

# **The Fiscal Year 2017 Budget:**

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

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*Legislative Finance Division*

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**The Legislative Finance Division** 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. Per AS 24.20.231 the 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 AS 37.07 (Executive Budget Act);*
- (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;*
- (7) identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction; and*
- (8) not later than the first legislative day of each first regular session of each legislature, conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095.*

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## **Introduction**

As required by law, the Governor released his FY17 budget proposal to the public and the legislature by December 15, 2015. The Legislative Finance Division prepared this overview of the Governor's proposal and "Subcommittee Books" for each agency in accordance with AS 24.20.211-.231.

### **Alaska's Fiscal Situation**

For decades, Alaska has relied heavily on oil revenue to fund state government. Bountiful natural resources have permitted Alaska to prosper while imposing minimal taxes on its citizens. Annual dividends paid by the State to each resident can be larger than the average Alaskan's tax burden, prompting the wry observation that Alaska is the only state that pays people to live there.

Now it appears the free ride is over. FY16 revenue is expected to cover less than 30% of expenditures, leaving a cash flow deficit of \$3.8 billion. Higher oil prices during FY17—along with some expenditure reductions—are projected to reduce the FY17 deficit to about \$3.5 billion. Continued deficits of this magnitude will deplete reserves—both the Constitutional budget reserve fund and the permanent fund earnings reserve account—by FY2020.

Depleting reserves is the proverbial "falling off a cliff" scenario that many Alaskans dismiss as a remote possibility. They believe that reducing dividends and/or imposing taxes are bureaucratic overreactions to a problem that can be fixed by cutting government spending.

It is time for a dose of reality. Without draws from reserves, revenue will be insufficient to fund K-12 education and Medicaid, even if there were no other general fund expenditures in the judicial, legislative and executive branches of state government.

Alaska's fiscal system is broken; relying on oil revenue cannot work in a low price, low production environment. Unless massive new oil fields are discovered, production will not increase significantly and is likely to continue to trend downward. Consensus price forecasts do not have prices rebounding to anywhere near the \$113/bbl required to balance the budget.

The Governor's fiscal plan—including his proposed appropriation bills, revenue bills and the Permanent Fund Protection Act—is his response to an unsustainable situation in which annual general fund revenue is less than \$2 billion and will cover only about one-third of proposed annual general fund expenditures. While Alaska's cash reserves (about \$15 billion including earnings of the permanent fund) are enormous, they will last only about four years if we continue to draw \$3.5 billion or more from reserves in order to balance the budget each year.

The Governor's fiscal plan includes:

1. Reductions of agency operating budget expenditures;
2. New revenues from several taxes, including an income tax;
3. Redirection of some petroleum revenue from the general fund to a "sustainable" reserve account;
4. Revised cash flows of permanent fund earnings, including a reduction of dividends and of inflation proofing deposits to the permanent fund; and
5. Annual transfers from the "sustainable" reserve account to the general fund.

Reducing expenditures and enhancing revenue are traditional approaches to filling deficits. "Traditional" does not mean that either approach is easily accomplished; it simply means that an outside observer would expect the legislature to enter a spirited debate on the positive and negative aspects of expenditure cuts versus tax increases.

The Governor's plan does not rely heavily on either agency operating budget cuts or new taxes. The nucleus of the plan is a re-construction of fiscal concepts that have guided the State for nearly 40 years:

1. For decades, Alaska has pretended that permanent fund earnings are sacrosanct. That pretension has served residents of the state well; annual permanent fund dividends exceed the \$1.3 billion cost of K-12 education and can exceed the average annual tax burden of Alaskans (which, at an estimated \$1,500, is by far the lowest of any state).
2. Low personal tax revenue makes Alaska reliant on oil revenue, which is volatile. Alaska has addressed revenue volatility by using surplus revenue (in years with high oil prices) to build cash reserves that are drawn down when low oil prices result in deficits.

The Governor's plan recognizes that:

1. **Oil revenue is not merely volatile, it is trending downward.** As production declines, even higher oil prices cannot maintain a revenue stream that supports the current level of expenditures.
2. **Urgent action is essential.** Projections show that reserves will be gone long before revenue from a gas pipeline is expected to be available.
3. **There is no combination of cuts and taxes that can fill the deficit without causing massive economic shock.** Although these traditional approaches alone may not provide a complete solution, the plan is arguably insufficiently aggressive on both expenditure reductions and tax increases.
4. **Reducing the State's largest single-purpose expenditure—permanent fund dividends—offers a way for all Alaskans to share the burden of filling deficits.** Moreover, the plan clarifies that paying dividends reduces the amount of money available for education and other services provided by the State.

5. **Using the wealth we have accumulated over the years is the most painless and sustainable way to fill deficits.** The plan calls for a sustainable draw—similar to an endowment payout—from a reserve fund comprised of oil revenue and permanent fund earnings.

The plan calls for significant “re-plumbing” of current cash flows, drawing questions like:

1. Is re-directing oil revenue to anywhere but the general fund a violation of the Constitutional prohibition of dedicating revenue?
2. Are proposed appropriations consistent with provisions of the Permanent Fund Protection Act?
3. Is the proposed cash flow practical and streamlined?
4. Does the plan offer a long-term solution?

The short answers are:

1. The plan does not conflict with the Constitutional prohibition of dedicating revenue.
2. Appropriations are not always consistent with statute, but the conflicts can be remedied with minor changes to the bill and/or appropriation language.
3. Cash flows could be simplified and clarified, but the underlying concept is workable.
4. Long-term viability depends on future revenue, expenditures and interest rates, so no fiscal plan can guarantee that it will eliminate future deficits. However, the Governor’s plan indisputably takes a large step in the right direction. Revenues currently cover about 33% of expenditures; revenue under the Governor’s plan cover more than 90% of expenditures in FY17, and the ratio climbs in later years.

The Governor’s re-plumbed cash flows incorporate two concepts that address the deficit. The plan:

1. reduces annual dividends (by funding them with a portion of royalty revenue rather than with permanent fund earnings) and
2. uses permanent fund earnings and other reserves to support general fund appropriations.

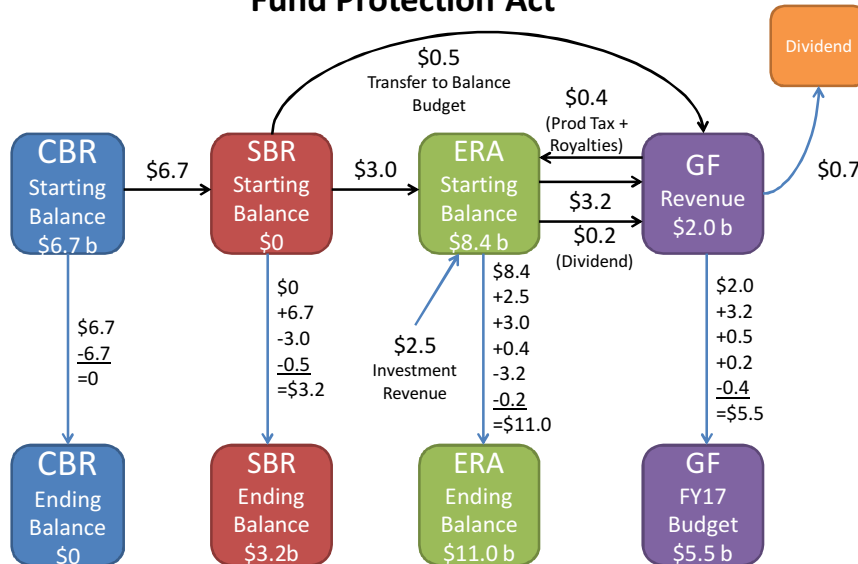
In this regard, the plan is similar to SB 114 and to virtually every fiscal plan the legislature has reviewed. However, the Governor’s plan also addresses revenue volatility by consolidating reserve accounts, and that attempt is the source of complication, both political and legal as well as technical. The flow diagrams below summarize cash flows in the Governor’s plan versus cash flows under SB 114.

In the diagrams and discussion that follow

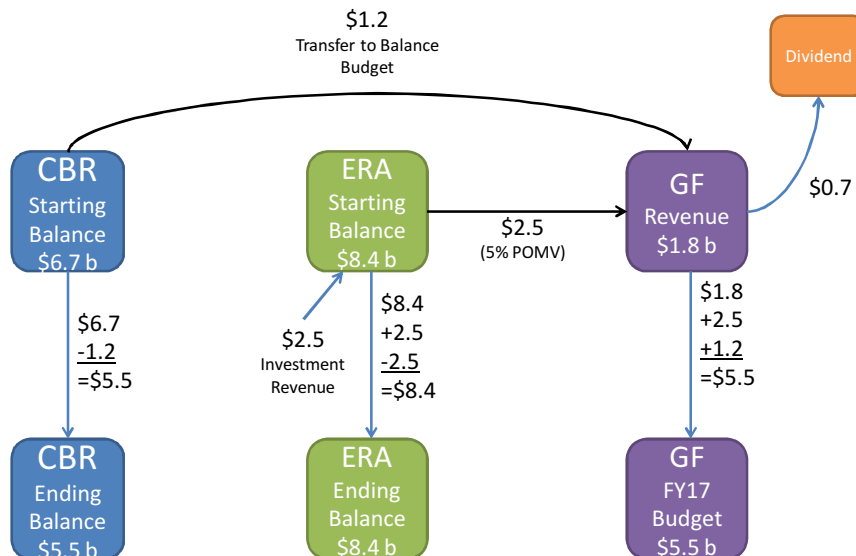
- CBR refers to the Constitutional budget reserve fund
- SBR refers to the statutory budget reserve fund

- ERA refers to the permanent fund earnings reserve account
- GF refers to the general fund

### FY17 Cash Flow Associated with the Permanent Fund Protection Act



### FY17 Cash Flow Associated with SB 114





The primary differences between plans are:

1. The Governor's plan captures more revenue volatility (caused by volatile oil prices) in the reserve fund instead of in the general fund.
2. SB 114 retains the CBR (and the supermajority vote required to access the CBR).
3. SB 114 relies on a (statutory) mathematical calculation to determine the annual transfer from reserves to the general fund; the Commissioner of Revenue will recommend the amount of the transfer under the Governor's plan.
4. SB 114 excludes revenue from the Governor's proposed tax measures.

Neither plan places meaningful constraints on future spending. The Governor's sustainable draw amount—or the payout from the permanent fund under SB 114—can be ignored by the legislature if it chooses. The administration claims that future legislatures will have two choices if they want to spend more than contemplated by the sustainable draw from earnings: find other cuts or increase taxes. But that attitude is based on compliance with artificial constraints; the legislature's power of appropriation can be constrained only by the amount of money available and by Constitutional provisions.

Re-plumbing the State's fiscal regime does not create significant new money to spend, it simply redirects existing cash flows. In FY17, a \$700 million reduction in dividends is available for other purposes; \$900 million not spent on inflation proofing the permanent fund is available for other purposes; and \$1.2 billion of surplus earnings is transferred from the ERA to the general fund. An additional \$400 million in petroleum revenue flows from the general fund to the ERA and then back to the general fund as part of the \$3.2 billion sustainable draw.

Re-plumbing also moves money between the three reserve accounts—the CBR, SBR and ERA. In the long-run, how much money we have will be far more important than which account the money is in.

The prior paragraph brings up a major point of contention. The Governor would consolidate money from the CBR, the unrestricted general fund and the earnings of the permanent fund into the ERA. He then contends the ERA remains exempt from the Constitutionally mandated sweep of general fund accounts into the CBR at the end of each fiscal year. Under his plan, an annual supermajority vote to access the CBR would not be required.

The Legislative Finance Division contends that depositing money (other than permanent fund earnings) into the ERA changes the essential nature of the ERA. The contention that the redefined ERA should be considered as part of the unrestricted general fund is strengthened by:

1. eliminating permanent fund earnings as the source of both dividends and inflation proofing and
2. redefining the purpose of the ERA as providing an annual transfer to the general fund, where its use is unrestricted.

Reclassification of the ERA to the unrestricted general fund category is significant. It:

1. clarifies that dividends compete with K-12 and other general fund appropriations and
2. means that **AS 37.13.145(a) should be revised to delete the current provision that the ERA is established as an account within the permanent fund.** That change would be consistent with article IX, section 15 of the Constitution, which states that all income of the permanent fund shall be deposited in the general fund unless otherwise specified by law.

As trivial as the point may appear to be, it has enormous implications. One need only consider the following choice to grasp the implications. Is it preferable to:

1. face a potential supermajority vote annually after adopting a fiscal plan (as would also happen under a business-as-usual scenario), or
2. fail to adopt the plan because the single supermajority vote required to launch the plan is unachievable (because it reduces the relevancy of future supermajority votes)?

The following shortened version of the fiscal summary compares the status quo to the Governor's fiscal plan. Line 29 makes an important point; we can:

1. continue business as usual, which means adopting a budget with a deficit that consumes 35% of remaining reserves, so that reserves are depleted about three years after FY17, or
2. adopt a plan that reduces the FY17 deficit to about \$500 million and consumes about 3% remaining reserves, so that reserves last at least 25 years.

As noted earlier, the long-term viability of the Governor's fiscal plan—and other fiscal plans—depends on future revenue, expenditures and interest rates. No fiscal plan can guarantee that it will eliminate future deficits while maintaining a reasonable level of expenditures. If the Governor's projections are accurate, the plan offers a good chance for a sustainable fiscal future.

The Legislative Finance Division has not had an opportunity to verify the calculation of the sustainable draw, vet the model used to make fiscal projections, or analyze the amended appropriations that will accompany a redraft of the Permanent Fund Protection Act. For that reason, the fiscal summary and cash flow diagrams may not precisely reflect the Governor's plan.

FY 17 Budget with and without Governor's Legislation Unrestricted General Funds Only			
		FY17 Status Quo	FY17Gov
1	<b>Fall 2015 Revenue Forecast</b>	<b>1,785.1</b>	<b>5,013.5</b>
2	UGF Revenue	1,785.1	1,785.1
3	New Revenue Sources	0.0	244.0
4	Sustainable ERA Draw	0.0	3,200.0
5	PFD Draw (1)	0.0	230.9
6	Prod Tax + Royalties to ERA	0.0	(446.5)
	<b>Appropriations</b>		
7	Agency Operations (non-formula)	1,979.8	1,979.8
8	Agency Operations (formula)	2,018.1	2,018.1
9	Oil Tax Credits (2)	625.0	73.4
10	Other Statewide Operating Items	488.6	488.6
11	Permanent Fund Dividends (1)	0.0	700.0
12	<b>Total Operating</b>	<b>5,111.5</b>	<b>5,259.9</b>
13	Capital Projects	194.3	194.3
14	<b>Total Budget before Transfers</b>	<b>5,305.8</b>	<b>5,454.2</b>
15	<b>FY17 Pre-Transfer Deficit</b>	<b>(3,520.7)</b>	<b>(440.7)</b>
16	<b>Revenue as a % of Appropriations</b>	34%	92%
17	<b>Fund Transfers</b>	<b>62.2</b>	<b>62.2</b>
18	<b>Total Budget after Transfers</b>	<b>5,368.0</b>	<b>5,516.4</b>
19	<b>FY17 Post-Transfer Deficit</b>	<b>(3,582.9)</b>	<b>(502.9)</b>
20	<b>Revenue as a % of Appropriations</b>	33%	91%
	<b>Expected Supplementals</b>		
21	Fire Suppression Activity	30.0	30.0
22	Community Revenue Sharing	-	80.0
23	<b>Total Expected Supplementals</b>	<b>30.0</b>	<b>110.0</b>
	<b>Total Reserves (CBR + SBR + ERA)</b>		
24	<b>Starting Balance</b>	<b>15,155.6</b>	<b>15,155.6</b>
25	Oil Tax Credit Transitional Fund (2)	-	(1,200.0)
26	FY17 Dividend (1)	(1,400.0)	-
27	FY17 Deficit (w/ supplementals)	(3,550.7)	(550.7)
28	<b>End Balance</b>	<b>10,204.9</b>	<b>13,404.9</b>
29	<b>Deficit/Balance</b>	35%	3%
(1) The Governor reduces dividends to \$700 million (UGF) in FY17. Status quo dividends cost \$1.4 billion and come from the ERA.			
(2) Governor's plan includes \$73.4 for oil and gas tax credits in FY17, but then uses an additional \$1.2 billion to set up a transitional fund. Without this change, the credit amount is \$625 million.			

## **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 proposed FY17 budget:

- Agency summaries (operating budget on pages 25 & 26 and capital budget beginning on page 92) provide a quick comparison of the Governor's proposed budget with FY16 spending.
- Narratives on individual agency operating budgets begin on page 106.
- Language sections of both operating and capital bills (with analysis) begin on pages 28 and 93, respectively.

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

Language sections are particularly complex this year. They reflect the Governor's policy on pension obligation bonds, community revenue sharing, and oil and gas tax credits as well as on fiscal policy. The legislature will have a difficult time adopting appropriation bills without first making major policy decisions.

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## State of Alaska Fiscal Summary--FY16 and FY17 (Part 1)

(\$ millions)

	FY16 Management Plan					FY17 Governor					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>														
1 Unrestricted General Fund Revenue (Fall 2015) (1)	1,609.5	926.8	2,536.2	639.5	3,458.3	6,634.0	5,013.5	894.7	5,908.2	713.2	3,142.9	6,976.6	3,404.0	211.5%
2 Production Taxes and Non-dedicated Royalties	1,593.0	-	1,593.0	-	-	1,593.0	1,796.4	-	1,796.4	-	-	1,796.4		
3 Other Current Sources of Revenue	-	-	-	-	-	-	991.3	-	991.3	-	-	991.3		
4 Sustainable Transfer from the Earnings Reserve Account (2)	-	-	-	-	-	-	805.1	-	805.1	-	-	805.1		
5 Transfer from the Earnings Reserve Account for Dividends (2)	-	-	-	-	-	-	3,200.0	-	3,200.0	-	-	3,200.0		
6 Production Taxes and Royalties to Earnings Reserve Account	-	-	-	-	-	-	230.9	-	230.9	-	-	230.9		
7 New Revenue Sources Proposed by the Governor (3)	-	-	-	-	-	-	(446.5)	-	(446.5)	-	-	(446.5)		
8 Carryforward, Repeals, Adjustments and Fiscal Notes (4)	16.5	-	16.5	-	0.4	16.9	244.0	-	244.0	-	-	244.0		
9 Designated General Fund Revenue (5)	-	926.8	926.8	-	-	926.8	(11.3)	-	(11.3)	-	-	(11.3)		
<b>APPROPRIATIONS</b>														
<b>TOTAL OPERATING APPROPRIATIONS</b>	<b>5,270.6</b>	<b>830.6</b>	<b>6,101.2</b>	<b>611.8</b>	<b>2,182.4</b>	<b>8,895.4</b>	<b>5,259.9</b>	<b>848.7</b>	<b>6,108.6</b>	<b>645.6</b>	<b>2,185.9</b>	<b>8,940.2</b>	<b>(10.7)</b>	<b>-0.2%</b>
<b>Agency Operations</b>	<b>4,111.8</b>	<b>805.0</b>	<b>4,916.9</b>	<b>558.9</b>	<b>2,153.7</b>	<b>7,629.4</b>	<b>3,997.9</b>	<b>828.8</b>	<b>4,826.7</b>	<b>564.3</b>	<b>2,157.1</b>	<b>7,548.1</b>	<b>(113.9)</b>	<b>-2.8%</b>
13 Current Fiscal Year Appropriations (includes Fiscal Notes)	4,098.8	805.0	4,903.9	558.9	2,153.7	7,616.4	3,997.9	828.8	4,826.7	564.3	2,157.1	7,548.1	(100.9)	-2.5%
14 Agency Operations (Non-Formula)	2,040.4	714.1	2,754.5	553.5	906.1	4,214.0	1,979.8	721.8	2,701.6	559.5	905.4	4,166.6	(60.6)	-3.0%
15 K-12 Foundation Formula and Pupil Transportation	1,247.5	13.0	1,260.5	-	20.8	1,281.3	1,243.0	30.0	1,273.0	-	20.8	1,293.7	(4.5)	-0.4%
16 Medicaid Services (Formula)	635.1	1.8	636.9	2.8	966.2	1,606.0	603.5	1.8	605.3	4.8	1,125.3	1,735.3	(31.6)	-5.0%
17 Other Formula Programs	175.8	76.2	252.0	-	100.8	352.9	171.6	75.2	246.8	-	105.6	352.4	(4.2)	-2.4%
18 Revised Programs Legislatively Approved	-	-	-	2.6	159.7	162.3	-	-	-	-	-	-		
19 Duplicated Authorization (non-additive) (6)	-	-	-	747.3	-	747.3	-	-	-	771.7	-	771.7		
20 Supplemental Appropriations (Agency Operations) (7)	13.0	-	13.0	-	-	13.0	-	-	-	-	-	-		
<b>Statewide Obligations</b>	<b>1,158.7</b>	<b>25.6</b>	<b>1,184.3</b>	<b>52.9</b>	<b>28.7</b>	<b>1,265.9</b>	<b>1,262.0</b>	<b>19.9</b>	<b>1,281.9</b>	<b>81.3</b>	<b>28.9</b>	<b>1,392.1</b>	<b>103.3</b>	<b>8.9%</b>
22 Current Fiscal Year Appropriations	979.3	25.6	1,004.9	48.7	28.7	1,082.3	1,262.0	19.9	1,281.9	81.3	28.9	1,392.1	282.7	28.9%
23 Debt Service	206.2	23.9	230.1	43.3	5.2	278.7	436.7	18.3	455.0	76.0	5.2	536.2	230.4	111.8%
24 Fund Capitalization	502.0	1.7	503.7	5.4	23.5	532.5	776.4	1.6	778.0	5.3	23.6	807.0	274.4	54.7%
25 Oil & Gas Production Tax Credits	500.0	-	500.0	-	-	500.0	734	-	734	-	-	734	(426.6)	-86.3%
26 Other Fund Capitalization	2.0	1.7	3.7	5.4	23.5	32.5	3.0	1.6	4.6	5.3	23.6	33.5	1.0	50.0%
27 Permanent Fund Dividend Fund (2)	-	-	-	-	-	-	700.0	-	700.0	-	-	700.0	700.0	100.0%
28 Retirement Costs: Actuarial Recommendation	262.5	-	262.5	-	-	262.5	48.9	-	48.9	-	-	48.9	(213.6)	-81.4%
29 Judgments, Claims and Settlements	8.6	-	8.6	-	-	8.6	-	-	-	-	-	-	(8.6)	-100.0%
30 Duplicated Authorization (non-additive) (6)	-	-	-	15.4	-	15.4	-	-	-	12.2	-	12.2		
<b>Supplemental Appropriations (Statewide)</b>	<b>179.4</b>	<b>-</b>	<b>179.4</b>	<b>4.2</b>	<b>-</b>	<b>183.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
31 Community Revenue Sharing	35.4	-	35.4	-	-	35.4	-	-	-	-	-	-		
32 AKLNG and In-state Pipeline (7)	144.0	-	144.0	4.2	-	148.2	-	-	-	-	-	-		
33 Cost of Issuing Pension Obligation Bonds (duplicated)	-	-	-	12.7	-	12.7	-	-	-	-	-	-		
34 Pension Obligation Bond Proceeds to Retirement (duplicated)	-	-	-	2,531.5	-	2,531.5	-	-	-	-	-	-		
<b>TOTAL CAPITAL APPROPRIATIONS</b>	<b>118.4</b>	<b>56.6</b>	<b>175.0</b>	<b>27.7</b>	<b>1,275.9</b>	<b>1,478.6</b>	<b>194.3</b>	<b>6.8</b>	<b>201.0</b>	<b>67.6</b>	<b>956.9</b>	<b>1,225.5</b>	<b>75.9</b>	<b>64.1%</b>
37 Current Fiscal Year Appropriations	118.4	56.6	175.0	27.7	1,275.9	1,478.6	194.3	6.8	201.0	67.6	956.9	1,225.5	75.9	64.1%
38 Project Appropriations & RPLs (Revised Programs)	-	-	-	27.7	1,275.9	1,478.6	194.3	6.8	201.0	67.6	956.9	1,225.5	75.9	64.1%
39 Duplicated Authorization (non-additive) (6)	-	-	-	32.5	-	32.5	-	-	-	36.2	-	36.2		
40 Money on the Street (includes all fund sources) (8)	118.4	56.6	175.0	60.2	1,275.9	1,511.1	194.3	6.8	201.0	103.8	956.9	1,261.8	75.9	64.1%
<b>Pre-Transfers Authorization (unduplicated)</b>	<b>5,389.0</b>	<b>887.2</b>	<b>6,276.2</b>	<b>639.5</b>	<b>3,458.3</b>	<b>10,374.0</b>	<b>5,454.2</b>	<b>855.4</b>	<b>6,309.6</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,165.7</b>	<b>65.2</b>	<b>1.2%</b>
42 Pre-Transfers Surplus/(Deficit)	(3,779.5)	-	-	29.9%	of Appropriations	-	(440.7)	Revenue Covers	91.9%	of Appropriations	-	-		
43 Pre-Transfer Authorization without Governor's Legislation (9)	-	-	-	-	-	-	5,305.8	-	-	33.6%	of Appropriations	-		
44 Pre-Transfer Deficit without Governor's Legislation (9)	-	-	-	-	-	-	(3,520.7)	-	-	-	-	-		

January 14, 2016

State of Alaska Fiscal Summary--FY16 and FY17 (Part 1)  
(\$ millions)

