund.

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

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

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

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

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

***Legislative Fiscal Analyst Recommendation:** Remaining balances should 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, 2016, 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. The Alaska Commission on Postsecondary Education set the origination fee at 0% for FY15 and it is expected to remain at that amount for FY16, as well. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

**(c) The sum of \$1,273,315,200 is appropriated from the general fund to the public education fund (AS 14.17.300).**

**Subsection (c)** appropriates \$1.3 billion to the Public Education Fund (PEF). Of this amount, \$931.5 is appropriated to fully fund the FY16 Pupil Transportation program and \$1.27 million is appropriated for FY17.

***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 FY17 costs to the Public Education Fund while withdrawing FY16 costs from the fund.

*The December 15 budget does not incorporate the most recent student count data from November 2014, so the figures in this overview are based on the FY15 projection as of 12/4/13.*

*The effective date of subsection (c) is December 1, 2015. The delayed date was chosen for cash-flow purposes.*

***Legislative Fiscal Analyst Recommendation:*** Incorporate the amount needed when revised count data are available.

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

**(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2015, estimated to be \$6,790,300, not otherwise appropriated by this Act;**

**(2) the amount collected for the fiscal year ending June 30, 2015, estimated to be \$6,480,000, from the surcharge levied under AS 43.55.300;**

**Subsection (d)(1) and (2)** appropriates (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY15 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.

**New Subsection**

**(3) the sum of \$1,890,400 from the general fund.**

**Subsection d(3)** appropriates \$1.9 million of UGF to the Oil and Hazardous Substance Release Prevention and Response Fund as a fund transfer to backfill an anticipated FY16 shortfall. The fund, including the added UGF, is then used for Spill Prevention and Response activities. The \$1.9 million shortfall is dependent on a large anticipated settlement in FY16; it is possible that the actual amount needed could be more than triple the requested amount.

***Legislative Fiscal Analyst Comment:** The department prefers this indirect method because it shows a stable funding source for the division. However, a fund transfer makes it more difficult to see that UGF is now effectively being used to pay for agency operations. A direct appropriation of UGF would make it clear that the traditional funding source is no longer sufficient.*

***Legislative Fiscal Analyst Recommendation:** Delete Subsection 3 and, if the legislature wants to use general funds for this purpose, appropriate general funds in section 1 to the department for Spill Prevention and Response activities.*

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

**(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2015, estimated to be \$700,000, not otherwise appropriated by this Act;**

**(2) the amount collected for the fiscal year ending June 30, 2015, from the surcharge levied under AS 43.55.201, estimated to be \$1,620,000.**

**Subsection (e)** appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY15 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 re-imposed effective July 1, 2013, and remains in place today. The report for the quarter ended December 31, 2014 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 FY16.*

**Deleted an appropriation of interest earnings to the Alaska Marine Highway Fund**

*Legislative Fiscal Analyst Comment: Until FY13, interest earned on the Alaska Marine Highway System (AMHS) Fund accumulated in the general fund.*

**Funding:** Estimated earnings in FY15 are about \$90.0.

(f) The unexpended and unobligated balance on June 30, 2015, estimated to be \$513,000, of the Alaska clean water administrative income account (AS 46.03.034(a)(2)) in the Alaska clean water administrative fund (AS 46.03.034) is appropriated to the Alaska clean water administrative operating account (AS 46.03.034(a)(1)) in the Alaska clean water administrative fund (AS 46.03.034).

(g) The unexpended and unobligated balance on June 30, 2015, estimated to be \$624,000, of the Alaska drinking water administrative income account (AS 46.03.038(a)(2)) in the Alaska drinking water administrative fund (AS 46.03.038) is appropriated to the Alaska drinking water administrative operating account (AS 46.03.038(a)(1)) in the Alaska drinking water administrative fund (AS 46.03.038).

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

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

**Funding:** DEC used a total of about \$900.0 from the administrative funds in FY15. The requested amounts in FY16 are \$1,240.3 and \$456.2 from the clean water and drinking water accounts, respectively.

(h) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2016, estimated to be \$888,000, 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; and

(4) fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative

**agreement authorized under AS 16.05.050(a)(6), estimated to be \$375,000.**

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

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

**(i) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2015, and money deposited in that account during the fiscal year ending June 30, 2016, estimated to be \$50,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).**

**Subsection (i)** 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 15(b)).

**(j) The sum of \$15,000,000 is appropriated from the general fund to the renewable energy grant fund (AS 42.45.045(a)).**

**Subsection (j)** appropriates \$15 million from the general fund to the Renewable Energy Grant Fund for energy grant appropriations.

**Funding:** With this appropriation, \$262.5 million will have been appropriated to 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 does not include appropriations from the fund.*

**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.*

**(k) The sum of \$38,789,000 is appropriated from the general fund to the regional educational attendance area and small municipal school district school fund (AS 14.11.030(a)).**



**Subsection (k)** appropriates \$38.8 million to the Regional Educational Attendance Area and Small Municipal School District (REAA) School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of *Kasayulie vs. State of Alaska*, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 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. Kwethluk received an additional \$31.5 million in FY15. The FY15 budget also included \$9 million from the REAA fund for a school in St. Mary's School District (plus an additional \$2.8 million UGF).*

*For FY16, the Governor's budget includes \$2.5 million to plan an access road and \$4.6 million to plan construction (both UGF) for the Kivalina school, which is the final project in the Kasayulie settlement agreement. Future budgets are expected to include funding for construction of the road and then the school. At the legislature's discretion, REAA funds could replace UGF for these projects.*

**(l) The vaccine assessment program receipts collected under AS 18.09.220, estimated to be \$31,200,000, are appropriated to the vaccine assessment account (AS 18.09.230).**

**Subsection (l)** appropriates \$31.2 million of GF/Program Receipts (from vaccine assessments) to the Vaccine Assessment Account. Legislation passed in 2014 [Ch. 30, SLA 2014 (SB 169)] established a statewide immunization program. The purpose of the



program is to monitor, purchase, and distribute vaccines to providers approved by the department who agree to provide those vaccines to state residents.

**Sec. 24. RETIREMENT SYSTEM FUNDING.** (a) The sum of \$126,520,764 is appropriated from pension obligation bonds to the Department of Administration for deposit in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2016.

(b) The sum of \$130,108,327 is appropriated from pension obligation bonds to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2016.

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

**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 FY06, the State began making direct contributions to retirement systems in order to stabilize employer contribution rates while repaying that unfunded liability. The amounts appropriated in subsections (a) and (b) are the amounts of state assistance. A UGF appropriation for the \$5 million cost of issuing pension obligation bonds is in Sec. 20(m).

Because pension obligation bonds are not expected to be issued, the fund source may need to be changed—presumably to general funds.

(c) The sum of \$5,890,788 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, 2016.

The appropriation in **subsection (c)** is the amount determined by the state's actuaries to meet required contribution levels for the Judicial retirement system.

**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.

**Sec. 25. SALARY AND BENEFIT ADJUSTMENTS.** (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the

terms for the fiscal year ending June 30, 2016, of the following ongoing collective bargaining agreements:

- (1) Alaska Correctional Officers Association, representing the correctional officers unit;**
- (2) Confidential Employees Association, for the confidential unit;**
- (3) Alaska Public Employees Association, for the supervisory unit;**
- (4) Alaska State Employees Association, for the general government unit;**
- (5) Public Safety Employees Association;**
- (6) Alaska Vocational Technical Center Teachers' Association;**
- (7) Inlandboatmen's Union of the Pacific, Alaska Region, for the unlicensed marine unit.**

**(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2016, for university employees who are not members of a collective bargaining unit and to implement the terms for the fiscal year ending June 30, 2016, of the following collective bargaining agreements:**

- (1) Fairbanks Firefighters Union, IAFF Local 1324;**
- (2) United Academics - American Association of University Professors, American Federation of Teachers;**
- (3) United Academic -Adjuncts - American Association of University Professors, American Federation of Teachers;**
- (4) Alaska Higher Education Crafts and Trades Employees, Local 6070.**

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

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

**Sec. 26. SHARED TAXES AND FEES.** (a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated from the general fund to the Department of Revenue for payment to local governments and other entities in the fiscal year ending June 30, 2016:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	2015	\$23,100,000
Fishery resource landing tax (AS 43.77)	2015	7,300,000
Aviation fuel tax (AS 43.40.010)	2016	200,000
Electric and telephone cooperative tax (AS 10.25.570)	2016	4,000,000
Liquor license fee (AS 04.11)	2016	900,000
Cost recovery fisheries (AS 16.10.455)	2016	1,000,000

**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 2015 according to AS 43.52.230(b), estimated to be \$15,500,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2016.

**Subsection (b)** appropriates \$15.5 million of Commercial Vessel Passenger “Head” Tax receipts to the first seven ports of call.

**Funding:** These “pass-through” taxes are excluded from Legislative Finance 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 current allocation of the head tax to ports of call directs almost \$25 per passenger to Juneau and Ketchikan, which impose local head taxes that are deducted from the \$34.50 state tax. That leaves about \$10 per passenger to be allocated to five ports of call other than Juneau and Ketchikan. Essentially, the amount allocated to ports of call exceeds revenue for every ship with four or more ports of call (including Juneau and Ketchikan).

In FY15, the balance of the CVP account is expected to be negative \$3.3 million if each port of call were to receive a \$5 per head allocation. The projected balance of the account is also insufficient to make full payments during FY16.

**Legislative Fiscal Analyst Recommendation:** *The legislature should review options to address the short-fall in the account.*

**Deleted the American Recovery and Reinvestment Act of 2009 Carry Forward Section**

Because funding associated with the American Recovery and Reinvestment Act of 2009 has been expended, the carryforward language that has been included in recent budgets is no longer necessary.

**Sec. 27. RATIFICATIONS OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM.** The appropriation to each department under this Act for the fiscal year ending June 30, 2016, is reduced to reverse negative account balances in amounts of \$1,000 or less for the department in the state accounting system for each prior fiscal year in which a negative account balance of \$1,000 or less exists.

Section 27 allows departments to use money appropriated for FY16 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

**Sec. 28. STATUTORY BUDGET RESERVE FUND.** If the unrestricted state revenue available for appropriation in the fiscal year ending June 30, 2016, is insufficient to cover general fund appropriations made for the fiscal year ending June 30, 2016, 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 28 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. Additional appropriations brought the balance to a peak of about \$5.2 billion in FY12. Draws in recent years are expected to deplete the fund balance by the end of FY15. 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 zero because the FY15 draw from the SBR is expected to exhaust the balance.

**Legislative Fiscal Analyst Recommendation:** *Delete Section 28; the balance of the SBR will be zero at the end of FY15.*

**Sec. 29. CONSTITUTIONAL BUDGET RESERVE FUND.** (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2015 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated

**from the budget reserve fund to the subfunds and accounts from which those funds were transferred.**

**Subsection a** is “sweep reversal language.” The Constitution requires that year-end general fund balances be used to repay withdrawals from the CBRF. All general subaccounts are “swept” into the CBRF.

**(b) Unrestricted interest earned on investment of the general fund balances for the fiscal year ending June 30, 2016, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made by this subsection is intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for any lost earnings caused by use of the fund's balance to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2016, in anticipation of receiving unrestricted general fund revenue. The amount appropriated by this subsection may not exceed an amount equal to the earnings lost by the budget reserve fund as the result of the use of money from the budget reserve fund to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2016, in anticipation of receiving unrestricted general fund revenue.**

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

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

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

***Legislative Fiscal Analyst Comment:*** *The bill contains no language appropriating funds from the CBRF to cover any shortfall in unrestricted revenue.*

***Legislative Fiscal Analyst Recommendation:*** *Delete Section 29, in favor of addressing both FY15 and FY16 actions pertaining to the CBRF in the capital budget.*

**Sec. 30. LAPSE OF APPROPRIATIONS.** The appropriations made in secs. 7(c), 8, 9(b), and 22 - 24 of this Act are for the capitalization of funds and do not lapse.

**Section 30** ensures that money deposited into various funds will not lapse if not expended during FY16.

**Sec. 31. RETROACTIVITY.** The appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2015 program receipts or the unexpended and unobligated balance on June 30, 2015, of a specified account are retroactive to June 30, 2015, solely for the purpose of carrying forward a prior fiscal year balance.

**Sec. 32. Section 31 of this Act takes effect June 30, 2015.**

**Section 31 and 32** ensure that unexpended receipts and balances carry forward into FY16 before they lapse.

**Sec. 33. Section 23(c) of this Act takes effect December 1, 2015.**

**Section 33** refers to the deposit to the Public Education Fund intended to fund FY17 K-12 formula costs. The delayed date was chosen for cash-flow purposes.

**Sec. 34. Except as provided in secs. 32 and 33 of this Act, this Act takes effect July 1, 2015.**

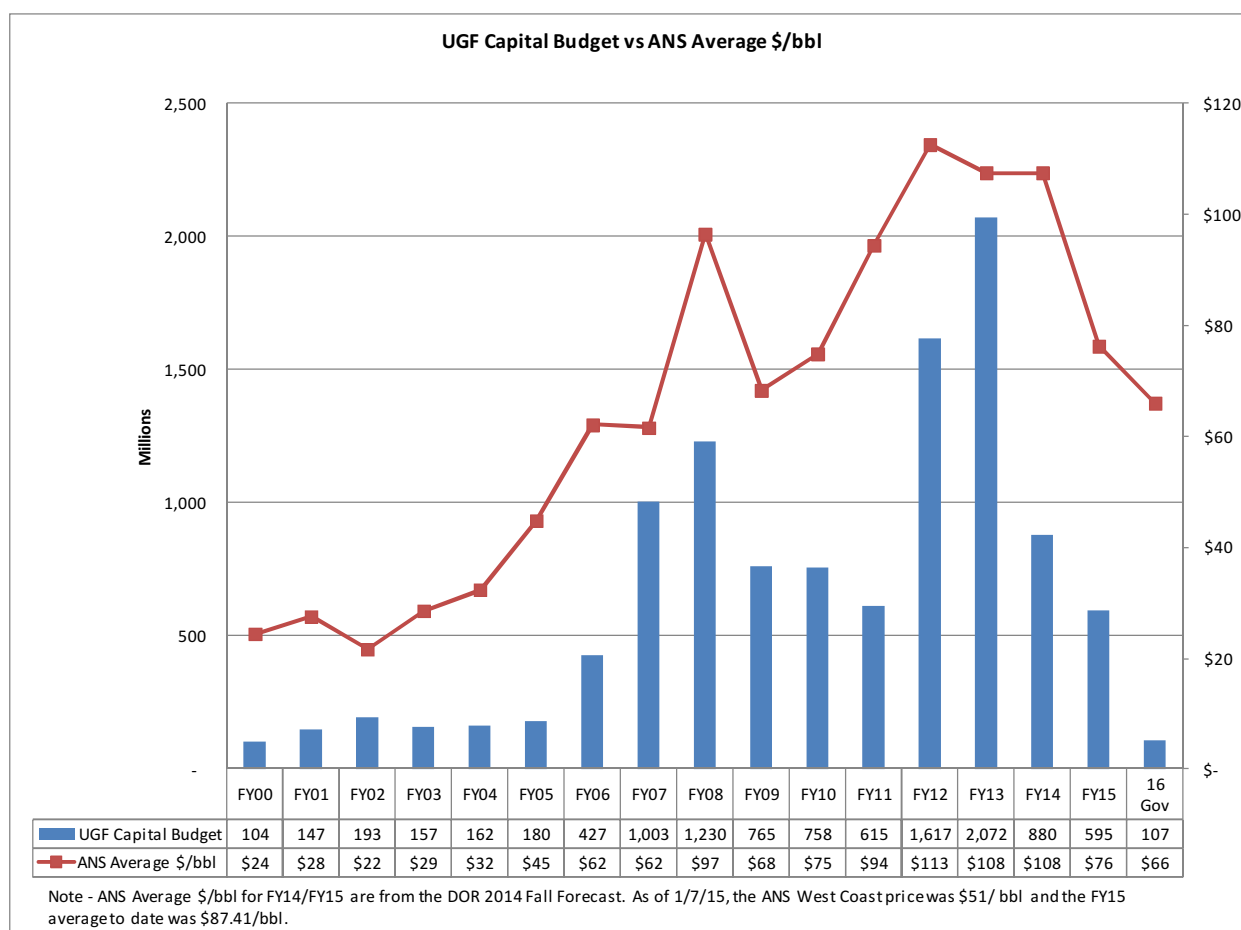
## **Capital Budget**

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## Capital Budget

The Capital Budget is front and center in any discussion of budget reductions because the size of the capital budget tends to reflect available revenue. With general fund spending of \$106.7 million—the smallest capital budget in years—the Governor's capital budget request illustrates this correlation perfectly. If adopted by the legislature, the FY16 capital budget would be the smallest general fund capital budget since FY 2000 when Governor Knowles was in office and oil prices averaged \$24.42/bbl. Since that time, oil prices, oil tax structures, and capital budgets, have dramatically changed. The graph below provides an interesting visual of the relationship between oil prices and capital budgets.



As illustrated in the graph, recent years have seen unprecedented capital investment. During the last 10 years, over \$25 billion of state and federal funding has been appropriated for capital projects. This includes nearly \$10 billion of unrestricted general funds. Much of this funding has yet to be expended. As of early January 2015, there is approximately \$4.2 billion of unexpended general funds for capital projects still in the state accounting system<sup>1</sup>. This implies

<sup>1</sup> This includes both encumbered and unobligated funding and excludes projects for the University and the public corporations.

that smaller general fund capital budgets, coupled with steady federal capital spending, should not immediately impact Alaska's economy.

The table below provides a synopsis of general fund capital appropriations during the past 10 years.

<b>UGF Capital Projects-10 Years (FY06-FY15)</b>	<b>(millions)</b>
Statewide Deferred Maintenance	714.0
Federal Match for Highways and Airports	541.3
State Transportation Projects (no federal)	1,199.0
Village Safe Water Match	137.7
Muni Water/Sewer Projects	194.8
School Construction	715.5
School Major Maintenance	324.0
UAA Engineering Building	82.6
UAF Engineering Building	66.3
AMHS Alaska Class Ferries	180.0
AHFC Home Energy Rebate	252.5
AHFC Weatherization	383.1
Renewable Energy Projects	227.5
Susitna-Watana Hydro	173.4
Other Energy Projects	249.9
Grants to Municipalities/Named Recipients	2,606.2
Port of Anchorage	219.8
Port Mackenzie Including Rail Extension	187.6
Other Projects	1,505.9
Total	\$ 9,961.1

### **Governor's FY16 Capital Request**

With the exception of \$2.5 million to continue development of an evacuation/school access road in Kivalina (which previously received \$2.5 million in FY14), the proposed general fund budget is minimal; the Governor included only projects that "leverage other money". Note, however, that "leveraged projects" include those for which there is a state match of municipal funding, which is a broader definition than usually applies.

**Legislative Fiscal Analyst Comment:** While it could be argued that providing state funding to municipalities and requiring a match is leveraging state assets, it could also be argued that this is still "municipal grant" money. The leverage does not provide additional resources to the state and is effectively a form of revenue sharing to municipalities. Were an even leaner capital budget of interest, the legislature could eliminate the appropriations for the DEC Municipal

Water/ Sewer projects and the DOT&PF Municipal Harbor Facility Grant Fund and there would be no lost revenue to the state.

Projects in the Governor's request include:

- Design for the Kivalina School as part of the Kasayulie Settlement - \$4.6 million general funds<sup>2</sup>;
- DEC Village Safe Water/ Wastewater Projects - \$8.75 million GF Match leveraging \$42.25 million Federal Receipts;
- DEC Municipal Water/ Sewer Projects - \$10 million General Funds being matched by \$2.9 million of municipal funding (outside the budget);
- DOT&PF Federal Highway and Aviation State Match - \$62.9 million GF Match leveraging approximately \$1 billion Federal Receipts; and
- DOT&PF Municipal Harbor Facility Grant Fund - \$10.4 million General Funds being matched by \$10.4 million of municipal funding (outside the budget).

### What's NOT in the budget?

**Deferred maintenance.** Deferred maintenance is just that, maintenance that has been deferred to another time, usually the result of insufficient funding. The most recent estimates by the Office of Management and Budget continue to show a deferred maintenance backlog totaling just over \$1.8 billion (see the table below).

Deferred Maintenance Backlog by Agency (millions)						
	Jan-11	Jan-12	Jan-13	Jan-14	Jan-15	Difference Jan14-Jan15
<b>Administration</b>	80.6	50.3	48.7	59.3	45.7	(13.6)
<b>Corrections</b>	88.8	102.9	87.4	74.6	65.9	(8.7)
<b>Court System</b>	12.6	9.8	8.1	6.8	6.9	0.1
<b>Education &amp; Early Development</b>	30.0	20.5	12.6	16.7	15.0	(1.7)
<b>Environmental Conservation</b>	0.2	0.2	-	0.2	0.3	0.1
<b>Fish and Game</b>	4.4	3.1	2.0	1.4	1.4	-
<b>Health &amp; Social Services</b>	18.8	19.2	17.1	25.2	18.2	(7.0)
<b>Labor &amp; Workforce Development</b>	49.2	49.0	31.5	21.3	15.0	(6.3)
<b>Military &amp; Veterans Affairs</b>	25.8	50.0	27.9	46.5	48.2	1.7
<b>Natural Resources</b>	83.0	69.1	74.1	75.5	73.2	(2.3)
<b>Public Safety</b>	2.7	6.7	6.7	6.2	6.6	0.4
<b>Transportation &amp; Public Facilities</b>	454.3	751.4	673.8	515.2	459.0	(56.2)
Airports	83.5	54.7	49.2	50.2	51.6	1.4
Harbors	19.1	15.5	16.0	15.9	9.5	(6.4)
Facilities	24.7	39.4	33.1	32.8	24.4	(8.4)
Highways	305.9	624.9	558.7	403.9	360.0	(43.9)
AMHS Vessels/Terminals	21.1	16.9	16.8	12.4	13.5	1.1
<b>University of Alaska</b>	773.4	1,185.8	1,200.7	1,203.0	1,091.2	(111.8)
<b>Total</b>	<b>1,623.8</b>	<b>2,318.0</b>	<b>2,190.6</b>	<b>2,051.9</b>	<b>1,846.6</b>	<b>(205.3)</b>

The Parnell administration had implemented a plan of \$100 million for five years toward the deferred maintenance backlog. The legislature approved nearly all of the funding decreasing the

<sup>2</sup> The Kivalina School is the final project required as part of the Kasayulie settlement. While general funds are requested for the design of the school, it may be possible to use the REAA Fund to pay for design and construction.

backlog significantly. Ignoring agency maintenance needs will result in a reversal of the declining trend.

Several points are worth mentioning in this regard.

1. With a focus on deferred maintenance and a consistent funding stream, agencies have become better at identifying and estimating the cost of projects. With sustained funding, the expectation is that the backlog would decrease.
2. As projects are addressed and removed from the backlog, new projects are identified and added.
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 \$1.85 billion backlog, 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 25 years to address the entire backlog.
5. If we were to exclude highways and airports, assuming those costs will be addressed with federal funding, the backlog could be addressed in 18 years.

**Legislative Fiscal Analyst Comment:** Paying off the entire backlog may not be feasible. However, continuing to address the backlog and reducing it to some sustainable level may save money in the long-run. Deferred maintenance should at least be discussed by the legislature.

The numbers in the deferred maintenance backlog table 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.”*

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.

Other notable missing capital items include:

- UAF Engineering Building - another \$31.3 million—in addition to the \$65.3 million already appropriated—is needed to complete the project;
- UA Maintenance Funding – UA has continuously made a case for ongoing maintenance funding in the range of \$40 million for all of their facilities;

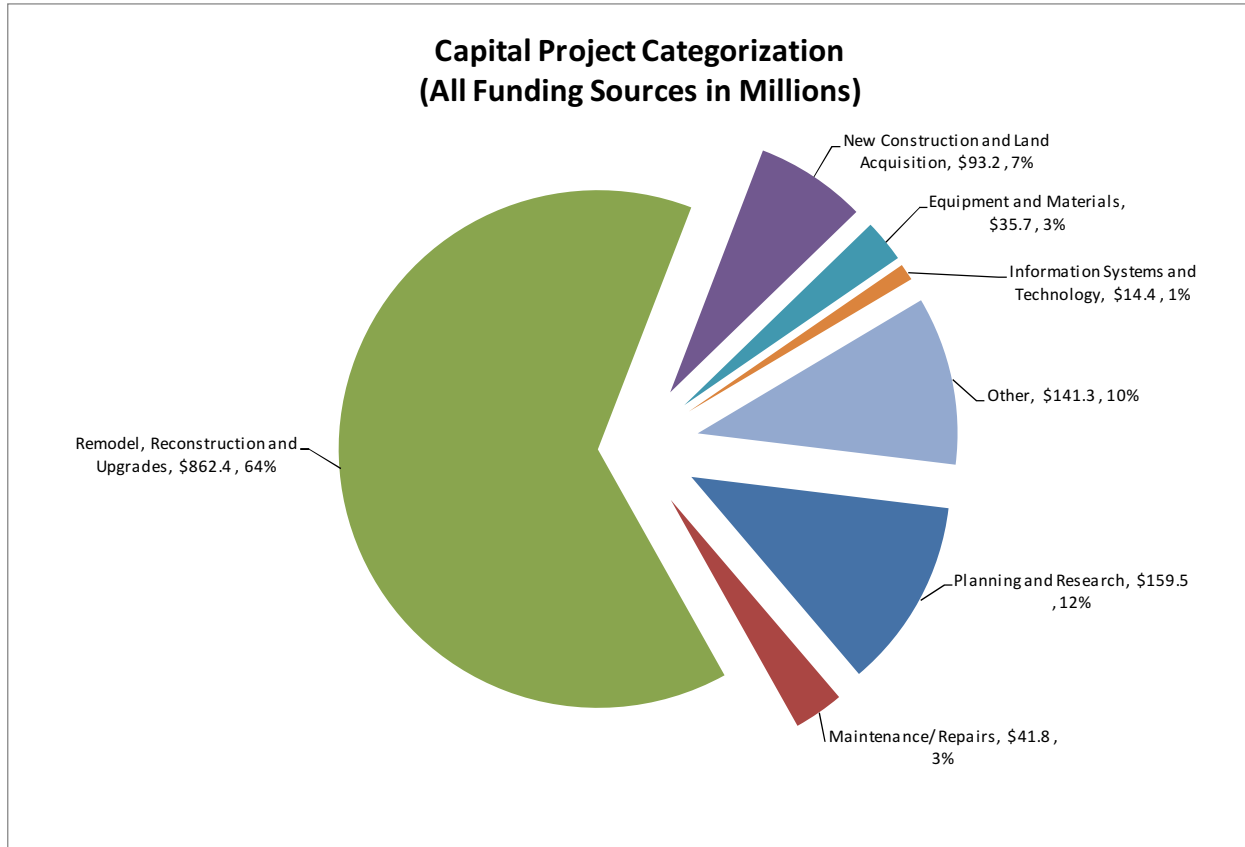
- Alaska Railroad Positive Train Control – with \$34.1 million appropriated so far, there is still an estimated \$58.6 million required to meet federal requirements;
- AMHS Vessel Overhaul – at \$10-12 million annually, this funding is necessary for required annual vessel overhaul to pass Coast Guard inspections. It is not optional, and if not addressed, overhaul costs will have to come out of the AMHS operating budget;
- AHFC Weatherization and Energy Rebate Programs – total funding expended for these two programs is \$291 million and \$190 million, respectively. The Weatherization program has approximately \$31 million of unobligated funding that is expected to last through March of 2016, while the rebate program has \$29.2 million remaining that is expected to go through roughly June 2016.
- State Equipment Fleet (SEF) Vehicle/Equipment Replacement – the SEF typically receives about \$15 million annually for vehicle and equipment replacement. All of this funding comes from the Highway Working Capital Fund, a non-GF fund source, which is derived from fleet rental rates (that includes a rate specifically for vehicle replacement). This omission may be a simple oversight; the funding source is not general funds.

### **Is this level of budget sustainable?**

As can be seen from the missing items, a budget near \$100 million may not be sustainable for long and, in fact, could be detrimental to the state's existing capital infrastructure. Prior to the budget surpluses of FY05-FY12, deferred maintenance and pent-up capital demand escalated all across the state and contributed to the capital budget "explosion" in recent years.

A prudent, sustainable level of capital funding is a matter of debate. One could argue, given the maintenance backlogs and historical appropriations, that it is considerably larger than the Governor's proposal. Over the longer term, further investment in large projects like AKLNG could add \$3 billion to capital budgets over the next 8 years.

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

Capital Budget Summary									
(\$ Thousands)									
Agency Comparison - All Funds (Includes MH)				FY16 Governor's Budget by House District					
Agency	FY15 Budget (1)	FY16 Gov	Change FY15-FY16	House District	HD #	General Funds	Other State Funds	Federal Funds	
Administration	10,450.0	-	(10,450.0)	Fairbanks Area-wide	1-5	2,018.8	1,725.6	12,284.4	
Commerce, Community & Econ Dev	280,071.3	12,565.6	(267,505.7)	Mat-Su Area-wide	7-12	-	-	2,900.0	
Corrections	5,000.0	-	(5,000.0)	Anchorage Area-wide	12-28	-	8,381.9	89,255.2	
Education and Early Development	87,939.8	4,600.4	(83,339.4)	Kenai Area-wide	29-31	1,980.3	-	8,000.0	
Environmental Conservation	70,847.7	64,014.9	(6,832.8)	Kodiak/Cordova/Seldovia	32	-	-	5,500.0	
Fish and Game	20,625.0	14,750.0	(5,875.0)	Juneau Area-wide	33-34	3,090.0	-	13,500.0	
Office of the Governor	-	-	-	Down Juneau/Doug/Hns/Skag	33	-	-	400.0	
Health and Social Services	12,577.4	1,550.0	(11,027.4)	Mendenhall Valley	34	-	-	8,000.0	
Labor and Workforce Development	7,170.0	-	(7,170.0)	Ketchik/Wrang/Metlak/Hyda	36	-	-	49,000.0	
Law	-	-	-	Bristol B/Aleutian/Up Kusk	37	2,899.6	-	7,500.0	
Military and Veterans Affairs	30,503.1	31,272.2	769.1	Lower Kuskokwim	38	-	-	3,250.0	
Natural Resources	46,655.2	10,000.0	(36,655.2)	Bering Straits/Yukon Delta	39	-	-	26,200.0	
Public Safety	5,400.0	1,200.0	(4,200.0)	Arctic	40	7,100.4	-	20,305.6	
Revenue	87,670.1	12,600.0	(75,070.1)	Statewide	1-40	89,564.0	19,926.3	965,442.2	
Transportation & Public Facilities	1,215,359.3	1,195,671.1	(19,688.2)						
University of Alaska	257,443.0	-	(257,443.0)						
Alaska Court System	6,900.0	-	(6,900.0)						
Legislature	403.3	-	(403.3)						
Fund Capitalization (2)	-	-	-						
<b>Total Capital - "Money on the Street" (3)</b>	<b>2,145,015.1</b>	<b>1,348,224.2</b>	<b>(796,790.9)</b>	<b>Total</b>		<b>106,653.1</b>	<b>30,033.8</b>	<b>1,211,537.4</b>	
Unrestricted General Funds	594,881.1	106,653.0	(488,228.1)	Unrestricted General Funds		106,653.1	-	-	
Designated General Funds	164,471.4	-	(164,471.4)	Designated General Funds		-	-	-	
Other State Funds	265,917.8	30,033.8	(235,884.0)	Other State Funds		-	30,033.8	-	
<b>Federal Funds</b>	<b>1,119,744.9</b>	<b>1,211,537.4</b>	<b>91,792.5</b>	<b>Federal Funds</b>		<b>-</b>	<b>-</b>	<b>1,211,537.4</b>	

Notes:

1) The FY15 Budget column includes approved RPL's through the 12/16/2014 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 FY16 Capital Budget**

**Sec. 4. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as defined in AS 44.21.045(b), Exxon Valdez oil spill trust receipts as defined in AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund as defined in AS 19.65.060(a), receipts of the University of Alaska as described in AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations defined in AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation, that are received during the fiscal year ending June 30, 2016, 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, 2016, 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, 2016, 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 appropriations in the operating bill.

**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 place 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, 2015, estimated to be \$4,005,621, 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 \$4 million for FY16) 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.**

**Legislative Fiscal Analyst Comment:** *The capital project lapse provision under AS 37.25.020 was amended during the 2014 session by HB 306 (Ch. 61, SLA 2014). The new lapse provision was modeled after the lapse provision for Grants to Municipalities (AS 37.05.315) whereby “substantial and ongoing work” must have begun within five years of the effective date of the appropriation. As long as substantial and ongoing work continues, the capital appropriation will not lapse. Previous to this change, capital appropriations were effective for the “life” of the capital project. This provided excessive ambiguity and allowed agencies to sit on capital appropriations with no real check by the legislature.*

**(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.”*

**Sec. 8. This Act takes effect July 1, 2015.**

## **Agency Narratives and Funding Summaries**

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**Department of Administration**

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$112,832.0</b>			
FY15 Fiscal Notes	625.2			
CarryForward	182.2			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$113,639.4</b>	\$807.4	0.7%	
One-time Items Removed	(907.2)			
Temporary Increments (IncTs)	194.3			
FY16 Health Insurance Reductions	(92.5)			
FY16 Contractual Salary Increases	1,346.3			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$114,180.3</b>	\$540.9	0.5%	
Unallocated Appropriations	(1,110.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	243.8			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$113,314.1</b>	(\$866.2)	-0.8%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>(\$866.2)</b>	
Finance	6,766.2	6,830.0	63.8	1
Retirement and Benefits	230.8	330.8	100.0	1
Motor Vehicles	16,651.1	16,731.1	80.0	2
Agency Unallocated Appropriation	-	(1,110.0)	(1,110.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	230,941.8	230,647.0	(294.8)	3
Federal Funds (all allocations)	3,806.7	3,806.7	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$234,748.5</b>	<b>\$234,453.7</b>	<b>(\$294.8)</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>1,123</b>	<b>1,119</b>	<b>(4)</b>	
PFT	1,052	1,055	3	
PPT	15	14	(1)	
Temp	56	50	(6)	
<b>Governor's Capital Request</b>	<b>State Funds</b>	<b>Federal</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## **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 FY16 Department of Administration general fund operating budget submitted by the Governor on December 15, 2014 is \$866.2 *below* the FY16 Adjusted Base [(\$946.2) Unrestricted General Funds (UGF) and \$80.0 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. General Fund Fees for Ongoing Actuarial Costs and Increased Mandatory Patient Centered Outcomes Research Institute Fees: \$163.8**

**UGF.** The federal Patient Protection and Affordable Care Act imposes a fee for self-insured health plans to fund the Patient Centered Outcome Research Institute (PCORI) trust fund. The amount of the fee is progressive (\$1.00 for the first year, and now \$2.00 in the second year, indexed in subsequent years). The fee is calculated using the average number of covered lives (employees and dependents) for both retiree and active health plans as a basis to determine the annual amount. Payment of the fee for the active health plan is administered by the Division of Finance and the fee for the retiree health plan is administered by the Division of Retirement and Benefits. In FY15, Finance received an increment of \$61.3 to fund the first year PCORI fee payment. Retirement and Benefits received two previous increments for Institute fees - \$65.0 in FY14 and \$68.0 in FY15. The FY16 increase to this fee is approximately \$9.5 and is based on an estimated 2.1% inflation rate for the fee change and a 3.1% increase in the number of covered lives; the remainder is to fund ongoing actuarial work that cannot be charged to the Trust Funds. Subsequent years may require additional general fund increases and will be dependent upon the annual index rate applied to the base fee plus the significance of the cumulative increase. Because the PCORI fee is in effect for a seven-year period, Legislative Finance shows the costs as temporary increments.

- **Finance – Year 2 (FY16 – FY21): \$63.8 UGF; and**
- **Retirement and Benefits – Year 3 (FY16-FY20): \$100.0 UGF.**

2. **Motor Vehicles – Comply with Commercial Driver License Federal Requirements and Train Commission Agents: \$80.0 GF/Program Receipts (DGF).** Per federal regulations (Title 49, Part 384.229), DMV is required to audit businesses, employees, and facilities conducting DL testing or training at least once every two years. DMV recently created a compliance and training section in the division to address the auditing and testing requirements of the new federal regulation and the Governor requested a \$60.0 increment to fund additional travel to perform the required audits. Many businesses that contract with DMV to provide CDL testing are located in remote areas of Alaska. In FY16, DMV auditors will be required to perform audits in Juneau, Haines, Sitka, Ketchikan, Bethel, Barrow, Dillingham, Fairbanks, Skagway, Soldotna, and Unalaska. In addition, \$20.0 is requested for training for 17 commission agents in rural communities where a single person is contracted to provide DMV services.
3. **Alaska Oil and Gas Conservation Commission (AOGCC) – Section 10 -- Language included for the Settlement of Claims Against Reclamation Bonds: \$150.0 SDPR (Other).** The Governor requested \$150.0 in additional SDPR authority to allow for the reclamation of state land by utilizing bond funds if necessary. Similar language was included in FY15 (with \$50.0 in authority).

**Legislative Fiscal Analyst Comment:** In FY13, AOGCC was working with an operator to ensure that regulations were met as outlined in 20 AAC 25 and were having some difficulty. The department thought it may be necessary to collect on their performance bond. The Governor's request includes similar language for AOGCC in FY16. The claim value of \$150.0 is an estimate.

## **FUNDING REDUCTIONS**

4. **Agency Unallocated Appropriation: (\$1,110.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

## **OTHER ISSUES**

5. **Legal & Advocacy Appropriation.** Steady workload increases each year for over 25 years have generated incremental and supplemental funding needs for the Office of Public Advocacy (OPA) and the Public Defender Agency (PD). No additional increases related to workload have been requested in the initial FY16 Governor's request but both the Office of Public Advocacy and the Public Defender Agency have been experiencing escalating demands.
  - **Office of Public Advocacy --** According to the department, despite substantial progress in reducing expenditures and in streamlining the delivery of services, it is anticipated that OPA will need additional funds to address the workload. Of particular concern are criminal appeals (up 19% in FY14) and Post-Conviction relief cases (up 47% in FY14). OPA has also been experiencing a continued substantial rise in Child in Need of Aid (CINA) cases which are anticipated to reach an additional 15% to 20% increase statewide in FY15. This need will undoubtedly be considered in the FY15 Supplemental process, and FY16 amendments may be proposed to maintain core services to clients.
  - **The Public Defender Agency** is in a similar circumstance as it continues to experience increases in court appointments across the state. According to PD, "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. The agency is under significant pressure due to an increasing trial rate and increased open sentencing hearings from the Department of Law’s plea agreement policy. PD suggests that trials have increased by 60% over the last six years and appellate matters have increased by 82% over the last five years. In FY14 alone, felony merit appeals increased 7%, misdemeanor appeals increased 56%, and sentence appeals increased 100%. All of this points to the fact that a UGF budget amendment may be forthcoming.

**6. Bargaining Unit Negotiations.** According to the department, the state expects to implement three bargaining unit agreements in FY16. Funding for these agreements will be requested later in the legislative session. These units are as follows:

- Alaska Correctional Officers Association (ACOA) (negotiations on this contract were completed on October 24, 2014);
- Teachers’ Education Association of Mt. Edgecumbe (TEAME) (contract negotiations began on January 8, 2015 and the department anticipates that an agreement will be completed before the 60<sup>th</sup> day of session); and
- Labors, Trades and Crafts, Local 71 (LTC) (the department has requested bargaining dates from LTC and hopes to start negotiations in early January and be completed before the 60<sup>th</sup> day of session as well).

## **ORGANIZATIONAL CHANGES**

There are no significant organizational or structural changes requested.

## **CAPITAL REQUEST**

No capital projects are included for the Department of Administration in the Governor’s FY16 Capital budget submission.

## **RETIREMENT APPROPRIATIONS**

**DIRECT STATE ASSISTANCE TO RETIREMENT: \$262.5 Million Total —Section 24 Governor’s December 15<sup>th</sup> Operating Budget Bill.** The Governor has proposed one-time appropriations to the Department of Administration for deposit in the defined benefit plan accounts of the public employees’ retirement system, teachers’ retirement system, and judicial retirement system accounts. (As in previous years, direct appropriations for costs associated with public employees’ retirement systems are segregated from the department’s budget in order to avoid overstating the Department of Administration’s budget.) A total of \$262,519.9 includes the following:

- **\$126,520.8 (initial funding source suggested from pension obligation bonds) for the public employees’ retirement system** defined benefit plan account;
- **\$130,108.3 (initial funding source suggested from pension obligation bonds) for the teachers’ retirement system** defined benefit plan account; and
- **\$5,890.8 UGF for the judicial retirement system** defined benefit plan account.