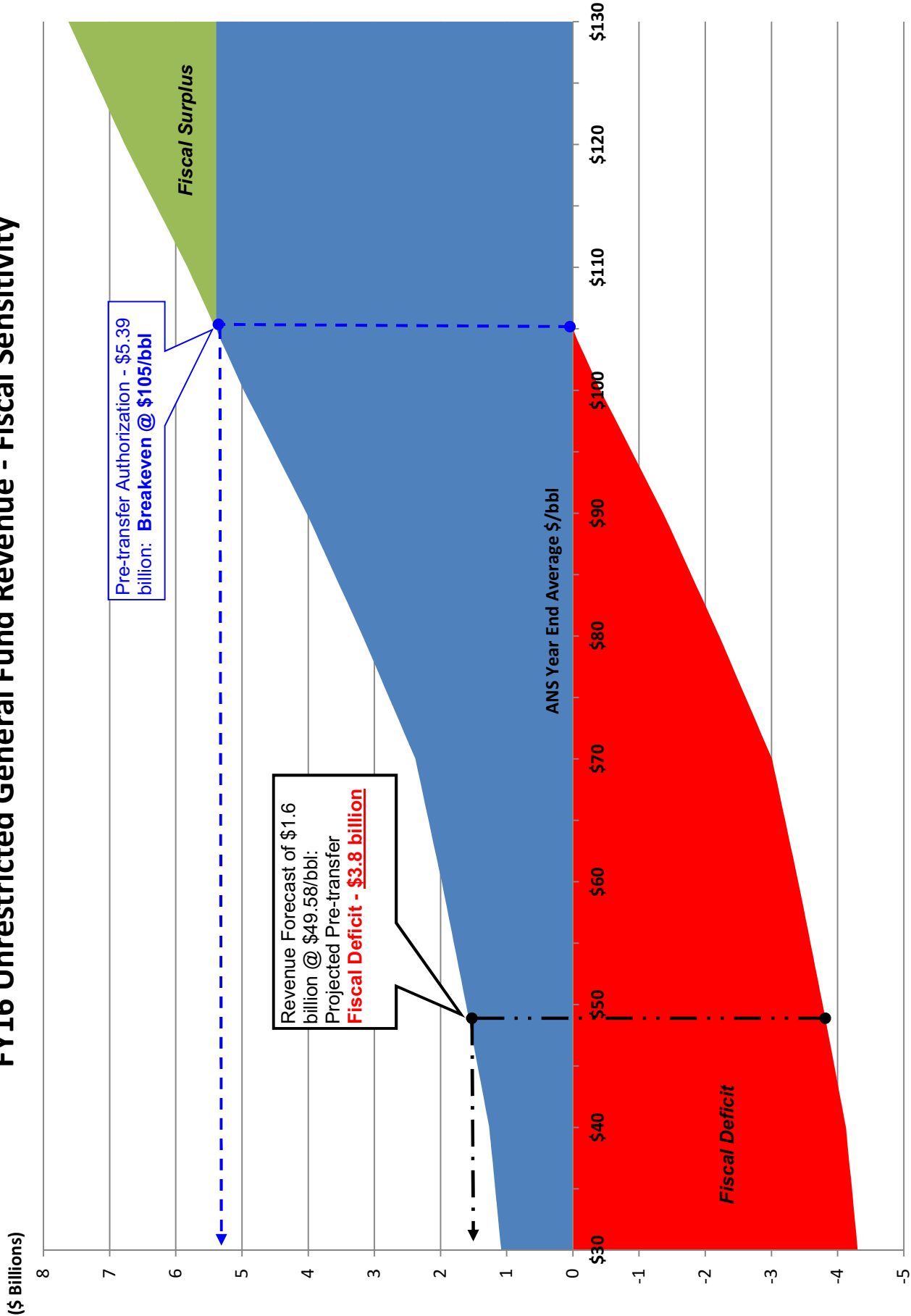
FY16 Management Plan														FY17 Governor					Change in UGF	
FY16 Management Plan														FY17 Governor					Change in UGF	
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds		%						
<b>Fund Transfers (10)</b>	<b>(226.1)</b>	<b>39.6</b>	<b>(186.5)</b>	<b>-</b>	<b>-</b>	<b>(186.5)</b>	<b>62.2</b>	<b>39.3</b>	<b>101.5</b>	<b>-</b>	<b>-</b>	<b>101.5</b>	<b>288.3</b>	<b>-127.5%</b>						
<b>Current Fiscal Year Transfers</b>	<b>(226.1)</b>	<b>39.6</b>	<b>(186.5)</b>	<b>-</b>	<b>-</b>	<b>(186.5)</b>	<b>62.2</b>	<b>39.3</b>	<b>101.5</b>	<b>-</b>	<b>-</b>	<b>101.5</b>	<b>288.3</b>	<b>-127.5%</b>						
Designated Reserves (Public Education Fund)	(280.5)	-	(280.5)	-	-	(280.5)	-	-	-	-	-	-	280.5	-100.0%						
Statutory Budget Reserve to Earnings Reserve Account	-	-	-	-	-	-	3,000.0	-	3,000.0	-	-	3,000.0	(3,000.0)	(3,000.0)						
Earnings Reserve Account from Statutory Budget Reserve	-	-	-	-	-	-	(3,000.0)	-	(3,000.0)	-	-	(3,000.0)	(3,000.0)	(3,000.0)						
Earnings Reserve Account to Alaska Capital Income Fund	-	-	-	-	-	-	21.0	-	21.0	-	-	21.0	21.0	21.0						
Alaska Capital Income Fund from Earnings Reserve Account	-	-	-	-	-	-	(21.0)	-	(21.0)	-	-	(21.0)	(21.0)	(21.0)						
Oil & Hazardous Substance Fund	15.6	7.5	23.0	-	-	23.0	15.5	7.2	22.7	-	-	22.7	(0.0)	-0.1%						
REAA School Fund	38.8	-	38.8	-	-	38.8	41.6	-	41.6	-	-	41.6	2.9	7.4%						
Renewable Energy Fund	-	-	-	-	-	-	5.0	-	5.0	-	-	5.0	5.0	5.0						
Vaccine Assessment Account	-	31.2	31.2	-	-	31.2	-	31.2	31.2	-	-	31.2	0.9	0.9						
Other Funds	-	0.9	0.9	-	-	0.9	-	0.9	0.9	-	-	0.9	-	-						
Net Zero Movement CBR to SBR (non-additive)	-	-	-	6,685.0	-	6,685.0	-	-	-	-	-	-	-	-						
<b>Post-Transfers Authorization (unduplicated)</b>	<b>5,162.9</b>	<b>926.8</b>	<b>6,089.6</b>	<b>639.5</b>	<b>3,458.3</b>	<b>10,187.4</b>	<b>5,516.4</b>	<b>894.7</b>	<b>6,411.1</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,267.2</b>	<b>353.5</b>	<b>6.8%</b>						
<b>Post-Transfer Balance to/from the SBR or CBR (11)</b>	<b>(3,553.4)</b>		<b>Revenue Covers</b>	<b>31.2%</b>	<b>of Appropriations</b>		<b>(502.9)</b>	<b>Revenue Covers</b>		<b>90.9%</b>	<b>of Appropriations</b>									
<b>Permanent Fund</b>	<b>-</b>	<b>2,362.4</b>	<b>2,362.4</b>	<b>170.8</b>	<b>-</b>	<b>2,533.2</b>	<b>-</b>	<b>47.7</b>	<b>47.7</b>	<b>168.9</b>	<b>-</b>	<b>216.6</b>								
Permanent Fund Dividends	-	1,405.0	1,405.0	-	-	1,405.0	-	-	-	-	-	-	-	-						
Deposits to Principal	-	888.0	888.0	-	-	888.0	-	-	-	-	-	-	-	-						
Alaska Capital Income Fund	-	21.0	21.0	-	-	21.0	-	-	-	-	-	-	-	-						
Permanent Fund Corporation (included in op/cap budget) (12)	-	-	-	162.3	-	162.3	-	-	-	160.3	-	160.3	-	-						
Other Uses of Earnings (included in op/cap budget) (12)	-	48.4	48.4	8.6	-	57.0	-	47.7	47.7	8.6	-	56.3	-	-						
<b>Total Authorization (unduplicated)</b>	<b>5,162.9</b>	<b>3,201.2</b>	<b>8,363.6</b>	<b>639.5</b>	<b>3,458.3</b>	<b>12,501.4</b>	<b>5,516.4</b>	<b>894.7</b>	<b>6,411.1</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,267.2</b>	<b>353.5</b>	<b>6.8%</b>						
<b>FISCAL YEAR SUMMARY</b>	<b>5,389.0</b>	<b>3,201.2</b>	<b>8,590.2</b>	<b>639.5</b>	<b>3,458.3</b>	<b>12,688.0</b>	<b>5,454.2</b>	<b>855.4</b>	<b>6,309.6</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,165.7</b>	<b>65.2</b>	<b>1.2%</b>						
Agency Operations	4,111.8	805.0	4,916.9	559.9	2,153.7	7,070.6	3,997.9	828.8	4,826.7	564.3	2,157.1	7,548.1	(113.9)	-2.8%						
Statewide Operations	1,158.7	25.6	1,184.3	52.9	28.7	1,265.9	1,262.0	19.9	1,281.9	81.3	28.9	1,392.1	103.3	8.9%						
<b>Total Operating</b>	<b>5,270.6</b>	<b>830.6</b>	<b>6,101.2</b>	<b>611.8</b>	<b>2,182.4</b>	<b>8,895.4</b>	<b>5,259.9</b>	<b>848.7</b>	<b>6,108.6</b>	<b>645.6</b>	<b>2,185.9</b>	<b>8,940.2</b>	<b>(10.7)</b>	<b>-0.2%</b>						
<b>Capital</b>	<b>118.4</b>	<b>56.6</b>	<b>175.0</b>	<b>27.7</b>	<b>1,275.9</b>	<b>1,478.6</b>	<b>194.3</b>	<b>6.8</b>	<b>201.0</b>	<b>67.6</b>	<b>956.9</b>	<b>1,225.5</b>	<b>75.9</b>	<b>64.1%</b>						
Unduplicated Appropriation of Permanent Fund Earnings	0.0	2,314.0	2,314.0	0.0	0.0	2,314.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
<b>Transfers (non-additive)</b>	<b>(226.1)</b>	<b>39.6</b>	<b>(186.5)</b>	<b>-</b>	<b>-</b>	<b>(186.5)</b>	<b>62.2</b>	<b>39.3</b>	<b>101.5</b>	<b>-</b>	<b>-</b>	<b>101.5</b>	<b>288.3</b>	<b>-127.5%</b>						

## Notes:

- (1) The Department of Revenue's Fall 2015 oil forecast for FY16 is 0.500 mbd at \$49.68 per barrel; the FY17 forecast is 0.505 mbd at \$56.24 per barrel.
- (2) Under the proposed Permanent Fund Protection Act, \$3.2 billion is available for transfer from the Earnings Reserve Account to the general fund. The appropriation to the Dividend Fund is shown in Line 27. The appropriations associated with the dividends are missing in the Governor's budget submission; this will be corrected in amendments.
- (3) New revenue sources proposed by the Governor are: \$100 million from an income tax, \$45 million from a motor fuel tax, \$40 million from an alcohol tax, \$27 million from a tobacco tax, \$20 million from a fisheries business tax and fisheries resource landing tax, and \$12 million from a mining license tax. In addition, another bill would bring in \$15 million from a cruise ship head tax, but this revenue is considered "Other" and is not included in this line.
- (4) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY17 will be unknown until the close of FY16. The AIDEA dividend reported in the Revenue Sources Book is \$11.3 million too high and is adjusted in this line.
- (5) Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose.
- (6) Duplicated 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.
- (7) FY16 Supplemental Appropriations for agency operations and fund transfers include appropriations made in SB 3001, passed in October 2015.
- (8) 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.
- (9) The deficit without the Governor's legislation excludes revenue from new legislation and transfers from other funds. On the expenditure side, it excludes transfers to the ERA and dividends, and assumes \$625 million in tax credit payments.
- (10) "Fund 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.
- (11) The post-transfer withdrawal necessary to balance the budget is anticipated to be \$3.6 billion in FY16 (from the Constitutional Budget Reserve Fund) and \$500 million in FY17 (from the Statutory Budget Reserve Fund).
- (12) Amounts shown on lines 64 and 65 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 in FY16, but those amounts become UGF under the Governor's plan. Amounts in the Other column reflect gross earnings of the Permanent Fund.

January 14, 2016

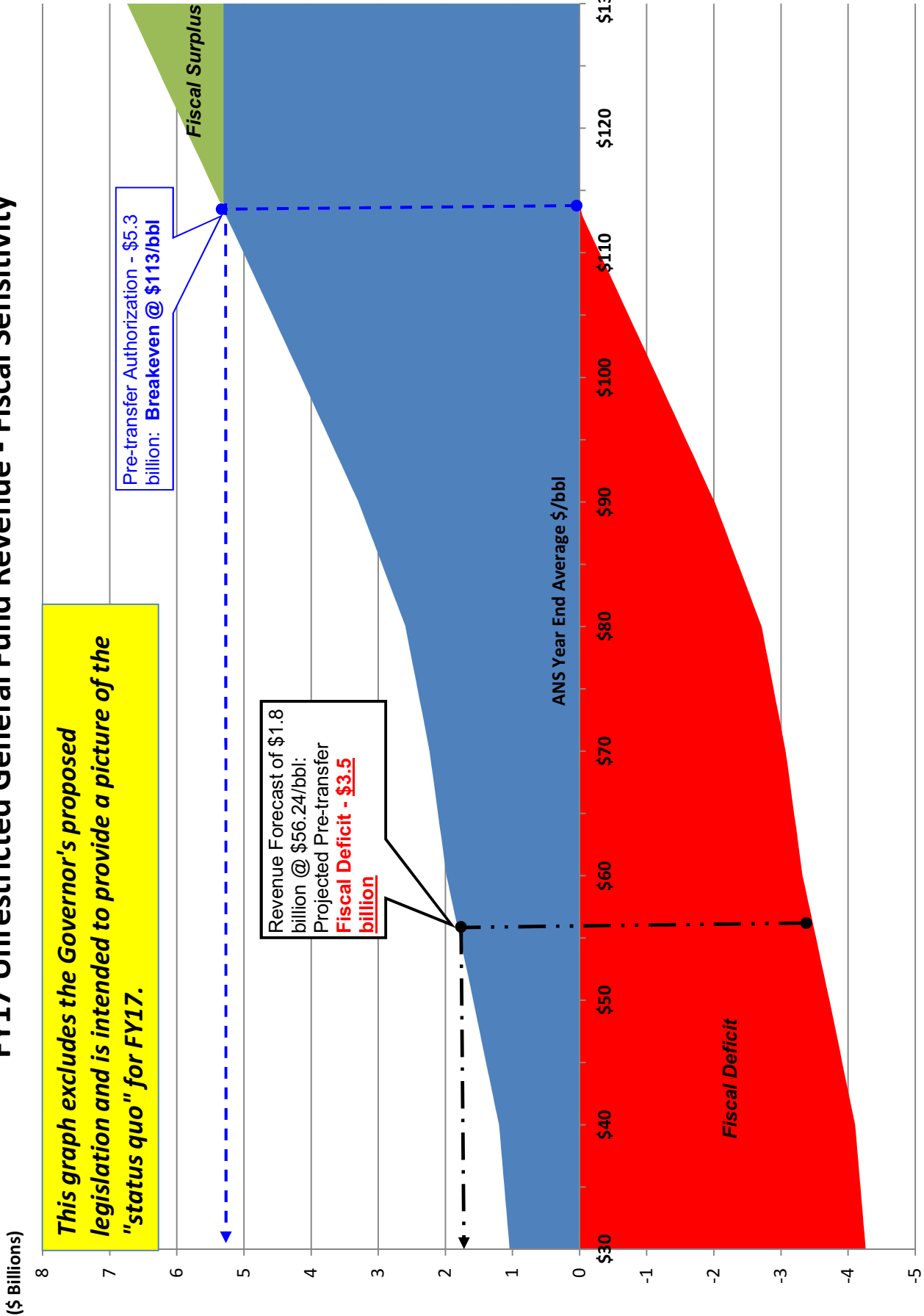
FY16 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on the DOR Fall 2015 forecast and include revenue not directly affected by oil prices. Four months of actual prices at an average of \$50.37/bbl are included.



FY17 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on the DOR Fall 2015 forecast and include revenue not directly affected by oil prices.

State of Alaska Fiscal Summary-- FY16 and FY17 (Part 2)									
Approximate Balances of Reserve Accounts									
	FY16				FY17				
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance	
<b>Permanent Fund Principal -- Market Value</b> (no appropriations allowed)	45,638.0	(595.0)	0.0	45,043.0	45,043.0	317.3	0.0	45,360.3	
<b>Undesignated Reserves</b>	17,369.6	8,959.5	11,146.4	15,182.7	15,182.7	6,518.6	7,423.9	14,277.4	
Total Excluding Permanent Fund	10,207.5	6,770.5	10,238.4	6,739.6	6,739.6	20.0	3,502.9	3,256.7	
Constitutional Budget Reserve Fund (cash) (1)	10,152.9	85.5	10,238.4	(0.0)	(0.0)	20.0	-	20.0	
Statutory Budget Reserve Fund (1)	27.6	6,685.0	-	6,712.6	6,712.6	-	3,502.9	3,209.7	
Alaska Housing Capital Corporation Fund (1)	27.1	-	-	27.1	27.1	-	-	27.1	
Permanent Fund Earnings Reserve Account	7,162.1	2,189.0	908.0	8,443.1	8,443.1	6,498.6	3,921.0	11,020.7	
<b>Designated Reserves</b>	1,761.5	1,277.4	1,413.7	1,625.2	1,625.2	1,375.3	1,357.2	1,643.3	
Alaska Capital Income Fund	27.1	21.0	43.2	4.8	4.8	21.0	-	25.8	
Alaska Higher Education Investment Fund	458.7	30.4	24.0	465.1	465.1	30.9	23.5	472.5	
Public Education Fund	134.5	1,113.0	1,247.5	0.0	0.0	1,243.0	1,243.0	0.0	
Revenue Sharing Fund	172.0	35.4	57.3	150.1	150.1	-	50.0	100.1	
Power Cost Equalization Endowment	969.3	77.5	41.7	1,005.2	1,005.2	80.4	40.7	1,044.8	
<b>Reserves (Excluding Permanent Fund Principal)</b>	19,131.2	10,236.8	12,560.1	16,807.9	16,807.9	7,893.9	8,781.1	15,920.7	
Unrestricted General Fund Appropriations				5,162.9				5,516.4	
Years of Reserves (Reserves/UGF Appropriations)				3.26				2.89	

(1) CBR, SBR and AHCC balances are estimated. The Alaska Comprehensive Annual Financial Report, which has final numbers for FY15, was not available at publication.

## **Sectional Analysis of the Governor's Revenue Bills**

The Governor's fiscal plan includes about \$350 million in new revenue from seven bills. Six of the seven modify existing taxes and the seventh imposes an income tax, which Alaska had until it was repealed in 1980.

These bills would bring in:

1. Alcohol Tax: \$40 million
2. Cruise Ship Head Tax: \$15 million
3. Fisheries Taxes: \$20 million
4. Income Tax: \$200 million (\$100 million for half of FY17)
5. Mining License Tax: \$12 million
6. Motor Fuel Tax: \$45 million
7. Tobacco Tax: \$27 million

A brief analysis of each bill follows:

### **1. Alcohol Tax**

**Section 1** adds a new section requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Section 2** doubles the tax rate for each type of liquor from 10 cents per drink to 20 cents per drink. The tax is set for each type of alcohol so that the tax is equivalent per portion size across all types. It changes: the tax on beer and cider from \$1.07 per gallon to \$2.14 per gallon; the tax on wine from \$2.50 per gallon to \$5 per gallon; and the tax on liquor from \$12.80 to \$25.60 per gallon.

**Section 3** doubles the tax on small breweries from 35 cents per gallon to 70 cents per gallon.

**Section 4** also addresses electronic filing.

**Sections 5-8** contain transitional language and provide effective dates.

### **2. Cruise Ship Head Tax**

**Sections 1 and 2** add new sections requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Section 3** modified the definition of "voyage" for tax purposes as follows:

"Voyage means any trip or itinerary lasting more than 72 hours [ON THE STATE'S MARINE WATER].

The deleted language allowed vessels to avoid tax by leaving state water frequently, even as they transit between Alaskan ports.

**Legislative Fiscal Analyst Comment:** The Legislative Finance Division recommended reconsideration of this provision in the January 2015 Indirect Expenditure Report.

**Section 4** repeals AS 43.52.255, which allows taxpayers to deduct grandfathered local levies from their state head tax.

Two local levies were grandfathered: \$7 per passenger in Ketchikan and \$8 per passenger in Juneau. That means that a vessel stopping in both ports would pay \$15 in local head taxes and have its state head tax reduced from \$34.50 to \$19.50. However, both communities are also eligible for local revenue sharing of \$5 per port, further reducing the State's share to \$9.50. If the vessel stopped in two additional ports, the State would pay out \$0.50 more to local governments than it received from the taxpayer.

Current law arguably allows Juneau and Ketchikan to "double dip" – they receive local shares of the state head tax, plus get to have their own local taxes at the State's expense. With this section repealed, Juneau and Ketchikan could continue to levy local taxes in addition to the state tax, but the local head taxes would come at the expense of the cruise vessels rather than the State.

**Legislative Fiscal Analyst Comment:** The Legislative Finance Division recommended reconsideration of this provision in the January 2015 Indirect Expenditure Report.

The head tax is dedicated revenue; federal law limits its use to projects and services that improve port and harbor infrastructure, provide services to vessels and passengers, or improve the safety and efficiency of commerce. The State may appropriate available proceeds for those purposes.

**Sections 5-7** contain transitional language and provide for an effective date.

### **3. Fisheries Taxes**

**Section 1** adds a new section requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Section 2** increases the tax rate for the Fisheries Business Tax by 1% for salmon from shore-based processors and fisheries resources processed by floating processors.

**Section 3** increases the tax rate by 1% for developing commercial fish species.

**Section 4** increases the tax rate by 1% for direct marketers.

**Section 5** also provides for electronic filing.

**Section 6** specifies that the first 1% collected under the Fisheries Business Tax is not shared with municipal governments. This means that the revenue from the 1% increase would go entirely to the State and not be shared.

**Section 7** adds a comma in a section that deals with the shared revenue for newly incorporated boroughs.

**Section 8** increases the Fishery Resource Landing Tax by 1% for regular and developing species.

**Section 9** also provides for electronic filing.

**Sections 10 and 11** modify revenue sharing for the Fishery Resource Landing Tax in the same way as Section 6 does the Fisheries Business Tax (i.e., the first 1% would go entirely to the State).

**Sections 12-14** contain transitional language and provide for an effective date.

#### **4. Income Tax**

**Section 1** imposes an income tax each calendar year on every resident and nonresident individual with income from a source in the State. The tax rate is six percent of the taxpayer's total federal income tax due on the amount of the taxpayer's income that is from a source in Alaska.

It provides for the submission of tax returns and payments of taxes and gives the Department of Revenue the authority to credit or refund overpayments.

It defines income from sources in the State. It sets out a list of taxable income sources and defines a taxable site of property in the State.

It instructs employers to withhold and remit taxes on payment of wages, salaries or crew shares.

Section 1 also gives the Department the authority to make regulations relating to the tax.

**Section 2** repeals sections of statute that allow taxpayers to claim credits for contributions to political campaigns.

**Sections 3-6** contain transitional language and provide for an effective date.

#### **5. Mining License Tax**

**Section 1** adds a new section requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Section 2** repeals the tax exemption for the first 3.5 years of operation.

<b>Legislative Fiscal Analyst Comment:</b> The Legislative Finance Division recommended reconsideration of this provision in the January 2015 Indirect Expenditure Report.
--

**Section 3** increases the top bracket (applicable on income over \$100,000) from 7 to 9 percent.

**Section 4** provides for electronic filing.

**Section 5** repeals sections of statute that are unnecessary with the repeal of the exemption in Section 2.

**Sections 6-10** contain transitional language and provide for an effective date.

## **6. Motor Fuel Tax**

**Section 1** adds a new section requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Sections 2 and 3** increase the per gallon motor fuel tax for each fuel type as follows: highway gasoline, from 8 cents to 16 cents; aviation gasoline, from 4.7 cents to 10 cents; marine fuel, from 5 to 10 cents; aviation fuel other than gasoline, 3.2 cents to 10 cents.

**Section 4** provides for electronic filing.

**Sections 5-8** contain transitional language and provide for an effective date.

## **7. Tobacco Tax**

**Section 1** adds a new section requiring electronic submission of tax returns unless the filer does not have the technological capability to do so.

**Sections 2 and 3** contain conforming language to include electronic cigarettes in the tobacco tax.

**Section 4** increases the non-designated portion of the tax on cigarettes from 62 mills to 112 mills.

**Legislative Fiscal Analyst Comment:** In addition to this tax, 38 mills go to the school fund. This dedicated portion of the tax is unchanged, so the total tax per cigarette increases from 100 mills to 150 mills (or from \$2 per pack to \$3).

**Section 5** increases the tax on smokeless tobacco from 75 percent of the wholesale price to 100 percent of the wholesale price. It also extends the tax to electronic smoking devices.

**Sections 6-13** contain additional conforming language and definitions to include electronic cigarettes in the tobacco tax.

**Sections 14-17** contain transitional language and provide for an effective date.

## **Operating Budget**

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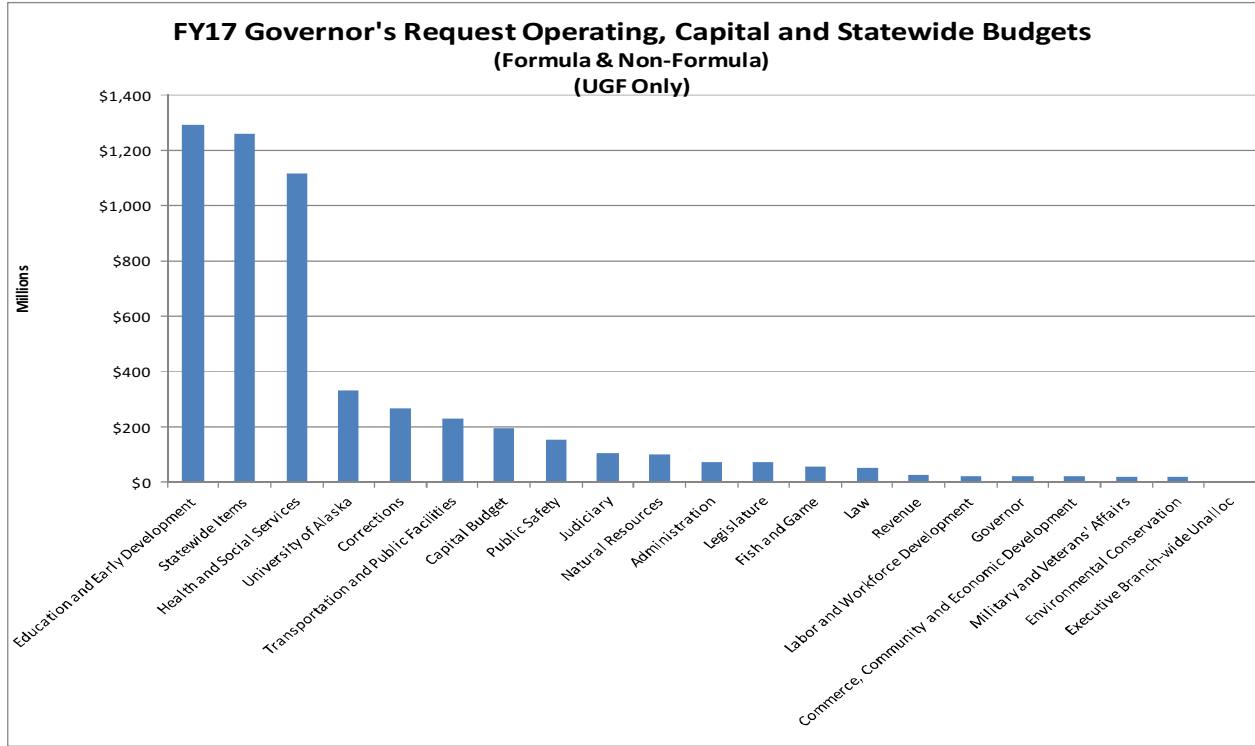


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# Operating Budget

The Governor’s FY17 unrestricted general fund (UGF) operating budget is \$181.8 million (3.6%) above the FY16 Management Plan. The Agency Operating budgets have *decreased* by \$100.9 million (2.5%), while Statewide Items have increased by \$282.7 million (29%). Details on significant operating budget changes are discussed later in this section and in individual agency narratives.

As shown in the graph below, the three categories with the most UGF spending (totaling \$3.7 billion) are the Department of Education and Early Development, Statewide Items, and the Department of Health and Social Services. The combined UGF total for all remaining items (including the capital budget) is \$1.8 billion—which, coincidentally, is equal to anticipated general fund revenue in FY17 (excluding the Governor’s proposed revenue measures).



## **Statewide Items**

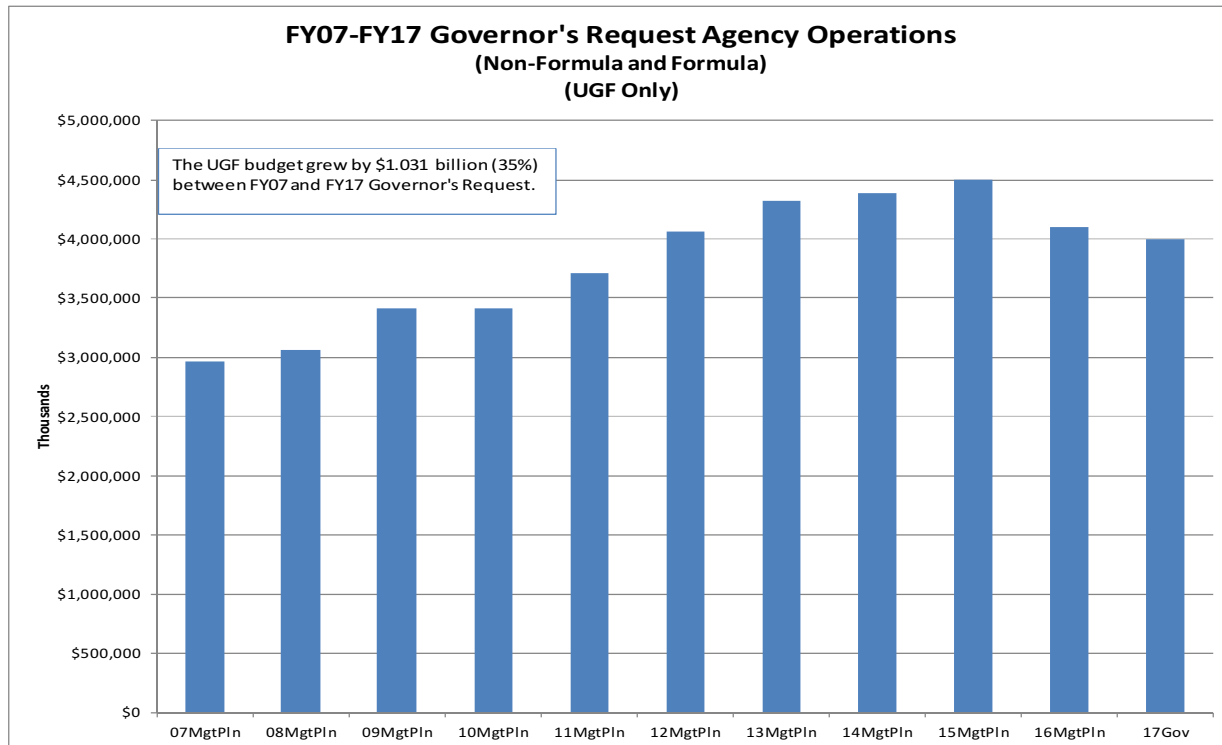
Statewide Items increased by \$282.7 million (28.9%). The most significant changes are due to the following items:

- **Sustainable Dividend Fund** (part of the Governor's Permanent Fund Protection Act). Under this proposal the earnings reserve account is re-classified to UGF. Permanent Fund Dividends (\$700 million) would be paid from either the general fund or the earnings reserve account (see line 27 of the Fiscal Summary). Previously, Permanent Fund Dividends were counted as designated general funds and below the line due to the earnings reserve account's limited use by the legislature.
- **Pension Obligation Bonds: \$219 million.** The majority of the \$230 million increase in Debt Service is due to the Governor's proposal to issue Pension Obligation Bonds (line 23 of the Fiscal Summary) to pay down the unfunded liability on the public employees and teachers retirement systems. Note: this increase is partially off-set by a reduction of \$213 million (81.4%) in the actuarially required contributions for State Assistance to Retirement (line 28 of the Fiscal Summary).
- **Oil and Gas Tax Credits: (\$426.5) million.** The Governor's FY17 operating budget reduces funding for the Oil and Gas Tax Credits by 85.3% (line 25 of the Fiscal Summary). Under AS 43.55.028, the minimum amount to purchase tax credits in FY17 is expected to be \$73.4 million, compared to an appropriation of \$500 million in FY16. The Governor has indicated that he will propose legislation that would modify Oil & Gas Tax Credits and would purchase the remaining outstanding credits at a point in time. The legislation would also set up a loan program for future projects. The ongoing cost of credits after the loan program is established would be approximately \$100 million.

## **Agency Operating Budgets**

Agency operating budgets reached a peak of \$4.5 billion UGF in FY15. Since then, the legislature and Governor have implemented reductions totaling \$505 million (11%). As the table on the next page reflects, the agency operations portion of the FY17 Governor's UGF budget is less than the FY12 level.