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

All Dollars in Thousands

	(GF Only)	Change	% Change	See
<b>FY15 Conference Committee (GF Only)</b>	<b>\$122,099.6</b>			
FY15 Fiscal Notes	271.9			
CarryForward	2,009.8			
Misc Adjustments	-			
Multi-years/Specials	250.0			
<b>FY15 Management Plan (GF only)</b>	<b>\$124,631.3</b>	\$2,531.7	2.1%	
One-time Items Removed	(3,382.1)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(29.0)			
FY16 Contractual Salary Increases	903.4			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$122,123.6</b>	(\$2,507.7)	-2.0%	
Unallocated Appropriations	(200.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(48,738.6)			
FY16 Governor's GF Increments/Decrements/Fund Changes	49,964.5			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$123,149.5</b>	\$1,025.9	0.8%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$1,025.9</b>	
Executive Administration Unallocated Appropriation	-	(200.0)	(200.0)	4
Community & Regional Affairs	7,248.4	8,185.9	937.5	1
Corporations, Business & Professional Licensing	12,097.9	12,086.3	(11.6)	
Economic Development	18,086.6	18,386.6	300.0	1
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	64,268.0	70,520.7	6,252.7	1, 2
Federal Funds (all allocations)	21,398.1	21,606.8	208.7	3
<b>Total Non-General Funds (all allocations)</b>	<b>\$85,666.1</b>	<b>\$92,127.5</b>	<b>\$6,461.4</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>585</b>	<b>587</b>	<b>2</b>	
PFT	576	578	2	2
PPT	1	1	-	
Temp	8	8	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	2,500.0	4,005.6	6,505.6	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	60.0	6,000.0	6,060.0	
<b>TOTAL CAPITAL</b>	<b>\$2,560.0</b>	<b>\$10,005.6</b>	<b>\$12,565.6</b>	

## 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 the following: 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 FY16 Department of Commerce, Community, and Economic Development's general fund operating budget submitted by the Governor on December 15, 2014 is \$1,025.9 (or 0.8%) above the FY16 Adjusted Base [\$1,037.5 Unrestricted General Funds (UGF) and a *decrease* of \$11.6 in Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### NEW PROGRAMS/PROGRAM EXPANSION

#### 1. Community & Regional Affairs and Economic Development – Grants to Named Recipients: \$2,034.4 Total [\$1,237.5 UGF/ \$196.9 Boat Receipts (Other)/ \$600.0 Commercial Vessel Passenger (CVP) Excise Tax (Other).

In FY15, the legislature removed the following Grants to Named Recipients from the base budget and added them back as one-time increments. In FY16, the department is requesting that the FY15 funding level for these projects be added to the base budget.

Amount	Funding Source	Recipient / Description
\$ 200.0	UGF	Kawerak, Inc. for use towards administration and 50% match to the federal Essential Air Service program for Diomedea
\$ 300.0	UGF	Ilisagvik College for workforce development programs
\$ 196.9	Boat Receipts (Other)	Alaska Marine Safety Education Association for continued boating education and safety
\$ 187.5	UGF	Bering Sea Fishermen's Association for program operations
\$ 300.0	UGF	Alaska Native Arts Foundation for Alaska Native Arts Marketing
<b>\$ 1,184.4</b>	<b>TOTAL</b>	

**Legislative Fiscal Analyst Comment:** The Community & Regional Affairs operating budget also includes \$550.0 UGF for a grant to named recipient to the Alaska Legal Services Corporation for program operations. This funding remained in the base budget in FY15 and remains in the proposed base budget for FY16.

The department is also requesting additional funding for two new grants to named recipients as follows:

- **\$600.0 CVP Excise Tax (Other) – Grant to the Marine Exchange of Alaska** for continued development of Automatic Identification Systems and for operating, maintaining, upgrading, and expanding the vessel tracking network.

**Legislative Fiscal Analyst Comment:** From FY07 through FY15, the Marine Exchange of Alaska received a total of \$6.1 million [\$2.4 million UGF/ \$3.7 million in a combination of CVP Excise Tax (Other) and Regional Cruise Ship Impact funds (Other)] in the capital budget as grants to named recipients.

If the legislature decides to fund this grant, a different fund source may need to be identified. At the end of FY15, the CVP Tax Account will have a *deficit* balance of \$3.3 million for the following reasons:

- The amount of shared revenue to the first seven ports of call in FY15 was underestimated by \$4.3 million; and
- In addition to sharing revenue with ports of call, the legislature appropriated \$6.6 million CVP Excise Tax for capital projects.

The legislature will need to address the deficit balance of the CVP Tax Account. Options include:

- repeal capital appropriations (of CVP funds) made in FY15;
- reduce the amount of shared revenue to the first seven ports of call in FY16 by \$3.3 million; and
- appropriate \$3.3 million (or more) of the Large Passenger Vessel Gaming & Gambling Tax Account (it has a projected balance of \$9.1 million at the end of FY16) to the CVP Tax account.

- **\$250.0 UGF – Grant to the Alaska Air Carriers Association, Inc.** for the Medallion Foundation to use as matching funds to obtain federal funds so the Association can continue to provide training, education and advocacy courses that promote aviation safety for pilots across the state.

**Legislative Fiscal Analyst Comment:** From FY09 through FY15, the Alaska Air Carriers Association, Inc. has received named recipient grants totaling \$1.03 million UGF in the capital budget.

**2. Alaska Industrial Development and Export Authority (AIDEA) – Increases to Meet Program Growth and Accurately Reflect Anticipated Budgets: \$825.8 Total [\$675.1 AIDEA Receipts (Other)/ \$150.7 Capital Improvement Project (CIP) Receipts (Other)] and 2 PFT positions.** In FY16, AIDEA is requesting additional receipt authority as follows:

- \$250.0 AIDEA Receipts for specialized legal services and economic analysis costs related to potential infrastructure and development projects;
- \$350.8 total (\$200.1 AIDEA Receipts and \$150.7 CIP Receipts) for two new positions to support the Project Development and Asset Management Division of AIDEA; and

**Legislative Fiscal Analyst Comment:** Although the request is for two new positions, it is unclear what two new positions are being requested. The description outlines only a new

program manager funded with AIDEA Receipts. Clarification should be sought on whether one or two positions are needed and for what purposes.

- \$225.0 AIDEA Receipts to align Personal Services authorization with actual cost projections. AIDEA states that position costs have increased over time due to a very low turnover rate and to multiple high priority resource and energy projects that required highly skilled project staff.

3. **Alaska Energy Authority (AEA) – Multi-Year Emerging Energy Technology Fund Data Collection: \$345.0 Federal Receipts.** AEA is requesting additional federal authority for operating costs associated with emerging energy technology fund data collection. This multi-year appropriation begins in FY16 and ends in FY18.

## **FUNDING REDUCTIONS**

4. **Executive Administration Unallocated Appropriation: (\$200.0) UGF.** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

## **OTHER**

5. **Economic Development – Tourism Marketing Program.** In FY15, the legislature appropriated \$15.2 million UGF and \$2.7 million Statutory Designated Program Receipts in the Division of Economic Development's base budget for an ongoing Tourism Marketing Campaign. The FY16 Governor's Request includes the same funding level as FY15. This campaign includes a multi-media program intended to create awareness and demand among prospective visitors in North America and several international markets. It also provides 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.
6. **Alaska Energy Authority - Power Cost Equalization (PCE) Program.** The Alaska Energy Authority (AEA) is requesting a total of \$41.4 million for the PCE program in FY16; the same level of funding as appropriated in FY15. The estimated amount of general funds required to subsidize the PCE program is zero. For the second consecutive year, projected program costs are less than the seven percent payout from the PCE Endowment allowable under the statutory formula (AS 42.45.070-085). As of June 30, 2014, the endowment fund balance was \$977.9 million.

**Legislative Fiscal Analyst Comment:** The request is merely a projection of costs; language in the operating budget bill appropriates (first from the PCE Endowment, with a general fund backstop) the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 11(f) & (g) in the discussion of operating language in the FY16 Overview book.

7. **Alaska Seafood Marketing Institute (ASMI) Funding.** The FY12 through FY15 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.

ASMI is requesting the same level of funding as FY15 but moving it from a language section to section 1 of the operating budget. The FY16 Governor's budget request consists of \$4,500.0 Federal Receipts, \$4,500.0 General Fund Match (UGF), \$2,883.6 UGF, and \$14,826.5 Statutory Designated Program Receipts (Other). The request also includes carryforward language and intent language to continue outlining the funding methodology.

**Legislative Fiscal Analyst Comment:** If the legislature approves the move from the language section to section 1, the amount of Statutory Designated Program Receipts should be reduced to the amount of funding necessary for the fiscal year, instead of the total amount of estimated carryforward.

## **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 clean 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 encourage accounting improvements and compliance with statutes regarding the setting of fees, legislative intent language in FY13, FY14 and FY15 instructed DCCED to follow the statute and directed the department to submit annual reports (on a template developed by the Legislative Finance Division) 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 provide the legislature the means to analyze each of the forty boards in detail and verify that each board was setting fees approximately equal to the cost of regulating the board.

**Legislative Fiscal Analyst Comment:** The Professional Licensing reports show that several boards continue to have fees that are not set on a cost recovery basis.

Given the department's persistent failure to comply with statute, the legislature may wish to address the fee-setting process more directly than in the past. Options include:

- Specifying a fee-setting mechanism in statute, thereby reducing political (or other influences) that may inhibit setting fees on a cost recovery basis; and
- Changing the appropriation structure for Corporations, Business and Professional Licensing to segregate specific boards to prevent cross-subsidization.

## **ORGANIZATIONAL CHANGES**

The Serve Alaska allocation was moved from its own appropriation to the Community & Regional Affairs appropriation for increased flexibility in grant management.

## **CAPITAL REQUEST**

The Governor's FY16 Department of Commerce, Community and Economic Development capital budget totals \$12.6 million (\$2.6 million UGF/ \$10 million Federal Receipts). A summary of the projects follows:

- **National Petroleum Reserve – Alaska Impact Grant Program:** \$4,005.6 National Petroleum Reserve Fund (Fed);
- **Community Block Grants:** \$6,060.0 [\$6 million Federal Receipts/ \$60.0 General Fund Match (UGF)]; and
- **Northwest Arctic Borough – Kivalina Evacuation and Access Road:** \$2.5 million UGF.

**Legislative Fiscal Analyst Comment:** This appropriation is for continued development of an evacuation and access road from the village to the site selected for the K-12 replacement school. Kivalina is the sole remaining school under the Consent Decree and Settlement Agreement for Kasayulie v. State. The Department of Education and Early Development's capital request includes \$4.6 million UGF for the design of a new facility.

## Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$310,652.4</b>			
<i>FY15 Fiscal Notes</i>	2,228.8			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-years/Specials</i>	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$312,881.2</b>	\$2,228.8	0.7%	
<i>One-time Items Removed</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY16 Health Insurance Reductions</i>	(413.9)			
<i>FY16 Contractual Salary Increases</i>	2,466.9			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$314,934.2</b>	\$2,053.0	0.7%	
<i>Unallocated Appropriations</i>	(3,925.0)			1
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY16 Governor's GF Increments/Decrements/Fund Changes</i>	-			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$311,009.2</b>	(\$3,925.0)	-1.2%	

<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$3,925.0)</b>	
Agency Unallocated Appropriation	-	(3,925.0)	(3,925.0)	1
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	14,771.2	14,797.6	26.4	3
Federal Funds (all allocations)	5,481.8	5,481.8	0.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$20,253.0</b>	<b>\$20,279.4</b>	<b>\$26.4</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>1,871</b>	<b>1,871</b>	<b>0</b>	
PFT	1,871	1,871	0	
PPT	-	-	0	
Temp	-	-	-	

<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	



## 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 FY16 Department of Corrections general fund operating budget submitted by the Governor on December 15, 2014 is \$3,925.0 *below* the FY16 Adjusted Base [(\$13,459.5) Unrestricted General Funds (UGF) and \$9,534.5 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.

### MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

1. **Agency Unallocated Appropriation: (\$3,925.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
2. **Replace UGF with Permanent Fund Criminal Funds/Inmate Physical Health Care: \$9.5 million DGF and (\$9.5 million UGF).** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation because convicted felons and third-time misdemeanants 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 FY16, the Department of Revenue calculated the amount available for appropriation to be \$22.3 million (\$12.4 million more than in FY15). Of the \$22.3 million available PFD Criminal Funds, \$18 million is requested in DOC/Inmate Health Care (\$9.5 million more than FY15); \$1.5 million is requested for the Crime Victim Compensation Fund.

**Legislative Fiscal Analyst Comment:** The Governor's FY16 budget request leaves \$2.85 million of PFD Criminal Funding unappropriated—this amount funded early capital projects that were subsequently deleted from the December 15 capital budget request. The \$2.85 million is expected to be appropriated in the Governor's FY16 amended operating budget for inmate health care, allowing a reduction of \$2.85 million UGF.

### MENTAL HEALTH TRUST FUNDING

3. **Inmate Health Care/Behavioral Health Care: \$506.9 MHTAAR (Other).** FY16 will be the eighth 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 \$506.9 (\$31.1 more than FY15 Authorized) in FY16 MHTAAR funding (including \$4.7 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;
- \$70.8 IncT (FY15-FY19) for a Research Analyst;

- \$25.0 IncT (FY15-FY17) to expand training for DOC mental health staff; and
- \$26.4 IncT (FY16-FY19) to expand Research Analyst position.

## **OTHER ISSUES**

### **4. HB 30 – State Agency Performance Audits (Chapter 19, SLA 2013)**

In 1977 the legislature found a need for an effective and regular system of scrutinizing the programs and activities of all state agencies, boards and commissions. The legislature further found that the establishment of a system for periodic review by the public, the executive and legislative branches of certain state agencies, boards and commissions would help the Governor and the legislature determine the continued existence of each. Under AS 44.66, this review has continued since 1977 for boards and commissions. The dates to review programs and agencies of the state ended in 1983 and were not renewed until the 28<sup>th</sup> legislature approved the passage of HB 30.

The Department of Corrections (DOC) was the first agency reviewed as a result of the new law (based on a schedule that provides for each state agency to be reviewed once a decade). Overall, the review found that DOC is “moderately effective” when conducting its primary functions of confining inmates in jails and supervising them on release (“*moderately effective*” is the second highest ranking of the performance evaluation and is defined as “performance data indicates largely positive experience relative to target outcomes with exceptions”). The department received high marks for its reformatory programs which aid offenders in addressing the issues that may have contributed to their incarceration (e.g. re-entry programming, vocational education and substance abuse treatment).

The new law also includes a provision that the department recommend program reductions amounting to 10% of their general fund budget. Both the contractor and DOC agreed that to achieve a 10% reduction would likely require the closure of one or more institutions; however, the department did not specify which facility(s) should be closed.

Among other findings, the contractors found that aging buildings show “substantial stress” and will require renovation for safe operation in the future. At present, the Governor’s FY16 capital budget request does not include funding for such projects. If the prison population continues to grow by approximately 2% per year, the institutional population will exceed capacity sometime in late 2016. If this occurs, the DOC may need to bring the Point MacKenzie Correctional Farm (128 beds) back on line as well revisit an out-of-state contractual arrangement to manage prison population.

The full 180-page performance review is available on-line at:  
(<http://legaudit.akleg.gov/performance-reviews/>).

### **5. SB 64 – Omnibus Crime Bill Update (Chapter 83, SLA 2014)**

- **FY15 Funding (and PCNs) in Various Allocations: \$1,622.5 UGF, \$106.3 GF/Prgm, 14 PFT Positions.** SB 64 significantly expanded DOC’s Probation Accountability and Certain Enforcement (PACE) program (an evidence-based practice project for offenders on probation and parole). PACE notifies offenders that violations will have consequences; requires frequent randomized drug and/or alcohol tests; and responds to violations with swift, certain and short terms of incarceration. In addition to the PACE expansion, the electronic monitoring (EM) program is being enhanced as an alternative for more first time DUI offenders to avoid serving time in a costlier community residential center (CRC).

**Legislative Fiscal Analyst Comment:** As of December 2<sup>nd</sup>, 2014, DOC has filled all 14 new positions (eight adult probation officers, five criminal justice technicians, and one office assistant). The EM program is still ramping up its expansion and the Department has not yet realized a decrease in CRC placements due to the projected increase in EM participants for the first half of FY15.

- **Recidivism Reduction Grants, \$500.0 UGF.** Recidivism Reduction Grant funding is intended to promote rehabilitation through transitional re-entry programs for individuals recently released from correctional facilities. The Department of Health and Social Services (DHSS) will administer these grants.

**Legislative Fiscal Analyst Comment:** DOC and DHSS are currently developing this program and reviewing the request for proposal to solicit provider interest for future contract awards. No funding has been awarded at this time.

## **ORGANIZATIONAL CHANGES**

The Governor's December 15th request includes the following structural changes:

- renamed the former Inmate Health Care appropriation to Health and Rehabilitation Services; and
- moved the following three allocations from the Offender Habilitation appropriation into the new Health and Rehabilitation Services appropriation:
  - Substance Abuse Treatment Program;
  - Sex Offender Management; and
  - Domestic Violence Program.

## **CAPITAL REQUEST**

No capital projects are included for the Department of Corrections in the Governor's FY16 Capital budget submission.

## Department of Education and Early Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$1,286,496.4</b>			
FY15 Fiscal Notes	11,770.3			1, 2, 3
CarryForward	-			
Misc Adjustments	43,998.4			1
Multi-years/Specials	95,101.4			2
<b>FY15 Management Plan (GF only)</b>	<b>\$1,437,366.5</b>	\$150,870.1	11.7%	
One-time Items Removed	(140,956.9)			1, 2
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(12.7)			
FY16 Contractual Salary Increases	341.4			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$1,296,738.3</b>	(\$140,628.2)	-9.8%	
Unallocated Appropriations	(320.0)			5
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	56,292.1			
FY16 Governor's GF Increments/Decrements/Fund Changes	5,685.8			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$1,358,396.2</b>	\$61,657.9	4.8%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>				
	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>\$61,657.9</b>	
Foundation Program	1,133,874.9	1,190,316.2	56,441.3	1
Pupil Transportation	76,773.9	79,624.7	2,850.8	
Boarding Home Grants	6,960.3	7,696.4	736.1	3
Executive Administration	894.6	878.5	(16.1)	5
Student and School Achievement	12,863.3	12,909.1	45.8	
Alaska Learning Network	-	850.0	850.0	7
Program Administration & Operations	5,582.8	5,832.8	250.0	4
Alaska Performance Scholarship Awards	11,000.0	11,500.0	500.0	4
<b>Non-General Fund Agency Summary</b>				
	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	26,932.2	26,322.2	(610.0)	
Federal Funds (all allocations)	234,017.1	232,011.7	(2,005.4)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$260,949.3</b>	<b>\$258,333.9</b>	<b>\$ (2,615.40)</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>				
	<b>364</b>	<b>360</b>	<b>(4)</b>	
PFT	332	331	(1)	
PPT	14	15	1	
Temp	18	14	(4)	
<b>Governor's Capital Request</b>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	4,600.4	-	4,600.4	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$4,600.4</b>	<b>\$0.0</b>	<b>\$4,600.4</b>	

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

The Department of Education and Early Development (DEED) is responsible for funding and regulating the state's K-12 schools—including ensuring quality standards-based instruction to improve academic achievement for all students—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 FY16 Department of Education and Early Development general fund operating budget submitted by the Governor on December 15, 2014 is \$61.7 million above the FY16 Adjusted Base [\$57,568.2 Unrestricted General Funds (UGF) and \$4,089.7 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

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

- 1. K-12 Foundation Program – Additional Base Student Allocation (BSA): \$56,441.2 UGF.** Chapter 15, SLA 2014 (HB 278) provided for BSA increases of \$150 (from \$5,680 to \$5,830) in FY15 and \$50 in FY16 (to \$5,880) and FY17 (to \$5,930). It also increased the correspondence multiplier from 0.8 to 0.9 and changed the allowable size of charter schools. The combined cost of these changes for FY16 is \$56,441.2. More detail on the cost of each component can be found in the table in the next item.

**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 FY17 costs to the Public Education Fund while withdrawing FY16 costs from the fund.

The December 15 budget does not incorporate the most recent student count data from November 2014, so the figures in this overview are based on the FY15 Projection as of 12/4/13.