When adjusted for inflation, the Governor's agency operations budget is comparable to FY10. The Governor's budget spends about \$5,400 per capita. That is less (in inflation adjusted dollars) than in any year since oil prices spiked in FY05.



Significant changes included in the Governor's FY17 agency operating budgets are as follows:

1. K-12 Foundation Funding – fully funds the statutory Base Student Allocation (BSA) increase of \$50 (from \$5,880 to \$5,930), an increase of about \$12 million.
2. Medicaid Services – reduces UGF funding by \$31.6 million (5%).
3. Alaska Liquefied Natural Gas Pipeline (AKLNG) – the Department of Natural Resources is requesting \$35.7 million UGF.

Further discussion and details for each agency's operating budget begin on page 106 of the Overview.

Agency Summary - FY17 Operating Budget - Total Funds									
Agency	15Actual	15MgtPlan	16MgtPlan	17AdjBase	17Gov	15MgtPin to 17Gov	16MgtPin to 17Gov	17Adj Base to 17Gov	
Administration	329,129.3	348,365.7	340,246.0	336,136.2	331,952.2	(16,413.5)	(8,293.8)	(4,184.0)	-1.2%
Commerce, Community & Econ Dev	198,710.8	215,332.4	202,291.2	195,803.6	194,018.7	(21,313.7)	(8,272.5)	(1,784.9)	-0.9%
Corrections	316,323.1	333,040.5	324,534.0	322,740.2	317,000.2	(16,040.3)	(7,533.8)	(5,740.0)	-1.8%
Education & Early Dev	1,613,666.7	1,698,061.9	1,597,920.0	1,609,217.2	1,629,442.1	(68,619.8)	31,522.1	20,224.9	1.3%
Environmental Conservation	76,776.0	87,560.9	85,353.6	84,978.4	84,063.3	(3,497.6)	(1,290.3)	(915.1)	-1.1%
Fish and Game	191,916.6	215,272.6	208,455.0	207,142.3	203,981.3	(11,291.3)	(4,473.7)	(3,161.0)	-1.5%
Governor	31,425.7	34,338.1	23,883.9	23,495.0	23,876.8	(10,461.3)	(7.1)	381.8	1.6%
Health & Social Services	2,520,694.9	2,692,324.5	2,617,007.5	2,611,494.4	2,737,629.6	45,305.1	120,622.1	126,135.2	4.8%
Labor & Workforce Dev	148,225.3	185,306.7	176,826.0	175,328.3	165,530.8	(19,775.9)	(11,295.2)	(9,797.5)	-5.6%
Law	95,765.3	95,401.4	89,015.6	82,686.4	103,801.9	8,400.5	14,786.3	21,115.5	25.5%
Military & Veterans' Affairs	54,045.2	60,337.1	61,560.5	59,903.6	61,386.6	1,049.5	(173.9)	1,483.0	2.5%
Natural Resources	224,867.4	178,330.4	167,845.3	155,470.1	191,489.3	13,158.9	23,644.0	36,019.2	23.2%
Public Safety	193,091.6	206,581.4	192,486.5	192,180.4	188,007.6	(18,573.8)	(4,478.9)	(4,172.8)	-2.2%
Revenue	321,866.2	376,050.9	399,293.1	398,385.9	402,563.9	26,513.0	3,270.8	4,178.0	1.0%
Transportation & Public Facilities	625,371.1	629,036.8	610,267.9	607,347.7	591,689.0	(37,347.8)	(18,578.9)	(15,658.7)	-2.6%
University of Alaska	843,861.7	924,863.7	915,593.8	924,247.9	909,914.6	(14,949.1)	(5,679.2)	(14,333.3)	-1.6%
Branch-wide Unallocated Approp	-	27,000.0	-	-	-	(27,000.0)	-	-	-
Judiciary	114,559.0	115,676.9	114,353.5	111,719.6	110,371.3	(5,305.6)	(3,982.2)	(1,348.3)	-1.2%
Legislature	67,540.1	78,077.9	74,469.8	72,999.8	72,999.8	(5,078.1)	(1,470.0)	-	0.0%
<b>Agency Budgets Total</b>	<b>7,967,836.0</b>	<b>8,500,959.8</b>	<b>8,201,403.2</b>	<b>8,171,277.0</b>	<b>8,319,719.0</b>	<b>(181,240.8)</b>	<b>118,315.8</b>	<b>148,442.0</b>	<b>1.8%</b>
<b>Statewide Items</b>									
Debt Service	268,249.7	305,790.6	290,606.3	325,978.7	544,942.7	239,152.1	254,336.4	218,964.0	67.2%
State Assistance to Retirement	3,005,241.6	3,005,241.6	262,519.9	48,925.8	48,925.8	(2,956,315.8)	(213,594.1)	-	0.0%
Special Appropriations	17,843.8	13,366.8	8,593.5	-	-	(13,366.8)	(8,593.5)	-	-
Fund Capitalization	701,875.6	715,387.6	535,966.4	109,140.4	810,390.4	95,002.8	274,424.0	701,250.0	642.5%
<b>Statewide Items Total</b>	<b>3,993,210.7</b>	<b>4,039,786.6</b>	<b>1,097,686.1</b>	<b>484,044.9</b>	<b>1,404,258.9</b>	<b>(2,635,527.7)</b>	<b>306,572.8</b>	<b>920,214.0</b>	<b>190.1%</b>
<b>Statewide Total</b>									
Unrestricted General (UGF)	11,961,046.7	12,540,746.4	9,299,089.3	8,655,321.9	9,723,977.9	(2,816,768.5)	424,888.6	1,068,656.0	12.3%
Designated General (DGF)	5,300,839.3	5,422,968.3	5,078,166.3	4,410,135.4	5,259,923.0	(163,045.3)	181,756.7	849,787.6	19.3%
Other State Funds (Other)	669,100.6	772,562.4	830,605.2	828,719.1	848,653.4	76,091.0	18,048.2	19,934.3	2.4%
Federal Receipts (Fed)	4,178,610.3	4,325,271.2	1,367,647.0	1,395,150.0	1,429,453.0	(2,895,818.2)	61,806.0	34,303.0	2.5%
	1,812,496.5	2,019,944.5	2,022,670.8	2,021,317.4	2,185,948.5	166,004.0	163,277.7	164,631.1	8.1%
<b>Fund Transfers</b>	<b>(1,970,933.5)</b>	<b>(922,478.1)</b>	<b>2,284,465.4</b>	<b>96,468.0</b>	<b>101,468.0</b>	<b>1,023,946.1</b>	<b>(2,182,997.4)</b>	<b>5,000.0</b>	<b>5.2%</b>

Agency Summary - FY17 Operating Budget - General Funds									
Agency	15Actual	15MgtPIn	16MgtPIn	17Gov	17AdjBase	15MgtPIn to 17Gov	16MgtPIn to 17Gov	17Adj Base to 17Gov	
Administration	112,381.3	113,639.4	106,021.3	102,706.7	99,760.1	(13,879.3)	(6,261.2)	(2,946.6)	-2.9%
Commerce, Community & Econ Dev	115,564.5	124,631.3	114,061.6	107,974.0	104,922.4	(19,708.9)	(9,139.2)	(3,051.6)	-2.8%
Corrections	307,762.6	312,881.2	304,574.4	303,027.5	297,027.5	(15,853.7)	(7,546.9)	(6,000.0)	-2.0%
Education & Early Dev	1,369,361.9	1,437,366.5	1,340,878.1	1,339,757.3	1,348,546.6	(88,819.9)	7,668.5	8,789.3	0.7%
Environmental Conservation	47,273.8	49,685.8	47,335.7	46,960.5	45,795.4	(3,890.4)	(1,540.3)	(1,165.1)	-2.5%
Fish and Game	87,440.0	88,406.5	77,917.8	76,605.1	71,762.9	(16,643.6)	(6,154.9)	(4,842.2)	-6.3%
Governor	30,897.1	33,609.5	23,150.0	22,761.1	22,856.1	(10,753.4)	(293.9)	95.0	0.4%
Health & Social Services	1,297,649.5	1,349,928.3	1,268,974.0	1,265,195.4	1,222,248.2	(127,680.1)	(46,725.8)	(42,947.2)	-3.4%
Labor & Workforce Dev	63,627.1	68,295.5	61,846.6	60,697.4	59,674.9	(8,620.6)	(2,171.7)	(1,022.5)	-1.7%
Law	58,845.2	64,003.2	57,379.9	51,065.7	53,666.2	(10,337.0)	(3,713.7)	2,600.5	5.1%
Military & Veterans' Affairs	25,135.0	24,845.3	17,254.5	17,080.5	18,563.5	(6,281.8)	1,309.0	1,483.0	8.7%
Natural Resources	158,300.6	114,541.3	96,541.9	93,153.4	128,931.8	14,390.5	32,389.9	35,778.4	38.4%
Public Safety	173,670.0	178,108.9	167,273.6	166,954.3	162,781.5	(15,327.4)	(4,492.1)	(4,172.8)	-2.5%
Revenue	41,540.5	43,638.6	39,352.4	38,820.2	40,080.1	(3,558.5)	727.7	1,259.9	3.2%
Transportation & Public Facilities	345,540.4	346,772.3	318,791.8	315,995.2	298,653.5	(48,118.8)	(20,138.3)	(17,341.7)	-5.5%
University of Alaska	642,374.8	687,293.2	677,956.4	687,367.3	672,186.5	(15,106.7)	(5,769.9)	(15,180.8)	-2.2%
Branch-wide Unallocated Approp	-	27,000.0	-	-	-	(27,000.0)	-	-	-
Judiciary	112,291.8	112,384.3	110,920.9	108,641.4	107,063.7	(5,320.6)	(3,857.2)	(1,577.7)	-1.5%
Legislature	67,160.0	77,688.4	73,660.0	72,190.0	72,190.0	(5,498.4)	(1,470.0)	-	0.0%
<b>Agency Budgets Total</b>	<b>5,056,816.1</b>	<b>5,254,719.5</b>	<b>4,903,890.9</b>	<b>4,876,953.0</b>	<b>4,826,710.9</b>	<b>(428,008.6)</b>	<b>(77,180.0)</b>	<b>(50,242.1)</b>	<b>-1.0%</b>
<b>Statewide Items</b>									
Debt Service	210,909.6	238,141.3	230,109.1	235,990.3	454,954.3	216,813.0	224,845.2	218,964.0	92.8%
State Assistance to Retirement	5,241.6	5,241.6	262,519.9	48,925.8	48,925.8	43,684.2	(213,594.1)	-	0.0%
Special Appropriations	17,843.8	13,366.8	8,593.5	-	-	(13,366.8)	(8,593.5)	-	-
Fund Capitalization	679,123.9	684,061.5	503,658.1	76,985.4	777,985.4	93,923.9	274,327.3	701,000.0	910.6%
<b>Statewide Items Total</b>	<b>913,118.9</b>	<b>940,811.2</b>	<b>1,004,880.6</b>	<b>361,901.5</b>	<b>1,281,865.5</b>	<b>341,054.3</b>	<b>276,984.9</b>	<b>919,964.0</b>	<b>254.2%</b>
<b>Statewide Total</b>									
<b>Statewide Total</b>	<b>5,969,935.0</b>	<b>6,195,530.7</b>	<b>5,908,771.5</b>	<b>5,238,854.5</b>	<b>6,108,576.4</b>	<b>(86,954.3)</b>	<b>199,804.9</b>	<b>869,721.9</b>	<b>16.6%</b>
Unrestricted General (UGF)	5,300,839.3	5,422,968.3	5,078,166.3	4,410,135.4	5,259,923.0	(163,045.3)	181,756.7	849,787.6	19.3%
Designated General (DGF)	669,095.7	772,562.4	830,605.2	828,719.1	848,653.4	76,091.0	18,048.2	19,934.3	2.4%
<b>Fund Transfers</b>	<b>1,029,066.5</b>	<b>2,077,521.9</b>	<b>2,127,465.4</b>	<b>96,468.0</b>	<b>101,468.0</b>	<b>(1,976,053.9)</b>	<b>(2,025,997.4)</b>	<b>5,000.0</b>	<b>5.2%</b>

10 Year Debt Service Summary Table												
(\$ thousands)												
	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17Gov	FY16 to FY17Gov	Comments
<b>Proposed New Debt Service</b>												
<i>Pension Obligation Bonds</i>	-	-	-	-	-	-	-	-	-	218,964.0	218,964.0	UGF
<b>Existing Debt Service</b>												
Clean Water Fund Bonds	831.8	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	1,601.7	1,682.7	1,674.1	(8.6)	ACWF Receipts
Drinking Water Fund Bonds	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	1,764.9	(11.6)	ADWF Receipts
Capital Project Reimbursement (HB 528)	10,459.0	8,036.2	5,548.9	5,707.3	6,071.0	5,871.5	5,601.3	5,472.0	4,599.4	4,625.3	25.9	UGF
Certificates of Participation (COPs)	11,170.1	8,061.3	8,036.3	8,009.5	6,943.5	6,982.5	1,795.8	4,569.2	4,655.2	2,894.2	(1,761.0)	UGF
One-time Debt Service - COPs	-	-	-	-	24,000.0	-	-	-	-	-	-	UGF
DOA for Atwood Building	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	3,467.0	0.0	UGF
DOA for Linn Park Parking Garage	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	-	UGF
GO Bonds	46,776.7	43,865.8	48,944.9	58,760.1	84,188.5	84,692.8	85,342.9	81,393.6	79,044.1	87,644.5	8,600.4	UGF, Interest & Federal Rpts
International Airport Revenue Bonds	49,085.7	50,027.4	50,028.7	50,047.9	41,571.5	41,208.4	42,353.1	50,733.0	43,731.5	76,400.0	32,668.5	IARF, PFC's, Fed
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	-	35,700.0	-	-	-	-	IARF, IAGF
Anchorage Jail (Capital Lease)	5,102.0	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	3,598.7	-	-	-	UGF
One-time Debt Service - Anchorage Jail	-	-	-	-	25,000.0	-	-	-	-	-	-	UGF
Goose Creek Correctional Center	-	14,626.0	17,813.4	17,816.5	17,813.7	17,815.8	17,820.0	17,817.9	19,623.4	16,908.8	(2,714.6)	UGF
School Debt Reimbursement	94,997.0	95,005.4	100,045.3	106,258.5	108,145.6	115,386.3	112,907.8	121,218.0	123,423.0	121,996.4	(1,426.6)	UGF & School Fund
Sport Fish Hatchery Revenue Bonds	7,000.0	7,500.0	8,900.0	7,500.0	7,500.0	9,500.0	7,500.0	5,500.0	5,300.0	5,300.0	-	Sport Fish License Surcharge
<b>Subtotal</b>	<b>233,442.2</b>	<b>242,148.9</b>	<b>253,867.0</b>	<b>271,661.6</b>	<b>337,206.3</b>	<b>295,988.0</b>	<b>323,403.9</b>	<b>300,366.2</b>	<b>290,606.3</b>	<b>544,942.7</b>	<b>254,336.4</b>	
<b>Off Budget Debt Service</b>												
AHFC State Capital Project Bonds	6,138.6	6,139.6	6,139.9	6,140.8	6,139.0	10,779.3	10,880.3	10,535.0	10,367.3	12,428.3	2,061.0	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	27,600.0	29,800.0	25,200.0	23,600.0	23,500.0	24,000.0	23,900.0	23,300.0	23,100.0	22,900.0	(200.0)	Diverted Tobacco Settlement Revenue (to NTSC)
<b>Subtotal</b>	<b>33,738.6</b>	<b>35,939.6</b>	<b>31,339.9</b>	<b>29,740.8</b>	<b>29,639.0</b>	<b>34,779.3</b>	<b>34,780.3</b>	<b>33,835.0</b>	<b>33,467.3</b>	<b>35,328.3</b>	<b>1,861.0</b>	
<b>TOTAL Debt Service/Reimbursement</b>	<b>267,180.8</b>	<b>278,088.5</b>	<b>285,206.9</b>	<b>301,402.4</b>	<b>366,845.3</b>	<b>330,767.3</b>	<b>358,184.2</b>	<b>334,201.2</b>	<b>324,073.6</b>	<b>580,271.0</b>	<b>256,197.4</b>	
<b>Debt Payments by Type</b>												
<i>Pension Obligation Bonds</i>												
GO Bonds	46,776.7	43,865.8	48,944.9	58,760.1	84,188.5	84,692.8	85,342.9	81,393.6	79,044.1	87,644.5	8,600.4	COP's, Atwood Building, Parking Garage, Anchorage Jail, Goose Creek Prison
Lease - Purchase Financing	23,182.2	34,549.1	37,724.2	37,704.6	84,556.3	35,670.0	30,495.0	32,756.2	31,049.1	26,573.5	0.0	International Airport, Sport Fish
Revenue Bonds	56,085.7	57,527.4	58,928.7	57,547.9	49,071.5	50,708.4	85,553.1	56,233.0	49,031.5	81,700.0	32,668.5	School Debt, Municipal Capital
Debt Reimbursement	105,456.0	103,041.6	105,594.2	111,965.8	114,216.6	121,257.8	118,509.1	126,890.0	128,022.4	126,621.7	(1,400.7)	Debt
Corporate Debt for State Capital Projects	33,738.6	35,939.6	31,339.9	29,740.8	29,639.0	34,779.3	34,780.3	33,835.0	33,467.3	35,328.3	1,861.0	AHFC, NTSC
Short Term Financing	1,941.6	3,165.0	2,675.0	5,683.2	5,173.4	3,659.0	3,503.8	3,293.4	3,459.2	3,439.0	(20.2)	Clean and Drinking Water
Note: All figures are final budgeted debt service. Actuals for debt service may vary.												

## **Language Sections of the Governor's FY17 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, 2017.

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.

**Legislative Fiscal Analyst Comment:** At least two supplemental appropriations can be expected due to lack of alignment of the Governor's request and anticipated expenditures:

- 1) The Governor has stated that he plans to distribute \$60 million annually under the Community Revenue Sharing program beginning in FY18. This will require an appropriation of \$80 million in FY17.
- 2) Based on historical expenditures, the appropriation for fire suppression activities is about \$30 million short of the amount required to fight fires in FY17.

**Deleted Section: Legislative Intent Relating to Agency Contracts with the University of Alaska**

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

**Deleted Section: Legislative Intent Relating to Line Item Transfers**

**Legislative Fiscal Analyst Comment:** All legislative intent, along with agency responses and Legislative Finance Division (LFD) comments, are addressed in a memorandum to the Finance Committee co-chairs and will be available on the LFD web site by the first week in February.

**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, 2017.

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

**Sec. 6. ALASKA AEROSPACE CORPORATION.** Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2017, 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, 2017.**

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:** In FY17, the estimated impact of this section is zero. In recent years, general fund appropriations to AAC were reduced and ultimately eliminated in FY16 by the legislature. In both FY14 and FY15, AAC utilized \$1 million of available AAC Corporate Receipts above what the legislature authorized in order to maintain operations.

**Legislative Fiscal Analyst Comment:** The AAC is operating under multi-year aerospace related contracts and negotiating with a government entity for a multiple-launch support contract. The launch facilities are under reconstruction and will be operational in August 2016.

**Sec. 7. ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$25,924,900 of the adjusted change in net assets from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2017.**

**Subsection (a)** is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the State as a FY17 dividend payment. The amounts available for dividends in FY14, FY15, and FY16 were \$10.6 million, \$7.5 million and \$8.7 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 after 2008 due to a declining market share as federal mortgage programs offered mortgages at low rates. FY16 income reverses the downward trend.

**(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, 2017, 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) \$7,221,890 for debt service on the bonds described under ch. 1, SSSLA 2002;**
- (3) \$4,206,381 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 \$12.4 million of the FY17 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 FY17 is \$12,428.3—leaving \$13,496.6 of the dividend available for appropriation. By tradition, corporate dividends are 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:

- \$7.0 million for University dormitories (paid off in 2024);
- \$39.7 million for the 2002 bonds (paid off in 2022); and
- \$52.0 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, 2017, 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, the legislature can appropriate corporate dividends for any purpose. In recent years, the Governor has requested that unused dividends go to the budget reserve fund and the legislature has redirected unspent dividends to the capital income fund. The issue has been irrelevant; all available dividends have been spent.

**Legislative Fiscal Analyst Recommendation:** Retain the proposed language. Doing so will:

- 1) ensure that all dividends are appropriated while avoiding the inconsistency inherent in depositing UGF dividends into a fund classified as designated general funds (the capital income fund is classified as DGF because the bulk of the fund comes from the permanent fund earnings reserve account, which is classified as a designated fund); and
- 2) avoid the need to revise the language if the Governor’s fiscal plan is adopted (and the capital income fund is deactivated).

**(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, 2017, 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 FY17 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, 2017, 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, 2017, 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.**

**Legislative Fiscal Analyst Recommendation:** Re-title the section “Disposition of Revenue” and place it after section 4. Organize the section to account for all revenue from royalties, etc. listed in article IX, section 15 of the Constitution:

- 1) 25% dedicated to the permanent fund
- 2) 0.5% dedicated to the public school trust fund
- 3) 50% remains in the general fund for payment of dividends in the following year
- 4) 24.5% appropriated to the earnings reserve account (or the permanent fund, depending on the balance of the earnings reserve account

**(a) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during the fiscal year ending June 30, 2017, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.**

Per current statute, **subsection (a)** would appropriate an estimated \$327 million to the permanent fund. This appropriation consists of the constitutionally mandated 25% of royalties (\$272 million) per AS 37.13.010(a)(1) plus additional royalties from oil fields newer than 1979 per section .010(a)(2). Dedicated deposits to the permanent fund are excluded from Legislative Finance Division reports because that revenue flows directly to the permanent fund without appropriation.

Under the Governor's Permanent Fund Protection Act, the amount deposited in the permanent fund will decline to about \$272 million because royalties in excess of the minimum would be appropriated to the earnings reserve account (rather than to the permanent fund) per that Act's revision of section 1(a)(2) [See subsection (b)].

**Legislative Fiscal Analyst Recommendation:** Insert estimated amounts deposited under each of the two subsections of AS 37.13.010(a). The estimates associated with .010(a)(1) and (2) are \$272 million and zero, respectively.

#### **Deleted Subsection: Inflation Proofing**

**Legislative Fiscal Analyst Comment:** Under the Governor's fiscal plan, inflation proofing the permanent fund occurs only when the earnings reserve account has a sufficient balance. The balance is too small for inflation proofing to occur in FY17.

#### **New Subsections (b)-(e)**

**(b) Seventy-four and one-half percent of all mineral lease bonuses, rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state is appropriated to the earnings reserve account (AS 37.13.145).**

**Subsection (b)** appropriates about \$812 million to the earnings reserve account. This consists of 24.5% (\$267 million) of royalties per section AS 37.13.010(a)(2) and 50% (\$545 million) of royalties per section 3 of the Governor's proposed Permanent Fund Protection Act.

**Legislative Fiscal Analyst Recommendation:** Reduce the appropriation to 24.5% of royalties, leaving the 50% share (intended for dividends) in the general fund.

Insert the estimated amount of the appropriation (\$267 million).

**(c) One hundred percent of the money collected by the department of revenue under AS 43.55.011 - 43.55.180 during the fiscal year ending June 30, 2017, that is not required to be deposited in the constitutional budget reserve fund established in art. IX, sec. 17(a),**

**Constitution of the State of Alaska, estimated to be \$187,000,000, is appropriated to the earnings reserve account (AS 37.13.145).**

**Subsection (c)** appropriates FY17 production tax proceeds from the general fund to the earnings reserve account.

**Legislative Fiscal Analyst Comment:** FY17 production taxes of \$179.5 million are reported in the DOR Fall 2015 Revenue Sources Book. Legislative Finance Division reports use the \$179.5 million figure.

**(d) The amount necessary for the payment of a dividend to each eligible individual of \$1,000, estimated to be \$700,000,000, is appropriated from 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, 2017.**

**Subsection (d)** appropriates \$700 million from the dividend fund to pay dividends and associated expenses in FY17.

**Legislative Fiscal Analyst Comment:** Typically, the operating budget contains an appropriation *to* the dividend fund, but not *from* the fund. Dividends are then paid to individuals without further appropriation, per statutory formula.

This section was drafted based on an anticipated June 30, 2016 transfer from the earnings reserve account to the dividend fund. However, the appropriation in the FY16 operating budget should have referred to a transfer based on June 30, 2015—not 2016—earnings. The intended transfer occurred in early FY16 and was used to pay dividends in October 2015. No additional FY16 transfer from the earnings reserve account to the dividend fund is needed; FY16 dividends have already been paid.

**Legislative Fiscal Analyst Recommendation:** Amend section 11, Chapter 23, SLA 2015 to change the date of the authorized transfer from June 30, 2016 to June 30, 2015. The change will comply with statutory direction (and long-standing practice) that year-end earnings be included in the calculation of the amount to be transferred from the earnings reserve account to the dividend fund early in the following fiscal year and used to pay dividends in October.

**Legislative Fiscal Analyst Recommendation:** Section (d) should be replaced with language that complies with the intent of the Permanent Fund Protection Act: an amount equal to 50% of royalties received in FY16 should be appropriated from the general fund to the dividend fund.

A new section should appropriate the amount required to pay a \$1,000 per capita dividend, after the appropriation in (d), from the earnings reserve account to the dividend fund.

Both sections capitalizing the dividend fund should include estimated amounts—50% of FY16 royalties is \$469 million and the additional amount required to distribute \$1,000 per capita is \$231 million. Both subsections could be moved to section 21—Fund Capitalizations. Under the Permanent Fund Protection Act, dividends will no longer be dependent on permanent fund earnings; they simply require capitalization of the dividend fund, from which dividends will be paid without further appropriation.

**Legislative Fiscal Analyst Recommendation:** The legislature may also want to repeal section 11(b) of Chapter 23, SLA 2015. That section appropriates approximately \$900 million from the ERA to inflation proof the permanent fund. Once in the permanent fund, the balance is unavailable for appropriation. Leaving the money in the ERA would extend the life of spendable reserves and reduce the risk of having insufficient cash to support a sustainable draw from the ERA.

**(e) The sum of \$3,200,000,000 is appropriated from the earnings reserve account (AS 37.13.145) to the general fund.**

**Subsection (e)** takes a \$3.2 billion “sustainable draw” from the earnings reserve account as envisioned in the Governor’s fiscal plan.

**Legislative Fiscal Analyst Comment:** The fiscal summary shows this transfer from the earnings reserve account as unrestricted general fund revenue.

**Legislative Fiscal Analyst Recommendation:** Move the subsection to a new section following section 26. The section could be entitled “Sustainable Draw from Reserves.”

**(f) The income earned during the fiscal year ending June 30, 2017, on revenue from the sources set out in AS 37.13.145(d), estimated to be \$21,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).**

**Subsection (f)** appropriates FY17 earnings associated with the *State vs. Amerada Hess* settlement (that are 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.

**Legislative Fiscal Analyst Comment:** The *Amerada Hess* settlement resulted in the creation of a “fenced off” portion of the permanent fund that was intended to ensure that Alaska juries would not be personally affected (via PFDs) by lawsuits involving revenue to the permanent fund. Because dividends no longer depend on permanent fund balances or earnings (under the Permanent Fund Protection Act), the fence is no longer required and all appropriation language referring to *Amerada Hess* can be deleted. The Governor is expected to submit an amendment to that effect.

**Sec. 9. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. (a)** An estimated \$6,328,000 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, 2017, 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 \$6.3 million. Dividends for FY15 and FY16 were \$10.66 million and \$17.65 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, 2017, is appropriated to the budget reserve fund (AS 37.05.540(a)).

**Subsection (b)** appropriates any “unused” portion of the dividend to the Statutory Budget Reserve Fund. See comments under section 7(c).

**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, 2017.

**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, 2017.**

**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 FY17 estimated amount required for working reserves is \$43.3 million, a decrease of \$0.5 million from FY16.

### **New Subsection**

**(c) The amount necessary to have an unobligated balance of \$5,000,000 in the working reserve account described in AS 37.05.510(a) is appropriated from the unencumbered balance of any appropriation enacted to finance the payment of employee salaries and benefits that is determined to be available for lapse at the end of the fiscal year ending June 30, 2017.**



**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.

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

Average annual usage of the working reserve account is about \$45.7 million. It appears that, rather than increasing contribution rates in order to balance cash inflow with cash outlay, the administration hopes to use lapsing balances on the personal services line to ensure that the balance of the fund is sufficient to cover expenses.

**(d) 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, 2017.**

**Subsection (d)** permits the Alaska Oil and Gas Conservation Commission (AOGCC) to collect on a performance bond, should that action become necessary.

**Legislative Fiscal Analyst Comment:** AOGCC reported some difficulty in working with an operator during FY13 and requested the language as a precautionary measure. Until FY13, similar language was not considered necessary because there was little concern that reclamation efforts would be required. 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, 2017, 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, 2017, 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, 2017.**

**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 the Department of Commerce, Community and Economic Development (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, 2017.**

**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 sufficient.

**Legislative Fiscal Analyst Comment:** 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.

Most recently, a two-year reauthorization of the Secure Rural Schools and Community Self Determination Act of 2000 (SRS) was included in H.R. 2, Medicare Access and CHIP Reauthorization Act of 2015. This Act reauthorized the program retroactively for FY15 and FY16. If the Secure Rural Schools Program is not extended by Congress, National Forest Receipt Payments for FY17 will revert back to the original distribution formula of about \$600,000.