- 2. K-12 Additional Foundation Funding: \$32,243.0 UGF (appropriated in FY15).** In addition to the formula funding above, the legislature provided funding to be distributed to districts in the same manner as the formula (but in addition to formula funding) for FY15-17. All \$95.1 million of this “one-time” funding was appropriated in FY15, so there is no budgetary impact for FY16 or FY17 even though some of those funds will be distributed in those years. The table below shows the total funding to school districts above FY14, assuming no other factors change, for each year.

<b>HB 278 Impact by Fiscal Year (relative to FY14)</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018+</b>
BSA Increase	\$37,338.6	\$49,781.4	\$62,224.2	\$62,224.2
Correspondence Change	\$6,176.0	\$6,176.0	\$6,176.0	\$6,176.0
Charter School Change	\$483.9	\$483.9	\$483.9	\$483.9
Funding Outside the Formula	\$42,953.5	\$32,243.0	\$19,904.0	\$ -
<b>Total Funding Change from FY14</b>	<b>\$86,952.0</b>	<b>\$88,684.3</b>	<b>\$88,788.1</b>	<b>\$68,884.1</b>

**Legislative Fiscal Analyst Comment:** Because all “one-time” funding for FY15 through FY17 was included in the FY15 budget, total state aid to school districts appears to decline by \$82.8 million in FY16—see the Governor’s December 15 fiscal summary. As the table above demonstrates, the FY16 and FY17 reductions in one-time funding are approximately offset by increases in formula funding, so total state aid to districts in FY15 through FY17 will be roughly level. Note, however, that total state aid to districts will fall in FY18 without a continuation of FY17 one-time funding or an offsetting formula increase.

HB 278 also authorized two studies related to education funding. Both are due to the legislature on June 15, 2015.

### 3. **K-12 Support Boarding Home Grants – Additional Students: \$736.1 UGF.** AS 14.16.200 was amended to:

1. allow for residential schools rather than residential programs to qualify;
2. remove the limit on the number of residential schools that may be approved by the department; and
3. allow for district-wide residential schools as well as schools that offer variable-length or 180-day school terms, but still operate for a full school year.

Prior to the amendments, AS 14.16.200 allowed the department to approve up to three district-operated statewide residential education programs that began operating after January 1, 2005. From June 1, 2014, through July 30, 2014, the department held a period of open applications for approval to operate a statewide residential educational program. As a result of that period of open applications, the department requests funding for 40 students in a new residential program in the Lower Kuskokwim School District and 12 additional students in an existing program in the Nenana School District. The additional \$736.1 will fund the programs and provide them with the per-pupil monthly stipend and one round-trip ticket per student, via the least expensive means, beginning in FY16.

**Legislative Fiscal Analyst Comment:** HB 278, passed in 2014, also increased the stipend rate for residential programs to 1.5 times the previous rate. This added \$2,249.5 of UGF in FY15, which remains in the FY16 base budget.

### 4. **Alaska Higher Education Investment Fund Increases—\$750.0 Total (DGF).**

- **Alaska Performance Scholarship Awards: \$500.0 - Alaska Higher Education Investment Fund (DGF); and**
- **AlaskAdvantage Education Grants (Commission on Postsecondary Education / Program Administration & Operations): \$250.0 - Alaska Higher Education Investment Fund (DGF).**

Chapter 74, SLA 2012 (HB 104) established the Alaska Higher Education Investment Fund, the earnings of which are intended to pay for Alaska Performance Scholarships and AlaskAdvantage Education Grants. 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 FY16, an additional \$750.0 is available over FY15.

- **Alaska Performance Scholarship Awards** are merit-based scholarships for students graduating from Alaska high schools who have met certain academic performance thresholds while in high school and who enroll in a participating postsecondary education institution in Alaska. In FY14, 2,348 students received scholarships, with an average award of \$3,332.
- **AlaskAdvantage Education Grants** are needs-based scholarships. They were awarded to 2,840 Alaskan students in FY14, with an average award of \$1,367. 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.

**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 June 30, 2014 was approximately \$461 million.

## **FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES**

5. **Agency Unallocated Appropriation: (\$320.0 UGF).** Specific actions needed to meet this reduction have not yet been determined. See page 18 for discussion of unallocated reductions.
6. **Professional Teaching Practices Commission – Increase General Fund Program Receipt Authority to Comply with Legislative Intent: \$303.9 DGF/(\$303.9) UGF.** In response to legislative intent that the Professional Teaching Practices Commission be self-sustaining beginning in FY16, the Department proposed teacher certification fee increases that are estimated to bring in an additional \$303.9. The Governor's budget also includes a corresponding decrease of \$303.9 of UGF.

**Legislative Fiscal Analyst Comment:** The \$303.9 reduction of UGF was required to comply with legislative intent. The Governor's budget identifies the reduction as part of the Department's unallocated reduction, which totals \$320.0.

7. **Alaska Learning Network – Restore Funding to Current Level of Service: \$850.0 (UGF).** The Alaska Learning Network (AKLN) is a distance (education) delivery model that equalizes opportunity for students around the state and offers students opportunities for credit recovery, dual credit with the University of Alaska (UA), and access to courses that qualify for the Alaska Performance Scholarship (APS). AKLN is a coalition of all 54 school districts and is managed by the University of Alaska Southeast (UAS) and the AKLN Advisory Board.

**Legislative Fiscal Analyst Comment:** For FY15, the legislature reduced funding for AKLN from \$1,100.0 to \$850.0 and identified the appropriation as a one-time item. It also included intent language requesting the Department to develop a path to make the program self-sustainable; a plan is due to the legislature on January 20, 2015. The December 15 budget restores the \$850.0 for FY16.

## OTHER ISSUES

### 8. **K-12 Foundation Funding – Legal Challenge to Required Local**

**Contribution: \$235,572.6.** The Ketchikan Gateway Borough challenged the required local contribution (RLC) provision of state law, AS 14.16.410, as unconstitutional under the dedicated funds clause in the Alaska Constitution, Article IX Sec. 7. To meet the RLC and receive state education funding, municipal school districts must receive a municipal contribution equivalent to the proceeds of a property tax of 2.65 mills. On November 21, 2014, a Superior Court judge found that the required local effort statute violates the dedicated funds clause in the Constitution. Based on the November 2014 student count, total required local contributions for FY16 would be \$235.6 million. Implications of the decision are unclear due to the following:

- a. The superior court decision is not yet final, no injunction has been imposed on the state, and the time has not begun for the state to file an appeal or request a stay pending appeal;
- b. The judge ruled that the state is not required to reimburse municipalities for their RLCs to school districts;
- c. The judge ruled that RLCs violate the dedicated funds clause in the Alaska Constitution, implying that municipalities need not make RLCs;
- d. AS 14.17.410(d), which states that state aid may not be provided to a city or borough school district if the RLC has not been made, prohibits state aid to a city or borough if the RLC has not been made;
- e. In the absence of the RLC or additional state funding, school districts would receive a significant cut in funding;
- f. If one or more municipalities fail to make the RLC and funding is not provided elsewhere, Alaska may fail the federal disparity test, which would mean that approximately \$70 million of federal impact aid could no longer be used to meet basic need; and
- g. The December 15 proposed budget does not include any funding to replace the RLC, and it is unclear whether municipalities will continue to make RLC payments while the lawsuit is pending, although they are statutorily required to do so.

**Legislative Fiscal Analyst Comment:** Even if the case remains unresolved or is eventually decided in the state's favor, the legislature may wish to consider adopting a statewide property tax and using the proceeds for school funding.

## ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested.



## **CAPITAL REQUEST**

The Department of Education and Early Development's FY16 capital budget includes \$4.6 million in general funds for the following project:

- **Kivalina K-12 Replacement School – Kasayulie: \$4.6 million UGF.** Kivalina is the number one project on the current School Construction Grant Fund list. This project provides for the design of a new facility, approximately 34,425 square feet, to replace facilities built between 1962 and 1984. The current facility is at 175 percent capacity with 56 unhoused students. In accordance with the Consent Decree and Settlement Agreement for Kasayulie v. State, Kivalina K-12 Replacement was designated to be included in the FY16 budget request.

**Legislative Fiscal Analyst Comment:** This appropriation is only for the design of a replacement school. An access road needs to be constructed before the school can be built. The Department of Commerce, Community and Economic Development's capital request includes \$2.5 million UGF to plan the road.

## **SCHOOL DEBT REIMBURSEMENT**

The school debt reimbursement program is shown in a separate section of the FY16 Overview (see Debt Service Summary Table on page 28).

## Department of Environmental Conservation

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$49,204.8</b>			
FY15 Fiscal Notes	250.9			
CarryForward	230.1			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$49,685.8</b>	\$481.0	1.0%	
One-time Items Removed	(230.1)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(26.2)			
FY16 Contractual Salary Increases	752.1			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$50,181.6</b>	\$495.8	1.0%	
Unallocated Appropriations	(370.0)			1
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	(287.0)			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$49,524.6</b>	(\$657.0)	-1.3%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$ (657.00)</b>	
Agency Unallocated Appropriation	-	(370.0)	(370.0)	1
Administrative Services	3,091.7	3,201.7	110.0	
Air Quality	3,494.8	3,617.8	123.0	
Spill Prevention and Response	14,717.6	14,197.6	(520.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	12,725.8	13,909.8	1,184.0	1, 2, 4
Federal Funds (all allocations)	25,574.0	24,280.0	(1,294.0)	2
<b>Total Non-General Funds (all allocations)</b>	<b>\$38,299.8</b>	<b>\$38,189.8</b>	<b>\$ (110.00)</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>561</b>	<b>558</b>	<b>(3)</b>	
PFT	557	554	(3)	
PPT	-	-	-	
Temp	4	4	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	11,708.4	16,900.0	28,608.4	
New Construction and Land Acquisition	7,530.3	25,350.0	32,880.3	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	2,526.3	-	2,526.3	
<b>TOTAL CAPITAL</b>	<b>\$21,765.0</b>	<b>\$42,250.0</b>	<b>\$64,015.0</b>	

## **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 FY16 Department of Environmental Conservation general fund operating budget request submitted on December 15, 2014 shows a \$657.0 *decrease* from the FY16 Adjusted Base, of which \$370.0 is UGF and \$287.0 is 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. Agency Unallocated Appropriation: (\$370.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

2. **Facility Construction - Replace Declining Federal Receipts with Fees for Loans Made from the Clean/Drinking Water Funds: \$700.0 CleanWater (Other) / (\$700.0) Federal Receipts.** The Department of Environmental Conservation has been collecting a 0.5% fee on all loans made from the clean/drinking water funds since December 2000. These administrative fees have been deposited in special accounts, which were not used until FY15. As federal receipts available for water programs decline, using the administrative accounts to replace federal receipts will allow the department to maintain 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 programs.

**Legislative Fiscal Analyst Comment:** In FY15, the department replaced about \$900.0 of federal funds with funding from the administrative fee accounts. As of June 30, 2014, the accounts contained over \$10 million—the FY16 level of draws is projected to be sustainable.

## OTHER ISSUES

3. **Laboratory Services – End of Funding for the Recreational Shellfish Beach Monitoring Pilot Program (SB 46 [Ch. 5, FSSLA2011] FY12-FY15).** FY15 will be the final year 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. The program will end on June 30, 2015 and a final report summarizing the results following the program close-out will be prepared by the department.
4. **Oil and Hazardous Substance Release Prevention and Response Fund:** Since the Exxon Valdez spill in 1989, a per-barrel tax on oil production has funded much of the operating costs of the Spill Prevention and Response division. As oil production declined, withdrawals from the fund began to exceed deposits. The legislature and Governor have long been aware of the declining balance of this fund. The Governor's December 15 request indirectly uses general funds to pay division operating costs. The department anticipates a \$1.9 million shortfall in FY16. The amount takes into account the proposed consolidation of the Spill Prevention and Response division into a single program, which will save \$520.0.

**Legislative Fiscal Analyst Comment:** The \$1.9 million shortfall is dependent on a large anticipated settlement in FY16; it is possible that the actual amount needed could be more than triple the requested amount.

In the December 15 budget, \$1.9 million of UGF is appropriated to the Oil and Hazardous Substance Release Prevention and Response Fund as a fund transfer. The fund, including the added UGF, is then used for Spill Prevention and Response activities. The department prefers this method because it shows a stable funding source for the division. However, a fund transfer makes it more difficult to see that UGF is now effectively being used to pay for agency operations. A direct appropriation of UGF would make it clear that the traditional funding source is no longer sufficient.

## ORGANIZATIONAL CHANGES

The Department of Environmental Conservation consolidated the Spill Prevention and Response appropriation into a single program in the FY16 budget. Previously, the appropriation was comprised of five separate programs within the appropriation. This change will allow the department to eliminate four PFT positions and reduce expenditures by \$520.0 in FY16. There were no other major organizational changes.

## **CAPITAL REQUEST**

The Department of Environmental Conservation's FY16 capital budget, which totals \$64.0 million (\$18.7 million GF, \$3.0 million Other State Funds, and \$42.3 million Federal Funds), includes the following:

- **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);
- **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; and
- **Municipal Water, Sewage, and Solid Waste Facilities Grants: \$9.988.6 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. In FY16, the projects are in Juneau, Homer, North Pole, and Naknek. The grants require matching funds from the communities.

## Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$88,405.1</b>			
<i>FY15 Fiscal Notes</i>	1.4			
<i>CarryForward</i>	-			
<i>Misc Adjustments</i>	-			
<i>Multi-years/Specials</i>	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$88,406.5</b>	\$1.4	0.0%	
<i>One-time Items Removed</i>	(2,115.5)			
<i>Temporary Increments (IncTs)</i>	1,305.5			
<i>FY16 Health Insurance Reductions</i>	(82.8)			
<i>FY16 Contractual Salary Increases</i>	1,444.5			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$88,958.2</b>	\$551.7	0.6%	
<i>Unallocated Appropriations</i>	(1,310.0)			2
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY16 Governor's GF Increments/Decrements/Fund Changes</i>	-			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$87,648.2</b>	(\$1,310.0)	-1.5%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>				
	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$1,310.0)</b>	
Commissioner's Office	910.4	(399.6)	(1,310.0)	2
<b>Non-General Fund Agency Summary</b>				
	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	63,673.4	62,873.4	(800.0)	1
Federal Funds (all allocations)	64,473.7	66,273.7	1,800.0	1
<b>Total Non-General Funds (all allocations)</b>	<b>\$128,147.1</b>	<b>\$129,147.1</b>	<b>\$1,000.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>1,683</b>	<b>1,683</b>	<b>0</b>	
PFT	921	921	-	
PPT	708	708	-	
Temp	54	54	-	
<b>Governor's Capital Request</b>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	500.0	11,250.0	11,750.0	
<b>TOTAL CAPITAL</b>	<b>\$1,250.0</b>	<b>\$13,500.0</b>	<b>\$14,750.0</b>	

## **Department of Fish and Game**

The Department of Fish and Game (DF&G) is charged with protecting and improving the fish, game, and aquatic plant resources of the state, and managing their use and development in the best interests of the economy and the people of the state, consistent with the sustained yield principle.

### **Core Services:**

- **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 FY16 Department of Fish & Game general fund operating budget as submitted by the Governor on December 15, 2014 is \$1,310.0 *below* the FY16 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 & State Subsistence Research – Additional Pittman-Robertson Wildlife Restoration Funding: \$1.8 million Federal Receipts/ (\$500.0) Fish & Game Funds (Other)/ (\$300.0) Statutory Designated Program Receipts (Other).** The department anticipates an increase in available federal funding from the Pittman-Robertson Wildlife Restoration program. The FY16 request includes:

- Wildlife Conservation –
  - \$500.0 fund source change from Fish & Game Funds to Federal Receipts
- State Subsistence Research –
  - \$300.0 fund source change from Statutory Designated Program Receipts (SDPR) to Federal Receipts
  - \$1 million of additional Federal Receipts

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 must match federal receipts (at a 25% rate) with non-federal funds. States have two years to obligate the federal funds. If a state does not obligate its allocation within the specified time frame, the federal funds will be re-allocated to other states. The department is not requesting additional matching funds.

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 support existing programs.

**Legislative Fiscal Analyst Comment:** The Pittman-Robertson Wildlife Restoration program has strict requirements on the uses of the allocated federal funding. State Subsistence Research is unable to meet the requirements. According to the department, the fund source change from SDPR to Federal Receipts is not for Pittman-Robertson Wildlife funding and the \$1 million increment request in State Subsistence Research should have been requested in Wildlife Conservation. The department will be submitting technical amendments to correct these errors.

The legislature should be concerned that the recent flow of federal funds associated with national sales of firearms and ammunition may have 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 funding levels may be unsustainable unless federal funding is eventually replaced with declining Fish & Game Funds or general funds. In addition to the increase in federal funds for operations, the FY16 Governor's capital budget includes a request for \$11.25 million of available federal funding from the Pittman-Robertson Wildlife Restoration program and \$500.0 GF Match (UGF).

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 \$7.7 million (16% of the budget). Increasing operating costs on a temporary bulge in receipts may start another round of requests for general funds in the future.

The legislature may want to request further details from the department on how it will absorb an increase of approximately \$600.0 for the required match to the additional \$1.8 million in Federal Receipts. The department states that it has no intention of requesting additional general funds and is looking to outside agencies (i.e. Safari Club and Ducks Unlimited) that may have an interest in partnering with the department to come up with the required match.

## **FUNDING REDUCTIONS**

- 2. "Unallocated Reduction" in the Commissioner's Office: (\$1,310.0) UGF.**  
Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

## **ORGANIZATIONAL CHANGES**

All authorization and positions within the Commercial Fisheries Special Projects allocation have been transferred to the Regional Commercial Fisheries allocations, thereby, eliminating the Special Projects allocation.



## **CAPITAL REQUEST**

The Governor's FY16 Department of Fish and Game capital budget totals \$14.75 million (\$1.25 million UGF/ \$13.5 million Federal Receipts). Projects requested include:

- **Sport Fish Recreational Boating and Angler Access:** \$3 million [\$2,250.0 Federal Receipts/ \$750.0 GF Match (UGF)]; and
- **Wildlife Management, Research and Hunting Access:** \$11.75 million [\$500.0 GF Match (UGF)/ \$11,250.0 Federal Receipts].

**Legislative Fiscal Analyst Comment:** This project would use federal Pittman-Robertson Wildlife Restoration funding, which requires a 25% match. An increase of \$11.25 million federal receipts would require \$3.75 million of match. Absorbing the required match with existing state funded capital projects is unsustainable. The legislature should be aware that the department may be forced to request additional state match in future budgets to complete the project. As mentioned in #1 above, department states that it has no intention of requesting additional general funds and is looking to outside agencies (i.e. Safari Club and Ducks Unlimited) that may have an interest in partnering with the department to come up with the required match.

# Office of the Governor

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$32,020.3</b>			
FY15 Fiscal Notes	-			
CarryForward	1,589.2			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$33,609.5</b>	\$1,589.2	5.0%	
One-time Items Removed	(8,313.0)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(41.4)			
FY16 Contractual Salary Increases	388.9			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$25,644.0</b>	(\$7,965.5)	-23.7%	
Unallocated Appropriations	(400.0)			1
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	3,000.0			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$28,244.0</b>	\$2,600.0	10.1%	

<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>\$2,600.0</b>	
Commissions/Special Offices	2,390.5	2,390.5	0.0	
Executive Operations	15,765.9	18,365.9	2,600.0	1, 2
Office of the Governor State Facilities Rent	1,171.8	1,171.8	0.0	
Office of Management and Budget	2,732.8	2,732.8	0.0	
Elections	3,583.0	3,583.0	0.0	
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	532.9	532.9	-	
Federal Funds (all allocations)	201.0	201.0	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$733.9</b>	<b>\$733.9</b>	<b>\$0.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>167</b>	<b>168</b>	<b>1</b>	
PFT	147	148	1	
PPT	-	-	-	
Temp	20	20	-	

<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## **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 state 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 FY16 Office of the Governor unrestricted general fund operating budget is \$2,600.0 above the FY16 Adjusted Base. 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. Agency Unallocated Appropriation: (\$400.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
- 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.

### **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

### **CAPITAL BUDGET**

The Governor's Office has no projects in the FY16 capital budget.