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 - \$11,668.1
- FY16 Estimate - \$11,500.0
- FY17 Estimate - \$600.0

**Legislative Fiscal Analyst Recommendation:** Retain subsections (a) and (b) despite the uncertain outlook for FY17. 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, 2017.**

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

**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 2015, estimated to be \$6,000,000, 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, 2017, to qualified regional associations operating within a region designated under AS 16.10.375.**

**Funding:** These "pass-through" amounts (estimated to be \$6 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 2015, estimated to be \$1,700,000, 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, 2017, 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 \$1.7 million) are excluded from Legislative Finance Division reports on the operating bill.

**(f) The amount necessary, estimated to be \$40,355,000, 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, 2017.**

**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 third 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, 2015, the endowment fund balance was \$969.4 million.

**Funding:** Total program cost is projected to be \$40.355 million in FY17—\$1 million less than the level of funding appropriated in FY16. The endowment payout is expected to fully cover program costs with a payout of about 4.9% in FY16, 4.3% in FY17, and 4.2% in FY18.

#### **Deleted Subsection: General Fund Backstop for PCE Program**

**Legislative Fiscal Analyst Comment:** This section was an open-ended general fund appropriation to AEA for the PCE program. Because the allowable endowment payout can fully cover program costs, this language is no longer required.

#### **Deleted Subsection: Tourism Marketing Matching Funds**

**Legislative Fiscal Analyst Comment:** This section appropriated general funds to the Department of Commerce, Community and Economic Development for the Tourism Marketing program, contingent upon industry contributions. For each dollar the tourism industry contributed in excess of \$2.7 million, a dollar of UGF was available as match. The Department viewed this section as one-year conditional language and, therefore, removed the language from the FY17 Governor's Request. From FY13 to FY15, Tourism Marketing collected between \$2.691 million and \$2.736 million in SDPR.

**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, 2016, estimated to be \$500,000, 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, 2017, 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 \$500,000, are excluded from Legislative Finance Division reports on the operating bill.

**(b) After the appropriation made in sec. 21(j) 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, 2017.**

**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 section 21(j) 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 21(j), (k) and (l).]

**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, 2017.

**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, 2017.

**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, 2017.

**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, 2017, 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, 2017.



**Subsection (d)** provides open-ended authority to spend program receipts, thereby eliminating all questions regarding Alaska Vocational Technical Center's (AVTEC) 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, 2014, June 30, 2015, and June 30, 2016, 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, 2017.

**Section 14** appropriates the payout from the endowment to the Department of Military and Veterans' Affairs (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, 2017, 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, 2017, June 30, 2018, and June 30, 2019.

**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, 2017, 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, 2017.

**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 22(j)—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 22(j) 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, 2017.**

**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(d) applies to the Department of Administration.

**(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2017, 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, 2017.**

**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, 2017.**

**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 \$375,000 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 \$1,125,000 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, 2017.**

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

**Funding:** The Department of Revenue (DOR) 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, 2016, 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, 2017.**

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

### **Deleted Section: Branch-wide Unallocated Fuel Distribution**

**Legislative Fiscal Analyst Comment:** In FY16, general funds estimated to be \$20 million—depending on the fiscal year-to-date average price of Alaska North Slope crude oil—were appropriated to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs. With the price of Alaska North Slope crude oil estimates continuing to be well below \$60/bbl, this section is no longer relevant.

**Sec. 18. 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, 2017, is appropriated for that purpose for the fiscal year ending June 30, 2017, 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, 2017, is appropriated for that purpose for the fiscal year ending June 30, 2017, 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, 2017, is appropriated for that purpose for the fiscal year ending June 30, 2017, 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. 19. DEBT AND OTHER OBLIGATIONS. 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, 2017, 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, 2017.**

**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>Legislative Fiscal Analyst Comment:</b> No notes are expected to be issued in FY17.
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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, 2017.**

**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 and there have been no draws upon the State's general obligation pledge for payment. 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, 2017, estimated to be \$1,674,100, 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, 2017, estimated to be \$1,764,900, 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 21(f)-(i)]. The federal receipts require a state match. Federal rules permit interest

earnings of the loan funds to be used to pay debt service as well as make loans. These subsections avoid general fund match appropriations by taking 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 \$4,625,242 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2017, 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:**

<b>AGENCY AND PROJECT</b>	<b>APPROPRIATION AMOUNT</b>
<b>(1) University of Alaska</b>	<b>\$1,216,800</b>
<b>Anchorage Community and Technical         College Center</b>	
<b>Juneau Readiness Center/UAS Joint Facility</b>	
<b>(2) Department of Transportation and Public Facilities</b>	
<b>(A) Matanuska-Susitna Borough</b>	<b>709,913</b>
<b>(deep water port and road upgrade)</b>	
<b>(B) Aleutians East Borough/False Pass</b>	<b>143,621</b>
<b>(small boat harbor)</b>	
<b>(C) City of Valdez (harbor renovations)</b>	<b>203,250</b>
<b>(D) Aleutians East Borough/Akutan</b>	<b>353,708</b>
<b>(small boat harbor)</b>	
<b>(E) Fairbanks North Star Borough</b>	<b>337,199</b>
<b>(Eielson AFB Schools, major             maintenance and upgrades)</b>	
<b>(F) City of Unalaska (Little South America         (LSA) Harbor)</b>	<b>365,895</b>
<b>(3) Alaska Energy Authority</b>	
<b>(A) Kodiak Electric Association</b>	<b>943,676</b>
<b>(Nyman combined cycle cogeneration plant)</b>	
<b>(B) Copper Valley Electric Association</b>	<b>351,180</b>
<b>(cogeneration projects)</b>	

**Subsection (e)** appropriates \$4.6 million to various state agencies for reimbursement of municipal (and other public entity) debt service on projects authorized in Chapter 115,

SLA 2002 (HB 528). The project list is identical to the FY16 list, but debt reimbursements for individual projects differ from FY16 and the total appropriation is about \$25.0 higher than in FY16.

**(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, 2017, estimated to be \$2,894,150, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2017.**

**Subsection (f)** appropriates \$2.9 million for trustee fees and to make payments on Certificates of Participation (COPs) for the Alaska Native Medical Center housing project [authorized in Chapter 63, SLA 2013, (SB 88)].

**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 last payment for the Virology Lab was included in the FY16 budget. The only outstanding COP is the Alaska Native Medical Center project, which 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, 2017:**

**(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 and existing parking 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, which ends in FY17.

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, 2017:**

A total of \$82.8 million general funds and \$4.8 million federal funds is appropriated for debt service on general obligation bonds (see table below). Comparable FY16 numbers are \$71 million general funds, \$3.2 million other state funds, and \$4.8 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	18,900	-	18,900
2008	2009A	2	8,021,300	-	8,021,300
2010	2010A&B	3,4,5 & 6	4,737,080	4,421,761	9,158,841
2002	2012A	7	28,989,875	-	28,989,875
2010	2013A	8,9,10	33,200	427,658	460,858
2010	2013B	11,12	16,168,125	-	16,168,125
2010	2015B	13	4,721,250	-	4,721,250
2010	2016A&B	14	20,000,000	-	20,000,000
	Trustee Fees	15	5,300	-	5,300
	Arbitrage Rebate	16	100,000	-	100,000
	<b>Total</b>		<b>82,795,030</b>	<b>4,849,419</b>	<b>87,644,449</b>

(1) the sum of \$18,900 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 \$8,021,300, 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 \$3,400 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 \$4,733,680, 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 \$28,989,875, 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); and
- 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 derived from investment earnings on the borrowed money prior to expenditure.

**(8) the sum of \$17,300 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 \$15,900, from the general fund for that purpose;

(11) the sum of \$124,600 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B;

(12) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B, after the payment made in (11) of this subsection, estimated to be \$16,043,525, 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 fund the balance of the 2010 Act and 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 2015B, estimated to be \$4,721,250, from the general fund for that purpose;

**Subsection 13** appropriates an estimated \$4.7 million from the general fund for payment of debt service on series 2015B Bonds. The 2015 B bonds refinanced a portion of the 2009A bonds for savings; increased 2015B debt service is more than offset by reductions to 2009A debt service.

### **New Subsection**

(14) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A and 2016B, estimated to be \$20,000,000, from the general fund for that purpose;

**Subsection 14** appropriates an estimated \$20 million from the general fund for the payment of debt service on new series 2016A and 2016B Bonds.



**Legislative Fiscal Analyst Comment:** On January 5, 2016, the State Bond Committee authorized the issuance of 2016A General Obligation Bonds in the amount of up to \$160 million to refinance Series 2015A Bond Anticipation Notes (BANs), and a 2016B General Obligation (GO) Bond Anticipation Note to fund up to \$150 million for additional costs of the 2012 Transportation Act projects.

The 2016B GO BAN will be the fourth time that the State will have utilized a BAN for the 2012 Act. The BAN program has been used due to the uncertainty and often delayed project expenditure expectations on transportation projects, thereby avoiding the cost of having higher interest, long-dated borrowed funds idle in the project fund and complying with IRS project expenditure requirements. These two transactions are anticipated to occur between February and June. Debt service on the 2016A bonds will come due in FY17 based on a 20 year level debt service structure, and the 2016B bonds will mature and need to be partially paid and then refinanced in FY17.

**(15) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, 2015B, 2016A and 2016B, estimated to be \$5,300, from the general fund for that purpose;**

**Subsection 15** appropriates an estimated \$5,300 for trustee fees on all outstanding GO Bonds. The amount for FY17 eliminates fees for 2015A bonds and adds fees for the 2016A and 2016B bond series.

**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. That may change if rating agencies are successful in their effort to make their fees annual rather than one time.

**(16) 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 16** 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.

**(17) if the proceeds of state general obligation bonds issued are 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 on repayment to the general fund as soon as additional state general obligation bond proceeds have been received by the state; and**

**Subsection 17** is intended to prevent construction delays by permitting short-term borrowing from the general fund.

(18) 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, 2017:

**New Subsection**

(1) the sum of \$32,000,000, from the International Airports Revenue Fund (AS 37.15.430(a)), for the payment of principal and interest, redemption premium, and trustee fees, if any, associated with the early redemption of international airports revenue bonds authorized by AS 37.15.410 - 37.15.550;

(2) 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;

(3) 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; and

(4) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after payments made in (2) and (3) of this subsection, estimated to be \$38,801,173, 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.

**Legislative Fiscal Analyst Comment:** The Alaska International Airport System and State Bond Committee are nearing completion of a bond transaction intended to take advantage of currently favorable market rates to refinance an estimated \$200 million of outstanding revenue bonds (Series 1999A, 1999C, 2003B, 2006A, 2006B, and 2006D) for the dual goals of saving an estimated \$14.6 million net present value savings and lowering annual debt service by extending the term by four years. The transaction involves a current delivery component of approximately \$100 million that will close in February and a delayed delivery component of approximately \$100 million that will close in July and future cash defeasances of approximately \$57 million between FY17 and FY19.

The transaction is the culmination of a restructuring plan put in place in 2010 to lower annual debt service of the AIAS from approximately \$49.5 million to \$30 million annually to maintain the System's competitive advantage in the international cargo market and keep the cost per enplaned passenger as low as possible. The refunding bonds have received the same ratings from Fitch and Moody's as currently outstanding IAF par revenue bonds of A+/ Stable and A1/Stable, respectively. The transaction is currently anticipated to price for the 2016 Series A (Non-AMT) and 2016 Series B (AMT) on January 13, and for the 2016 Series C (AMT) and D (AMT) on January 19. Closing for the Series A and Series B will be on February 10, 2016, and for Series C and D on July 6, 2016.

**(j) The sum of \$16,908,763 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, 2017:**

<b>FACILITY AND FEES</b>	<b>ALLOCATION</b>
<b>(1) Goose Creek Correctional Center</b>	<b>16,906,763</b>
<b>(2) Fees</b>	<b>2,000</b>

**Subsection (j)** appropriates funds to pay lease costs for the Goose Creek Correctional Center. The Mat-Su Borough issued bonds for the Goose Creek Correctional Center, which the State leases.

**Legislative Fiscal Analyst Comment:** In common language, the contract with the Mat-Su Borough is a lease, but terms of the contracts are such that Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. Further, the State's future lease payments were securitized in a Matanuska Lease Revenue Bond issuance that was authorized by law. This means that a default on lease payments could affect the State's credit rating. Because of the potential impact on credit rating, the obligation is categorized as "subject to appropriation" debt.

Debt on the Anchorage Jail was paid off in FY16. A portion of the Mat-Su bonds issued originally in 2009 were refinanced for savings in April 2015, resulting in a reduction of approximately \$900,000 for the FY17 appropriation versus FY16.

**(k) The amount necessary for state aid for costs of school construction under AS 14.11.100, estimated to be \$121,996,375, is appropriated to the Department of Education and Early Development for the fiscal year ending June 30, 2017, from the following sources:**

**(1) \$18,300,000 from the School Fund (AS 43.50.140); and**

**(2) the amount necessary after the appropriation made in (1) of this subsection, estimated to be \$103,696,375, from the general fund.**

**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 2015 Revenue Sources Book, FY16 cigarette tax collections (School Fund) are projected at \$18.3 million, down from \$21.3 million in FY15 and are projected to be \$19.0 million in FY17. As those tax revenues decrease, the general fund portion of school debt reimbursement increases.

**(l) The amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during fiscal year ending June 30, 2017, 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 21(j) and (k) of this bill—for payment of sport fish hatchery debt. Annually, up to \$500,000 of the surcharge may be retained for sport fish operations. That amount is appropriated to the Department of Fish and Game in section 12(a).

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 \$12,725,000, is appropriated to the Alaska Pension Obligation Bond Corporation from proceeds of the sale of bonds authorized under AS 37.16.030.**

**Section 19(m)** is effective June 30, 2016 (FY16 Supplemental).

**Subsection (m)** appropriates \$12.7 million to a newly created corporation of the State for the costs of issuing pension obligation bonds. The costs of bond issuance will be paid

from the bond proceeds. This is typical in a bond issuance transaction.

**Legislative Fiscal Analyst Comment:** Additional analysis on the issuance of pension obligation bonds is found in the analysis of section 23.

**Sec. 20. 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, 2017, 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).

**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 Fiscal Analyst Recommendation:** Delete the reference to receipts of the Alaska Aerospace Corporation; unanticipated receipts of the corporation are appropriated in section 6.

### **Deleted Subsection: Medicaid Expansion**

**Legislative Fiscal Analyst Comment:** Medicaid was expanded on September 1, 2015. The Governor submitted an expansion proposal to the Legislative Budget & Audit Committee, which did not put the proposal on a meeting agenda. Per statute, the Governor proceeded with his proposal 45 days after submitting it for review.

(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, 2017, 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.

**Subsection (b)** reduces state authorization when unanticipated money is received for projects funded with state funds and when federal statutes allow a reduction of state funds. There is no formal process for tracking potential reductions.

**(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, 2017, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.**

**Subsection (c)** automatically limits authorization of federal and other receipts to the amount actually received.

**Sec. 21. FUND CAPITALIZATION. (a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2017, estimated to be \$24,000, 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 FY17 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates.

**Legislative Fiscal Analyst Comment:** Before FY12, these receipts were deposited to principal; the Children's Trust board may now spend from the grant account without further appropriation.

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

**(b) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2017, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).**

**Subsection (b)** 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.

**(c) The sum of \$2,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).**

**Subsection (c)** capitalizes the Disaster Relief Fund with \$2 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 was appropriated.
- FY16: \$2 million UGF was appropriated.

**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. The amount expended in FY15 and an estimated balance of the fund was unavailable at the time of publication.

**(d) 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, 2016, estimated to be \$0, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).**

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

**(e) 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 (e)** 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.

**(f) The amount of federal receipts awarded or received for capitalization of the Alaska clean water fund during the fiscal year ending June 30, 2017, less the amount expended for administering the loan fund and other eligible activities, estimated to be \$8,333,000, is appropriated from federal receipts to the Alaska clean water fund (AS 46.03.032(a)).**

**(g) 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, 2017, estimated to be \$1,666,600, is appropriated from Alaska clean water fund revenue bond receipts to the Alaska clean water fund (AS46.03.032(a)).**

**(h) The amount of federal receipts awarded or received for capitalization of the Alaska drinking water fund during the fiscal year ending June 30, 2017, less the amount expended**

for administering the loan fund and other eligible activities, estimated to be \$6,063,030, is appropriated from federal receipts to the Alaska drinking water fund (AS 46.03.036(a)).

(i) 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, 2017, estimated to be \$1,757,400, is appropriated from Alaska drinking water fund revenue bond receipts to the Alaska drinking water fund (AS 46.03.036(a)).

Subsections (f), (g), (h) and (i) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See sections 19(c) and (d) for further discussion.

**Legislative Fiscal Analyst Comment:** In FY16, the legislature replaced specific appropriation amounts with open-ended language.

(j) 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, 2017, estimated to be \$1,554,838, 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.

(k) After the appropriations made in sec. 12(b) of this Act and (j) 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 \$3,745,162, 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, 2017.

(l) If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) in (k) 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, 2017, federal receipts equal to the lesser of \$102,000 or the deficiency balance, estimated to be \$0, 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, 2017.

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:

- (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 21(j)** transfers the amount required to make the minimum required debt service payments from the enterprise account to the bond redemption account.

(3) **Subsection 19(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 21(k)** 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 21(l)** is intended to clarify that the Department may use up to \$102,000 of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds.

**Funding:** Total debt service appropriations are \$5.3 million appropriated in subsection 19(l). The FY17 required debt service payment is estimated to be \$1.6 million and \$3.7 million is for early redemption of the bonds.

**(m) The amount received under AS 18.67.162 as program receipts, estimated to be \$125,000, 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, 2017, is appropriated to the crime victim compensation fund (AS 18.67.162).**

**Subsection (m)** 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.

<p><b>Legislative Fiscal Analyst Comment:</b> 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 (m) does not appropriate income from the fund, so income will remain in the general fund.</p>
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**(n) The sum of \$1,411,400 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 (n)** 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
- FY16: \$1,510,000

The Governor’s request of \$1,411,400 is lower (\$98.7) than was received in FY16 for the Violent Crimes Compensation Board.

**(o) 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’s FY17 capital budget request includes a request for \$120.0 from the Election Fund to cover the election year costs of the Toyukak settlement. This project will pay for language translation services to provide voter information in audio and written form in six additional Native language dialects.

### **New Subsection**

**(p) The amount that, when added to the fund balance of the fiscal year ending June 30, 2016, equals \$150,000,000, estimated to be \$35,370,205, is appropriated from the general**

**fund to the community revenue sharing fund (AS 29.60.850).**

**Subsection (p)** is an FY16 supplemental appropriation effective June 30, 2016. The appropriation capitalizes the Revenue Sharing Fund with \$35.4 million general funds.

**Legislative Fiscal Analyst Comment:** For a few years prior to FY15, \$60 million annually was deposited into the fund and distributed from the fund to communities. The payout mechanism was designed to phase-out distribution if/when oil revenue declined.

A reduced deposit of \$52 million in FY15 left a balance of \$172 million in the fund and limited payout to \$57.3 million in FY16 (1/3 of the fund balance). With no deposit in FY16, the amount distributed to communities will be \$38.2 million (1/3 of the fund balance) in FY17. With no deposit in FY17, the amount distributed to communities will be \$25.5 million (1/3 of the fund balance) in FY18.

The Governor's proposed budget capitalizes the fund with \$35.4 million in FY16, bringing the balance of the fund at the end of FY16 to \$150 million. This will allow a \$50 million distribution to communities in FY17.

There is no fund capitalization proposed for FY17. If there are no amendments or supplemental appropriations, the fund balance will decline and distribution to communities will be \$33.3 million in FY18 and \$22.2 million in FY19.

The Governor has indicated a desire to return to \$60 million annual distributions in FY18. That would require a fund capitalization of \$80 million by the end of FY17, and continuing appropriations of \$60 million annually.

**Legislative Fiscal Analyst Recommendation:** Supplemental appropriations defeat the intent of statutes designed to aid local planning efforts by providing local governments with advance knowledge (and slow phase-out) of revenue sharing payments. If the Governor plans to restore "full" revenue sharing—despite the deficit—then his plan should be reflected in the FY17 budget via inclusion of an additional fund capitalization of \$80 million.

**(q) The amount calculated to be equal to 15 percent of all revenue from taxes levied by AS 43.55.011 that is not required to be deposited in the constitutional budget reserve fund established in art. IX, sec. 17(a), Constitution of the State of Alaska, estimated to be \$73,425,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).**

**Subsection (q)** replaces the following language: "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, \$500,000,000 is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028)."

**Legislative Fiscal Analyst Comment:** Subsection (q) appropriates the minimum allowed by statute to purchase tax credits.

In FY16, the Governor vetoed \$200 million of an anticipated \$700 million deposit to the fund. In FY17, the Department of Revenue projects that \$625 million in credits will be earned for purchase. If those projections are accurate, the fund will be about \$750 million short of being able to purchase earned credits in FY17. Unpurchased credits carry into future years. The Governor is expected to introduce legislation that will address this outstanding liability.

**Sec. 22. 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 not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization endowment fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised. As noted, no lapsing balance is anticipated.

**(b) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2017, 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 FY16, but is considering imposing a fee in FY17. Because

the appropriation earmarks money within a fund, there is no impact on state expenditures.

### **Deleted Subsections: Aid to School Districts**

**Legislative Fiscal Analyst Comment:** The deleted subsections were part of a complex series of appropriations designed to fund K-12 education per the statutory formula and leave a zero balance in the public education fund.

The fund will end FY16 with a zero balance, and subsections (a)-(d) have been replaced with subsection (c) below.

**(c) The sum of \$1,242,954,300 is appropriated from the general fund to the public education fund (AS 14.17.300).**

**Subsection (c)** appropriates \$1.24 billion to the public education fund (PEF). Of this amount, \$1,163,984.5 is for the foundation expenditures and \$78,989.8 is for pupil transportation.

**Legislative Fiscal Analyst Comment:** This appropriation is intended to fully fund the formulas for FY17 K-12 foundation and pupil transportation. However, specifying an amount instead of using an open-ended appropriation is problematic, particularly since the legislature ceased forward-funding K-12 formula programs in FY16 and there are no reserves in the public education fund. Actual expenditures will be based on the October 2016 student count, so the amount in the bill may cause allocations to school districts to be prorated.

The narrative on the Department of Education and Early Development contains additional discussion of this topic.

**Legislative Fiscal Analyst Recommendation:** Replace the language with two subsections as follows:

(c) The amount necessary to fund the public school funding formula under AS 14.17.410(b) less the amount appropriated for that purpose from the public school trust fund (AS 37.14.110), estimated to be \$1,163,984,500, is appropriated from the general fund to the public education fund (AS 14.17.300).

(d) The amount necessary to fund transportation of students under AS 14.09.010, estimated to be \$78,989,800, is appropriated from the general fund to the public education fund (AS 14.17.300).

Move subsections (c) and (d) to section 21—Fund Capitalizations. Appropriations capitalize the fund with the amount needed to meet statutory requirements, and money flows from the public education fund without further appropriation to the school districts.

**(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, 2016, estimated to be \$6,500,000, not otherwise appropriated by this Act;**

**(2) the amount collected for the fiscal year ending June 30, 2016, estimated to be \$6,670,000, from the surcharge levied under AS 43.55.300; and**

**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 FY16 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 amount collected for the fiscal year ending June 30, 2017, estimated to be \$7,200,000, from the surcharge levied under AS 43.40.005.**

**Subsection (d)(3)** appropriates revenue collected by the motor fuel surcharge to the Oil and Hazardous Substance Release Prevention Account.

**(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, 2016, estimated to be \$700,000, not otherwise appropriated by this Act; and**

**(2) the amount collected for the fiscal year ending June 30, 2016, from the surcharge levied under AS 43.55.201, estimated to be \$1,670,000.**

**Subsection (e)** appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY16 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. In the report for the quarter ending September 30, 2015, the balance had increased to \$49.5 million. The balance will likely cross the \$50 million threshold in FY16 or FY17, which will trigger the suspension of the tax.

**(f) The sum of \$41,640,000 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 (f)** appropriates \$41.6 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 Chapter 93, SLA 2010, this fund did not become effective until July 1, 2012 (FY13). The enabling language is similar 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 statutory guidelines establish annual appropriations to the REAA Fund. In addition, the School Construction Fund and the Major Maintenance Grant Fund have matching requirements and the REAA Fund does not.

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. 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).

In FY16, \$38,789,000 was deposited into the REAA School Fund and there were no appropriations from the fund, leaving a fund balance of \$38,690,300.

The Governor's request proposes depositing \$41,640,000 into the fund (per the statutory formula), bringing the balance of the fund to approximately \$80,330,300. The Governor requested no FY17 appropriations from the REAA Fund. Per AS 14.11.030(b), the fund balance in excess of \$70 million will lapse to the general fund.

The Governor requested a \$7.1 million UGF grant for the Bethel Regional High School. It appears that the REAA Fund could be used for that grant. See the narrative on the Department of Commerce, Community and Economic Development for further discussion.



**(g) The unexpended and unobligated balance on June 30, 2016, estimated to be \$516,000, 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).**

**(h) The unexpended and unobligated balance on June 30, 2016, estimated to be \$594,000, 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 (DEC) 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 \$1,240.3 from the clean water account and \$456.2 from the drinking water account in FY16. No changes are requested in FY17. At the end of FY17, the balance of the Clean Water Administrative Fee Account is estimated to be \$6,730.9 and the balance of the Drinking Water Administrative Fee Account is estimated to be \$4,416.3.

**(i) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2017, 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 (i)** 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.

**(j) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2016, and money deposited in that account during the fiscal year ending June 30, 2017, estimated to be \$50,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).**

**Subsection (j)** 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)].

**(k) 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 (k)** appropriates \$31.2 million of GF/Program Receipts (from vaccine assessments) to the Vaccine Assessment Account. Legislation passed in 2014 [Chapter 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.

### **New Subsection**

**(l) The sum of \$5,000,000 is appropriated from the general fund to the renewable energy grant fund (AS 42.45.045(a)).**

**Subsection (l)** appropriates \$5 million from the general fund to the Renewable Energy Grant Fund for energy grant appropriations.

**Funding:** With this appropriation, \$252.5 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 includes a single appropriation of \$5 million from the fund but does not list grantees.

**Legislative Fiscal Analyst Recommendations:** To comply with enabling statutes, the legislature should specify the grant recipient(s) in the capital bill. Compiling a list of grantees has typically required coordination with the Alaska Energy Authority.

**Sec. 23. RETIREMENT SYSTEM FUNDING.**

**New Subsections (a) – (e)**

**(a)** The amount necessary for payment of debt service and accrued interest on outstanding pension obligation bonds issued for deposit in the defined benefit plan account in the public employees' retirement system, estimated to be \$129,365,000, is appropriated from the general fund to the Department of Administration for deposit into the Alaska pension obligation bond corporation reserve fund, contingent on pension obligation bonds being issued with the proceeds for deposit in the defined benefit plan account in the public employees' retirement system in the fiscal year ending June 30, 2016, or the fiscal year ending June 30, 2017.

**Subsection (a)** appropriates \$129 million from the general fund for debt service on pension obligation bonds. The debt service would be in lieu of state assistance to the public employees' retirement system (PERS).

**Legislative Fiscal Analyst Comment:** As indicated in subsection (d), FY17 state assistance for PERS would be \$99 million in the absence of pension obligation bonds. In addition, the cost of issuing PERS pension obligation bonds (about \$7.2 million) is appropriated in section 19(m). The use of PERS pension obligation bonds as proposed will increase the FY17 state costs associated with PERS to about \$136 million, about \$37 million more than without bonds. Higher annual costs in the short-term may result in long-term gains.

**(b)** The amount necessary for payment of debt service and accrued interest on outstanding pension obligation bonds issued for deposit in the defined benefit plan account in the teachers' retirement system, estimated to be \$89,599,000, is appropriated from the general fund to the Department of Administration for deposit into the Alaska pension obligation bond corporation reserve fund, contingent on pension obligation bonds being issued with the proceeds for deposit in the defined benefit plan account in the teachers' retirement system in the fiscal year ending June 30, 2016 or the fiscal year ending June 30, 2017.

**Subsection (b)** appropriates \$90 million from the general fund for debt service on pension obligation bonds. The debt service would reduce state assistance to the teachers' retirement system (TRS).

**Legislative Fiscal Analyst Comment:** As indicated in subsection (e), FY17 state assistance for TRS would be \$117 million in the absence of pension obligation bonds. Pension obligation bonds will reduce TRS assistance to \$43 million [see subsection (c)]. In addition, the cost of issuing TRS pension obligation bonds (about \$5.5 million) is appropriated in section 19(m). The use of TRS pension obligation bonds as proposed will increase the FY17 state costs associated with TRS to about \$138.5 million, about \$22 million more than without bonds. Higher annual costs in the short-term may result in long-term gains.

**Legislative Fiscal Analyst Recommendation:** Move subsections 23(a) and (b) to section 19—Debt Services and Other Obligations.

(c) The sum of \$43,444,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2017, contingent on pension obligation bonds being issued with the proceeds for deposit in the defined benefit plan account in the teachers' retirement system in the fiscal year ending June 30, 2016, or the fiscal year ending June 30, 2017.

**Legislative Fiscal Analyst Comment:** Under the Governor's proposed issuance of TRS pension obligation bonds, debt service (paid from the general fund) would replace a portion of past service costs. Subsection (c) indicates that general fund assistance to TRS of \$43 million will be required in addition to \$90 million in debt service payments.

(d) The sum of \$99,166,576 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2017, contingent on pension obligation bonds not being issued with the proceeds for deposit in the defined benefit plan account in the public employees' retirement system in the fiscal year ending June 30, 2016 or the fiscal year ending June 30, 2017.