## Department of Health and Social Services

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$1,328,751.5</b>			
<i>FY15 Fiscal Notes</i>	18,905.8			
<i>CarryForward</i>	1,771.0			
<i>Misc Adjustments</i>	-			
<i>Multi-years/Specials</i>	500.0			
<b>FY15 Management Plan (GF only)</b>	<b>\$1,349,928.3</b>	\$21,176.8	1.6%	
<i>One-time Items Removed</i>	(2,884.2)			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY16 Health Insurance Reductions</i>	(116.7)			
<i>FY16 Contractual Salary Increases</i>	4,886.0			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$1,351,813.4</b>	\$1,885.1	0.1%	
<i>Unallocated Appropriations</i>	(4,800.0)			1
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY16 Governor's GF Increments/Decrements/Fund Changes</i>	11,311.4			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$1,358,324.8</b>	\$6,511.4	0.5%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>				
	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>\$6,511.4</b>	
Children's Services/Foster Care Base Rate	93,936	96,536	2,600.0	2
Public Health/Epidemiology	90,039	98,751	8,711.4	3
Departmental Support Services/Agency Unallocated Approp	24,927	20,127	(4,800.0)	1
<b>Non-General Fund Agency Summary</b>				
	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	89,044.2	89,955.4	911.2	
Federal Funds (all allocations)	1,254,938.1	1,254,938.1	0.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$1,343,982.3</b>	<b>\$1,344,893.5</b>	<b>\$911.2</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>3,662</b>	<b>3,661</b>	<b>(1)</b>	
PFT	3,501	3,495	(6)	
PPT	60	60	0	
Temp	101	106	5	
<b>Governor's Capital Request</b>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,550.0	-	1,550.0	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$1,550.0</b>	<b>\$0.0</b>	<b>\$1,550.0</b>	

## 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 FY16 Department of Health and Social Services general fund operating budget request submitted on December 15, 2014 is \$6,511.4 above the FY16 Adjusted Base [a \$4.8 million *decrease* of Unrestricted General Funds (UGF) and an *increase* of \$11,311.4 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. **Unallocated Appropriation: (\$4.8 million UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
2. **Children's Services/Foster Care Base Rate – Add GF/Program Receipts to Reflect the Growing Number of Children in Foster Care and Increased SSI Efforts: \$2.6 million GF/Prgrm Rcpts (DGF).** The growing number of children in care has contributed to increased collections of both child support and Social Security Income (SSI). Legislation passed in 2010 [Ch. 80, SLA2010 (HB126)] increased the age children are allowed to stay in care (from 20 to 21) and also allowed children 16-21 (who were released from foster care) to voluntarily re-enter care. In addition to collections resulting from higher counts of children in care, additional revenue has been collected due to collaborative efforts by agencies and experienced staff reviewing and processing SSI payments.

**Legislative Fiscal Analyst Comment:** An additional 63 youths are in out-of-home placement as a result of HB 126. Because nearly 51% of HB 126 youth are eligible for SSI payments (a much higher percentage than the younger population), more GF/Program Receipts authorization is needed.

In addition, collaborative efforts between OCS and the Child Support Services Division have increased revenue because, by changing processes, CSSD has been able to focus on cases that require child support collection.

**3. Public Health/Epidemiology: Year Two Fiscal Note Funding for the Immunization Program (Vaccine Assessments): \$8,711.4 VaccAssess (DGF).**

For the 30 years prior to a steep decline in federal funding in 2009, the state used federal funds to provide vaccines for adults and children. Between FY09 and FY15, the state purchased about half of the vaccine supply and the rest was purchased by providers who then sought reimbursement from insurers.

Legislation passed in 2014 [Ch. 30, SLA 2014 (SB 169)] established a statewide immunization program. The purpose of the program is to monitor, purchase, and distribute vaccines to providers approved by the department who agree to provide those vaccines to state residents.

This program is designed to lower the cost of vaccines for providers, insurers, and consumers because the state will use its purchasing power to obtain volume discounts, and will then distribute vaccines to participating providers. The program will be phased in over three years and is expected to cost \$22.5 million in FY15 (\$4 million of which was UGF as transitional funding). In FY16 and beyond, the program will be self-supporting, i.e., it will be funded with GF/Program Receipts from the vaccine assessments.

## **ORGANIZATIONAL CHANGES**

**4. Two new allocations were created under the Behavioral Health appropriation.**

Grant programs (and associated funding) were transferred from a variety of allocations to these new allocations to “more efficiently deliver services.” The department contends that this change is more efficient because, throughout the fiscal year, shifts may occur in the types of mental health services needed by clients. By the time grantees request a change, it is often late in the year and there is limited time to obtain OMB approval to transfer funding between allocations, amend the grants, and change grant encumbrances. More information on these two new allocations is below.

**NEW ALLOCATION: Behavioral Health Treatment and Recovery Grants.** The Governor’s request transferred a total of \$71,147.3 from the following allocations to this new allocation:

- Behavioral Health Grants: \$28,983.0
- Psychiatric Emergency Services: \$7,633.7
- Services to the Seriously Mentally Ill: \$19,189.8
- Services for Severely Emotionally Disturbed Youth: \$15,340.8

**NEW ALLOCATION: Behavioral Health Prevention and Early Intervention.** The Governor’s request transferred a total of \$10,862.4 from the following allocations to this new allocation:

- Alaska Fetal Alcohol Syndrome Program: \$1,182.1
- Community Action Prevention and Intervention Grants: \$5,688.3
- Rural Services and Suicide Prevention: \$3,992.0

**Legislative Fiscal Analyst Comment:** Multiple allocations may inhibit efficiency, but they can provide helpful information about how funding is budgeted and expended. Because the above information will be segregated and available in the grants detail page of the *Governor’s Budget Detail Book*, in the accounting system, and upon request, retaining the structure simply to obtain expenditure and budget information is unnecessary.

## OTHER ISSUES

- 5. Medicaid Expansion.** To expand or not to expand? That has been the question in several states for the last few years. Under the Affordable Care Act (ACA), Alaska has the option of expanding Medicaid eligibility to about 41,000<sup>1</sup> Alaskans between the ages of 18-64 with incomes below 138 percent of the federal poverty level (FPL). Although there are many issues to consider when deciding whether or not to expand Medicaid, this narrative addresses only the fiscal impacts.

**How many individuals would be added if Medicaid is expanded?** About 41,000 people would be newly eligible for Medicaid. That is an increase of about 30%.

**What happens if Medicaid isn't expanded?** Approximately 17,300<sup>2</sup> individuals between the ages of 18-64 (i.e., those without dependents) making less than 100% of the FPL (e.g., \$14,580 (or \$7.01/hr) for an individual and \$19,660 (or \$9.45/hour) for a two-person household).<sup>3</sup>

1. Will *not* be eligible for Medicaid, and
2. Will *not* receive federal subsidies for health insurance coverage that are available to individuals making between 100 percent and 400 percent of the FPL.

Approximately 23,700 individuals between the ages of 18-64 making 100% to 138% of the FPL:

1. Will *not* be eligible for Medicaid, *but*
2. *Will* receive federal subsidies for health insurance coverage that are available to individuals making between 100 percent and 400 percent of the FPL.

**How much will Medicaid expansion cost?** Administrative costs are projected to increase by as much as \$10 million per year<sup>4</sup>. The projected cost of expanding Medicaid coverage to the newly eligible population varies widely; the two most-cited reports are summarized in the table below:

Study	# Newly Eligible	Increase in State Funding	Increase in Total Funding
Alaska Native Tribal Health Consortium's February 1, 2013 report, <i>Healthier Alaskans Create a Healthier State Economy</i>	38,500  29% increase	2016: \$5.2m (0.8%)  2016-2020: \$83.3m (12%)	2016: \$164.8m (10%)  2016-2020: \$978.6m (12%)
Lewin Group's April 12, 2013, Final Report, <i>An Analysis of the Impact of Medicaid Expansion in Alaska</i> <sup>5</sup>	40,957  30% increase	2016: \$14.6m (1.9%)  2016-2020: \$217.8m (4.7%)	2016: \$433.5m (24%)  2016-2020: \$2.5b (23%)

**Legislative Fiscal Analyst Comment:** According to the U.S. Government Accountability Office (GAO), in FY2009, 18.8 percent of Medicaid beneficiaries accounted for about a 66.8 percent of

<sup>1</sup> Lewin Group. (April 12, 2013). *An Analysis of the Impact of Medicaid Expansion in Alaska*. Final Report. Figure 9, page 15.

<sup>2</sup> Gap Analysis Requested by Governor Parnell. (June 9, 2014). Letter from Commissioner William Struer to Mike Nizich. (Page 5).

<sup>3</sup> Gap Analysis Requested by Governor Parnell. (June 9, 2014). Letter from Commissioner William Struer to Mike Nizich. (Page 3).

<sup>4</sup> NPR story. (December 16, 2014). <http://www.npr.org/blogs/health/2014/12/16/370979687/alaskas-governor-eager-to-expand-medicaid>

<sup>5</sup> Lewin Group. (April 12, 2013). *An Analysis of the Impact of Medicaid Expansion in Alaska*. Final Report. Figure 2 (pg 7), Figure 9 (pg 15).

states' Medicaid expenditures.<sup>6</sup> Disproportionately high cost groups include those residing in long-term care, those with HIV, those with disabilities, and new mothers or infants.

Given the demographics of the high cost beneficiaries, it is surprising that the Lewin Group's baseline assumptions indicate that a 30% increase in the number of beneficiaries will increase the total cost of the program by 23-24%. The newly eligible 18 to 64 year-olds can be expected to be among the healthiest, lowest cost Medicaid population. In 2009, the 81.2% of enrollees who are not in a high cost group accounted for only 33.1% of expenditures. Based on costs for this group, the cost of expansion should be less than 13%.

The two cost estimates presented above differ significantly on the estimate of the additional administrative cost due to Medicaid expansion. The Lewin estimate puts administrative costs at 8.2% of total Medicaid spending, while the Alaska Native Tribal Health Consortium (ANTHC) estimate puts it at 2%. Most administrative costs are split equally between the state and federal government, so this portion of the cost disproportionately affects the state's share of expansion compared with direct costs.

Both the Lewin and ANTHC cost estimates are from early 2013, before other states had expanded Medicaid. The observed results in other states may differ from the projections in those reports.

**Will there be savings?** Several reports have highlighted potential state savings that would result from Medicaid expansion.

- Department of Corrections' health care costs: \$4.8 million of savings in 2016 (and \$27.4 million between 2016 and 2020).<sup>7</sup>
- Chronic and Acute Care Medical Assistance (CAMA) Program savings in the Department of Health and Social Services: \$1.6 million in 2016 (\$8.4 million between 2016 and 2020)<sup>8</sup>
- State Employee Health Benefits: \$3.2 million in 2016 (\$17.8 million between 2016 and 2020).

**What are options to pay for (or offset) Medicaid expansion?** The Lewin Group report offers some interesting suggestions for moving enrollees above 138 percent of the FPL to the Health Benefit Exchange and transitioning enrollees out of the Breast and Cervical Cancer Program.

The legislature may want to explore implementing a health provider tax. As of 2014, every state except Alaska had some sort of health provider tax that is used to pay for Medicaid. One state, Arizona, adopted a provider tax explicitly to pay for Medicaid expansion, but most states adopted the tax before 2007. Arizona's Hospital Provider Tax is a tax on hospitals that is set each year to match the state's share of the cost of Medicaid expansion. It took effect in 2013 and is expected to bring in \$233 million in FY15, the first full year that the tax will be in effect.

Under federal rules, the tax can be set at a rate of up to 6%. It is uncertain how much a provider tax could raise in Alaska because the amount would depend on the tax structure. Vermont, with a population similar to Alaska, has a 5.9% tax on hospitals and raised \$117 million in FY13.

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<sup>6</sup> U.S. Government Accountability Office. (February 2014). *Medicaid Demographics and Service Usage of Certain High Expenditure Beneficiaries*. Web address: <http://www.gao.gov/assets/670/661011.pdf>.

<sup>7</sup> Alaska Native Tribal Health Consortium. (February 1, 2013). *Healthier Alaskans Create a Healthier State Economy*. Figure 13, page 29.

<sup>8</sup> Lewin Group. (April 12, 2013). *An Analysis of the Impact of Medicaid Expansion in Alaska* Final Report. Figure 17, Page 25.



Provider taxes are typically designed so that providers recover their tax payments via increases in reimbursement rates and/or reductions in unreimbursed costs of services. Effectively, a provider tax can shift costs from the state and providers to the federal government.

## **CAPITAL PROJECTS**

- 6.** DHSS has proposed a total capital budget of \$1.55 million, which is comprised of state funds. The two projects requested 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.
  - **Emergency Medical Services Match for Code Blue Project (HD 1-40): \$500.0 UGF.** The Code Blue Project leverages local and federal funding sources, including the United States Department of Agriculture (USDA), with required state matching funds. Code Blue Project funding allows for the purchase of ambulance, rural patient transport vehicles, heart monitors, and other training and communications equipment. According to the department, Code Blue funding maximizes the seven EMS regions' eligibility for external funding, particularly in rural locations.

*Legislative Fiscal Analyst's Overview of the Governor's FY2016 Request*

## Department of Labor and Workforce Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$67,086.4</b>			
FY15 Fiscal Notes	988.7			
CarryForward	220.4			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$68,295.5</b>	\$1,209.1	1.8%	
One-time Items Removed	(2,105.2)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(25.0)			
FY16 Contractual Salary Increases	452.6			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$66,617.9</b>	(\$1,677.6)	-2.5%	
Unallocated Appropriations	(300.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/Multi Years/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	664.0			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$66,981.9</b>	\$364.0	0.5%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$364.0</b>	
Unemployment Insurance	863.0	861.0	(2.0)	1
Business Services	9,154.1	9,197.8	43.7	1
AK Technical Center (Kotzebue)	1,645.4	1,726.0	80.6	1
SW AK Vocational and Education Center Operations Grant	543.5	570.3	26.8	1
Yuut Operations Grant	1,045.4	1,126.0	80.6	1
Northwest Alaska Center	748.5	775.3	26.8	1
Partners for Progress in Delta	348.5	375.3	26.8	1
Amundsen Educational Center	232.3	250.2	17.9	1
Client Services	4,574.0	4,699.0	125.0	3
Alaska Vocational Technical Center	10,489.8	10,727.6	237.8	1, 2
Agency Unallocated Appropriation	0.0	(300.0)	(300.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	21,970.8	22,005.8	35.0	
Federal Funds (all allocations)	96,186.6	96,186.6	0.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$118,157.4</b>	<b>\$118,192.4</b>	<b>\$35.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>900</b>	<b>877</b>	<b>(23)</b>	
PFT	809	798	(11)	
PPT	77	70	(7)	
Temp	14	9	(5)	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## 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 FY16 Department of Labor and Workforce Development general fund operating budget submitted by the Governor on December 15, 2014 is \$364.0 above the FY16 Adjusted Base [(\$300.0) Unrestricted General Funds (UGF)/ \$664.0 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. Technical Vocational Education Program (TVEP) Receipts (DGF): \$429.0 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). HB 278 (Ch. 15, SLA 2014) made several changes related to TVEP. For FY16, the estimated available receipts of the Alaska Technical and Vocational Education Program are \$12,510.9 (\$895.5 more than the amount available in FY15). Other than a small decrease of (\$3.0) in program administration fees, TVEP recipients received the following increases in FY16:

- Alaska Technical Center (Kotzebue) (9%): \$80.6;
- Southwest Alaska Vocational and Education Center (3%): \$26.8;
- Yuut Elitnaurviat, Inc. People's Learning Center (9%): \$80.6;
- Northwest Alaska Career and Technical Center (3%): \$26.8;
- Partners for Progress in Delta, Inc. (*formerly* Delta Career Advancement Center) (3%): \$26.8;
- Amundsen Educational Center (*formerly* New Frontier Vocational Technical Center) (2%): \$17.9;
- Alaska Vocational Technical Center (17%): \$127.8; and
- Ilisagvik College (NEW ALLOCATION– added in HB 278 – 5% TVEP funding): \$44.7 (plus \$625.5 in TVEP funding was transferred from Business Partnerships/ Business Services allocation to create the Ilisagvik College allocation within the Business Partnerships appropriation).

2. **Alaska Vocational Technical Center (AVTEC) Authority to Spend Additional Program Receipts to Support Operations: \$110.0 GF/Program Receipts (DGF).** The Governor's budget submission includes an increment for the use of \$110.0 in additional GF/PR in FY16. AVTEC's primary mission is to provide market-driven vocational and technical training to prepare state residents for jobs. In FY14, the legislature approved a one-time \$200.0 UGF increment to help with AVTEC operations. Even with the extra appropriation, AVTEC had to make personnel cuts and changes that reduced the school year by five days. AVTEC is actively reviewing revenue generation options—including potential tuition and fee changes—to avoid elimination of training programs and additional reductions in personnel and services.

## **MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS**

3. **Vocational Rehabilitation/ Client Services – Switch Fund to Re-categorize the State Portion of the Business Enterprise Program Fund: (\$125.0) VocRehab Fund (Other)/ + \$125.0 VocRehab Small Business Enterprise Revolving Fund (DGF).** The Business Enterprise Program originated with the federal Randolph-Sheppard Act of 1936. The intent of the Act is to provide trained, licensed blind persons with remunerative employment, enlarge their economic opportunities, and encourage self-support through the operation of vending facilities on federal property. State law expanded this program to include vending facilities on all public property and expanded program eligibility to include those with severe disabilities other than blindness. The state portion of the enterprise fund and the federal portion of revenue are tracked separately by the Department of Revenue; this fund change aligns the budget system with the accounting system. The state portion of the receipts is estimated to be about \$125.0.

**Legislative Fiscal Analyst Comment:** The new fund source "1237 VocRehab S" has been created in the Legislative Finance budget system. This Designated General Fund code reflects the state portion of receipts from the net proceeds of vending facilities on state property. These funds are not federally restricted and may be appropriated by the legislature to aid blind or severely disabled licensees.

4. **Agency Unallocated Appropriation: (\$300.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

## **ORGANIZATIONAL CHANGES**

The addition of Ilisagvik College as an allocation within the Business Partnerships Appropriation is the only significant organizational change in the department's FY16 budget.

## **CAPITAL REQUEST**

No capital projects are included for the Department of Labor and Workforce Development in the Governor's FY16 Capital budget submission.

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*Legislative Fiscal Analyst's Overview of the Governor's FY2016 Request*

<b>Department of Law</b>				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$62,003.2</b>			
FY15 Fiscal Notes	-			
CarryForward	2,000.0			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$64,003.2</b>	\$2,000.0	3.2%	
One-time Items Removed	(7,300.0)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(73.0)			
FY16 Contractual Salary Increases	967.7			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$57,597.9</b>	(\$6,405.3)	-10.0%	
Unallocated Appropriations	(970.0)			3
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	5,300.0			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$61,927.9</b>	\$4,330.0	7.5%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$4,330.0</b>	
Oil, Gas and Mining	2,601.5	7,901.5	5,300.0	2
Agency Unallocated Appropriation	-	(970.0)	(970.0)	3
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	30,787.0	31,362.0	575.0	1
Federal Funds (all allocations)	1,020.1	1,020.1	0.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$31,807.1</b>	<b>\$32,382.1</b>	<b>\$575.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>572</b>	<b>578</b>	<b>6</b>	
PFT	569	576	7	1
PPT	3	2	(1)	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## **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 FY16 Department of Law general fund operating budget as submitted by the Governor is \$4,330.0 above the FY16 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

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

- 1. Additional Victim Witness Paralegal Positions: \$560.0 Inter-Agency Receipts (Other) TOTAL + 4 New Permanent Fulltime Positions.** The Department of Law (DOL) is requesting four new victim witness paralegal positions, three to assist in maintaining contact and establishing rapport with crime victims and one to assist in preparing cases for contested hearings and trials in child protection cases. This request will assist in meeting the FY15 legislative intent relating to crime victims' rights (Sec. 6, Chapter 16, SLA 2014 [CCS HB 266]). DOL currently employs 35 victim witness paralegals in 13 locations throughout the state. (This request is in addition to those positions.) It is the responsibility of these employees to make contact with each victim of a crime whose case has been submitted to a district attorney's office. This contact occurs whether or not the case is accepted for prosecution. The victim is kept informed of court hearing dates, proposed resolution of cases and the sentencing date. The flow of information continues through any appeal and post conviction petitions. When victims need to appear in court, these victim witness paralegals make travel and lodging arrangements, provide witness fees and, when necessary, disburse per diem. Currently, the number of cases that each paralegal is carrying ranges from 1,652 at the high end to 1,244 at the low end. The Child Protection unit in Bethel currently does not have any paralegals to provide support to two attorneys. The Bethel attorneys or paralegals from other geographic areas of the state must do all of the paralegal work. As noted by the department, the lack of a paralegal in Bethel not only strains the resources of other areas, but can also cause delay in Child in Need of Aid cases as the attorneys are sometimes forced to continue cases to have time to complete both the attorney and paralegal responsibilities of preparing for contested hearings or trials.

- **Criminal Division/ First Judicial District (Juneau) – 1 PFT (\$140.0 I/A Rcpts);**
- **Criminal Division/ Third Judicial District: Outside Anchorage (Palmer) – 1 PFT (\$140.0 I/A Rcpts);**
- **Criminal Division/ Fourth Judicial District (Fairbanks) – 1 PFT (\$140.0 I/A Rcpts);and**

- **Civil Division/ Child Protection (Bethel) – 1 PFT (\$140.0 I/A Rcpts).**

**Legislative Fiscal Analyst Comment:** According to the Department of Law, the source of the I/A Receipts is \$3 million of Governor's Office funding earmarked for transfer to departments for various Domestic Violence and Sexual Assault programs.

## MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

- 2. Oil, Gas and Mining: \$5.3 million UGF.** The Governor has requested funds to continue the department's role in the construction of a gas pipeline to bring natural gas to market. These requests restore one-time funds previously approved for FY15. The Oil, Gas and Mining Section represents the Departments of Revenue and Natural Resources in disputes relating to the collection of oil and gas taxes and royalties using both department personnel and outside counsel. Additionally, the department has a number of major oil and gas projects underway and continues to request money for outside counsel and experts beyond the funding included in the current base budget.

- **\$1.5 Million UGF (IncM) – Restore Legal Services to Support Oversight of Alaska Natural Gas Pipeline Project:** Base funding is requested to fund work related to the state gas pipeline and to bring North Slope gas to market. The Department of Law's Oil, Gas and Mining section attorneys and specialized outside counsel advise the Alaska Natural Gas Pipeline Project office, the Governor's Office, and the Commissioners of the Departments of Natural Resources and Revenue.
- **\$3.8 Million UGF (IncM) – Restore Outside Counsel for Specialized Expertise in Oil, Gas and Mining Issues:** Base funding is also requested for ongoing oil and gas matters to fund contracts with outside counsel and consultant expert specialists. The areas to be funded include pipeline tariff proceedings (\$1.27 million), taxes (\$1.4 million), royalty reopeners (\$1.27 million), and the Point Thomson litigation/settlement (\$100.0).

**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.

### Department of Law's Oil & Gas Related Funding FY12-FY16

Oil & Gas Related Funding Base and Non-Base FY12-FY16	FY12 Budget		FY13 Budget		FY14 Budget		FY15 Budget		FY16 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)		\$2 million UGF <i>FY11 Supplemental Multi-Year Lapsed 6/30/12</i>  \$3 million UGF <i>FY12 Capital Multi-Year</i>		\$5 million UGF  <div>Of this \$3 million, \$1,453.7 was carried forward into FY13 and lapsed 6/30/13</div>		\$2 million UGF  \$2 million UGF <div>Reappropriation from unexpended BP Corrosion Lapses 6/30/14</div>		\$3.8 million UGF	\$3.8 million UGF	
Gasline - Preparation of Legislation and Implementation of a Comprehensive Plan to Commercialize North Slope Gas		\$2 million UGF		\$2 million UGF		\$1.5 million UGF		\$1.5 million UGF	\$1.5 million UGF	



3. **Agency Unallocated Appropriation: (\$970.0 UGF).** Specific actions needed to meet this reduction have not yet been determined. See page 18 for discussion of unallocated reductions.

## **ORGANIZATIONAL CHANGES**

There are no organizational changes requested.

## **CAPITAL BUDGET**

No capital projects are included for the Department of Law in the Governor's FY16 Capital budget submission.

## Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$24,845.3</b>			
FY15 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$24,845.3</b>	\$0.0	0.0%	
One-time Items Removed	(6,384.3)			
Temporary Increments (IncTs)	300.0			
FY16 Health Insurance Reductions	(17.7)			
FY16 Contractual Salary Increases	274.2			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$19,017.5</b>	(\$5,827.8)	-23.5%	
Unallocated Appropriations	(310.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	4,541.5			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$23,249.0</b>	\$4,231.5	22.3%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$4,231.5</b>	
Veterans' Services	1,794.9	2,144.9	350.0	1
Retirement Benefits	627.3	734.5	107.2	3
Alaska Aerospace Corporation	49.7	1,510.2	1,460.5	5
Alaska Aerospace Corporation Facilities Maintenance	41.0	2,664.8	2,623.8	5
Agency Unallocated Appropriation	-	(310.0)	(310.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	12,226.4	12,227.0	0.6	
Federal Funds (all allocations)	23,575.0	27,880.0	4,305.0	2, 5
<b>Total Non-General Funds (all allocations)</b>	<b>\$35,801.4</b>	<b>\$40,107.0</b>	<b>\$4,305.6</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>336</b>	<b>336</b>	<b>0</b>	
PFT	333	333	-	
PPT	2	2	-	
Temp	1	1	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	26,772.2	26,772.2	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	4,500.0	4,500.0	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$31,272.2</b>	<b>\$31,272.2</b>	

## **Department of Military and Veterans' Affairs**

The mission of the Department of Military and Veterans' Affairs (DMVA) is to provide military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military-style training and education.

### **BUDGET SUMMARY**

The FY16 Department of Military and Veterans' Affairs general fund operating budget submitted by the Governor on December 15, 2014 is \$4.2 million (or 22.3%) above the FY16 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

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

- 1. Veterans' Services – Interior Cemetery Operations: \$350.0 UGF.** The State of Alaska and U.S. Department of Veterans Affairs expect to begin construction of the Interior Veterans' Cemetery in June 2015 in Fox, Alaska. Operational costs are estimated to be \$350.0 per year and include contracting costs, utilities, ongoing landscaping, lawn care, snow removal, maintenance costs, and burial costs for Alaska National Guard members who do not qualify for interment in a national cemetery.

**Legislative Fiscal Analyst Comment:** According to the department, construction is being postponed until June 2016 due to a delay in the availability of federal construction funds. Therefore, this increment is not needed in FY16 and the department plans to submit a budget amendment removing this requested funding.

The legislature appropriated the following capital funding to the department for the Interior Veterans' Cemetery:

- FY11 – \$5 million Federal Receipts, \$750.0 General Fund Match and \$250.0 UGF for design and construction costs of the Interior Alaska Veterans' Cemetery;
- FY13 – \$2 million Federal Receipts for increased project costs;
- FY14 – \$2 million UGF to continue the acquisition of land for the Interior Alaska Veterans' Cemetery; and
- FY15 – \$100.0 UGF for the Fairbanks Veterans' Cemetery – Gold Rush Historic Ditch Mitigation.

- 2. Alaska Military Youth Academy – National Guard Youth ChalleNge and Job Challenge Demonstration: \$1.3 million Federal Receipts.** The department anticipates receiving a 42-month, \$4 million federal grant award from U.S Department of Labor for the President's Job Driven Training for Workers program, also referred to as "Job Challenge." This is a new pilot program and is in the initial planning stage. The requested increment of \$1.3 million would be needed for the next three years and would provide 20 weeks of residential job training to AMYA graduates who are selected to participate in the program. While this is a new program that will require several months of planning, the program is focused on improving participants' employment and earning outcomes.

## FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

3. **National Guard and Naval Militia Retirement System Actuarial Adjustment: \$107.2 UGF.** The National Guard and Naval Militia Retirement System Roll-Forward Actuarial Valuation dated February 18, 2014 identified the FY16 total annual contribution as \$734.5 to fund this retirement system. There is base funding of \$627.3 UGF within the Alaska National Guard Benefits appropriation and, with this increment request, there will be a total of \$734.5 UGF.
4. **Agency Unallocated Appropriation: (\$310.0) UGF.** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
5. **Alaska Aerospace Corporation (AAC) Operations and Maintenance: (\$2,000.0) UGF and \$3,005.0 Federal Receipts.** Beginning in FY14, AAC presented a plan to the legislature that would reduce future UGF operating and maintenance support annually by \$2 million. The legislature appropriated \$8.1 million in FY14 and \$6.1 million one-time increment in FY15; the FY16 budget includes a *reduction* of \$2 million UGF, bringing the total UGF request to \$4.1 million. This \$4.1 million appears as a maintenance increment (IncM) in the FY16 budget, and represents \$4.1 million of the department's \$4.2 million increase above the FY16 Adjusted Base.

The FY16 Governor's Request also includes an increase of \$3 million Federal Receipt authority because the Department of Defense's federal funding plan currently includes language that appropriates federal funding for operation and sustainment activities at the nation's two private space launch facilities.

**Legislative Fiscal Analyst Comment:** From FY11 through FY15 the legislature has appropriated a total of \$58.1 million UGF to AAC as follows:

Fiscal Year	Amount	Purpose	Appropriation Location
FY11	\$4 million	Kodiak Launch Complex Sustainability	Capital
FY12	\$4 million	AAC Operations and Maintenance	Operating
FY12	\$25 million	AAC Construction of a New Medium Lift Launch Pad	Capital
FY13	\$8 million	AAC Operations and Maintenance	Operating
FY14	\$8.1 million	AAC Sustained Operations and Maintenance	Operating
FY14	\$400 thousand	Alaska Aerospace Corporation Maintenance	Capital
FY15	\$6.1 million	AAC Operating and Sustainment	Operating
FY15	\$2.4 million	Kodiak Launch Complex Deferred Maintenance	Capital

On August 25, 2014 a launch pad at the Kodiak Launch Complex was damaged after a failed missile test. This was the first launch at the complex since September 2011 and no future launches are scheduled.

If the legislature continues funding AAC in FY16, it may wish to change the increment to a one-time increment, to remind the legislature of the plan to reduce AAC's budget by another \$2 million in FY17.

## **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

## **CAPITAL REQUEST**

The Governor's FY16 Department of Military and Veterans' Affairs capital budget totals \$31,272.2 Federal Receipts. A summary of the projects is as follows:

- **Army Guard Facilities Projects:** \$15,150.0 Federal Receipts;
- **Deferred Maintenance, Renewal, Repair and Equipment:** \$11,622.2 Federal Receipts; and
- **State Homeland Security Grant Programs:** \$4,500.0 Federal Receipts.

## Department of Natural Resources

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$104,025.1</b>			
<i>FY15 Fiscal Notes</i>	9,098.7			2
<i>CarryForward</i>	1,417.5			
<i>Misc Adjustments</i>	-			
<i>Multi-years/Specials</i>	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$114,541.3</b>	\$10,516.2	10.1%	
<i>One-time Items Removed</i>	(10,446.2)			2
<i>Temporary Increments (IncTs)</i>	-			
<i>FY16 Health Insurance Reductions</i>	(60.2)			
<i>FY16 Contractual Salary Increases</i>	1,441.1			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$105,476.0</b>	(\$9,065.3)	-7.9%	
<i>Unallocated Appropriations</i>	(1,100.0)			4
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY16 Governor's GF Increments/Decrements/Fund Changes</i>	13,383.1			2
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$117,759.1</b>	\$12,283.1	11.6%	
↓				
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$12,283.1</b>	
North Slope Gas Commercialization	38.5	13,925.2	13,886.7	2
Petroleum Systems Integrity	607.6	-	(607.6)	5
Parks Management & Access	9,870.1	9,974.1	104.0	3
Agency Unallocated Appropriation	-	(1,100.0)	(1,100.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	
Other State Funds (all allocations)	38,356.7	45,068.8	6,712.1	1
Federal Funds (all allocations)	21,922.3	21,772.3	(150.0)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$60,279.0</b>	<b>\$66,841.1</b>	<b>\$6,562.1</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>1,109</b>	<b>1,115</b>	<b>6</b>	
PFT	757	759	2	
PPT	240	240	0	
Temp	112	116	4.0	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	2,500.0	-	2,500.0	
Maintenance and Repairs	200.0	4,700.0	4,900.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	550.0	2,050.0	2,600.0	
<b>TOTAL CAPITAL</b>	<b>\$3,250.0</b>	<b>\$6,750.0</b>	<b>\$10,000.0</b>	

## **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 FY16 Department of Natural Resources general fund operating budget as submitted by the Governor on December 15, 2014 is \$12,283.1 (11.6%) above the FY16 Adjusted Base. Of this, \$12,179.1 is UGF and \$104.0 is 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, Expansion of State Pipeline Coordinator's Office: \$2,887.2 (Other).** The department requests two separate increments for the State Pipeline Coordinator's Office (SPCO).

- Support increased pipeline activity, including the Alaska Liquefied Natural Gas (AKLNG) and Point Thomson projects: \$1,085.2, statutory designated program receipts.
- Fund eight long-term, non-permanent employees to assist with increased activities on the Alaska Gasline Development Corporation (AGDC) Alaska Stand Alone Pipeline (ASAP) project: \$1,802.0 In-State Natural Gas Pipeline Fund.

**Legislative Fiscal Analyst Comment:** No new positions are included in the first increment, but the department also transferred six positions from the Petroleum Systems Integrity Office to the SPCO. It is unclear how these increments will be affected by the Governor's administrative order halting additional expenditures on the ASAP project.

- 2. North Slope Gas Commercialization: \$13,886.7 UGF.** With the passage of SB 138 last session, the North Slope Gas Commercialization team is tasked with supporting the state's participation in a large natural gas project. With passage of this bill, the DNR Commissioner, in consultation with the DOR Commissioner, will enter into contractual agreements related to the state's equity position in the project. DNR's role is to make sure that the state's equity participation complements and facilitates the state's royalty and tax-as-gas marketing efforts.

**Legislative Fiscal Analyst Comment:** The fiscal note for Chapter 14, SLA 2014 (SB 138) included \$8,986.7 in one-time funding for this appropriation in FY15. The December 15 budget restores this amount for FY16 and also includes an additional \$4,900.0 increment for similar work. The latter increment is a preliminary estimate prepared by the previous administration.

**Legislative Fiscal Analyst Recommendation:** Other agencies involved in the AKLNG project receive funding through interagency receipts from AGDC rather than UGF to support their work. A portion of DNR's gasline activities may fall under the umbrella of work that supports AGDC. The legislature may wish to work with DNR and AGDC to determine how much, if any, of DNR's work should be funded by AGDC through I/A Receipts rather than UGF to DNR.

3. **Parks Management & Access – Maintenance and Operating Costs for South Denali Visitor Center Complex: \$104.0 DGF.** The 35 RV campsites at K'esugi Ken campground in Denali State Park are scheduled to open for public use in the 2015 season. The first new Alaska State Parks campground constructed in 20 years, it is located two miles from the Parks Highway and the first facility to be built as part of the South Denali Visitor Center Complex. Fifteen walk-in tent campsites are scheduled to be added to the campground in the summer of 2015 and open in the fall of 2015. This new development requires additional staff to open, operate and maintain the facility for public access.

**Legislative Fiscal Analyst Comment:** The legislature denied an increment of \$35.0 for this activity in FY15 because the park was scheduled to open near the end of FY15. This request is for a full year of funding.

## FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

4. **Agency Unallocated Appropriation: (\$1,100.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
5. **Deletion of Petroleum Systems Integrity Office: (\$607.6) UGF.** The Petroleum Systems Integrity Office, established via Administrative Order No. 234 on April 18, 2007, is deleted in the FY16 operating budget. The PSIO implemented a number of changes in department procedures that closed gaps and improved efficiency in the process of adjudicating oil & gas infrastructure regulatory applications and oversight. The discoveries and recommendations made by the PSIO have helped guide oil & gas infrastructure decisions made by the department and will be used to identify and mitigate potential risks to environmental and public safety. Now that the analysis and recommendations are complete, there is no need for further PSIO analysis, and recommendations will be implemented by the appropriate divisions that have adjudication responsibility.

**Legislative Fiscal Analyst Comment:** The Governor's budget decrements all funding and transfers positions associated with this office to the State Pipeline Coordinator's Office.

## ORGANIZATIONAL CHANGES

Other than the deletion of the Petroleum Systems Integrity Office, there are no significant changes.

## CAPITAL BUDGET

The DNR capital budget totals \$10 million (\$350.0 GF, \$2,900.0 Other State Funds, and \$6,750.0 Federal Funds). The budget includes mostly ongoing projects that do not require general funds, including the Abandoned Mine Lands Reclamation Federal Program and the Federal and Local Government Funded Forest Resource and Fire Program Projects. The appropriations that require a GF match are:

- **National Historic Preservation Fund: \$800.0 (\$650.0 Fed, \$150.0 G/F Match).** The National Historic Preservation Fund (NHPF) is a federal program to assist states with their



statewide historic preservation programs. Also included in this capital project are cooperative historic preservation projects executed through cooperative or assistance agreements with, or grants from, federal agencies. The NHPF funds grants to local governments, agencies, organizations and individuals for restoration or stabilization of historic properties, and grants for survey, inventory, education, planning and training projects.

- **National Recreational Trails Federal Grant Program \$1,700.0 (\$1,500.0 Fed, \$200.0 G/F Match).** Funds are distributed as 80/20 matching reimbursable grants for trail and trailhead development and maintenance, and for education programs relating to trail safety and responsible trail use. Grants are awarded to organizations, agencies and local governments. The end result is a variety of trails that are safe, high-quality, have year-round access, and include motorized, non-motorized, and diversified uses.

## Department of Public Safety

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$177,966.3</b>			
FY15 Fiscal Notes	-			
CarryForward	142.6			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$178,108.9</b>	\$142.6	0.1%	
One-time Items Removed	(142.6)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(156.1)			
FY16 Contractual Salary Increases	1,505.0			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$179,315.2</b>	\$1,206.3	0.7%	
Unallocated Appropriations	(2,300.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	4,556.2			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$181,571.4</b>	\$2,256.2	1.3%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>\$2,256.2</b>	
Alaska State Trooper Detachments	66,930.1	67,240.1	310.0	3
Alaska Wildlife Troopers Aircraft	3,414.2	5,788.3	2,374.1	1
Village Public Safety Officers	17,672.1	19,177.0	1,504.9	2
Domestic Violence/Sexual Assault	12,321.7	12,688.9	367.2	5
Agency Unallocated Appropriation	-	(2,300.0)	(2,300.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	17,767.4	17,767.4	-	
Federal Funds (all allocations)	10,799.6	10,799.6	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$28,567.0</b>	<b>\$28,567.0</b>	<b>\$0.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>924</b>	<b>936</b>	<b>12</b>	
PFT	885	895	10	1, 3
PPT	18	18	-	
Temp	21	23	2	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	1,200.0	1,200.0	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$1,200.0</b>	<b>\$1,200.0</b>	

## **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 FY16 Department of Public Safety general fund operating budget as submitted by the Governor on December 15, 2014 is \$2,256.2 UGF (1.3%) above the FY16 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. Alaska Wildlife Troopers Aircraft Section – Expand Aircraft Section to Comply with Audit Recommendations: \$2,374.1 UGF and 8 PFT Positions.** The Alaska Department of Public Safety (DPS), Alaska Wildlife Troopers (AWT), Aircraft Section operates and maintains the largest and most diversified aircraft fleet of any state law enforcement agency in the country and provides essential air support for state and local law enforcement, as well as the citizens of Alaska. The employees in the Aircraft Section are a mix of commissioned trooper personnel, civilian pilots, and civilian personnel.

According to the department, funding for personal services and additional maintenance support have not kept pace with increasing mission requests. As a result, DPS sought an independent auditor to evaluate and make recommendations that would bring the Aircraft Section into compliance with industry standards. The maintenance audit recommended that a minimum of 18 additional aircraft personnel are needed to safely and efficiently maintain the agency's aircraft. To comply with the recommendations, the department is requesting the following eight PFT positions:

1. Director of Maintenance;
2. Pilot II for King Air and Turbine Aircraft;
3. Pilot II for Anchorage A-Star Helicopter and Turbine Aircraft Instructor Pilot;
4. Pilot II for Small Fixed Wing Aircraft Training and Instructor Pilot;
5. Stock and Parts Services Journey;
6. Advanced Aircraft Mechanic/Aircraft Record Custodian;
7. Advanced Aircraft Mechanic Foreman/Quality Control; and
8. Pilot II for King Air and Instructor Pilot.

In addition to the increased personnel, DPS is requesting \$1.5 million of additional funding to support contracts with third-party vendors to maintain the agency's more complex aircraft (both King Airs, both Caravans, and both A-Star helicopters). DPS has maintained these complex aircraft both in-house and through third-party vendors in the past and has determined that a maintenance contract is more efficient and would relieve the department of additional lengthy and costly training for employees.

**Legislative Fiscal Analyst Comment:** The subcommittee may wish to ask the department if the fleet size or agency mission will need to be modified if this increment is not funded.