(e) The sum of \$116,699,959 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2017, contingent on pension obligation bonds not being issued with the proceeds for deposit in the defined benefit plan account in the teachers' retirement system in the fiscal year ending June 30, 2016 or the fiscal year ending June 30, 2017.

The appropriations in subsections (d) and (e) are the amounts determined by the State's actuaries to meet required contribution levels for the public employees (PERS) and teachers (TRS) retirement systems *without* the issuance of pension obligation bonds.

**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 reducing unfunded liability. The amounts appropriated in subsections (d) and (e) are the amounts of state assistance required to meet FY17 actuary recommended contributions for PERS and TRS.

State assistance costs were over \$700 million in FY14 and projected to exceed \$1 billion by FY17. A \$3 billion cash infusion—along with legislative changes—in FY15 reduced the need for state assistance to about \$216 million in FY17. Pension obligation bonds are one option with the potential to reduce long-term costs of state assistance.

**(f) The sum of \$5,412,366 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, 2017.**

The appropriation in **subsection (f)** 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.

Because investment returns were below expectations, the system has once again built up a sizable unfunded liability (\$60 million). High normal costs due to generous pension provisions and continued building of unfunded liability lead some to consider adopting a defined contribution plan.

### **New Subsection**

**(g) The sum of \$69,405 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard Naval Military retirement system under AS 26.05.226 for the fiscal year ending June 30, 2017.**

The appropriation in **subsection (g)** is the amount determined by the State's actuaries to meet required contribution levels for the National Guard and Alaska Naval Militia retirement system.

**Legislative Fiscal Analyst Comment:** Normal costs for this retirement system are reflected in DMVA's budget under section 1. The system is unique in that contributions are based on the anticipated cost of annual benefits rather than on a rate applied to current payroll.

**Legislative Fiscal Analyst Recommendation:** Move (from section 1 to this section) \$797.5 general funds appropriated for National Guard and Naval Militia retirement benefits.

#### **New Subsection**

(h) If, at June 30, 2017, the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska pension obligation bonds for the subsequent 12-month period exceeds the amounts appropriated, the additional amount necessary to satisfy the deficiency and to pay the obligations are appropriated from the general fund to the Alaska pension obligation bond corporation reserve fund (AS 37.16.040).

**Legislative Fiscal Analyst Recommendation:** Move subsection 23(h) to section 19—Debt Services and Other Obligations.

#### **New Subsection**

(i) The amount, estimated to be \$1,435,819,800, is appropriated from proceeds of the sale of bonds authorized under AS 37.16.030 to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution for the fiscal year ending June 30, 2016, or the fiscal year ending June 30, 2017, contingent on pension obligation bonds being issued for deposit in the defined benefit plan account in the public employees' retirement system in the fiscal year ending June 30, 2016 or the fiscal year ending June 30, 2017.

Section 23(i) is effective June 30, 2016 (FY16 Supplemental) and deposits the proceeds of pension obligation bonds to the PERS trust.

#### **New Subsection**

(j) The amount, estimated to be \$1,095,670,500, is appropriated from proceeds of the sale of bonds authorized under AS 37.16.030 to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution for the fiscal year ending June 30, 2016, or the fiscal year ending June 30, 2017, contingent on pension obligation bonds being issued with the proceeds for deposit in the defined benefit plan account in the teachers' retirement system in the fiscal year ending June 30, 2016, or the fiscal year ending June 30, 2017.

Section 23(j) is effective June 30, 2016 (FY16 Supplemental) and deposits the proceeds of pension obligation bonds to the TRS trust.

**Sec. 24. SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2017, of the following ongoing collective bargaining agreements:**

- (1) Alaska Correctional Officers Association, representing the correctional officers unit;**
- (2) Public Safety Employees Association;**
- (3) Alaska Vocational Technical Center Teachers' Association;**
- (4) Inlandboatmen's Union of the Pacific, Alaska Region, for the unlicensed marine unit;**
- (5) International Organization of Masters, Mates, and Pilots, for the masters, mates, and pilots 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, 2017, for university employees who are not members of a collective bargaining unit and to implement the terms for the fiscal year ending June 30, 2017, of the following collective bargaining agreements:**

- (1) United Academics - American Association of University Professors, American Federation of Teachers;**
- (2) University of Alaska Federation of Teachers (UAFT);**
- (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 in this Act applicable to the collective bargaining unit's agreement are reduced proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are reduced accordingly.**

**(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 that 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.

**Deleted Section: Monetary Terms of Collective Bargaining Agreements.**

**Legislative Fiscal Analyst Comment:** Language is being replaced with section 24 above, including updated bargaining units and standard Salary and Benefit Adjustment language.

**Deleted Subsection: Reference to the Mental Health Budget**

**Legislative Fiscal Analyst Comment:** The reference is the result of splitting appropriations between regular and special sessions. It is no longer required.

**Sec. 25. 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, 2017:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	2016	\$21,000,000
Fishery resource landing tax (AS 43.77)	2016	7,000,000
Electric and telephone cooperative tax (AS 10.25.570)	2017	4,000,000
Liquor license fee (AS 04.11)	2017	1,300,000
Cost recovery fisheries (AS 16.10.455)	2017	300,000

**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 Division operating budget reports.

**(b)** The amount necessary, estimated to be \$200,000, to refund to local governments their share of an aviation fuel tax or surcharge under AS 43.40 for the fiscal year ending June 30, 2017, is appropriated from the proceeds of the aviation fuel tax or surcharge levied under AS 43.40 to the Department of Revenue for that purpose.



**Subsection (b)** ensures that the Department of Revenue has the authorization to disburse the local government share of aviation fuel taxes to those entities.

**Legislative Fiscal Analyst Comment:** Note that the subsection specifically identifies proceeds of the aviation tax as the source of the payments.

The 40% share of aviation tax proceeds retained by the State is dedicated to airport operating and capital expenses. Appropriations of the State's share of proceeds will be tracked beginning with FY16 proceeds that may be appropriated in FY18.

**Funding:** These "pass-through" taxes are excluded from Legislative Finance Division operating budget reports.

**(c) 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 2016 according to AS 43.52.230(b), estimated to be \$15,700,000, 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, 2017.**

**Subsection (c)** appropriates \$15.7 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 Division 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 seven ports of call (previously five 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).

The FY16 end-of-year balance of the Commercial Vessel Passenger Account is estimated to be \$3,078.5. The Department of Revenue's 2015 Fall Revenue Forecast estimates FY17 revenue as \$17.9 million and the pass-through amount as \$15.7 million; leaving a balance of \$5,278.5 available for appropriation. Historical estimates of revenue and distribution to communities have been unreliable.

**Legislative Fiscal Analyst Recommendation:** The legislature should review options to address the potential for over-appropriating the account.

One example is to appropriate no more than the balance at the end of the most recently closed fiscal year (the amount in FY17 available for appropriation would be equal to the balance available FY15).

**(d) If the amount available for appropriation from the commercial vessel passenger tax account (AS 43.52.230(a)) is less than 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 2016 according to AS 43.52.230(b), then the appropriation made in (c) of this section shall be reduced in proportion to the amount of the shortfall.**

**Subsection (d)** is intended to prorate pass-through funding to the first seven ports of call if revenue is less than the calculated amount of pass-through.

**Legislative Fiscal Analyst Comment:** While the need to prorate is unlikely, the section does no harm.

**Sec. 26. RATIFICATIONS OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM.** The appropriation to each department under this Act for the fiscal year ending June 30, 2017, 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 26** allows departments to use money appropriated for FY17 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

### **Deleted Section: K-12 Education Funding**

**Legislative Fiscal Analyst Comment:** The deleted subsection was part of a complex series of appropriations designed to fund K-12 education per the statutory formula and leave a zero balance in the public education fund.

The fund will end FY16 with a zero balance, and the deleted section is no longer required.

**Sec. 27. CONSTITUTIONAL BUDGET RESERVE FUND.**

### **New Subsections (a) – (b)**

**(a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2016 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 several year-end general fund and subaccount balances be used to repay withdrawals from the constitutional budget reserve (CBR) fund. Inclusion of the subsection was triggered by a \$3 billion appropriation from the CBR to retirement funds in FY15.

**(b) The unexpended and unobligated balance on June 30, 2016, of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) is appropriated to the budget reserve fund (AS 37.05.540(a)).**

**Section 27(b)** is an FY16 Supplemental appropriation effective June 30, 2016. The subsection appropriates the entire available balance (estimated to be \$6.5 billion) from the CBR to the statutory budget reserve fund (SBR).

**Legislative Fiscal Analyst Comment:** The supplemental effective date is a complication that can be avoided. The SBR balance will be swept to the CBR via the last financial transaction of FY16. The sweep will be reversed by subsection (a), placing the CBR balance in the SBR on July 1. The same effect can be achieved with a July 1 effective date for subsection (b).

The subsection transfers reserves from a fund that requires a supermajority vote to a fund that can be appropriated with a simple majority vote. In that regard, the subsection reflects a policy choice; the location of reserves (held outside the earnings reserve account) is not a key component of the Governor’s fiscal plan.

**(c) The appropriations made in (a) and (b) 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 CBR must be approved by at least three-quarters of the members of each house of the legislature.

**Deleted Section: Appropriation of general fund earnings to the CBR.**

**Legislative Fiscal Analyst Comment:** The appropriation normally made by this (now deleted) subsection was intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for lost earnings caused by use of the fund's balance to address general fund cash flow requirements.

**Legislative Fiscal Analyst Recommendation:** The legislature should ensure that cash flow requirements are addressed. This subsection can be deleted only if the SBR has a balance sufficient to meet cash flow requirements. If the CBR balance is not appropriated to the SBR, language addressing cash flow requirements should be retained.

## **Deleted Sections: Appropriations to fill FY15 and FY16 deficits**

**Legislative Fiscal Analyst Comment:** Subsections addressing FY15 and FY16 deficits are no longer required. Subsections addressing the budget year deficit (FY17) are replaced by section 28(b).

## **New Subsections**

### **Sec. 28. STATUTORY BUDGET RESERVE FUND.**

**(a) The sum of \$3,000,000,000 is appropriated from the budget reserve fund (AS 37.05.540(a)) to the earnings reserve account (AS 37.13.145).**

**Subsection (a)** transfers \$3 billion from the SBR to the earnings reserve account, leaving a balance of about \$3.5 billion in the SBR.

**Legislative Fiscal Analyst Comment:** The Governor's plan moves money from the CBR through the SBR to the ERA. The same result would be achieved by appropriating money directly from the CBR to the ERA.

**(b) If the unrestricted state revenue available for appropriation in fiscal year 2017 is insufficient to cover the general fund appropriations that take effect in fiscal year 2017, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (AS 37.05.540(a)).**

**Section 28(b)** allows the State to cover any shortfall in unrestricted revenues with transfers from the 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 depleted the fund balance. The Governor's plan would place about \$3.5 billion in the SBR. Unlike the CBR, the SBR can be accessed with a simple majority vote.

**Funding:** The estimated value of this appropriation is about \$500 million based on the FY17 Governor's proposed budget.

**Sec. 29. LAPSE OF APPROPRIATIONS. The appropriations made in secs. 7(c), 8, 9(b), 21 - 23, 27, and 28 of this Act are for the capitalization of funds and do not lapse.**

**Section 29** ensures that money deposited into various funds will not lapse at the end of FY17.

**Sec. 30. RETROACTIVITY.** The appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2016 program receipts or the unexpended and unobligated balance on June 30, 2016, of a specified account are retroactive to June 30, 2016, solely for the purpose of carrying forward a prior fiscal year balance.

Section 30 is effective June 30, 2016 (FY16 Supplemental).

### **New Section**

**Sec. 31. CONTINGENT EFFECT.** (a) The appropriations made in sec. 28(a) and (b) of this Act are contingent on passage of the appropriation made in sec. 27(b) of this Act to pass upon an affirmative vote of three-fourths of the members of each house of the Twenty-Ninth Alaska State Legislature in the Second Regular Session.

**Legislative Fiscal Analyst Comment:** Without the transfer from the CBR to the SBR section 27(b), there would be no money in the SBR to back the appropriations from the SBR [sections 28 (a) and (b)].

**Sec. 32.** Sections 19(m), 21(p), 23(i) and (j), 27(b), and 30 of this Act take effect June 30, 2016.

**Sec. 33.** Except as provided in sec. 32 of this Act, this Act takes effect July 1, 2016.

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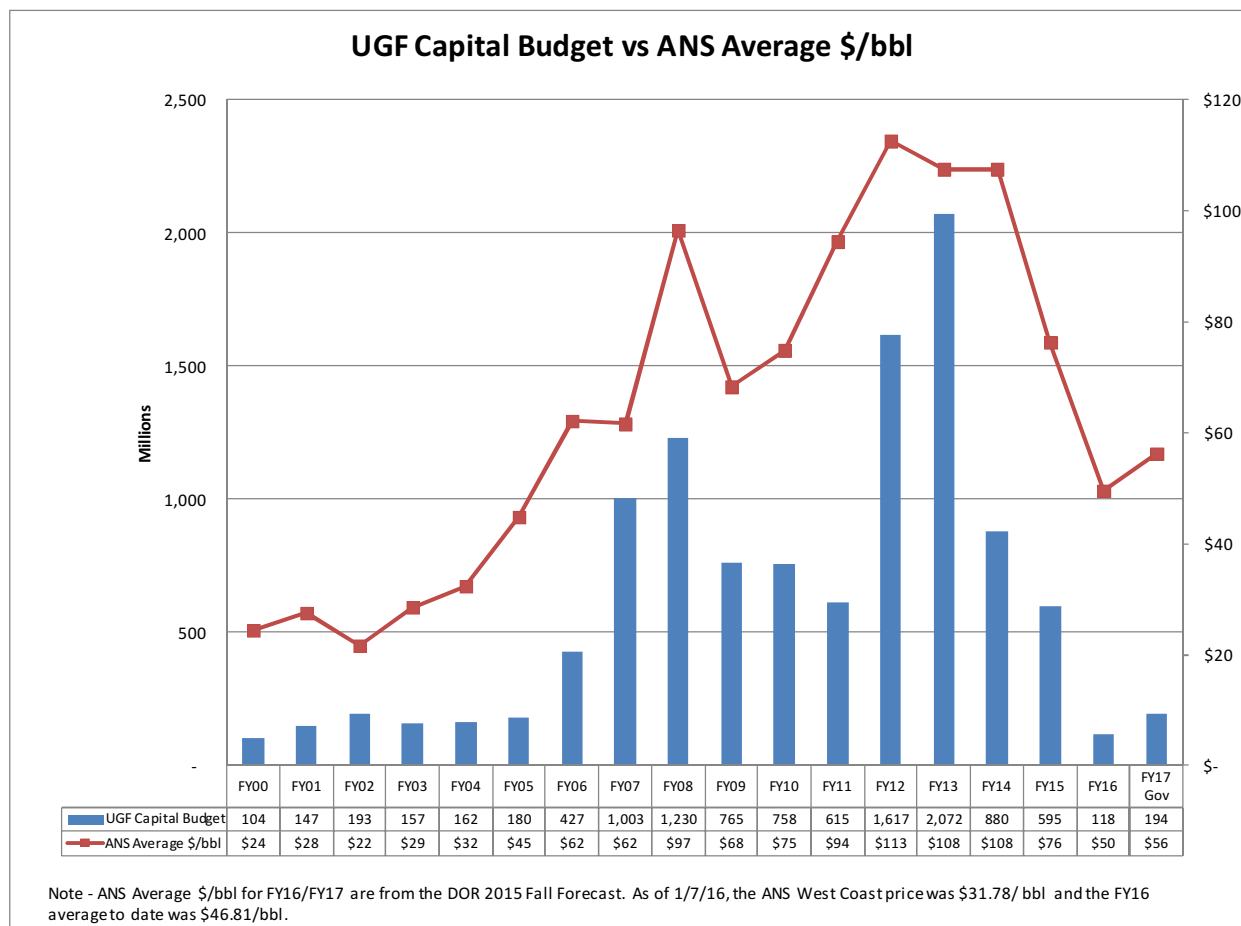
## **Capital Budget**

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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. The Unrestricted General Fund (UGF) capital budget for FY16 was \$118 million — the smallest capital budget since FY00 when oil prices averaged \$24.42/bbl. At \$194 million, the Governor's proposed FY17 capital budget is somewhat higher than the FY16 budget, but it is still dramatically lower than in recent years. The graph below provides a visual representation of the relationship between oil prices and capital budgets.



As illustrated in the graph, the years FY06-FY15 saw unprecedented capital investment. During that ten-year span, over \$25 billion of state and federal funding was appropriated for capital projects. This includes nearly \$10 billion of unrestricted general funds – some of which has yet to be expended. As of January 2015, there was approximately \$4.2 billion of unexpended general funds for capital projects still in the state accounting system<sup>1</sup>. Certainly, that figure has declined over the year, but this implies that smaller general fund capital budgets, coupled with a steady outlook for federal capital spending, should not immediately impact Alaska's economy.

<sup>1</sup> This includes both encumbered and unobligated funding and excludes projects for the University and the public corporations. Given the complications being experienced in the new state accounting system (IRIS), obtaining an updated 2016 figure in time for this publication was not possible.

The table below provides a summary of UGF capital appropriations during the ten-year capital spending “boom.”

UGF Capital Projects-10 Years (FY06-FY15)	(millions)	
Statewide Deferred Maintenance	714.0	7.2%
Federal Match for Highways and Airports	541.3	5.4%
State Transportation Projects (no federal)	1,199.0	12.0%
Village Safe Water Match	137.7	1.4%
Muni Water/Sewer Projects	194.8	2.0%
School Construction	715.5	7.2%
School Major Maintenance	324.0	3.3%
UAA Engineering Building	82.6	0.8%
UAF Engineering Building	66.3	0.7%
AMHS Alaska Class Ferries	180.0	1.8%
AHFC Home Energy Rebate	252.5	2.5%
AHFC Weatherization	383.1	3.8%
Renewable Energy Projects	227.5	2.3%
Susitna-Watana Hydro	173.4	1.7%
Other Energy Projects	249.9	2.5%
Grants to Municipalities/Named Recipients	2,606.2	26.2%
Port of Anchorage	219.8	2.2%
Port Mackenzie Including Rail Extension	187.6	1.9%
Other Projects	1,505.9	15.1%
Total	\$ 9,961.1	100.0%

### The Governor's FY17 Capital Request

Generally speaking, the FY16 budget, included only projects that leveraged other money. The only exception was for the Kivalina K-12 school replacement, at \$43 million, which was arguably necessary as a result of the *Kasayulie* lawsuit settlement (further discussion on Kivalina follows). The Governor's FY17 capital budget provides similar leverage for federal transportation and Village Safe Water funding and some additional items addressing deferred maintenance, school construction, other high priority agency needs and a Governor's initiative for criminal justice reform (which may be better placed in the operating budget).

Project highlights include:

- DEC Village Safe Water/ Wastewater Projects - \$8.75 million GF Match leveraging \$42.25 million Federal Receipts
- DOT&PF Federal Highway and Aviation State Match - \$62.1 million GF Match leveraging approximately \$860 million Federal Receipts
- DOT&PF Municipal Harbor Facility Grant Fund - \$5 million general funds
- Alaska Energy Authority Energy Programs - \$9.4 million general funds

- Kivalina School Construction - \$7.2 million general funds
- Katchemak Selo K-12 School Construction (#1 on the DEED School Construction CIP List) - \$10.9 million general funds
- Top 3 Schools on the DEED Major Maintenance CIP List - \$11.3 million general funds;
- Alaska Housing Finance Corporation Programs - \$17.5 million general funds
- Grant to Lower Kuskokwim School District for Bethel High School Addition - \$7.1 million general funds
- Alaska Marine Highway System Vessel Overhaul and Facilities Rehab - \$12 million general funds
- Agency Deferred Maintenance, Repairs and Safety Projects - \$30.7 million general funds

Discussion of various issues follows.

### **Kivalina K-12 School Replacement**

For FY17, the Governor includes another \$7.2 million UGF for Kivalina School Replacement. This is somewhat of a surprise given the proceedings of last session.

The FY16 capital budget request included two appropriations for Kivalina - \$2.5 million for the Kivalina Evacuation and Access Road, and \$4.6 million for the Kivalina K-12 Replacement School. During capital budget discussions, the Senate Finance Committee co-chair worked with the Departments of Education and Early Development (DEED) and Law as well as legislators representing the village of Kivalina, and Legislative Legal Services to determine the appropriate number to fulfill the state's obligation with regard to the *Kasayulie* Lawsuit.

After multiple meetings and legal opinions, the following was determined:

1. Under the settlement, the State is not responsible for the road from the current village of Kivalina to the new (to be determined) school site. The road was not a part of the decree issued in the lawsuit.
2. The State needed to fulfill their obligation of the *Kasayulie* consent decree by appropriating funds to improve the school in Kivalina. However, the decree specifically requires the State to fund "Kivalina K-12 school renovation/addition" and also requires the State to fund the "Kwethluck K-12 replacement." There was a great deal of discussion surrounding renovation versus construction. A renovation seems unlikely given the severe erosion issues in the village and at the current site.

The consent decree provides that "if the Legislature declines to fund, or places contingencies on the Kivalina school project because of concerns about erosion or viability of the school site, the lack of funding or contingencies will have no effect on the settlement, and cannot be used by the plaintiffs to reopen the litigation."

Additionally, the consent decree provides a monetary limit to the State's liability for the school. It specifies that the amount to be appropriated is to be determined by DEED's 2013 Capital Improvement Project process. In that document, the Department did not include a Kivalina

renovation/addition project, but did include a Kivalina replacement school, with a state share of \$43.2 million.

With the appropriation of \$43.2 in the FY16 capital budget, it was the intention of the legislature to resolve the *Kasayulie* settlement by fulfilling the State's obligation under the consent decree. The Governor's FY17 budget adds another \$7.2 million to the \$43.2 million (a total of \$50.4 million) to reach the State's share under the FY16 DEED School Construction List amount.

## Deferred Maintenance

Deferred maintenance is self-explanatory; it is 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 by Agency (millions)						
	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Difference Jan-15 to Jan-16
Administration	50.3	48.7	59.3	45.7	67.8	22.1
Corrections	102.9	87.4	74.6	65.9	59.4	(6.5)
Court System	9.8	8.1	6.8	6.9	8.7	1.8
Education & Early Development	20.5	12.6	16.7	15.0	16.5	1.5
Environmental Conservation	0.2	0.0	0.2	0.3	0.0	(0.3)
Fish and Game	3.1	2.0	1.4	1.4	1.4	0.0
Health & Social Services	19.2	17.1	25.2	18.2	24.2	6.0
Labor & Workforce Development	49.0	31.5	21.3	15.0	11.9	(3.1)
Military & Veterans Affairs	50.0	27.9	46.5	48.2	27.2	(21.0)
Natural Resources	69.1	74.1	75.5	73.2	70.2	(3.0)
Public Safety	6.7	6.7	6.2	6.6	5.3	(1.3)
Transportation & Public Facilities	751.4	673.8	515.2	459.0	435.0	(24.0)
Airports	54.7	49.2	50.2	51.6	77.6	26.0
Harbors	15.5	16.0	15.9	9.5	14.5	5.0
Facilities	39.4	33.1	32.8	24.4	27.3	2.9
Highways	624.9	558.7	403.9	360.0	302.0	(58.0)
AMHS Vessels/Terminals	16.9	16.8	12.4	13.5	13.6	0.1
University of Alaska	1,185.8	1,200.7	1,203.0	1,091.2	1,080.6	(10.6)
<b>Total</b>	<b>2,318.0</b>	<b>2,190.6</b>	<b>2,051.9</b>	<b>1,846.6</b>	<b>1,808.2</b>	<b>(38.4)</b>

The Parnell administration had implemented a plan to spend \$100 million in each of five years in order to reduce the deferred maintenance backlog. The legislature approved nearly all of the funding and the backlog decreased significantly. No deferred maintenance funding was authorized in the FY16 budget and little, relative to the size of the backlog, is proposed in the Governor's FY17 request. Ignoring agency maintenance needs will result in a reversal of the declining backlog trend and result in costlier repairs in the future.

Several points are worth mentioning in this regard.

1. With a focus on deferred maintenance and a consistent funding stream, agencies had become better at identifying and estimating the cost of projects. With sustained funding, the backlog was expected to 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 they fall into disrepair and the more they cost to complete.

**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 be discussed by the legislature.

The numbers in the deferred maintenance backlog table should be considered 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.

## **Surface Transportation Program (STP) and Airport Improvement Program (AIP) – Single Appropriations without Allocations**

New to the budget this year is the exclusion of allocations in the Department of Transportation and Public Facilities (DOT&PF) appropriations for the Federal STP and AIP programs. The agency is proposing to do away with the allocations in order to gain administrative efficiencies and provide a more accurate representation of DOT&PF’s capital budget spending plan. A similar action was requested and implemented by the legislature several years ago for the Department of Environmental Conservation (DEC) Village Safe Water and Waste Water Program.

To be eligible to receive funding in either the STP or AIP program, a project must appear on a federally approved capital improvement plan. For highways, this means the Statewide Transportation Improvement Program (STIP), and for rural airports, it means the Airport Improvement Program (AIP). These plans follow federal requirements for project ranking and public involvement and, historically, determined the allocations that made up the appropriations.

Currently, DOT&PF over budgets these programs to account for an average of 30% in project slips and for the reprogramming of \$100 million of excess federal cash from completed projects.

One of the Department's objectives is to minimize the risk of losing federal funds to another state due to the inability to reprogram to other federally eligible projects.

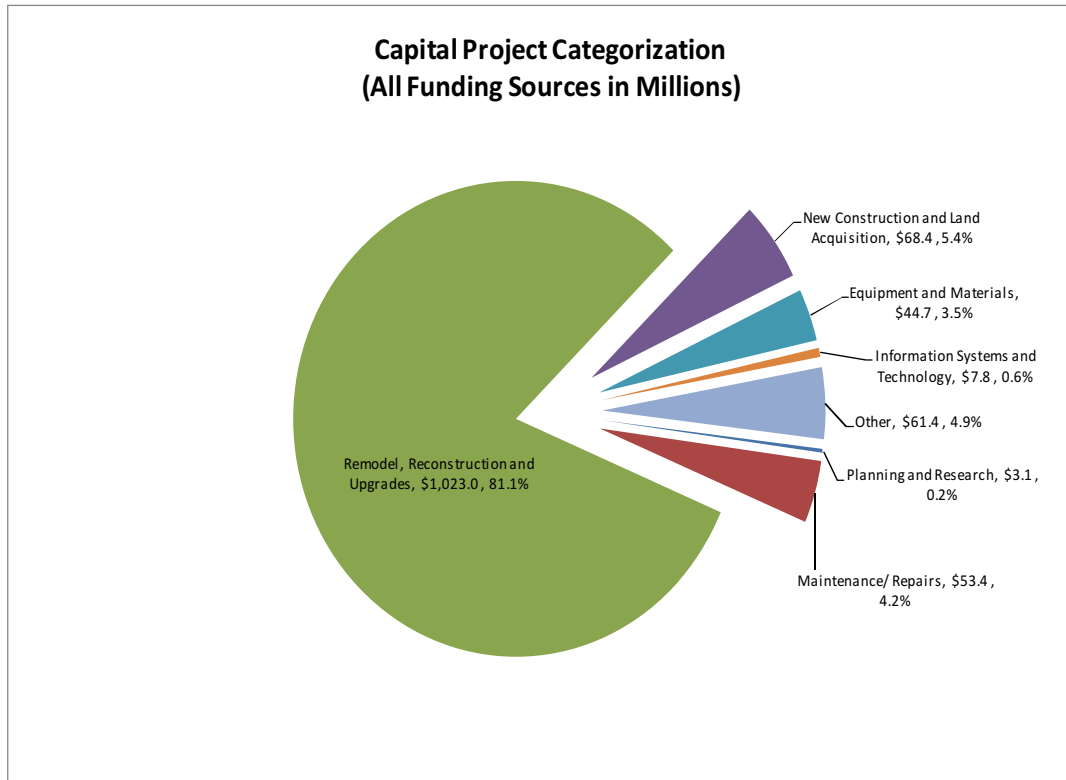
The ability to redirect approved legislative authority to projects that have insufficient authority provides DOT&PF with the flexibility necessary to manage the capital improvement program. However, obtaining this flexibility requires DOT&PF to reserve (by over budgeting) excess federal legislative authority that otherwise could lapse. As a result of this practice, there is currently over \$2.1 billion of unobligated, unencumbered federal authority on DOT&PF's books (some more than ten years old).

DOT&PF has a white paper providing a detailed discussion of these issues that will be shared with the legislature upon request.

**Legislative Fiscal Analyst Comment:** There may be significant merit in making this structural budget change, but the legislature may want to weigh both pros and cons. Eliminating allocations appears to reduce legislative "control" over the budget, but the programs are primarily dictated by the federal planning documents (STIP and AIP) anyway.

The proposal would make reporting the election district distribution of federal funding problematic. Discussion with the agency on possible work arounds for reporting will need to be further explored as the legislature considers the proposal.