2. **Village Public Safety Officers (VPSO) Program – Increase Cap of Indirect Cost Rate from 15% to Federally Approved 30% Rate for VPSO Grantees: \$1,504.9 UGF.** For at least ten years, DPS has capped the indirect cost rate for the VPSO Program at 15% in an effort to emphasize direct service funding (rather than administrative overhead) for the program. VPSO Program grantees continue to maintain that the allowable indirect cost rate should be the federally approved indirect cost rate (FAICR) or 30 percent, whichever is less. They perceive that the 15% cap on the indirect cost rate causes them to subsidize the VPSO Program and, therefore, the state. This issue has become more prevalent with the growth of the VPSO Program during the past five years.

According to the department, the request for funds to increase the allowable indirect cost rate is intended to strengthen the nonprofit grantees' administration of the VPSO Program and allow them to focus on hiring and retention of officers.

**Legislative Fiscal Analyst Comment:** Projected excess (or unexpended) VPSO funds may be used for unmet year-end needs of the grantees such as equipment, supplies and construction. DPS monitors grant expenditures throughout the year and amends grant awards as needed or upon request of the grantee. In addition to using projected excess (or unexpended) VPSO funds for unmet year-end needs of the grantees, beginning in FY2014 excess funding has also been used to address indirect cost shortfalls through a new contingency line item that was added to the VPSO Program grants. Since, on average, approximately 92 of the 121 budgeted positions are filled on a consistent basis, the need for additional funding to be used for overhead costs is unclear.

The 121 VPSO authorized positions are allocated to the following grantee entities:

- Aleutian/Pribilof Islands Association - 7 (6 filled);
- Association of Village Council Presidents - 30 (21 filled);
- Bristol Bay Native Association - 15 (9 filled) ;
- Central Council of Tlingit/Haida - 12 (9 filled);
- Chugachmiut - 4 (4 filled);
- Copper River Native Association - 6 (4 filled);
- Kodiak Area Native Association - 8 (6 filled);
- Kawerak - 13 (10 filled);
- Northwest Arctic Borough - 8 (6 filled); and
- Tanana Chiefs Conference - 18 (12 filled).

**Legislative Fiscal Analyst Comment:** As of December 31, 2014, 87 of the 121 budgeted positions were filled through VPSO grants, leaving 34 positions vacant. Of the 87 filled positions, 77 are VPSO's, six are coordinator-only positions performing administrative oversight functions, and four are performing both VPSO and coordinator duties.

3. **Alaska State Troopers – Two Troopers for Kenai Peninsula: \$310.0 UGF.** Funding is requested for two new trooper positions to provide for increased law enforcement presence and response capabilities on the Kenai Peninsula to address the growing trend of drug, theft, and property crimes in that region.

## **MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS**

4. **Agency Unallocated Appropriation: (\$2,300.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
5. **Council on Domestic Violence and Sexual Assault (CDVSA) – Maintain Shelter Services for Women and Children: \$367.2 UGF.** Previously funded by a reimbursable services agreement with the Department of Health and Social Services (DHSS), Division of Behavioral Health, this funding is used to provide shelter services to at-risk women and children and victims of alcohol and substance abuse related violence.

## **CAPITAL REQUEST**

The Marine Fisheries Patrol Improvements project is the only DPS capital item included in the Governor's FY16 request: **\$1.2 million Federal Receipts.**

*Legislative Fiscal Analyst's Overview of the Governor's FY2016 Request*

## Department of Revenue

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$42,488.6</b>			
FY15 Fiscal Notes	1,150.0			
CarryForward	-			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$43,638.6</b>	\$1,150.0	2.7%	
One-time Items Removed	(994.8)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(21.8)			
FY16 Contractual Salary Increases	668.8			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$43,290.8</b>	(\$347.8)	-0.8%	
Unallocated Appropriations	(525.0)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(46.0)			
FY16 Governor's GF Increments/Decrements/Fund Changes	233.5			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$42,953.3</b>	(\$337.5)	-0.8%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$337.5)</b>	
Treasury Division	6,076.6	6,119.1	42.5	
Unclaimed Property	467.2	577.2	110.0	2
Long Term Care Ombudsman	419.2	454.2	35.0	
Agency Unallocated Appropriation	-	(525.0)	(525.0)	4
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	249,815.6	283,911.7	34,096.1	1, 3, 5
Federal Funds (all allocations)	78,130.6	78,130.6	0.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$78,130.6</b>	<b>\$78,130.6</b>	<b>\$0.0</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>935</b>	<b>939</b>	<b>4</b>	
PFT	885	889	4	
PPT	32	32	0	
Temp	18	18	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	2,500.0	2,500.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	2,600.0	7,500.0	10,100.0	
<b>TOTAL CAPITAL</b>	<b>\$2,600.0</b>	<b>\$10,000.0</b>	<b>\$12,600.0</b>	

## **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 FY16 Department of Revenue general fund operating budget submitted by the Governor is (\$337.5) *below* the FY16 Adjusted Base [(\$764.0) Unrestricted General Funds (UGF)/ \$426.5 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. **Treasury Division – New Investment Officers and Market Based Salary Adjustment - \$627.0 I/A Receipts (Other).** An increment of \$300.0 for two new Investment Officers is included in the budget. These positions would be funded via the retirement management board's investment management fees. Also included is \$327.0 to increase investment officer salaries to a level "competitive" within the market.

**Legislative Fiscal Analyst Comment:** All budget adjustments utilizing retirement assets get vetted by the retirement board prior to presentation to the Governor and the Legislature. While significant investment occurs in the training of investment officers, keeping up with national salary levels may not be totally justifiable. Other considerations, including retirement and benefit packages, cost of living, and quality of life, affect the ability to recruit and retain employees. This comment also applies to the increment for investment officer's salaries within the Permanent Fund Corporation (see Item #3).

2. **Unclaimed Property – Fund Source Change and Increment for Unclaimed Property Program (UCP): \$110.0 Total [(\$274.0) UGF; \$384.0 GF/Prgm (DGF)].** A fund source change in the amount of \$274.0 from UGF to General Fund Program Receipts (DGF) is proposed. The UCP program holds unclaimed property in trust and utilizes the assets for program operations when asset owners cannot be located. Unclaimed assets not needed to operate the program are transferred annually to the general fund. The amount transferred in FY14 was \$7 million and projected transfers for both FY15 and FY16 are \$5 million.

**Legislative Fiscal Analyst Comment:** While GF/Prgm Receipts are Designated General Funds, increased expenditures impact the deficit because they reduce potential transfers to the Unrestricted General Fund.

3. **Various Permanent Fund Corporation Increments - \$2,384.8 Permanent Fund Corporation Gross Receipts (Other).** In addition to the increment for asset management fees (see Item #5), the Permanent Fund has requested a laundry list of budget increments as follows:

Due Diligence/ Other Travel	148.1
Trade Mgmt. System Retrofit	112.5
Real Estate Investment Officer	245.0
Special Ops. Investment Officer	245.0
Analyst and Accountant	289.7
Performance Based Salary Increase	290.0
Risk Management Consultants	455.0
Financial Network Services	482.5
Other	117.0
Total	2,384.8

**Legislative Fiscal Analyst Comment:** As the Permanent Fund assets grow, requests for additional manpower and resources should be expected. These requests are vetted by the Permanent Fund Board before presentation to the legislature. That said, legislative discussion of the merits of each increment is prudent (see Item #1 for comment in regard to investment officer salary increases).

## MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

4. **Agency Unallocated Appropriation: (\$525.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.
5. **Asset Management Fees – \$27.4 million [\$18.2 million various retirement funds (Other); \$9.2 million Permanent Funds (Other)].** There are two increments in DOR for increased management fees associated with increased assets under management. Investment management fees are typically charged as a percent of market value.
- The Alaska Retirement Management Board Custody and Management Fees allocation is increasing \$18.2 million. The addition of \$3 billion to the PERS retirement fund in FY15 and excellent market returns in 2014 increased retirement assets to over \$27.8 billion ending November 2014.
  - The Permanent Fund Corporation Investment Management Fees allocation is increasing \$9.2 million. Permanent Fund assets were over \$52 billion as of January 2015.

## ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.



## **CAPITAL REQUEST**

The Governor's FY16 Department of Revenue (DOR) capital budget totals \$12.6 million (\$2.6 million UGF and \$10 million Federal Receipts). This "leveraged" budget contains only projects for the Alaska Housing Finance Corporation (AHFC). General funds are included only to the extent required to match federal funds. Those projects leveraging federal dollars include:

- AHFC Competitive Grants for Housing: \$1.1 million (\$350.0 UGF/ \$750.0 Fed);
- AHFC Federal and Other Competitive Grants: \$4.5 million (\$1.5 million UGF/ \$3 million Fed); and
- AHFC Housing and Urban Development Federal HOME Grant: \$4.5 million (\$750.0 UGF/ \$3.75 million Fed)

**Legislative Fiscal Analyst Comment:** If these projects are funded by the legislature, the UGF funding (code 1004) for these projects should be changed to General Fund Match (code 1003) to clarify that the UGF is being used to match federal receipts.

## Department of Transportation and Public Facilities

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$346,772.3</b>			
FY15 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$346,772.3</b>	\$0.0	0.0%	
One-time Items Removed	(55.0)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(184.4)			
FY16 Contractual Salary Increases	1,360.7			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$347,893.6</b>	\$1,121.3	0.3%	
Unallocated Appropriations	(1,510.0)			1
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	3,896.6			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$350,280.2</b>	\$2,386.6	0.7%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>				
	FY16 Adjusted Base Budget (GF Only)	FY16 Governor's Request (GF only)	Change from FY16 Adj Base to FY16 Governor's Request	See Note:
<b>Allocation</b>			<b>\$2,386.6</b>	
Agency Unallocated Appropriation	-	(1,510.0)	(1,510.0)	1
Program Development	521.2	545.9	24.7	
Central Region Facilities	8,505.3	8,518.0	12.7	
Traffic Signal Management	1,855.1	2,009.3	154.2	
Central Highways and Aviation	53,125.6	53,375.4	249.8	8
Northern Highways and Aviation	67,691.9	68,262.6	570.7	4
Marine Vessel Operations	114,128.6	117,013.1	2,884.5	6
<b>Non-General Fund Agency Summary</b>				
	FY16 Adjusted Base Budget	FY16 Governor's Request	Change from FY16 Adj Base to FY16 Governor's Request	See Note:
Other State Funds (all allocations)	282,382.3	287,553.8	5,171.5	2,3,5,7,8
Federal Funds (all allocations)	2,854.3	2,354.3	(500.0)	
<b>Total Non-General Funds (all allocations)</b>	<b>\$2,854.3</b>	<b>\$2,354.3</b>	<b>(\$500.0)</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>3,806</b>	<b>3,806</b>	<b>0</b>	
PFT	3,186	3,191	5	
PPT	393	388	(5)	
Temp	227	227	0	
<b>Governor's Capital Request</b>				
	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	631.7	151,800.0	152,431.7	
Maintenance and Repairs	133.0	10,000.0	10,133.0	
Remodel, Reconstruction and Upgrades	92,474.7	738,811.1	831,285.8	
New Construction and Land Acquisition	-	50,800.0	50,800.0	
Equipment and Materials	4,421.6	29,678.6	34,100.2	
Information Systems and Technology	1,050.5	13,300.0	14,350.5	
Other	400.0	102,170.0	102,570.0	
<b>TOTAL CAPITAL</b>	<b>\$99,111.5</b>	<b>\$1,096,559.7</b>	<b>\$1,195,671.2</b>	

## **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, 5,688 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 approximately 8,240 light and heavy duty vehicles and attachments.

### **BUDGET SUMMARY**

The FY16 Department of Transportation and Public Facilities general fund operating budget submitted by the Governor on December 15, 2014 is \$2,386.6 above the FY16 Adjusted Base [(\$528.4) Unrestricted General Funds (UGF)/ \$2,915.0 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.

### **BUDGET REDUCTIONS**

1. **Agency Unallocated Appropriation: (\$1,510.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

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

2. **State Equipment Fleet (SEF) Telematics: \$250.0 Highway Equipment Working Capital Funds (Other).** A one-time increment is included for purchasing and installing wireless telecommunication computer systems (telematics) in 300 heavy duty and 100 light duty vehicles. These systems would track and communicate various data (such as idle time, total usage, safety information, engine problems, meter readings etc.) to SEF and customers and would assist in the management of fuel consumption, accidents and long-term maintenance. The use of telematics began as a pilot program near the end of FY14 and supports the anti-idle policy that also began in FY14. During the summer of 2014, for example, telematics demonstrated that compliance with the anti-idle policy needed improvement.

**Legislative Fiscal Analyst Comment:** This funding request may be more appropriate in the capital budget. Typically there is an annual appropriation requested (and funded) for State Equipment Fleet equipment replacement. The usual capital request is missing from the Governor's capital budget.

3. **National Environmental Policy Act (NEPA) Program Delegation: \$1,235.4 CIP Receipts (Other).** The current federal highway bill, MAP-21, provides authority for states to assume complete responsibility in NEPA authorizations. These authorizations include Categorical Exclusions (CEs), Environmental Assessments (EAs), and Environmental Impact Statements (EISs). DOT&PF has begun a lengthy application process with the Federal Highway Administration to establish the complete delegation of this responsibility.

Significant staff time, training and contractual services are required to prepare the application and prepare for the transition. The personal services addition of \$563.4 would fund four positions (added in the FY15 Management Plan), along with \$615.0 for contractual services.

**Legislative Fiscal Analyst Comment:** With delegation, DOT&PF assumes the approval role currently held by FHWA to approve NEPA required documents for transportation projects. The benefits of this delegation theoretically flow to both environmental and transportation agencies. For state DOTs, delegation offers quicker project turnaround and greater certainty in project planning.

For resource agencies, staff is freed up to address higher priority environmental issues and projects. Detailed discussion on the issues can be found on the FHWA website at: <http://environment.fhwa.dot.gov/strmlng/delreport.asp>

4. **Deadhorse Airport Extended Operating Hours/ Landing Fees: \$570.7 GF [\$285.3 UGF/ \$285.3 GF/Prgm (DGF)].** In compliance with legislative intent, DOT&PF submitted a landing fee report last session outlining the potential revenue and impacts of implementing landing fees at the 17 state FAA certificated airports. Most of these airports could be considered rural, and there is longstanding concern that charging landing fees at rural airports would remove money from already cash strapped, subsistence-based communities.

The Deadhorse airport, which is the only public airport supporting the North Slope oil and gas industry, is an exception. The market base is far from cash strapped, and increasing oil and gas activity has created substantial new demand for airport services. This \$570.7 increment addresses the demand for increased airport operating hours, and assumes implementation of landing fees to partially offset the increased operating costs.

**Legislative Fiscal Analyst Comment:** The landing fee report provided to the legislature in 2014 analyzed theoretical revenue generation at Deadhorse by imposing a landing fee on all aircraft arriving at the airport. Based on 2012 landing data and assuming a \$2.00 fee per 1000 lbs of certified gross maximum take-off weight (a comparable rate charged at Juneau, Ketchikan, and Kenai municipal airports), revenues of \$795.0 could be possible. Since that time, however, subsequent analysis by DOT&PF on limiting landing fees to only the larger aircraft which most critically impact services, reduces projected revenue generation to \$700.0. The regulatory process and appropriate public involvement makes fee implementation unlikely prior to January 1, 2016, resulting in only half of the revenue being collected (~\$350.0) in FY16.

## MAINTENANCE OF SERVICES

5. **International Airports System Adjustments: \$2,015.0 Total (\$2,515.0 International Airport Revenue Funds (Other); (\$500.0) Federal Receipts).**

The Governor's request includes several increments at both the Anchorage and Fairbanks International Airports. Increments for the international airports generally get minimal scrutiny in the budget process due to the airports' complete reliance on self-generated revenue. The Federal Aviation Administration requires airport revenue to be spent on the international airport system. The Airlines Airport Affairs Committee, made up of the signatory airlines utilizing the airports (which have an interest in minimizing fees/expenditures), review all airport capital and operating budgets.

<b>Anchorage International Airport</b>		
Administration	Information Systems Maintenance and Support	153.0
Administration	Core Services - ETS and Risk Management Costs	119.8
Facilities	Utilities Cost Increases	316.1
Facilities	Contract Services Cost Increases	535.9
Field/Equip. Maintenance	Deicing Materials	263.4
Field/Equip. Maintenance	Commodities	153.0
Field/Equip. Maintenance	Positions Adjustment - 5 Positions from Part-time to Full-time	168.4
Operations	Wildlife Hazard Management Contract	55.4
Safety	Replace Uncollectible Federal Revenue	500.0
<b>Fairbanks International Airport</b>		
Field/Equip. Maintenance	Deicing Materials	250.0
Total		2,515.0

6. **Alaska Marine Highway System (AMHS) - Maintain FY15 Service Level: \$2,884.5 Total [\$517.4 UGF; \$2,367.1 AMHS Funds (DGF)].** The December 15 budget for AMHS has a few adjustments that are expected to remain in some form. The system fare structure was increased for the 2015 season beginning January 1, 2015, and \$1.8 million of additional revenue is expected for the FY16 budget. A fund source change can be seen in the Marine Vessel Fuel allocation replacing Unrestricted General Funds with Marine Highway System Funds (DGF). In addition, a transfer of funds from Vessel Fuel to Vessel Operations totaling \$2.17 million and an increment of \$2.9 million in Vessel Operations (for a total of \$5.1 million) would be used to cover additional personal services costs as a result of fleet configuration changes and a minor increase in the number of weeks of service.

**Legislative Fiscal Analyst Comment:** This is a fairly significant increase to the Vessel Operations allocation to “maintain” the FY15 service level, albeit with a different mix of vessels. While the increased revenue as a result of the new fare schedule is critical to operations, cost controls will also be necessary in order for the increased revenue to translate to savings of unrestricted general funds.

7. **State Equipment Fleet Parts and Supplies: \$1,100.0 Highway Equipment Working Capital Funds (Other).** \$1.1 million of Highway Equipment Working Capital Funds are requested to cover the increased cost of parts and supplies necessary to maintain older equipment that is being retained by agencies. Currently, these costs are paid via Interagency Receipts from the agencies being serviced.

**Legislative Fiscal Analyst Comment:** This adjustment is primarily to bring the cost of providing these services “on budget.” Currently the costs are paid via unbudgeted I/A Receipts.

8. **Incentive Pay and Maintenance Contracts/ Insurance: \$333.3 (\$262.5 GF/Prgm; \$70.8 Highway Equipment Working Capital Funds (Other)).** The Bethel airport is the 3<sup>rd</sup> busiest airport in the state and retention of employees has become a “mission critical” priority of the agency in order to maintain safe operations. Increments in Central Region Facilities and Central Region Highways and Aviation will utilize existing excess airport revenue (that would normally flow to the general at the end of the fiscal year) to support these cost increases. There is also an increment included for the State Equipment Fleet utilizing Highway Working Capital Funds for mechanic incentive pay.

## **OTHER ISSUES**

9. **Indirect Cost Allocation Plan and CIP Receipts:** Last session over \$2.9 million of general funds were replaced with CIP receipts via increased rates to be charged for indirect capital costs.

**Legislative Fiscal Analyst Comment:** Significant changes were made last session toward maximizing the use of federally approved ICAP. Further analysis should take place this session in search of additional adjustments.

10. **Fuel/Utility “Trigger” Appropriation (DOT&PF Maximum \$22.5 million UGF).** The oil price “trigger” appropriation created by the legislature is included in the December 15 Governor’s budget. As in FY15, disbursements of “fuel trigger” funding would occur at the beginning of August and December. FY16 disbursements would be based on the average price per barrel of ANS crude to date on the first day of the aforementioned months. At current projected oil prices, there would no disbursement of funding. However, if prices were to rise above \$70/bbl, DOT&PF would receive 65% (plus or minus 10%) of the corresponding disbursement.

## **ORGANIZATIONAL CHANGES**

No organizational changes were proposed in the December 15 budget, however, the agency has provided information about changes that will likely be seen in budget amendments.

The three regional boundaries within DOT&PF operations are being changed from Central, Northern and Southeast Regions to the Central, Northern and Southcoast Regions. The Southeast Region is becoming the Southcoast Region by acquiring most of the coastal communities north from Yakutat out to the Aleutian Chain. The boundary revision reflects the common maritime climate of coastal communities and brings most ports serviced by AMHS into a single region. All of the associated maintenance stations will move into the new Southcoast Region while Design and Engineering will pick up future projects that would have gone into Central and Northern regions (under the previous structure). This will decrease the stress on Central and Northern Region Design and Engineering Services and more equitably balance the workload.