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	Agency Comparison - All Funds (Includes MH)				FY17 Governor's Budget by House District				
	FY16 Budget (1)	FY17 Gov	Change FY16-FY17		House District	HD #	General Funds	Other State Funds	Federal Funds
Administration	3,000.0	4,475.0	1,475.0		Fairbanks Areawide	1-5	350.0	-	-
Commerce, Community & Econ Dev	21,150.5	36,072.4	14,921.9		Mat-Su Areawide	7-12	-	-	-
Corrections	-	2,800.0	2,800.0		Anchorage Areawide	12-28	-	-	-
Education and Early Development	45,861.1	30,389.5	(15,471.6)		Kenai Areawide	29-31	11,167.5	-	-
Environmental Conservation	62,563.6	55,026.3	(7,537.3)		Juneau Areawide	33-34	-	475.0	-
Fish and Game	23,925.0	4,350.0	(19,575.0)		Southeast Region	33-36	250.0	-	-
Office of the Governor	-	8,814.0	8,814.0		Sitka/ Petersburg	35	1,235.1	-	-
Health and Social Services	1,550.0	7,658.3	6,108.3		Bristol B/Aleutian/Up Kusk	37	11,048.5	-	-
Labor and Workforce Development	-	-	-		Lower Kuskokwim	38	8,129.8	-	-
Law	-	-	-		Arctic	40	7,238.4	-	3,502.6
Military and Veterans Affairs	31,272.2	5,600.0	(25,672.2)		Statewide	1-40	161,620.8	103,346.3	953,404.8
Natural Resources	14,050.0	8,350.0	(5,700.0)						
Public Safety	1,200.0	1,200.0	-						
Revenue	55,250.0	42,850.0	(12,400.0)						
Transportation & Public Facilities	1,248,256.9	1,040,450.0	(207,806.9)						
University of Alaska	3,000.0	10,000.0	7,000.0						
Alaska Court System	-	3,733.3	3,733.3						
Legislature	-	-	-						
<b>Total Capital - "Money on the Street" (2)</b>	<b>1,511,079.3</b>	<b>1,261,768.8</b>	<b>(249,310.5)</b>		<b>Total</b>		<b>201,040.1</b>	<b>103,821.3</b>	<b>956,907.4</b>
Unrestricted General Funds	118,418.0	194,290.1	75,872.1		Unrestricted General Funds		194,290.1	-	-
Designated General Funds	56,575.1	6,750.0	(49,825.1)		Designated General Funds		6,750.0	-	-
Other State Funds	60,183.8	103,821.3	43,637.5		Other State Funds		-	103,821.3	-
<b>Federal Funds</b>	<b>1,275,902.4</b>	<b>956,907.4</b>	<b>(318,995.0)</b>		<b>Federal Funds</b>		<b>-</b>	<b>-</b>	<b>956,907.4</b>

Notes:

1) The FY16 Budget column includes approved RPL's through the 12/7/2015 meeting of the Legislative Budget and Audit Committee.

2) "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 FY17 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, 2017, 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, 2017, 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, 2017, 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 (LB&A), 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, 2016, estimated to be \$3,502,626, 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 \$3.5 million for FY17) 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 not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization endowment fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised.

**New Section**

**Sec. 7. DEPARTMENT OF ENVIRONMENTAL CONSERVATION.** (a) The unexpended and unobligated balances, not to exceed \$1,040,000 of the estimated total balance of \$4,187,600, of the following appropriations are reappropriated to

**the Department of Environmental Conservation for the Haines: sewer treatment plant health and safety upgrades:**

- (1) sec. 1, ch. 82, SLA 2006, page 66, lines 14 - 15, and allocated on page 68, lines 5 - 7 (Department of Environmental Conservation, water and wastewater infrastructure projects, Ketchikan Tongass Avenue water and sewer phase 3 matching grant - \$1,884,179);**
- (2) sec. 4, ch. 30, SLA 2007, page 90, lines 8 - 9, and allocated on page 90, lines 17 - 19 (Department of Environmental Conservation, water and wastewater infrastructure projects, Anchorage - South Fork Chester Creek channel restoration - \$1,030,000);**
- (3) sec. 4, ch. 30, SLA 2007, page 90, lines 8 - 9, and allocated on page 90, line 21 (Department of Environmental Conservation, water and wastewater infrastructure projects, Bethel - \$7,595,224);**
- (4) sec. 4, ch. 30, SLA 2007, page 90, lines 8 - 9, and allocated on page 91, lines 32 - 33, and page 92, line 3 (Department of Environmental Conservation, water and wastewater infrastructure projects, North Pole - Baker/North Star water and sewer phase I - \$2,067,210);**
- (5) sec. 13, ch. 29, SLA 2008, page 139, lines 7 - 9, and allocated on page 139, lines 10 - 13 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Anchorage: Asplund wastewater treatment facility disinfection upgrade - \$2,060,000);**
- (6) sec. 62, ch. 29, SLA 2008, page 221, lines 21 - 24, and allocated on page 221, lines 26 - 27 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Anchorage: Asplund wastewater treatment facility disinfection upgrade - \$206,000);**
- (7) sec. 1, ch. 15, SLA 2009, page 6, lines 25 - 27, and allocated on page 7, lines 3 - 6 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Fairbanks North Star Borough: Pioneer Park water and sewer improvements - \$100,395);**
- (8) sec. 1, ch. 15, SLA 2009, page 6, lines 25 - 27, and allocated on page 7, lines 20 - 22 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Juneau: West Mendenhall Valley sewer expansion, phase III - \$1,608,860);**
- (9) sec. 1, ch. 15, SLA 2009, page 6, lines 25 - 27, and allocated on page 8, lines 9 - 12 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Nome: Moonlight Springs transmission line upgrade/replace, phase II - \$3,090,000);**
- (10) sec. 1, ch. 15, SLA 2009, page 6, lines 25 - 27, and allocated on page 8, lines 16 - 18 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Palmer: steel water main replacement, phase VII - \$2,033,220);**

- (11) sec. 7, ch. 43, SLA 2010, page 24, lines 4 - 6, and allocated on page 24, lines 13 - 17 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Fairbanks North Star Borough - solid waste landfill leachate recirculation project - \$900,450);**
- (12) sec. 7, ch. 43, SLA 2010, page 24, lines 4 - 6, and allocated on page 25, lines 8 - 10 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Matanuska Susitna Borough - central landfill cell 2 closure - \$546,480);**
- (13) sec. 7, ch. 43, SLA 2010, page 24, lines 4 - 6, and allocated on page 25, lines 11 - 13 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, North Pole - water and sewer improvements - \$2,731,869);**
- (14) sec. 7, ch. 43, SLA 2010, page 24, lines 4 - 6, and allocated on page 25, lines 21 - 23 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Palmer - continued southwest utility extension phase 2 - \$1,802,500);**
- (15) sec. 7, ch. 43, SLA 2010, page 24, lines 4 - 6, and allocated on page 25, lines 24 - 26 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Palmer - continued steel water main replacement phase 7 - \$2,523,500);**
- (16) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 81, lines 30 - 31 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Haines - asbestos cement pipe replacement - \$535,224);**
- (17) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 81, lines 32 - 33 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Kenai - water transmission mains phase 3 - \$1,603,710);**
- (18) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 82, lines 3 - 4 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Ketchikan - water and sewer improvements - \$3,476,250);**
- (19) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 82, lines 10 - 12 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Palmer - southwest water utility extension, phase 2B increase - \$2,575,000);**
- (20) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 82, lines 13 - 15 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Sitka - ultraviolet water disinfection facility - \$3,587,500);**
- (21) sec. 1, ch. 5, FSSLA 2011, page 81, lines 27 - 29, and allocated on page 82, lines 18 - 19 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Unalaska - water treatment plant - \$3,090,000);**
- (22) sec. 1, ch. 17, SLA 2012, page 113, lines 30 - 32, and allocated on page 114, lines 12 - 14 (Department of Environmental Conservation, municipal water, sewage, and**

solid waste facilities grants, Ketchikan - Jackson/Monroe Streets and 4th/7th Avenues water and sewer - \$767,860);

(23) sec. 1, ch. 17, SLA 2012, page 113, lines 30 - 32, and allocated on page 114, lines 22 - 24 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Nome - East Sclaircore replacement/expansion phase 2 - \$3,090,000);

(24) sec. 1, ch. 17, SLA 2012, page 113, lines 30 - 32, and allocated on page 114, lines 31 - 33, and page 115, line 3 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Seward - North Seward water storage tank and pumping facility - \$2,583,240);

(25) sec. 1, ch. 17, SLA 2012, page 113, lines 30 - 32, and allocated on page 115, lines 13 - 15 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Unalaska - wastewater treatment plant upgrade - \$4,090,000);

(26) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 63, lines 31 - 32 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Haines - asbestos cement pipe replacement - \$570,544);

(27) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 64, lines 5 - 7 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Ketchikan - Jackson/Monroe Streets and 4th/7th Avenues water and sewer - \$2,319,090);

(28) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 64, lines 13 - 15 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Unalaska - wastewater treatment plant upgrade - \$3,090,000);

(29) sec. 1, ch. 16, SLA 2013, page 63, lines 24 - 26, and allocated on page 64, lines 18 - 20 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Valdez - wastewater treatment plant outfall line - \$1,894,170);

(30) sec. 28, ch. 16, SLA 2013, page 129, lines 11 - 17, (Department of Environmental Conservation, project administration of water quality enhancement, water supply, sewage, and solid waste facilities grants to municipalities, Kodiak ultraviolet secondary water treatment facility and for replacing and upgrading the pump house in Monashka Bay - \$900,000);

(31) sec. 1, ch. 18, SLA 2014, page 51, lines 21 - 22, and allocated on page 51, lines 28 - 30 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Kodiak Aleutian Homes water and sewer replacement - \$3,044,465);

(32) sec. 1, ch. 18, SLA 2014, page 51, lines 21 - 22, and allocated on page 51, lines 31 - 32 (Department of Environmental Conservation, municipal water, sewage, and solid waste facilities grants, Kodiak pump house replacement - \$2,570,315).

**(b) The unexpended and unobligated balances, not to exceed \$1,040,000 after the appropriation made in (a) of this section, of the appropriations listed in (a)(1) - (32) of this section, are reappropriated to the Department of Environmental Conservation for the Sitka: South Lake and West DeGroff water and sewer replacement.**

**(c) The unexpended and unobligated balances, not to exceed \$1,019,287 after the appropriations made in (a) and (b) of this section, of the appropriations listed in (a)(1) - (32) of this section, are reappropriated to the Department of Environmental Conservation for the Kenai: wastewater treatment plant upgrades, phase II.**

**(d) The unexpended and unobligated balances, not to exceed \$1,040,000 after the appropriations made in (a) - (c) of this section, of the appropriations listed in (a)(1) - (32) of this section, are reappropriated to the Department of Environmental Conservation for the Ketchikan Gateway Borough: South Tongass Shoup to Forest Park water and sewer.**

**(e) The unexpended and unobligated balances, estimated to be \$48,314 but not to exceed \$731,236 after the appropriations made in (a) - (d) of this section, of the appropriations listed in (a)(1) - (32) of this section, are reappropriated to the Department of Environmental Conservation for the Wrangell: water main replacement.**

**Section 7** appropriates the unexpended and unobligated balances of thirty-two municipal water / sewer grant projects, estimated to total \$4.2 million, to five new municipal water sewer grant projects. The projects are listed in priority order [starting with subsection (a)] and funding for each of the projects is dependent on higher priority projects receiving needed funding first.

**Subsection (a)** appropriates \$1.04 million to Haines: sewer treatment plant health and safety upgrades.

**Subsection (b)** appropriates \$1.04 million to Sitka: South Lake and West DeGroff water and sewer replacement.

**Subsection (c)** appropriates \$1.02 million to Kenai: wastewater treatment plant upgrades, phase II.

**Subsection (d)** appropriates \$1.04 million to Gateway Borough: South Tongass Shoup to Forest Park water and sewer.

**Subsection (e)** appropriates \$48,300 to Wrangell: water main replacement.

**Legislative Fiscal Analyst Comment:** Reappropriation of existing capital funding to new capital projects is a long-standing method of holding down the apparent size of the capital budget (because reappropriations are counted as zero). However, the legislature could choose to lapse/repeal the existing expenditure authorization and have the new projects compete for funding with all other capital projects.

### New Section

**Sec. 8. DEPARTMENT OF PUBLIC SAFETY. (a)** The unexpended and unobligated balances, not to exceed \$2,269,500, of the estimated balance of \$3,619,500, of the appropriations made in sec. 1, ch. 17, SLA 2012, page 128, lines 19 - 21 (Department of Public Safety, P/V Woldstad - engine repower and other dry dock maintenance - \$2,400,000) and sec. 1, ch. 18, SLA 2014, page 60, lines 25 - 26 (Department of Public Safety, P/V Woldstad - engine repower and other dry dock maintenance - \$1,300,000), are reappropriated to the Department of Public Safety for aircraft and vessel repair and maintenance.

**(b)** The unexpended and unobligated balances, after the appropriation made in (a) of this section, estimated to be \$1,350,000, of the appropriations made in sec. 1, ch. 17, SLA 2012, page 128, lines 19 - 21 (Department of Public Safety, P/V Woldstad - engine repower and other dry dock maintenance - \$2,400,000), and sec. 1, ch. 18, SLA 2014, page 60, lines 25 - 26 (Department of Public Safety, P/V Woldstad - engine repower and other dry dock maintenance - \$1,300,000), are reappropriated to the Department of Public Safety for deferred maintenance, renewal, repair, and equipment.

**Section 8** appropriates the unexpended and unobligated balances of two Department of Public Safety (DPS) capital projects, estimated to total \$3.6 million, to DPS for aircraft and vessel repair and maintenance (\$2.3 million) and facility deferred maintenance and equipment (\$1.35 million).

**Legislative Fiscal Analyst Comment:** The P/V *Woldstad* repower project was tabled by the agency as funding was insufficient and the vessel was recommended for decommission. The aircraft and vessel repair and deferred maintenance projects are typically found in the DPS capital budget request.

Reappropriation of existing capital funding to new capital projects is a long-standing method of holding down the apparent size of the capital budget (because reappropriations are counted as zero). However, the legislature could choose to lapse/repeal the existing expenditure authorization and have the new projects compete for funding with all other capital projects.

**New Section**

**Sec. 9. DEPARTMENT OF REVENUE. (a) The unexpended and unobligated balances, not to exceed \$1,750,000, of the estimated balance of \$20,000,000, of the following appropriations are reappropriated to the Alaska Housing Finance Corporation for the senior citizens housing development program:**

**(1) sec. 4, ch. 5, FSSLA 2011, page 138, line 10 - 11 (AHFC Home Energy Rebate program - \$37,500,000);**

**(2) sec. 1, ch. 17, SLA 2012, page 131, line 28 - 29 (AHFC Home Energy Rebate program - \$20,000,000);**

**(3) sec. 1, ch. 16, SLA 2013, page 78, line 4 - 5 (AHFC Home Energy Rebate program - \$20,000,000);**

**(4) sec. 1, ch. 18, SLA 2014, page 62, line 15 - 16 (AHFC Home Energy Rebate program - \$15,000,000).**

**(b) The unexpended and unobligated balances, after the appropriation made in (a) of this section, not to exceed \$6,600,000, of the estimated balance of \$20,000,000, of the following appropriations are reappropriated to the Alaska Housing Finance Corporation for the weatherization program:**

**(1) sec. 4, ch. 5, FSSLA 2011, page 138, line 10 - 11 (AHFC Home Energy Rebate program - \$37,500,000);**

**(2) sec. 1, ch. 17, SLA 2012, page 131, line 28 - 29 (AHFC Home Energy Rebate program - \$20,000,000);**

**(3) sec. 1, ch. 16, SLA 2013, page 78, line 4 - 5 (AHFC Home Energy Rebate program - \$20,000,000);**

**(4) sec. 1, ch. 18, SLA 2014, page 62, line 15 - 16 (AHFC Home Energy Rebate program - \$15,000,000).**

**Section 9** appropriates the unexpended and unobligated balances of four Alaska Housing Finance Corporation (AHFC) Home Energy Rebate program appropriations, not to exceed a total of \$8.35 million, to the Senior Citizens Housing Development Program (\$1.75 million) and the Weatherization Program (\$6.6 million).

**Legislative Fiscal Analyst Comment:** The current available balance in the Home Energy Rebate program is approximately \$20 million with a burn rate of about \$1.5 million per month. The Governor's budget reprograms about \$8.35 million of the available balance to the higher demand Weatherization and Senior Housing programs. AHFC expects to fully expend the remaining \$11.65 million balance for energy rebates in FY16.



**New Section**

**Sec. 10. FUND CAPITALIZATION. (a) The sum of \$250,000 is appropriated from federal receipts to the emerging energy technology fund (AS 42.45.375) for capital projects.**

**(b) The sum of \$1,000,000 is appropriated from the general fund to the emerging energy technology fund (AS 42.45.375) for capital projects.**

**Section 10** appropriates \$250,000 federal receipts and \$1 million unrestricted general funds (UGF) to the Emerging Energy Technology Fund for grants under AS 42.45.375.

The fund was capitalized as follows:

- FY11 – \$2.4 million UGF
- FY12 –
  - \$2.4 million federal funds (secured from the Denali Commission)
  - \$2.4 million UGF (provided by the legislature as “good faith” match)
- FY13 – \$1.7 million federal funds (the amount available for grants was reduced by \$345,000)
- FY14 – \$2 million UGF

**Funding:** A total of \$10.6 million has been deposited into the Emerging Energy Technology Fund. The Alaska Energy Authority (AEA) has granted and obligated (through two rounds of solicitation) a total of \$9.7 million; leaving an unobligated balance of \$810,000 in the fund.

**Legislative Fiscal Analyst Recommendation:** Move section 10 from the capital bill to the operating bill. Fund capitalizations are consolidated into a single section of the operating bill.

**Sec. 11. LAPSE. (a) The appropriations made in secs. 6, 7, 8, and 9 of this Act are for capital projects and lapse 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 (Chapter 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 retain funding for capital projects with little, or no, legislative oversight.

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

**Sec. 12. Sections 7, 8, and 9 of this Act take effect June 30, 2016.**

**Sec. 13. Except as provided in sec. 12 of this Act, this Act takes effect July 1, 2016.**

**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.”

## **Agency Narratives and Funding Summaries**

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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

<b>Department of Administration</b>				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$105,128.0</b>			
FY16 Fiscal Notes	-			
CarryForward	2,109.9			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(1,216.6)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$106,021.3</b>	\$893.3	0.8%	
One-time Items Removed	(3,519.6)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	205.0			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$102,706.7</b>	(\$3,314.6)	-3.1%	
Unallocated	(994.6)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	37.5			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(1,989.5)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$99,760.1</b>	(\$2,946.6)	-2.9%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>(\$2,946.6)</b>	
Centralized Administrative Services	11,710.1	11,586.1	(124.0)	5, 6
General Services	2,334.6	2,014.1	(320.5)	7
Special Systems	2,026.3	1,925.1	(101.2)	
Enterprise Technology Services	7,650.5	7,221.7	(428.8)	8
Public Communications Services	4,246.1	3,460.5	(785.6)	9
AIRRES Grant	85.0	50.0	(35.0)	10
Legal and Advocacy Services	48,896.3	47,744.8	(1,151.5)	3
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	229,622.8	229,970.6	347.8	4
Federal Funds (all allocations)	3,806.7	2,221.5	(1,585.2)	11
<b>Total Non-General Funds (all allocations)</b>	<b>\$233,429.5</b>	<b>\$232,192.1</b>	<b>(\$1,237.4)</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>1,108</b>	<b>1,099</b>	<b>(9)</b>	
PFT	1,049	1,043	(6)	6
PPT	15	19	4	
Temp	44	37	(7)	6
<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	4,000.0	-	4,000.0	
Remodel, Reconstruction and Upgrades	475.0	-	475.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$4,475.0</b>	<b>\$0.0</b>	<b>\$4,475.0</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 FY17 Department of Administration general fund operating budget submitted by the Governor on December 15, 2015 is \$2,946.6 (2.9%) *below* the FY17 Adjusted Base [(\$3,706.6) Unrestricted General Funds (UGF) and \$760.0 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.

### **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

- 1. FY16 Branch-Wide Unallocated Reduction: (\$1,216.6) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$1,216.6 of the reduction to the Department of Administration. The agency spread its reduction throughout seven appropriations and multiple allocations. Actions to meet this cut include:
  - Restructuring of delivered services;
  - Reductions in travel, supply and equipment purchases;
  - Increase vacancy;
  - Furlough options for eligible staff; and
  - A reduced Alaska Information Radio Reading and Educational Services (AIRRES) Grant.
- 2. FY17 Treatment of FY16 One-Time Salary Increases: (\$994.6) UGF Total [(\$956.0) UGF/ (\$38.6) GF/MH].** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA. The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## SIGNIFICANT BUDGET CHANGES

3. **Legal and Advocacy Services Appropriation:** Although the total increase of \$209.7 (0.4%) above the FY17 Adjusted Base makes it appear that this appropriation's budget is relatively unchanged, the numbers are misleading. In addition to a \$1.244 million UGF *reduction*, the FY17 request includes some significant *increases* in GF/Program Receipts and in SDPR that should be highlighted. The details of these (and other) changes are below.

- **Office of Public Advocacy (OPA) – Reduce Contract Costs Through Reutilization of Staff: (\$640.2) UGF.** In an attempt to meet the proposed UGF FY17 budget cut (a 1.7% reduction from 17AdjBase), OPA is taking several actions to reduce costs and increase revenue, including the restructuring of two sections plus the addition of personnel to keep many more cases in-house and reduce the substantial cost of contract attorneys. Positions will be left vacant as long as possible without undermining the mission of OPA, which is to provide Guardian Ad Litem representation for abused and neglected children, to provide Public Guardians who make life decisions for incapacitated adults, and representing elders who have been financially defrauded.
- **Public Defender Agency (PDA) – Centralize Agency Functions: (\$1,271.3) UGF.** The Public Defender Agency is absorbing a 3% UGF cut (from 17AdjBase). This reduction will result in reduced attorney staffing, which the Department notes may interfere with the agency's ability to communicate with clients, prepare cases for trial, and resolve matters in a timely manner. PDA provides constitutionally mandated defense services to indigent clients. The agency does not control its own caseload and is required by state law to provide services to all individuals who are entitled to public counsel. Accordingly, the agency is unable to eliminate programs or refuse to provide necessary services to indigent clients. To absorb this cut, vacancy will be increased where possible and administrative staff in locations outside of Anchorage will be centralized into the Anchorage office.
- **Increased Receipts for Appointed Counsel: \$760.0 GF/Program Receipts (DGF).** Per Alaska Rule of Criminal Procedure 39, fees are assessed to reimburse the Office of Public Advocacy and the Public Defender Agency for the costs of appointed counsel. The fees are charged to clients on a schedule depending upon the outcome of their case as specified in the rule. According to the Department, the approval of these increments would allow for the maximization of Rule 39 receipt authority in the Legal and Advocacy Services appropriation. The split of these increments is as follows:
  - Office of Public Advocacy - \$250.0 GF/PR (an increase of 191% over the FY17 Adj Base); and
  - Public Defender Agency - \$510.0 GF/PR (an increase of 163% over the FY17 Adj Base).

(The increase in GF/PR will only offset the UGF reduction to the extent that those revenues are actually collected.)



- **Office of Public Advocacy – Increase Public Guardian Fees: \$500.0 SDPR (Other).** Currently, OPA serves approximately 1,500 wards statewide, in most cases managing all areas of a ward's life, including all medical and financial decisions. Public Guardian fees have not been increased since the Office of Public Advocacy (OPA) was created in 1984, despite significant cost increases. A fee increase will help maintain the current level of service, given the FY17 UGF reductions. (The increase in SDPR will only offset the UGF reduction to the extent that those revenues are actually collected.)

**Legislative Fiscal Analyst Recommendation:** Change requested and existing SDPR authority to GF/PR for the following reasons:

- 1) OPA has a published fee schedule for acting as guardian;
- 2) Unspent fees lapse to the general fund;
- 3) There is no contractual relationship regarding the services performed; and
- 4) The fees are not associated with services that are beyond the normal course of business.

4. **Health Plans Administration – Third Party Administrator Contract Increase: \$2.4 million Group Health and Life Benefits Fund (Other).** The State hires a third party administrator (TPA) to manage the Active and Retiree health plans. The Request for Proposals separated the TPA services into four major components. Aetna services the three medical components and MODA handles the Dental Claims Administration and Managed Network. Aetna contract negotiations were recently completed and it is estimated that an additional cost of \$2.4 million is necessary for the administrative fees. This additional amount is due to the increase in the number of covered lives in the growing plans.

## **OTHER FUNDING REDUCTIONS**

5. **Office of Administrative Hearings – Remove a Portion of the UGF Rate Subsidy: (\$110.0) UGF.** Unrestricted general funds in this allocation have been used to reduce rates and to pay for certain tax cases. The Governor's proposed reduction will eliminate almost 40% of the UGF in this allocation. An administrative position was added in FY16 so that administrative work could be completed by lower level staff rather than by the Law Judges. It is anticipated that shifting these duties will result in net savings.
6. **Personnel – Delete Three PFT and Five Temporary Intern Positions: (\$73.7) UGF.** To meet UGF reductions, the Division of Personnel will delete three full-time positions (Payroll Supervisor, Publications Specialist II and Human Resource Technician I) from the Payroll Services section. One College Intern and four Student Intern positions will also be deleted. These actions will shift work to either management or other staff, causing delays in responding to requests, completing payroll and updating agency payroll systems.
7. **General Services Appropriation**
  - **Facilities – Eliminate Subsidy to Linny Pacillo Parking Garage and Nome State Office Building: (\$292.2) UGF.** The Governor's FY17 Request includes a 56% UGF reduction from FY17 Adjusted Base in the Facilities allocation. This component pays costs associated with the facilities included in the Public Building Fund. The core services include day-to-day and long-term management, maintenance and operations of almost 1.5 million square feet of office facilities statewide. A reduction of

unrestricted general funds results in a partial loss of the subsidy that is provided directly to agencies in the Linny Pacillo Parking Garage in Anchorage and the Nome State Office Building. Also, to meet funding reductions, the Division of General Services will reduce lower priority activities such as janitorial services and interior and exterior window washing.

- **Non-Public Building Fund (NPBF) Facilities – Reduce Low Priority Building Services: (\$25.3) UGF.** In a corresponding action, the Division of General Services will also be cutting the Non-Public Building Fund maintenance and operations budget by 5%. For these buildings (including the 3<sup>rd</sup> floor Capitol and the Governor's House), maintenance and operations are primarily funded with unrestricted general fund. The NPBF buildings have historically had an extremely limited operating budget and further reductions will have a notable effect on the ability to properly maintain the facilities.

## **8. Enterprise Technology Services Appropriation**

- **State of Alaska Telecommunications System (SATS) – Reduce Maintenance and Operations Services: (\$247.7) UGF.** The Governor's FY17 Request implements a 5% UGF reduction to SATS. SATS is the critical infrastructure situated along the Interior road system in the Prince William Sound area, on the Kenai Peninsula, and in areas of Southeast Alaska. Many of these sites are difficult to access and many locations are not served by local telecommunications providers. This decrement will reduce funds available for sites and equipment repair.
- **Alaska Land Mobile Radio (ALMR) – Reduce Funding for Maintenance Contract: (\$121.1) UGF.** The ALMR allocation contains funding for contracts that operate and manage the State of Alaska's share of the interoperable, public safety-grade communications system for first responders and the State of Alaska Telecommunication System. This is a shared system managed by a cooperative agreement among the State of Alaska, Department of Defense and the Municipality of Anchorage.
- **ALMR Payments on Behalf of Political Subdivisions – Reduce Funds for Political Subdivision Participation in ALMR: (\$60.0) UGF.** The reduction of these funds will have a direct impact on the maintenance and operations of the system. In FY15, \$500.0 was appropriated for this allocation; the FY16 budget was reduced to \$160.0. This FY17 cut will further reduce the ALMR subsidy 38%.

## **9. Public Communications Services Appropriation**

- **Public Broadcasting Commission – Reduce Grant Funding for Oversight of Public Radio and Television: (\$2.3) UGF.** This decrement results in less support to the public radio and television grantees and potentially the monitoring of these grants.
- **Public Broadcasting – Radio – Reduce Grant Funding for Public Radio: (\$750.0) UGF.** The Governor's Request reduces UGF support for public radio. The decrement will result in workforce reductions and reductions in local news and community information services, including the State of Alaska Emergency Alert System (which includes tsunami and Amber alerts as well as local emergency information).
- **Public Broadcasting – T.V. – Reduce Grant Funding for Public Television: (\$33.3) UGF.** The proposed decrement will result in workforce reductions and in reduced support for statewide public television services including Gavel to Gavel, 360North, and UATV.

## **10. Alaska Information Radio Reading and Educational Services (AIRRES) Grant – Reduction in Grant Funding for Reading Services: (\$35.0) UGF.**

Alaska Information Radio Reading and Educational Services (AIRRES) grants are unique to Alaska. The grants provide for broadcast reading service for blind and print impaired people in the State. With the absorption of (\$15.0) UGF of the unallocated departmental reduction and the (\$35.0) UGF cut proposed in FY17 Governor, the AIRRES Grant will be reduced by 50% from FY16.

- 11. Motor Vehicles – Reduce Authority for Expired Federal Grants: (\$1,500.0) Federal Receipts.** The Division of Motor Vehicles (DMV) utilized three federal grants in FY15 for which funding expired in FY16. Because there were no federal grants that DMV qualified for in FY16, the federal authorization of \$1.5 million is eliminated in the FY17 Governor's Request.

## **OTHER ISSUES**

- 12. Bargaining Unit Negotiations.** According to the Department, the State expects to implement three bargaining unit agreements in FY17. Funding for these agreements will be requested later in the legislative session. These units are as follows:

- Alaska State Employees Association (ASEA);
- Alaska Public Employees Association – Supervisor Unit (SU); and
- Alaska Public Employees Association – Confidential Employees Association (CEA).

The State will begin negotiations for successor agreements for Alaska Vocational Technical Center Teacher's Unit (AVTECTA), Inland Boatman's Union (IBU), Masters Mates and Pilots (MMP), and Public Safety Employees Association (PSEA) during FY17 with implementation planned for FY18.

## **ORGANIZATIONAL CHANGES**

There are no significant organizational or structural changes requested.

## **CAPITAL REQUEST**

The Governor's FY17 Department of Administration capital budget totals \$4.475 million [\$4 million Public Building Fund (Other)/ \$475.0 Statutory Designated Program Receipts (Other)]. No general funds are requested. The two DOA capital projects are as follows:

- **General Services Public Building Fund Buildings Deferred Maintenance (HD 1-40): \$4,000.0 Public Building Fund (Other).** This project will continue to address deferred maintenance needs in the State Office Building, the Alaska Office Building, the Public Safety Building, the Douglas Island Building, the Dimond Courthouse, the Atwood Building, the Fairbanks Regional Office Building, the Linny Pacillo Parking Garage and Office, the Palmer State Office Building, the Nome State Office Building, the Alaska Geologic Materials Building, and the Community Building.
- **State Capitol Third Floor Improvements (HD 33-34): \$475.0 Statutory Designated Program Receipts (Other).** This project utilizes funds from the Juneau Community Foundation for the sole purpose of performing improvements and upgrades to the Executive floor (Third Floor) of the Capitol Building. The upgrades anticipated with the FY17 request include upgrades to the ventilation system and the creation of new office space at the building stairwells.

## Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$111,288.1</b>			
FY16 Fiscal Notes	2.5			
CarryForward	3,871.0			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(1,100.0)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$114,061.6</b>	\$2,773.5	2.5%	
One-time Items Removed	(46,442.6)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	40,355.0			8
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$107,974.0</b>	(\$6,087.6)	-5.3%	
Unallocated	(339.1)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(2,712.5)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$104,922.4</b>	(\$3,051.6)	-2.8%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$3,051.6)</b>	
Community & Regional Affairs	7,302.0	6,921.1	(380.9)	5
Corporations, Business & Professional Licensing	12,000.4	12,264.7	264.3	3
Economic Development	2,496.9	2,357.7	(139.2)	6
Tourism Marketing	6,894.2	4,528.9	(2,365.3)	7
Alcohol and Marijuana Control	1,747.2	3,494.8	1,747.6	4 & 10
AEA Rural Energy Assistance	2,674.3	2,351.8	(322.5)	9 & 11
AEA Alternative Energy & Efficiency	3,182.1	2,827.1	(355.0)	9
Alaska Seafood Marketing Institute	4,929.0	3,428.4	(1,500.6)	12
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	67,957.8	69,009.5	1,051.7	6 & 12
Federal Funds (all allocations)	19,871.8	20,086.8	215.0	11
<b>Total Non-General Funds (all allocations)</b>	<b>\$87,829.6</b>	<b>\$89,096.3</b>	<b>\$1,266.7</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>563</b>	<b>554</b>	<b>(9)</b>	
PFT	557	549	(8)	3,4,5,6,9
PPT	1	0	(1)	6
Temp	5	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	500.0	1,000.0	1,500.0	
Maintenance and Repairs	330.0	-	330.0	
Remodel, Reconstruction and Upgrades	3,800.0	8,500.0	12,300.0	
New Construction and Land Acquisition	7,129.8	3,502.6	10,632.4	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	5,310.0	6,000.0	11,310.0	
<b>TOTAL CAPITAL</b>	<b>\$17,069.8</b>	<b>\$19,002.6</b>	<b>\$36,072.4</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 and Marijuana Control Office; Alaska Seafood Marketing Institute; and the Regulatory Commission of Alaska.

### **BUDGET SUMMARY**

The FY17 Department of Commerce, Community, and Economic Development's general fund operating budget submitted by the Governor on December 15, 2015 is \$3,051.6 (2.8%) *below* the FY17 Adjusted Base [a *decrease* of \$3,489.1 Unrestricted General Funds (UGF) and an increase of \$437.5 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.

### **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

- 1. FY16 Branch-Wide Unallocated Reduction: (\$1,100.0) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$1.1 million of the reduction to the Department of Commerce, Community and Economic Development. The agency spread its reduction as follows:
  - \$600.0 UGF to the Tourism Marketing program (reducing contracts and advertising activities);
  - \$400.0 to the Alaska Seafood Marketing Institute (reducing domestic advertising and event sponsorship); and
  - \$100.0 UGF spread among the following allocations – Commissioner's Office, Administrative Services, Community & Regional Affairs, Economic Development, and the Alaska Energy Authority.
- 2. FY17 Treatment of FY16 One-Time Salary Increases: (\$339.1) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## **NEW PROGRAMS/PROGRAM EXPANSION**

- 3. Corporations, Business and Professional Licensing (CBPL) – Additional Occupational Licensing Examiners: \$264.3 Receipt Supported Services (DGF) and 3 PFT Positions.** During the 2015 legislative session, three new licensing programs (Massage Therapy, Behavior Analysts and Athletic Trainers) were established and one existing program (Construction Contractors) was significantly expanded to include mandatory licensure of handymen. Professional Licensing is requesting three new Licensing Examiners to meet the increased workload and avoid backlogs. Professional licensing programs are funded through receipts. Licensing fees for each program are set per AS 08.01.065, so revenue collected approximately equals the regulatory costs.

**Legislative Fiscal Analyst Comment:** The October 2015 Professional Licensing Report to the legislature shows that several boards continue to have fees that are not set on a cost recovery basis. However, progress is being made by the Department to reverse biennium deficits and recover negative carryforward balances. At the end of FY15, 20 out of 40 (50%) professional licensing programs had a deficit; compared to the end of FY13, where 29 out of 37 (78%) had a deficit. Legislative intent was included in the operating budget last session directing the Department to develop standardized methodology for setting fees. The department has done this as each licensing program comes up for renewal.

- 4. Alcohol and Marijuana Control Office – Local Option Education and Compliance Outreach: \$173.2 GF/Program Receipts (DGF) and 1 PFT Position.** The Governor's request includes funding for a new Local Government Specialist IV position. This position will create, conduct, and manage an educational outreach program regarding local option, local governing body control procedures, zoning, licensing, and compliance with Alaska's alcohol regulations, laws, and statutes. The first year will be focused on existing liquor licensing, statutes, regulations and revisions proposed in the Title 04 Reform effort and will be funded through alcohol license fees collected from regulated entities. As receipts from marijuana license fees become available, and as marijuana statutes and regulations are adopted, this position will also work on marijuana outreach and compliance.

## **FUNDING REDUCTIONS**

**5. Community & Regional Affairs – Reduced Audit Activities, Grant Management Staff and Special Projects Support: (\$380.9) UGF and (3) PFT Positions.** The Division of Community and Regional Affairs will be scaling back the following services:

- Recipients of state grants are required to submit audits per 2 AAC 45.010. An Audit & Review Analyst II (21-6093) position that performed a review of completed audits and specific findings became vacant in FY16, and will be deleted. The tasks associated with audit reviews will be absorbed by grants staff, division management, and cross-departmental support.
- A Grants Administrator (08-5104) position will be deleted. As the number of legislative grants decreases, so does the need for grants staff.
- A Business Development Specialist (08-127X) was created to assist with special projects, but became vacant in FY15 and will be deleted. Special projects are now directed to the subject matter experts within the division.

**6. Economic Development – Reduced Visitor Assistance in Tok: (\$197.2) [(\$139.2) UGF/ (\$58.0) Interagency Receipts (Other)] and (1) PFT- (1) PPT Positions.** Economic Development's Tok office serves as the Alaska Public Lands Information Center, the local Division of Motor Vehicles (DMV) office, and the Tok visitor center required by AS 44.33.120(7). This office caters to visitors driving in eastern Alaska, into the Yukon, offering maps, brochures, and destination information about Alaska and receives an average of 10,000 visitors each year, processes an average of 3,000 DMV transactions annually, and processes all payments for the division's Made in Alaska program. In FY17, the following changes will be made:

- one PFT position will be transferred to the Department of Administration for continued DMV support;
- Economic Development will enter into a reimbursable services agreement (RSA) with DMV to pay for any non-DMV services provided in the Tok visitor center; and
- a remaining PFT position and a PPT position will be deleted.

**7. Tourism Marketing – Reduced Contracts and Services: (\$3,860.5) UGF.** In FY16, the legislature authorized \$8,389.4 UGF for Tourism Marketing. The FY17 Governor's request reduces UGF funding to \$4,528.9, a 46% reduction. Significant changes are highlighted below:

- In FY16 Authorized, the agency reduced Tourism Marketing by \$600.0 as part of its spread of the \$29.8 million Branch-wide Unallocated Reduction.
- In FY16, Tourism Marketing received \$875.0 UGF contingent upon additional tourism industry contributions. This one-time funding is reversed in FY17.
- The FY17 Governor's request reduces Tourism Marketing by another \$2.4 million UGF.

Various aspects of the program may be affected, including television advertising, international outreach, online marketing, and vacation planner printing and distribution.

**8. Alaska Energy Authority – Power Cost Equalization (PCE) Program: (\$1.0) million PCE Endowment Fund (DGF).** The Alaska Energy Authority (AEA) is requesting a total of \$40.4 million for the PCE program in FY17. This is a \$1 million reduction in the estimated level of funding appropriated compared to FY16. For the third 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, 2015, the endowment fund balance was \$969.4 million.

**Legislative Fiscal Analyst Comment:** The request is merely a projection of costs; language in the operating budget bill appropriates from the PCE Endowment the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 11(f) in the discussion of operating language in the FY17 Overview book.

**9. Alaska Energy Authority – Reduced Support Services: (\$391.0) UGF and (3) PFT Positions.** The FY17 Alaska Energy Authority's budget request includes the following reductions:

- Statewide Project Development, Alternative Energy & Efficiency
  - \$35.0 UGF for shared financial and administrative support.
  - \$200.0 UGF and deleting technical support and community outreach staff.
  - \$120.0 UGF and deleting Energy Policy and Outreach Director position.
- Rural Energy Assistance
  - \$36.0 UGF for Power Plant and Bulk Fuel Training Programs.

## **MAINTENANCE OF SERVICES**

**10. Alcohol and Marijuana Control Office – FY17 Marijuana Regulation Funding: \$1,574.0 UGF.** Funding for implementation of marijuana regulation activities was appropriated via a multi-year operating appropriation for FY15 and FY16. The Governor's request continues general funding for the agency through FY17, at the same level appropriated in FY16. The collection of marijuana licensing program receipts will begin in FY17, but the amount and timing of receipts is not yet known. As receipts are reliably received, general funds will be replaced with program receipts to minimize state support of the program. The Department anticipates that the Alcohol and Marijuana Control Office will be fully self-supported by FY20.

**11. Alaska Energy Authority/ Rural Energy Assistance – Replacement of UGF with Other Sources: (\$71.5) Total [(\$286.5) UGF/ \$215.0 Federal Receipts].** The FY17 Alaska Energy Authority's budget request includes the following changes:

- Replace \$215.0 UGF with Federal Receipts to maintain community assistance efforts.
- Reduce \$71.5 UGF and utilize Capital Improvement Receipts (CIP) via unbudgeted RSA's.

**12. Alaska Seafood Marketing Institute (ASMI) – Fund Source Change: (\$429.0) UGF/ (\$1,071.6) GF/Match (UGF) to \$1,500.6 Statutory Designated Program Receipts (SDPR) (Other).** The Alaska Seafood Marketing Institute is funded via an industry-determined seafood marketing assessment (AS 16.51.120), currently set at .5 percent of the products produced. This fund source change will replace unrestricted UGF with SDPR collected from the industry. This change maintains the same level of overall funding as FY16 but reduces UGF by 30.4% (from \$4.9 million in the FY16 Management Plan to \$3.4 million in FY17).

**Legislative Fiscal Analyst Comment:** At the end of FY15, AMSI had a carryforward balance of \$19.2 million SDPR. AMSI's FY17 requested level of authorization (\$16.5 million) exceeds projected revenue (\$9.5 million) by about \$7 million. If AMSI spends the amount authorized, the reserve balance could be depleted by FY20.



**Legislative Fiscal Analyst Recommendation:** Accept the UGF decrement but reject the addition of \$1.5 million SDPR.

ASMI's total authorization has increased from \$19 million in FY14 to \$24 million in FY17. ASMI has expressed concern regarding potential reduction/loss of federal funding and, given the State's current fiscal situation, continued UGF authorization may also be problematic—leaving ASMI solely reliant on its program receipts.

The legislature should ensure that ASMI expenditure authority is at a sustainable level. Based on historical expenditures, ASMI's FY17 level of SDPR authorization includes about \$3.5 million of excess authorization. Removing some of the excess authorization would prevent ASMI from over-spending receipts. ASMI expressed a desire to maintain excess authorization in the case of an emergency (like the potential loss of federal funding part way through the fiscal year). However, ASMI can request additional SDPR authorization (if needed for an emergency) through the Legislative Budget and Audit (LB&A) review process.

## **ORGANIZATIONAL CHANGES**

The Alcohol Beverage Control Board allocation has been renamed the Alcohol and Marijuana Control Office.

## **CAPITAL REQUEST**

The Governor's FY17 Department of Commerce, Community and Economic Development capital budget totals \$36.1 million (\$12.1 million UGF/ \$5 million DGF/ \$19 million Federal Receipts). A summary of the projects follows:

- **Community Block Grants:** \$6,060.0 [\$6 million Federal Receipts/ \$60.0 GF Match (UGF)].
- **Alaska Energy Authority**
  - **Electrical Emergencies Program:** \$330.0 UGF
  - **Renewable Energy Projects Round IX:** \$5,000.0 Renewable Energy Fund (DGF)
  - **Rural Power Systems Upgrades:** \$5,650.0 [\$3.15 million Federal Receipts/ \$2.5 million UGF]
  - **Bulk Fuel Upgrades:** \$6,650.0 [\$5.35 million Federal Receipts/ \$1.3 million UGF]
  - **Alternative Energy and Energy Efficiency Programs:** \$1,200.0 [\$1 million Federal Receipts/ \$200.0 UGF]
- **Grants to Named Recipients (AS 37.05.316)**
  - **Inter-Island Ferry Authority:** \$250.0 UGF

- **Lower Kuskokwim School District – Bethel Regional High School Central Kitchen and Multipurpose Addition:** \$7,129.8 UGF

**Legislative Fiscal Analyst Comment:** According to the Department of Education and Early Development, this project was originally on the School District Major Maintenance list for future funding. However, a fire destroyed the Yup'ik language immersion school and damaged the boarding school in November 2015. The central kitchen was also destroyed and is the main kitchen serving the school district. Due to the emergency nature of the project, the Governor identified funding for the school as a priority in the FY17 Capital budget and included this UGF appropriation directly to the school district. This process bypasses the School District Major Maintenance list and program requirements.

**Legislative Fiscal Analyst Recommendation:** This school qualifies as an REAA school and, at the legislature's discretion, REAA funds could replace UGF for this project. There is about \$80 million in the REAA fund.

- **Grants to Municipalities (AS 37.05.315)**
  - **Seward – Flood Protection Scoping and Feasibility Study:** \$300.0 UGF
- **National Petroleum Reserve – Alaska Impact Grant Program:** \$3,502.6 National Petroleum Reserve Fund (Fed)

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## Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$308,465.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(3,891.5)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$304,574.4</b>	(\$3,891.5)	-1.3%	
One-time Items Removed	(2,450.1)			2
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	903.2			5
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$303,027.5</b>	(\$1,546.9)	-0.5%	
Unallocated	(2,450.1)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(3,549.9)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$297,027.5</b>	(\$6,000.0)	-2.0%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$6,000.0)</b>	
Physical Health Care	35,817.7	29,817.7	(6,000.0)	3
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	14,217.8	14,477.8	260.0	6
Federal Funds (all allocations)	5,494.9	5,494.9	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$19,712.7</b>	<b>\$19,972.7</b>	<b>\$260.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>1,871</b>	<b>1,871</b>	<b>-</b>	
PFT	1,871	1,871	-	
PPT	-	-	-	
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	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	1,800.0	-	1,800.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$2,800.0</b>	<b>\$0.0</b>	<b>\$2,800.0</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 FY17 Department of Corrections general fund operating budget submitted by the Governor on December 15, 2015 is \$6 million (2%) *below* the FY17 Adjusted Base [(\$5,406.5) Unrestricted General Funds (UGF) and (\$593.5) 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.

### FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: (\$3,891.5) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$3,891.5 of the reduction to the Department of Corrections. The agency spread its reduction as follows:

- \$2.4 million UGF to Goose Creek Correctional Center/Population Management; and
- \$1.5 million UGF to Physical Health Care/Health and Rehabilitation Services.

2. **FY17 Treatment of FY16 One-Time Salary Increases: (\$2,450.1) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

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

- 3. Reduce Healthcare Costs Due to Medicaid Expansion: (\$6,000.0) UGF.** A reduction is requested because, with the expansion of Medicaid, more medical providers will be able to bill Medicaid for hospital stays lasting more than 24 hours for Medicaid eligible inmates (i.e., adults with incomes up to 133% of the federal poverty level). The U.S. Governmental Accountability Office (GAO) has identified approximately 80-90% of the inmate population as meeting the income eligibility criteria for Medicaid. Although Medicaid will cover a portion of medical costs, UGF is still the primary source of funding for essential medical services provided to offenders as required by statute.
- 4. Replace Permanent Fund Criminal Funds with UGF in Inmate Physical Health Care: \$593.5 UGF/ (\$593.5) PFD Criminal Funds (DGF).** 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 FY17, the Department of Revenue calculated the amount available for appropriation to be \$21.6 million (\$692.2 less than in FY16). Although the PFD amount increased this past year, the number of felons and misdemeanants who would have been otherwise eligible decreased (10,448 for FY17 compared to 11,858 for FY16). Of the \$21.6 million available PFD Criminal Funds, \$20.2 million is requested in DOC/Inmate Health Care; \$1.4 million is requested in the Crime Victim Compensation Fund.
- 5. Alaska Correctional Officers Association (ACOA) Contractual Salary Increases: \$916.3 Total (\$903.2 UGF/ \$13.1 Fed).** This 1% increase (distributed throughout various allocations) funds year two of the cost-of-living adjustment for the ACOA contract. Next fiscal year (FY18), the contract stipulates a 2.25% increase.

## **MENTAL HEALTH TRUST FUNDING**

- 6. Inmate Health Care/Behavioral Health Care: \$506.9 MHTAAR (Other).** All Mental Health Trust Authority Authorized Receipts (MHTAAR) funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year (zero-based budgeting). The Mental Health Trust is recommending \$506.9 in FY17 (no changes from FY16). MHTAAR funding for the Mental Health Trust Disability Justice Initiative includes:
  - \$260.0 IncOTI 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;
  - \$101.9 IncT (FY15-FY19) for a Research Analyst; and
  - \$25.0 IncT (FY15-FY17) to expand training for DOC mental health staff.

## OTHER ISSUES

### 7. Justice Reinvestment Initiative

The 2014 legislature established the bi-partisan, inter-branch Alaska Criminal Justice Commission (Chapter 83, SLA 2014) to evaluate and make recommendations to improve criminal laws and practices. During the subsequent session, leadership from all three branches of government formally requested technical assistance from the Pew Charitable Trust's Justice Reinvestment Initiative to analyze Alaska's prison growth drivers and work with the Commission on recommendations for reducing Alaska's prison population.

The final report (AK Criminal Justice Commission/Justice Reinvestment Report, [http://www.ajc.state.ak.us/sites/default/files/imported/acjc/AJRI/ak\\_jri\\_report\\_final12-15.pdf](http://www.ajc.state.ak.us/sites/default/files/imported/acjc/AJRI/ak_jri_report_final12-15.pdf)) was released December 10, 2015 and concludes that, if left unchecked, the number of Alaskans in prison will exceed capacity by 2017.

The comprehensive report makes 21 recommendations in three major areas: pre-trial detention, community supervision; and sentencing structure. Pew estimates benefits over the next decade could include a 21% reduction in the average daily prison population as well as avoided costs of \$424 million through FY2024.

Some of the Pew recommendations will likely be included in SB 91 (an omnibus crime bill which currently resides in the Senate State Affairs Committee). Additionally, the Governor has included a \$5 million UGF placeholder capital appropriation (within the Office of the Governor) for Criminal Justice Reform and Reinvestment to support a portion of the recommendations.

### 8. Ongoing DOC Efforts to Reduce Recidivism and the Prison Population.

In recent years, DOC has focused efforts and implemented strategies to promote successful reintegration for returning citizens back into their communities. For example, the Department's recidivism reduction plan, the *Alaska Prisoner Reentry Initiative (AK PRI)* provides a framework to reduce recidivism and enhance public safety through "state and local collaboration – from the time an Alaskan enters prison through their successful transition, reintegration and aftercare back into the community" (AK-PRI pg. 1). Among many things, the process of developing and implementing this plan has helped the Department to:

- a) review and, in some cases, revise internal processes for classification, treatment assessment, access to treatment, and programmatic services;
- b) develop community partnerships (e.g. community re-entry coalitions) with mental health and substance abuse treatment, medical care, housing, and employment providers to ensure returning citizens have access to these foundational supports.

**Legislative Fiscal Analyst Comment:** The prison population has been trending downward over the past year (on December 31, 2014 the average daily inmate count was 5,104, whereas the average count on December 31, 2015 was 4,749). DOC attributes the decline primarily to quarterly audits implemented by the Division of Probation and Parole. These reviews have resulted in a significant reduction of active caseloads (410), as well as a reduction in technical violations resulting in reincarceration. Additionally, the Department has assigned a work group to review 790 minimum security offenders for potential early release to a CRC, electronic monitoring or early parole.

The FY16 budget included a \$1.5 million UGF transfer from Palmer Correctional Center to the Community Residential Center (CRC) allocation with intent to:

- ramp down the Palmer Correctional Center minimum security housing facility and transition the institution's 176 minimum security offenders to CRCs, electronic monitoring or early parole by the fourth quarter of FY16; and
- expand CRC capacity by 50 beds.

The legislature may want to ask the Department for a status update on this plan.

Additionally, in FY13, the Anchorage Consolidated Community Residential Center contract (which includes Cordova, Parkview, and Midtown) was expanded by 50 beds for \$1.5 million UGF; however, the expanded facility is underutilized. The Center has averaged 62 unused paid beds throughout most of 2015 and the legislature may want to ask the Department why an expansion of 50 CRC beds is planned in FY16 when current capacity is underutilized.

## **CAPITAL REQUEST**

The Governor's FY17 Department of Corrections capital budget totals \$2.8 million UGF and includes:

- **Occupational Safety and Health Administration (OSHA) Electric Arc Flash Assessment and Remediation:** \$1.8 million UGF; and
- **Annual Safety and Security Maintenance and Repair:** \$1 million UGF.



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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

Department of Education and Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$1,341,552.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(674.8)			5
<b>FY16 Management Plan (GF only)</b>	<b>\$1,340,878.1</b>	(\$674.8)	-0.1%	
One-time Items Removed	(2,120.8)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	1,000.0			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$1,339,757.3</b>	(\$1,120.8)	-0.1%	
Unallocated	(329.8)			6
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(4,525.5)			
FY17 Governor's UGF Increments/Decrements/Fund Changes	13,644.6			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$1,348,546.6</b>	\$8,789.3	0.7%	
<div> <div></div> <div> <b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b> </div> </div>				
	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$8,789.3</b>	
Foundation Program	1,181,239.5	1,193,984.5	12,745.0	1
Pupil Transportation	79,240.3	78,969.8	(270.5)	1
Student and School Achievement	6,943.2	6,949.4	6.2	7
ANSEP	1,385.2	1,000.0	(385.2)	8
Early Learning Coordination	8,387.8	7,567.8	(820.0)	9
Pre-Kindergarten Grants	2,000.0	-	(2,000.0)	9
Library Operations	8,077.7	7,405.0	(672.7)	10
Museum Operations	1,975.6	2,112.1	136.5	4
Alaska Postsecondary Education	5,832.8	5,882.8	50.0	
<div> <div></div> <div> <b>Non-General Fund Agency Summary</b> </div> </div>				
	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	37,456.2	39,001.2	1,545.0	3
Federal Funds (all allocations)	232,003.7	241,894.3	9,890.6	2
<b>Total Non-General Funds (all allocations)</b>	<b>\$269,459.9</b>	<b>\$280,895.5</b>	<b>\$ 11,435.60</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>358</b>	<b>344</b>	<b>(14)</b>	
PFT	328	323	(5)	
PPT	15	15	-	
Temp	15	6	(9)	
<div> <div></div> <div> <b>Governor's Capital Request</b> </div> </div>				
	<b>State Funds (GF + Other)</b>	<b>Federal Funds</b>	<b>Total</b>	<b>See Note:</b>
Planning and Research	-	-	-	
Maintenance and Repairs	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	11,283.5	-	11,283.5	
New Construction and Land Acquisition	18,105.9	-	18,105.9	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$30,389.4</b>	<b>\$0.0</b>	<b>\$30,389.4</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 FY17 Department of Education and Early Development general fund operating budget submitted by the Governor on December 15, 2015 is \$8.8 million (0.7%) above the FY17 Adjusted Base – a *decrease* of \$8.4 million Unrestricted General Funds (UGF) and an increase of \$17.2 million 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.

### PROGRAM EXPANSION

- 1. K-12 Foundation Program & Pupil Transportation – \$50 Base Student Allocation Increase: \$12.5 million Total.** Chapter 15, SLA 2014 (HB 278) provided for BSA increases of \$150 (from \$5,680 to \$5,830) in FY15; \$50 in FY16 (to \$5,880); and \$50 in FY17 (to \$5,930). The Governor's budget includes funding for the FY17 increase and uses an additional \$17 million from the Public School Trust Fund to replace UGF. The BSA increase, a student count decrease, and the fund change result in a reduction of \$4,525.5 UGF from FY16 funding.

**Legislative Fiscal Analyst Comment:** Half of one percent of royalties is deposited annually into the Public School Trust Fund, and capital gains are added to principal. Under AS 37.14.140, net income of the fund (excluding capital gains) can be used to support the public school system. This amount accumulates in the Public School Income Fund.

A balance has historically been maintained in the Income Fund as a buffer against volatility. As of June 30, 2015, the balance was \$15.9 million. In FY16, \$13 million was appropriated from the Public School Trust Fund to the Public Education Fund. The additional \$17 million in FY17 would use up the balance in the Income Fund, and therefore this increase in funding is possible for one year only. If returns in FY17 fall short of the forecast, the formula would be prorated. See Language Section 22 (c).

Per the foundation formula, income of the Public School Trust Fund supplants UGF rather than supplementing UGF. There is no apparent reason to maintain a trust fund that provides just 2% of K-12 funding each year and does not actually increase spending on education.

The Public School Trust Fund pre-dates statehood, so it is often considered a grandfathered dedicated fund. However, the legislature can break the dedication at any time via statutory change, and arguably broke grandfather rights to dedicated fund status when it made changes to the fund in the 1970s and 1980s.

**Legislative Fiscal Analyst Recommendation:** The Public School Trust Fund would be more productive if the trust were terminated and the entire balance were deposited into the TRS account in order to reduce the state and school districts' unfunded liability. As of November 30, 2015, the balance of the Public School Trust Fund was \$591 million. In combination with pension obligation bonds proposed by the Governor, depositing the balance of the Public School Trust into the TRS retirement trust would raise the funding ratio to over 95%, which may be sufficient to eliminate state assistance to TRS.

2. **Child Nutrition – Additional Federal Receipts for Child Nutrition Programs: \$11,000.0 Fed.** Federal grant funds available for child nutrition programs have increased, and the Department needs additional federal receipt authority to collect and spend this funding. The funding increase is primarily due to increased eligibility in the Anchorage School District. In FY16, the Department received authority through an RPL for \$8,500.0 for increased receipts for the remainder of the fiscal year.
3. **Alaska State Council on the Arts – Add Statutory Designated Program Receipt (SDPR) Authorization to Accept External Grants: \$800.0 Statutory Designated (Other).** The Margaret A. Cargill Foundation awarded a multi-year grant to the Alaska State Council on the Arts to support arts education programs. This receipt authorization would allow the council to receive and spend funding for the first two years of a planned 10-year initiative. In FY16, the Department received increased authority through an RPL for \$800.0 SDPR for the remainder of FY16. This request allows the Department to continue these programs in FY17.
4. **Museum Operations – Add Program Receipt Authorization for Anticipated Increase in Gate Receipts: \$136.5 GF/Prgm (DGF).** The new Kashevaroff State Libraries, Archives and Museums Facility in Juneau is scheduled to open in the spring of 2016. This receipt authority will allow the Department to collect and spend additional gate receipts from the new facility.

## **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

5. **FY16 Branch-Wide Unallocated Reduction: (\$674.8) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction spread among Executive Branch agencies. \$674.8 of the reduction was distributed to the Department of Education and Early Development. Within DEED, the reduction was spread to the following allocations:
  - **Special Schools:** \$100.0 – Reduced Alaska School for the Deaf Reimbursable Services Agreement from \$637.4 to \$537.4;
  - **ANSEP:** \$274.8 – Reduced ANSEP grant by \$274.8 (see Item 8);
  - **Early Learning Coordination:** \$200.0 – Reduced Parents as Teachers grant program from \$700.0 to \$500.0 (see Item 9); and

- **Library Operations: \$100.0** – Reduced Broadband Access Grant program funding from \$3.5 million to \$3.4 million (see Item 10).