In addition, the agency is forming a centralized Information Services Division to manage IT needs in a holistic manner. Benefits are expected to include economies of scale on enterprise wide software agreements and software and hardware standardization to address compatibility issues.

## **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 "leveraged funds only" general fund capital request is missing several usual items. Most notable is the appropriation for AMHS Vessel Overhaul. At a cost of \$10 to \$12 million annually, this funding is critical for the agency to perform annual overhaul of vessels in order to pass required U.S. Coast Guard inspections. Without these Certificates of Inspection, vessels are unable to legally operate.

**Legislative Fiscal Analyst Comment:** These inspections are not optional. If funding is not provided in the capital budget, AMHS would have to absorb the costs in their operating budget, taking a very large hit to operations funding.

Additionally there is no capital appropriation for SEF equipment replacement which is necessary to replace older expensive equipment with less costly new equipment.

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**University of Alaska**

All Dollars in Thousands

		(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>		<b>\$680,499.5</b>			
	<i>FY15 Fiscal Notes</i>	6,795.1			
	<i>CarryForward</i>	-			
	<i>Misc Adjustments</i>	(1.4)			
	<i>Multi-years/Specials</i>	-			
<b>FY15 Management Plan (GF only)</b>		<b>\$687,293.2</b>	\$6,793.7	1.0%	
	<i>One-time Items Removed</i>	(3,063.0)			3, 4
	<i>Temporary Increments (IncTs)</i>	-			
	<i>FY16 Health Insurance Reductions</i>	-			
	<i>FY16 Contractual Salary Increases</i>	19,211.4			5
<b>FY16 Adjusted Base Budget (GF only)</b>		<b>\$703,441.6</b>	\$16,148.4	2.3%	
	<i>Unallocated Appropriations</i>	(6,050.0)			2
	<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(0.6)			
	<i>FY16 Governor's GF Increments/Decrements/Fund Changes</i>	2,967.1			
<b>FY16 Governor's Agency Request (GF only)</b>		<b>\$700,358.1</b>	(\$3,083.5)	-0.4%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>		<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>				<b>(\$3,083.5)</b>	
	Budget Reductions/Additions - Systemwide	16,649.0	13,565.5	(3,083.5)	1, 2, 3, 4
<b>Non-General Fund Agency Summary</b>		<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)		85,987.8	86,659.7	671.9	6
Federal Funds (all allocations)		150,852.7	150,852.7	-	
<b>Total Non-General Funds (all allocations)</b>		<b>\$236,840.5</b>	<b>\$237,512.4</b>	<b>\$671.9</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>		<b>4,949</b>	<b>4,934</b>	<b>(15)</b>	
	PFT	4,727	4,712	(15)	
	PPT	222	222	-	
	Temp	-	-	-	
<b>Governor's Capital Request</b>		<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
	Planning and Research	-	-	-	
	Maintenance and Repairs	-	-	-	
	Remodel, Reconstruction and Upgrades	-	-	-	
	New Construction and Land Acquisition	-	-	-	
	Equipment and Materials	-	-	-	
	Information Systems and Technology	-	-	-	
	Other	-	-	-	
<b>TOTAL CAPITAL</b>		<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	



## **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 FY16 University of Alaska (UA) general fund operating budget submitted by the Governor on December 15, 2014 is \$3,083.5 *below* the FY16 Adjusted Base [(\$4,568.5) Unrestricted General Funds (UGF)/ \$1,485.0 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.

### **PROGRAM EXPANSION**

- 1. Budget Reductions/Additions – Systemwide – Technical Vocational Education Program (TVEP) Receipts Funding: \$403.1 TVEP Receipts (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 agencies and are based on a formula set out in statute; HB 278 (Ch. 15, SLA 2014) made several changes to TVEP funding. Previously, 50% of TVEP funding was allocated to the University of Alaska. Under HB 278, the UA percentage was reduced to 45% [AS 23.15.835(d)]. In addition to this change, the legislature increased the total pool amount available from .15 percent to .16 percent of wages [AS 23.15.835(a)]. For FY16, the University expects to receive a total of \$5,630.0 – an increase of \$403.1 over FY15. According to the University, 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 FY16 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.

### **MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS**

(Items 2 through 5 are found within the Budget Reductions/Additions – Systemwide – Allocation.)

- 2. Unallocated Reduction: (\$6,050.0 UGF).** Specific actions needed to meet this reduction have not yet been identified. See page 18 for discussion of unallocated reductions.

3. **Restoration of One-time Funding for Facilities Maintenance and Repair: \$2,163.0 Total [\$1,081.5 UGF/ \$1,081.5 University Receipts (DGF)].** The Governor's FY16 request includes approximately \$2.2 million in funds for the University of Alaska's annual facilities maintenance and repair. This amount had been included in FY15 as one-time funding and the FY16 budget requests the funding in the base budget. The budget for this annual increment is calculated as a percentage of current building value, plus a component that reflects building age. Each campus annually designates a portion of its operating budget for facilities maintenance, often referred to as M&R. As the deferred maintenance and renewal/repurposing backlog continues to grow, the amount of funding necessary to maintain buildings increases, and more M&R must be redirected to take care of unforeseen deferred maintenance needs that cannot be deferred any longer without risking safety.
4. **Restoration of One-time Funding for Comprehensive Student Advising: \$400.0 UGF.** The Governor has also requested the restoration of FY15 one-time funding for advising University of Alaska students. Advising strategies are needed to support degree-seeking students, while simultaneously working to decrease the time it takes for them to finish. As students navigate admission, enrollment, and financial aid processes, advisors will provide special emphasis focused on aiding at-risk and under-represented populations of students to help them stay on track for graduation. The university points out that literature on college student success indicates that quality academic advising is critical to student success, retention, and degree completion.
5. **Contractual Salary Increases.** The December 15<sup>th</sup> budget includes a total of \$19,211.4 in previously negotiated compensation increases. These salary increases are funded by an even split of UGF and University Receipts (DGF). The FY16 increases include the contract amounts for Local 6070, United Academics Faculty (UNAC), UA Adjuncts (UNAD), and Fairbanks Firefighters Union (FFU). Upon the recommendation of the Chancellors, President Gamble recommended to the Board of Regents a 3.1% raise for UA staff for FY16. Also included in the request is an increase for temporary employees as well as a pay increase for student employees. Both categories received no increases in 2015.

**Legislative Fiscal Analyst Comment:** The contract for UA Federation of Teachers (UAFT) contract expired on December 31, 2014. A tentative agreement has been reached but ratification and approvals are incomplete. No request is included in the budget until a collective bargaining agreement has been negotiated, ratified by the membership, and approved by the UA Board of Regents. It is anticipated that an amendment will be submitted by the Governor prior to the end of the legislative session.

**Legislative Fiscal Analyst NOTE:** There is a \$573.8 (\$286.9 each UGF/ University Receipts) error in the salary amounts included for student employees. This amount was inadvertently included twice in the transactions submitted by OMB to Legislative Finance. We assume this error will be corrected in a Governor's budget amendment. The actual amount of the overall salary increases should be \$18,637.6 (\$9,318.8 UGF/ \$9,318.8 University Receipts).

## **MENTAL HEALTH TRUST FUNDING**

6. **Anchorage Campus: \$1,806.9 Total Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** FY16 will be the eighth 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. Trustees approve operating and capital budgets and provide annual recommendations to the Governor and the legislature.

- The Governor's FY16 request includes nine new Anchorage Campus projects supported by the MH Trust Authority. A total of \$671.9 MHTAAR in FY16 first-year Mental Health increment requests are as follows:
  - **Workforce Grant 2347 Cost of Living Increase – AK Health Workforce Coalition Director Position – IncT (FY16-FY17): \$5.4 MHTAAR.** These funds will be used through the Anchorage Office of Health Program Development to fund a cost of living increase for the Director;
  - **Workforce Grant 1384 Expand Trust Training Cooperatives/ AK Rural Behavioral Health Training Academy – IncT (FY16-FY17): \$29.0 MHTAAR.** These funds will be used to help offset the rising cost of personnel and to continue to invest and provide programmatic activities/ outcomes that benefit the workforce supporting Trust beneficiaries;
  - **Workforce Grant 1335 – Vacancy Study – IncOTI: \$25.0 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;
  - **Substance Abuse – Center for Alcohol Policy Partnership – IncOTI: \$50.0 MHTAAR.** Funds will be used to support the establishment of a research collaborative between the UAA College of Health and the Western Interstate Commission on Higher Education (WICHE) Mental Health Program to expand the capacity of the Alaska health and social services system to conduct research and analyze data designed to improve the performance of the Comprehensive Mental Health Program;
  - **Workforce Grant 582 – Technical Assistance & Implementation of Disability Abuse Response Teams (D.A.R.T.) in Targeted Communities – IncM: \$210.0 MHTAAR.** This project provides training and information in collaboration with the Alaska Network on Domestic Violence and Sexual Assault to address the needs of Trust beneficiaries who are victims of crime;
  - **Workforce Grant 573 – Interpersonal Violence Prevention for Beneficiaries – IncM: \$80.0 MHTAAR.** This project is designed to build community behavioral health provider skills and capacity by using a train-the-trainer model to deliver a social skills curriculum to Trust beneficiaries;
  - **Beneficiary Employment Grant 1291 – Partners in Policymaking – IncM: \$200.0 MHTAAR.** This increment supports Partners in Policymaking (PIP), which is a leadership and advocacy training program for Alaska Trust beneficiaries, their family members and caregivers from beneficiary groups;
  - **Workforce Grant 574 – Specialized Skills and Services Training on Serving Cognitively Impaired Offenders – IncM: \$65.0 MHTAAR.** This project supports coordination of a two-day, statewide conference focusing on best-practice community treatment modalities, interventions, and supports for serving offenders in the community with cognitive impairments. The project is managed by UAA – Anchorage Campus through the Center for Human Development; and
  - **Workforce Grant 574 – Project Expansion for Specialized Skills and Services Training on Serving Cognitively Impaired Offenders – Inc: \$7.5 MHTAAR.** Additional funding is requested for this project due to escalating conference space fees and travel costs.

- The Governor's FY16 Adjusted Base request also includes two ongoing Anchorage Campus projects supported by the MH Trust Authority that were begun in FY14. These projects total \$1.135 million MHTAAR and are as follows:
  - **Workforce Grant 2347 – Maintain Workforce Director – IncT (FY14-FY17): \$180.0 MHTAAR.** This grant is for 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; and
  - **Workforce Grant 1384 – Trust Training Cooperatives/ Alaska Rural Behavioral Health Training Academy – IncT (FY14-FY17): \$955.0 MHTAAR.** The Trust Training Cooperative modules continue their statewide role of housing and supporting Alaska core competencies for direct care workers. The Trust Training Cooperative (TTC) was developed to promote career development opportunities for direct service workers, supervisors, and professionals in the field engaged with Alaska Mental Health Trust beneficiaries.

## OTHER ISSUES

7. **Legislative Intent – Establishing a Ratio for General Fund Support for the University of Alaska.** The FY15 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 FY16 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 FY15 to FY16 includes a *reduction of \$3 million in general funds* [(\$4,568.5) UGF and \$1,485.0 DGF (primarily University Receipts including tuition)], which complies with legislative intent.

## BOARD OF REGENTS' REQUEST

The FY16 Governor's budget submitted on December 15<sup>th</sup> is less than the University Board of Regents' request by approximately \$9 million 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 FY16 budget maintains the FY14/ FY15 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 no capital projects for the University of Alaska in the Governor's December 15<sup>th</sup> budget submission.

**Judiciary**

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$112,187.1</b>			
FY15 Fiscal Notes	197.2			
CarryForward	-			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$112,384.3</b>	\$197.2	0.2%	
One-time Items Removed	(3.4)			
Temporary Increments (IncTs)	-			
FY16 Health Insurance Reductions	(237.6)			
FY16 Contractual Salary Increases	2,279.5			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$114,422.8</b>	\$2,038.5	1.8%	
Unallocated Appropriations	-			
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	1,044.2			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$115,467.0</b>	\$1,044.2	0.9%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$1,044.2</b>	
Appellate Courts	7,435.3	7,460.3	25.0	4
Trial Courts	89,146.1	90,120.3	974.2	1,2,3,4,5
Administration and Support	10,908.7	10,933.7	25.0	4
Judicial Council	1,320.4	1,340.4	20.0	6
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	1,957.0	2,144.8	187.8	7
Federal Funds (all allocations)	1,325.6	1,325.6	\$ -	
<b>Total Non-General Funds (all allocations)</b>	<b>\$3,282.6</b>	<b>\$3,470.4</b>	<b>\$187.8</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>840</b>	<b>826</b>	<b>(14)</b>	
PFT	768	768	-	
PPT	51	51	-	
Temp	21	7	(14.0)	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## **Judiciary**

Alaska has a unified, centrally administered, and completely state-funded judicial system, which consists of three independent entities: the Alaska Court System, the Alaska Judicial Council, and the Alaska Commission on Judicial Conduct. The Judiciary'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.

There are four levels of courts in the 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.

### **BUDGET SUMMARY**

The Judiciary's FY16 general fund operating budget request is \$1,044.2 (all Unrestricted General Funds) above the FY16 Adjusted Base. The Governor transmits the Judicial operating request to the legislature without modification. 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 – Security Screening Services: \$320.0 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 that does not currently have full-time security services: Nome, Kotzebue, Barrow, Kodiak, Sitka, and Dillingham.

**Legislative Fiscal Analyst Comment:** In FY15, the court system requested \$400.0 and received \$100.0 for this item. As a temporary measure, the court system opted to contract for itinerant security guards to provide security services at locations that demanded the greatest amount of attention.

- 2. Trial Courts – Funding for Increased Trials: \$275.0 UGF.** In FY13, the court system conducted 418 criminal trials. In FY14, 485 criminal trials were held, a 16% increase over FY13. The increase in jury trials has also affected interpreter costs and additional funding is requested as follows:

- \$210.0 UGF for increased juror costs associated with a higher number of trials;

**Legislative Fiscal Analyst Comment:** One contributing factor to the recent uptick may be a Department of Law policy implemented in July 2013 that limited the number of serious felony and domestic violence cases eligible for plea bargain resolution; trial rates, however, were increasing prior to this policy change.

- \$50.0 UGF for increased interpreter costs.

**Legislative Fiscal Analyst Comment:** Increments of \$25.0 in FY11, \$25.0 in FY12 and \$10.0 in FY14 have brought this program's base budget up to \$85.0. Recent court system and federal policy changes have expanded the requirements for providing language and

interpreter services to Limited English Proficient parties and the court system is trying to incrementally obtain a base level of funding for these activities.

- \$15.0 UGF for increased juror parking costs in Homer.

**3. Trial Courts – Data Exchanges with the Department of Corrections:**

**\$150.0 UGF.** The court system seeks funding to develop two electronic data exchanges with the Department of Corrections. One would provide real-time access to a defendant's custody status and would allow the Department of Corrections to determine when a defendant is scheduled to appear in court. The second data exchange would allow the court system to determine whether individuals called for jury service are disqualified from serving as jurors because of their criminal history prior to sending out questionnaires, reminder notices and follow-up correspondence.

**Legislative Fiscal Analyst Comment:** This increment is a recommendation of the Criminal Justice Working Group. These processes will continue manually if this increment is not approved.

**4. Various Allocations – Update Operating Systems and Replace Outdated Equipment: \$100.0 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. 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;
- **\$50.0 UGF** – Trial Courts; and
- **\$25.0 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, FY12-\$75.0, and FY15-\$75.0. This FY16 request of \$100.0 represents the remaining amount to fully fund the initiative.

## **MAINTENANCE OF SERVICES**

**5. Trial Courts – Increased Overhead: \$179.2 UGF, \$37.8 Interagency Receipts (Other).** FY16 operating cost increases include:

- **\$29.0 UGF** for utility rate increases in Southcentral Alaska;
- **\$67.3 UGF** for facility maintenance services including snow removal, janitorial services, and other service contracts; and
- **\$82.9 UGF and \$37.8 I/A** for existing lease increases:
  - \$45.0 UGF, Nome;
  - \$37.8 I/A, Nenana & Healy sub-lease to Alaska State Troopers;
  - \$19.8 UGF, Angoon, Barrow, and Unalaska; and
  - \$18.1 UGF, Homer.

**6. 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, an advertising budget is required to conduct the outreach necessary to both receive public input and publicize the Council's recommendations on judicial retention.

## **MENTAL HEALTH TRUST FUNDING**

**7. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: \$600.3 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** FY16 will be the eighth 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 FY16, The Mental Health Trust Authority is recommending \$600.3 (\$140.0 more than FY15 Authorized) in MHTAAR funding for the MH Trust Disability Justice Initiative. The court system's FY16 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; and
- **\$150.0 IncOTI** – develop and implement a pilot program in a targeted community for diverting adult and/or juvenile Trust beneficiaries from the criminal justice system. Individual recidivism outcome data as well as any associated cost savings will be collected.

The only item not continued from FY15 is **\$10.0 MHTAAR** to provide additional training for Therapeutic Court professionals.

## **OTHER ISSUES**

At the agency level, the Alaska Court System changed its name to Judiciary to distinguish the appropriations (the Alaska Court System, Therapeutic Courts, Commission on Judicial Conduct, and Judicial Council) from the agency name.

## **CAPITAL REQUEST**

As a separate branch of state government, the Judiciary has the constitutional authority to submit its budget request directly to the legislature. As a courtesy, the Judiciary 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 did not include any of the following Judiciary capital projects in his December 15<sup>th</sup> request. These projects, however, will be submitted directly to the legislature by the Judiciary.

<b>Court System Priority</b>	<b>Project</b>	<b>FY16 Court System Capital Funding Request All UGF (in thousands)</b>
1)	Construction of Courtrooms in Juneau and Palmer	\$6,588.6
2)	Capturing and Preserving the Court System's Records	\$2,108.0
3)	Court Security Projects	\$2,176.4
4)	Statewide Building Improvement Projects	\$3,668.7
5)	Deferred Maintenance Projects	\$3,040.7
	<b>TOTAL</b>	<b>\$17,582.4 UGF</b>

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**Alaska Legislature**

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY15 Conference Committee (GF Only)</b>	<b>\$76,286.7</b>			
FY15 Fiscal Notes	683.9			
CarryForward	717.8			
Misc Adjustments	-			
Multi-years/Specials	-			
<b>FY15 Management Plan (GF only)</b>	<b>\$77,688.4</b>	\$1,401.7	1.8%	
One-time Items Removed	(8.9)			
Temporary Increments (IncTs)	8.9			
FY16 Health Insurance Reductions	-			
FY16 Contractual Salary Increases	1,171.3			
<b>FY16 Adjusted Base Budget (GF only)</b>	<b>\$78,859.7</b>	\$1,171.3	1.5%	
Unallocated Appropriations	-			
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY16 Governor's GF Increments/Decrements/Fund Changes	239.6			
<b>FY16 Governor's Agency Request (GF only)</b>	<b>\$79,099.3</b>	\$239.6	0.3%	
<b>FY16 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY16 Adjusted Base Budget (GF Only)</b>	<b>FY16 Governor's Request (GF only)</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>\$239.6</b>	
Legislative Council/Administrative Services	13,632.7	13,629.7	(3.0)	
Legislative Council/Legislative State Facilities Rent	5,576.6	5,819.2	242.6	
<b>Non-General Fund Agency Summary</b>	<b>FY16 Adjusted Base Budget</b>	<b>FY16 Governor's Request</b>	<b>Change from FY16 Adj Base to FY16 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	389.5	359.8	(29.7)	
Federal Funds (all allocations)	-	-	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$389.5</b>	<b>\$359.8</b>	<b>(29.7)</b>	
<b>Position Changes (From FY15 Authorized to Gov)</b>	<b>553</b>	<b>560</b>	<b>7</b>	
PFT	255	262	7	
PPT	298	298	-	
Temp	-	-	-	
<b>Governor's Capital Request</b>	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	

## **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 \$1.4 million above the spending level authorized for FY15. Significant issues are summarized below.

- The budget adds \$242.6 for CPI increases statewide for FY15 & FY16 and a new Nome Office lease.
- The FY16 budget includes \$1,171.3 to cover FY16 salary and benefit increases.
- In Council and Subcommittees, an increment of \$8.9 for the Task Force on Unmanned Aircraft Systems was replaced with a Temporary Increment (IncT) for fiscal years FY15 through FY17.

There are no capital projects or organizational changes requested.

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