**6. FY17 Treatment of FY16 One-Time Salary Increases: (\$329.8) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. That the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. An agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

**7. Student and School Achievement – Eliminate Funding for Alaska Resource Education Grant: (\$25.0) UGF.** The Governor's budget eliminates the \$25.0 grant for Alaska Resource Education (formerly known as the Alaska Mineral and Energy Resource Education Fund, or AMEREF).

**8. Alaska Native Science and Engineering Program (ANSEP) – Reduce Funding: (\$385.2) UGF.** The Governor's budget reduces ANSEP funding by \$385.2 UGF. This funding is a pass-through to the University of Alaska. While the program has been successful, it has funding sources other than what it gets from DEED. According to the Department, this reduction is appropriate because it allows the Department to maintain a higher level of support to Alaska school districts and students, which is their primary function.

**Legislative Fiscal Analyst Comment:** In addition to this reduction, the Department reduced ANSEP funding by \$274.8 in FY16 as part of its cuts to spread an unallocated reduction. This cut would leave \$1 million in funding for ANSEP, which is the third year of a three-year grant for middle school STEM.

**9. Early Learning Coordination – Eliminate Funding for Grant Programs: (\$2,820.0) UGF.** The Governor's budget eliminates funding for three early learning grant programs:

- **Parents as Teachers: (\$500.0).** The Department reduced Parents as Teachers funding by \$200.0 in the FY16 management plan to absorb a portion of its unallocated reduction. The FY17 budget eliminates the remaining funding.
- **Best Beginnings: (\$320.0).** These grants are passed directly to local organizations.

- **Pre-Kindergarten Grants: (\$2,000.0).** These grants pay for pre-K programs in a handful of communities, but fall short of a statewide pre-K program. This funding was originally a pilot program, but the grants remained after the pilot period.

- 10. Library Operations – Reduce Funding for Broadband Grants to School Districts: (\$672.7) UGF.** In the FY16 Management Plan, the Department reduced broadband grants by \$210.0 to absorb a portion of its unallocated reductions. In the FY17 budget, the Governor proposes an additional reduction of \$672.7, which would reduce program funding to \$2,717.3 (\$917.3 UGF, \$1,800.0 Higher Ed Fund). This will prorate payments to about 80% of need if demand matches FY16.

## **OTHER ISSUES**

- 11. Use of Higher Education Investment Fund for Non-Designated Purposes: \$6,164.8 DGF Total.** The Higher Education Investment Fund (code 1226) is considered a designated fund source. By statute, the fund is to be used for the Alaska Performance Scholarship and the Alaska Education Grant, including the cost of administering the latter program. However, in the FY16 budget, the legislature appropriated a total of \$6,689.8 from the fund for several other purposes:

- \$500.0 for the Statewide Mentoring Program
- \$1,800.0 for Broadband Access Grants
- \$761.8 for Online with Libraries
- \$138.2 for Live Homework Help
- \$2,964.8 for the WWAMI Medical Education
- \$525.0 to pay for College and Career Readiness Assessments. This final item was removed from the FY17 budget due to the fiscal note for HB 44 (Chapter 2, SSSLA 2015).

All of this funding was formerly UGF. While it was verbally stated in committee that these fund changes would be for FY16 only, the amendments did not specify that they were one-time items. The Governor's FY17 budget continues using the Higher Education Investment Fund for these non-designated purposes, other than the College and Career Readiness Assessments, for a total of \$6,164.8.

**Legislative Fiscal Analyst Comment:** The Higher Education Investment Fund does appear to be over-capitalized if it is used only for the designated programs. As of June 30, 2015, the fund had over \$458 million; the two programs combine for \$17.3 million in budgeted authority in FY16, which is just 3.8% of the total fund balance. The non-designated uses of the fund do not appear to jeopardize the long-term health of the fund.

The fund itself serves no function other than to provide a designated fund source for what should arguably be paid for with UGF. When used for non-designated purposes, the fund simply disguises what should be UGF spending. The fund was capitalized with \$400 million of UGF and consists solely of UGF and investment earnings. Money flows from the fund to pay for scholarships by appropriation, so maintaining a balance in the fund is not necessary for the functioning of the scholarship program.

**Legislative Fiscal Analyst Recommendation:** The balance of the fund could be put to better use for other purposes, such as reducing the State's unfunded liability for the Teachers Retirement System, and the expenditures currently charged to the fund could be switched to UGF. This would maximize returns on the State's assets and prevent spending from being disguised through the use of this fund.

## **ORGANIZATIONAL CHANGES**

In FY16, the Alaska Student Loan Corporation (ASLC) was given a separate appropriation so that the budget matched its legal status as a separate entity from the Alaska Commission on Postsecondary Education (ACPE). Fund code 1106 was renamed "ASLC Receipts" from "ACPE Receipts," and funding was transferred to the new appropriation. In FY16, ACPE received an unbudgeted RSA from ASLC for its management of ASLC's loans. In the FY17 budget, interagency receipts will be added to the budget in the adjusted base.

## **CAPITAL REQUEST**

The Department of Education and Early Development's FY17 capital budget includes \$30.4 million UGF for the following projects:

- **Mt. Edgecumbe High School Deferred Maintenance: \$1 million**
- **School District Major Maintenance: \$11.3 million**
  - Kake Schools Boiler Replacement: \$185.9
  - Petersburg Middle/High School Primary Boiler Replacement: \$49.1
  - Bristol Bay School Energy Upgrades and Renovations: \$11,048.5
- **School Construction Grant Fund: \$18.1 million**
  - Kachemak Selo New K-12 School Construction: \$10,867.5
  - Kivalina K-12 Replacement School (Kasayulie): \$7,238.4 — This is the remaining amount needed for this project. The FY16 capital budget included \$43.2 million for the project.

## **SCHOOL DEBT REIMBURSEMENT**

The school debt reimbursement program is shown in a separate section of the FY17 Overview (see Debt Service Summary Table on page 27).

## Department of Environmental Conservation

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$47,710.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(375.2)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$47,335.7</b>	(\$375.2)	-0.8%	
One-time Items Removed	(375.2)			1
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$46,960.5</b>	(\$375.2)	-0.8%	
Unallocated	(375.2)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	13.1			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(803.0)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$45,795.4</b>	(\$1,165.1)	-2.5%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$ (1,165.1)</b>	
Administrative Services	3,090.6	3,025.6	(65.0)	3
Laboratory Services	2,535.8	2,435.8	(100.0)	5
Air Quality	3,832.5	3,772.5	(60.0)	4
Water Quality	11,172.9	10,472.7	(700.2)	5, 7
Facility Construction	1,218.0	965.0	(253.0)	5
Agency Unallocated Appropriation	-	13.1	13.1	
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	14,389.0	14,389.0	-	
Federal Funds (all allocations)	23,628.9	23,878.9	250.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$38,017.9</b>	<b>\$38,267.9</b>	<b>\$ 250.00</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>535</b>	<b>518</b>	<b>(17)</b>	
PFT	533	516	(17)	3, 7
PPT	-	-	-	
Temp	2	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	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	3,700.0	16,900.0	20,600.0	
New Construction and Land Acquisition	5,550.0	25,350.0	30,900.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	2,526.3	-	2,526.3	
<b>TOTAL CAPITAL</b>	<b>\$12,776.3</b>	<b>\$42,250.0</b>	<b>\$55,026.3</b>	



## Department of Environmental Conservation

The Department of Environmental Conservation (DEC) is responsible for protecting human health and the environment.

### BUDGET SUMMARY

The FY17 Department of Environmental Conservation general fund operating budget request submitted on December 15, 2015 shows a \$1,165.1 (2.5%) *decrease* from the FY17 Adjusted Base, with an unrestricted general fund (UGF) *decrease* of \$1,996.2 and a designated general fund (DGF) increase of \$831.1. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

### FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

- 1. FY16 Branch-Wide Unallocated Reduction: (\$375.2) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction spread among Executive Branch agencies. \$375.2 UGF of the reduction was distributed to the Department of Environmental Conservation. Within the Department of Environmental Conservation, the reduction was spread to the following allocations:

- Office of the Commissioner: (\$12.0)
- Administrative Services: (\$18.0)
- Air Quality: (\$37.0)
- Spill Prevention and Response: (\$208.2) — Deleted two engineer positions from the Pipeline Integrity program.
- Facility Construction: (\$100.0) — Reduction offset by available federal funding for the Operator Assistance program.

- 2. FY17 Treatment of FY16 One-Time Salary Increases: (\$375.2) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. That the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. An agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

<p><b>Legislative Fiscal Analyst Comment:</b> Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.</p>
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## **FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES**

3. **Administrative Services and Food Safety & Sanitation – Delete Shared Receptionist Position: (\$65.0) Total [(\$17.6) UGF/ (\$47.4) Oil/Haz Fund] and (1) PFT position.** An Office Assistant II position will be eliminated and responsibilities will be absorbed by other positions.
4. **Air Quality – Reduction Due to Reclassified Position and Reduced Position Costs: (\$60.0) UGF.** One position will be reclassified from an Environmental Program Specialist to a Chemist. In addition, the division has recognized cost savings due to senior staff retiring or departing and being replaced by staff at lower steps.
5. **UGF Reductions Due to Increases in Fee Revenue:**
  - **Laboratory Services: (\$100.0) UGF**
  - **Water Quality: (\$400.0) UGF/ \$400.0 GF/Prgm**
  - **Facility Construction: (\$253.0) UGF**

The Laboratory Services, Wastewater Discharge, and Operator Assistance programs are currently undergoing fee studies. Additional fee revenue will allow for a reduction in UGF in these components. Both Laboratory Services and Facility Construction have excess budgeted program receipt authority, so no offsetting increase in fee authority is necessary. Additionally, federal funding will subsidize the remainder of the Operator Assistance program within Facilities Construction, eliminating UGF funding for the program that is not required match for federal grants.

6. **Spill Prevention and Response (SPAR) – Fund Source Change from General Funds to Prevention Account: (\$478.5) UGF/ \$478.5 Oil/Haz Fund.** The passage of HB 158 in the 2015 session created a new 0.95 cent tax on refined fuels to bolster Oil and Hazardous Substance Release Prevention and Response activities. With this additional funding (of about \$7.2 million annually), the Department proposes to replace the Pipeline Integrity and Engineering section's UGF funding with Oil/Haz fund.
7. **Water Quality – Dissolve Technical Services Program: (\$700.2) UGF and (6) PFT positions.** The Department proposes ending the technical services program, which provides support to the entire Water Division. This program is primarily responsible for coordinating outreach to communities as well as local and tribal governments, working extensively on division regulations projects, and providing IT services. The division will eliminate six positions and reorganize the remaining staff, resulting in less public outreach efforts and a slowdown in regulations packages.

## **ORGANIZATIONAL CHANGES**

The Department of Environmental Conservation consolidated the Air Quality appropriation in the FY17 budget, transferring the Air Quality Director allocation to the Air Quality allocation. This change will allow the division to operate more efficiently.

## **CAPITAL REQUEST**

The Department of Environmental Conservation's FY17 capital budget, which totals \$55 million (\$9.8 million UGF/ \$3 million Other State Funds/ \$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 (UGF)/ \$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.
- **Statewide Contaminated Sites Cleanup: \$1,000.0 UGF.**
- **Reappropriations from Various Water and Sewer Projects: \$4.2 million UGF.**
  - Haines Sewer Treatment Plant Health and Safety Upgrades: \$1.04 million
  - Sitka South Lake and West DeGroff Water and Sewer Replacement: \$1.04 million
  - Kenai Wastewater Treatment Plant Upgrades Phase II: \$1.02 million
  - Ketchikan Gateway Borough South Tongass Shoup to Forest Park Water and Sewer: \$1.04 million
  - Wrangell Water Main Replacement: estimated to be \$48,300, but not to exceed \$731,236

*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$79,265.7</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(1,347.9)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$77,917.8</b>	(\$1,347.9)	-1.7%	
One-time Items Removed	(1,312.7)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$76,605.1</b>	(\$1,312.7)	-1.7%	
Unallocated	(1,347.9)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	35.2			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(3,529.5)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$71,762.9</b>	(\$4,842.2)	-6.3%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>(\$4,842.2)</b>	
Commercial Fisheries Appropriation	51,695.5	49,695.5	(2,000.0)	3
Sport Fisheries Appropriation	5,561.5	4,061.5	(1,500.0)	4
Wildlife Conservation Appropriation	5,259.2	4,259.2	(1,000.0)	5
Statewide Support Svcs/Administrative Services	2,736.7	2,594.5	(142.2)	6
Statewide Support Svcs/Habitat	3,667.1	3,567.1	(100.0)	6
Statewide Support Svcs/State Subsistence Research	2,691.4	2,591.4	(100.0)	6
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	63,473.4	64,512.8	1,039.4	
Federal Funds (all allocations)	67,063.8	67,705.6	641.8	
<b>Total Non-General Funds (all allocations)</b>	<b>\$130,537.2</b>	<b>\$132,218.4</b>	<b>\$1,681.2</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>1,654</b>	<b>1,618</b>	<b>(36)</b>	
PFT	902	879	(23)	6
PPT	698	686	(12)	
Temp	54	53	(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	1,000.0	-	1,000.0	7
Remodel, Reconstruction and Upgrades	350.0	-	350.0	7
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	7
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$2,100.0</b>	<b>\$2,250.0</b>	<b>\$4,350.0</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 the Department.

## BUDGET SUMMARY

The FY17 Department of Fish & Game general fund operating budget as submitted by the Governor on December 15, 2015 is \$4,842.2 (6.3%) *below* the FY17 Adjusted Base [a *decrease* of \$6,142.2 Unrestricted General Funds (UGF) and increase of \$1,300.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: (\$1,347.9) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated (\$1,347.9) of the reduction to the Department of Fish and Game. The agency spread its reduction as follows:

- Commercial Fisheries: \$823.3
- Sport Fisheries: \$135.0
- Wildlife Conservation: \$141.1
- Statewide Support Services: \$248.5

2. **FY17 Treatment of FY16 One-Time Salary Increases: (\$1,347.9) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## SIGNIFICANT BUDGET CHANGES

**3. Commercial Fisheries: (\$2,488.3) UGF.** The UGF budget for Commercial Fisheries is \$3.4 million (8.5%) below the FY16 Management Plan (and 26% below the FY15 Management Plan). The FY17 Commercial Fisheries budget requests can be placed into three basic categories (listed below).

- **Reduce Funding for Fisheries Management Projects, Program Support, and Research Projects in Various Allocations: (\$2) million UGF.** In response to the fiscal situation, the Department has decremented UGF from various allocations in this appropriation. The impacts of the requested decrements include reduced support for salmon, herring, groundfish and shellfish management and research projects.
- **Replacement of \$1.3 million of UGF with other Fund Sources.**
  - **Replace \$800.0 of UGF with Test Fisheries Receipts (DGF).** This request increases this fund source by almost 26% over the FY16 Management Plan and 129% (\$2.1 million) over the FY15 actual expenditures.

**Legislative Fiscal Analyst Comment:** In past years, some members of the legislature and the commercial fishing industry have raised concerns about utilizing test fish receipts for non-test fishing purposes for the following reasons:

- Fish taken by Department test fishing operations are removed from the common property fisheries and therefore not available to be harvested in the commercial fisheries. Some believe that this has put the Department in the position of being an “economic competitor” for the common property resource.
  - Some object to test fishing as an “indirect form of taxation” that excludes the users of the common property resource from the fiscal policy decision making process.
  - If fish prices or run sizes decline, the percentage of the resource needed to meet budget allocations increases.
- **Replace \$500.0 UGF with GF/Program Receipts (DGF).** The GF/Program Receipts appropriated in Commercial Fisheries is revenue generated from commercial crew licenses. The FY17 request is \$500.0 (26%) higher than the FY16 Management Plan (and 106% higher than the amount expended in FY15).

**Legislative Fiscal Analyst Comment:** Based on estimates from the Department, increasing GF/Program Receipt authorization from commercial crew licenses appears to be unsustainable.

- Only about \$2.1 million (84%) of the \$2.4 million GF/Program receipts in the FY17 budget comes from FY17 revenue.
- The remaining \$337.9 is drawn from the \$2.53 million of carryforward from the prior year (FY16).
- If the Department's estimates are accurate (and expenditures remain at the FY17 levels), the reserve balance will fall from \$2.2 million FY17 to \$500.0 in FY22.
- An increase of about \$200.0 to \$300.0 appears to be more sustainable.

**4. Sport Fisheries.** The UGF budget for Sport Fisheries is 27.6% below the FY16 Management Plan (and 40.2% below the FY15 Management Plan). The significant changes requested for FY17 are listed below.

- **Replace \$1 million UGF with Fish and Game Funds (Other).** The Department is requesting this fund change in order to "maintain services" while facing a UGF reduction.

**Legislative Fiscal Analyst Comment:** The legislature may want to reconsider this fund change for the following reasons:

- Rejecting the additional F&G Funding should not impact services. Sport Fisheries has (or expects to have) at least 10% "excess" F&G Fund authorization. In FY16, Sport Fisheries expects to leave \$1.8 million of the F&G Fund authorization unexpended.
- Adding \$1 million of F&G Funding to the FY17 budget appears to be unsustainable. If Sport Fisheries revenues and expenditures continue to occur at FY17 levels, the F&G Fund would have a deficit of \$2.1 million by FY22.

**Legislative Fiscal Analyst Recommendation:** Accept the UGF decrement but reject the addition of the \$1 million of Fish and Game funding. The "excess" authorization in Sport Fisheries should be sufficient to absorb the UGF reduction. The legislature may wish to consider reducing additional F&G Fund authorization to more closely align anticipated expenditures.

- **Replace \$500.0 UGF with Statutory Designated Program Receipts (SDPR) (Other).** According to the Department, Sport Fisheries expects an increase in revenue generated from projects associated with non-governmental agencies in FY17. This funding should allow DFG to fully expend any SDPR collected.

**5. Wildlife Conservation: (\$1,000.0) UGF and \$641.8 Pittman-Robertson Funding (Fed).** More detail on the Division's UGF budget reductions is below.

- **Replace UGF with federal Pittman-Robertson Funds: (\$641.8) UGF/ \$641.8 Fed Repts.** The Department reviewed all positions that are not charged to federal funds and, in consultation with the federal funding agency, determined that additional positions can be shifted to federal Pittman-Robertson funds. The Department claims that the required 25% match for these positions will come from either Fish and Game Funds or general funds.
- **Reduce Various Projects: (\$358.2) UGF.** According to the Department, the reduction will be implemented across the division and focus on the division's lowest priority projects, which include programs such as wildlife management, wildlife research, and habitat management.

**Legislative Fiscal Comment:** The vast majority of federal receipts in Wildlife Conservation's budget is derived from Federal Pittman-Robertson Program funding. The Federal Pittman-Robertson (PR) Wildlife Restoration 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 the propagation and management of wildlife. The State of Alaska receives the maximum allocation of five percent of national tax receipts and the required match is 25 percent from non-federal sources (matching funds can be general funds, Fish and Game Funds, in-kind match and other program receipts). Primarily due to increased sales of firearms and ammunition, PR revenue has increased significantly in recent years.

The funding may be used for the restoration, conservation, management and enhancement of wild birds and wild mammals, and to promote public use and benefits from these resources. Because the specified use of the funding is broad, Wildlife Conservation has had no problem finding uses for the funding.

**State match issue.** States have two years to identify federal Pittman Robertson funded projects or the federal funding will revert to the U.S Fish and Wildlife Service (USFWS) for use in their Migratory Bird Program. Because the federal funding (which requires a 25% state match) has *increased* significantly over the past few years while appropriations of state funding have *declined* (primarily in the operating budget), Wildlife Conservation is struggling to find sufficient match for all available federal receipts. **Unless about \$567.0 of additional match is received, the Department expects about \$1.7 million of federal Pittman/Robertson funding in the operating budget to revert to the USFWS.**

**FY16 Capital Match Issue Update.** In FY16, two Wildlife capital projects (totaling \$11.625 million Federal Receipts) were appropriated with only \$1.1 million of the needed \$3.9 million state match—meaning the potential loss of \$8.25 million of federal receipts. Because the Department has since identified \$2.76 million of potential match (see table below), it doesn't expect to lose these federal receipts.

Wildlife Management, Research and Hunting Access Project	Federal	Match
DNR Projects - DNR providing match funds	3,243,750	1,081,250
Afognak Elk - in-kind match from tribal partners	1,710,250	427,563
Moose Habitat Restoration - match from tribal partners	1,000,000	250,000
Porcupine Caribou Research - in-kind match from Yukon Territory (potential)	1,000,000	250,000
Prince William Sound Black Bear - in-kind match from Comm Fish (potential)	500,000	125,000
British Columbia Waterfowl - in-kind match from British Columbia (potential)	500,000	125,000
Data Systems for Wildlife Management - match from DAS CIP	1,500,000	500,000
<b>Totals</b>	<b>9,454,000</b>	<b>2,758,813</b>



- 6. Statewide Support Services – Reorganization of Department Administrative Functions to Achieve Efficiencies: (\$342.2) UGF and (3) PFT Positions.** The Department reorganized administrative functions in the three smaller divisions and Boards Support in FY16 and, as a result, are requesting decrements to reflect savings achieved in the following allocations:

- Administrative Services: (\$142.2) UGF and (2) PFT Positions
- Habitat: (\$100.0) UGF
- State Subsistence Research: (\$100.0) UGF and (1) PFT Position

## **ORGANIZATIONAL CHANGES**

There are no significant organizational changes in the FY17 budget request.

## **CAPITAL REQUEST**

The Governor's FY17 Department of Fish and Game capital budget totals \$4.35 million (\$2.1 million UGF/ \$2.25 million Federal Receipts). Projects requested include:

- **Fairbanks Regional Office Electrical, Telephone System, and Repairs:** \$350.0 UGF;
- **Facilities, Vessels and Aircraft Maintenance, Repair and Upgrades:** \$1 million UGF; and
- **Sport Fish Recreational Boating and Angler Access:** \$3 million [\$2,250.0 Federal Receipts/ \$750.0 GF Match (UGF)].

**Office of the Governor**

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$23,538.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(388.9)			3
<b>FY16 Management Plan (GF only)</b>	<b>\$23,150.0</b>	(\$388.9)	-1.7%	
One-time Items Removed	(388.9)			4
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$22,761.1</b>	(\$388.9)	-1.7%	
Unallocated	(388.9)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	483.9			4
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$22,856.1</b>	\$95.0	0.4%	
<div> <div></div> <div>FY17 Governor's Increments, Decrements, Fund Changes and Language</div> </div>				
	FY17 Adjusted Base Budget (GF Only)	FY17 Governor's Request (GF only)	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
<b>Appropriation/Allocation</b>			<b>\$95.0</b>	
Elections/ Elections	3,372.9	3,467.9	95.0	1
<div> <div></div> <div>Non-General Fund Agency Summary</div> </div>				
	FY17 Adjusted Base Budget	FY17 Governor's Request	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
Other State Funds (all allocations)	532.9	819.7	286.8	1 & 2
Federal Funds (all allocations)	201.0	201.0	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$733.9</b>	<b>\$1,020.7</b>	<b>\$286.8</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>162</b>	<b>162</b>	-	
PFT	141	141	-	
PPT	-	-	-	
Temp	21	21	-	
<div> <div></div> <div>Governor's Capital Request</div> </div>				
	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	8,814.0	-	8,814.0	
<b>TOTAL CAPITAL</b>	<b>\$8,814.0</b>	<b>\$0.0</b>	<b>\$8,814.0</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.

### **BUDGET SUMMARY**

The FY17 Office of the Governor unrestricted general fund operating budget is \$95.0 (0.4%) above the FY17 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **PROGRAM EXPANSION**

- 1. Elections – Expand Language Assistance Services: \$346.5 Total [\$95.0 UGF and \$251.5 Election Fund (Other)] and 1 PFT & 1 Temp Position.**  
Under terms of the Toyukak settlement, the Division of Elections is required to provide increased language assistance services for Yup'ik speaking voters in the Dillingham and Kusilvak Census Areas and for Gwich'in speaking voters in the Yukon-Koyukuk Census Area. Included in the settlement is the requirement for a full-time Program Analyst (range 21, located in Juneau), additional training for bilingual poll workers, and additional audio and written language translation. Funding is also included for an additional temporary election worker (Language Program Assistant—range 14, located in Juneau). The Election Fund will be used to cover the cost of the positions and language translation. General funds will be used to cover the cost of the poll worker training.
- 2. Executive Operations/Executive Office – Funding for a Development Specialist Position: \$99.9 Interagency (I/A) Receipts (Other).** This request adds budgeted I/A Receipt authorization to support a Development Specialist that is funded by the Department of Transportation and Public Facilities.

### **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

- 3. FY16 Branch-Wide Unallocated Reduction: (\$388.9) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$388.9 of the reduction to the Office of the Governor as follows:
  - Human Rights Commission: \$41.8
  - Executive Office: \$224.6
  - Governor's House: \$9.5

- Office of Management and Budget: \$53.0
- Elections: \$60.0

**4. FY17 Treatment of FY16 One-Time Salary Increases: (\$388.9) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with IncM transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with Unalloc transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

**5. FY17 Primary and General Elections: \$3,694.0 UGF (requested as a capital project).** Elections are on a two-year cycle, typically resulting in a \$3.7 million budget increment in odd numbered years that is removed in even numbered years. The Governor requested funding for primary and general elections as a capital project in FY17.

**Legislative Fiscal Analyst Recommendation:** Due to the operating nature of this request, it should be moved from the capital budget to the operating budget. While concern about the impact of cyclical increments on year-to-year budget comparisons is understandable, the operating budget should reflect projected operating costs.

If the legislature intends to remove the capital budget request, they should inform the Governor before February 1 in order to give the Governor time to submit an operating budget amendment.

## **ORGANIZATIONAL CHANGES**

There are no significant organizational changes requested.

## **CAPITAL BUDGET**

The FY16 capital budget for the Office of the Governor totals \$8.814 million [\$8.694.0 UGF/ \$120.0 Election Fund (Other)]. Projects requested include:

- **Primary and General Elections: \$3,814.0 Total [\$3,694.0 UGF and \$120.0 Election Fund (Other)].**

**Legislative Fiscal Analyst Comment:** Normal costs of primary and general elections (\$3.7 million UGF) should be moved to the operating budget (see item #5 above).

This request also includes \$120.0 in Help America Vote Act funding (from the Election Fund) to cover the election year costs of the Toyukak settlement. This request will pay for language translation services to provide voter information in audio and written form in six additional Native language dialects. Because the expenditures will produce tangible goods, the appropriation from the Election Fund may be classified as a capital project.

- **Criminal Justice Reform and Reinvestment: \$5 million UGF.** During the 2015 session, leadership from all three branches of government formally requested the Pew Charitable Trust's Justice Reinvestment Initiative to analyze Alaska's prison growth drivers and work with the Alaska Criminal Justice Commission on recommendations for reducing Alaska's prison population. The final report (AK Criminal Justice Commission/Justice Reinvestment Report) was released December 10, 2015 and recommends several statutory changes in three major areas:
  - pre-trial detention,
  - community supervision, and
  - sentencing structure.

According to the Governor's Office, this placeholder request serves as a "kick starter" investment (future amount to be determined) into some of the priority services as recommended by the report.

**Legislative Fiscal Analyst Comment:** Although the majority of any reinvestment will likely occur within the Department of Corrections, some of the recommendations involve other Criminal Justice Agencies. Funding is being requested through the Governor's Office to facilitate distribution to appropriate agencies when the programs to invest in are identified. Additionally, some of the Commission's recommendations will also be included in SB91, currently residing in the Senate State Affairs Committee.

**Legislative Fiscal Analyst Recommendation:** Due to the operating nature of this request, it should be moved from the capital budget to the operating budget. As with a domestic violence / sexual assault initiative that was established to coordinate the efforts of several agencies, funding for this initiative could be placed in a separate allocation in the Executive Office appropriation.

If the legislature intends to remove the capital budget request, they should inform the Governor before February 1 in order to give the Governor time to submit an operating budget amendment.

## Department of Health and Social Services

All Dollars in Thousands

	(GF Only)	Change	% Change	See
<b>FY16 Conference Committee (GF Only)</b>	<b>\$1,274,838.3</b>			
FY16 Fiscal Notes	-			
Carry Forward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(5,864.3)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$1,268,974.0</b>	(\$5,864.3)	-0.5%	
One-time Items Removed	(4,716.5)			
Misc Adjustments	13.8			
Agency Transfer In/ Out	924.1			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$1,265,195.4</b>	(\$3,778.6)	-0.3%	
Unallocated	(4,666.5)			2,3
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	5.2			
FY17 Governor's UGF Increments/Decrements/Fund Change	(38,285.9)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$1,222,248.2</b>	(\$42,947.2)	-3.4%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>(42,947.2)</b>	
Pioneer Homes	52,302.9	52,165.2	(137.7)	10
Behavioral Health	95,627.2	90,118.5	(5,508.7)	9
Children's Services	87,300.9	92,968.9	5,668.0	4
Health Care Services	10,880.0	10,708.3	(171.7)	11
Juvenile Justice	54,203.3	56,230.5	2,027.2	5
Public Assistance	173,682.3	165,095.2	(8,587.1)	6,7,8
Public Health	86,027.0	85,809.8	(217.2)	
Senior and Disabilities Services	48,466.4	48,635.9	169.5	
Departmental Support Services	17,466.1	17,600.4	134.3	
Human Services Community Matching Grant	1,415.3	1,387.0	(28.3)	
Community Initiative Grants	879.3	861.7	(17.6)	
Medicaid Services	636,944.7	605,328.1	(31,616.6)	3
Agency Unallocated Appropriation	-	(4,661.3)	(4,661.3)	
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	92,271.2	99,477.4	7,206.2	
Federal Funds (all allocations)	1,254,027.8	1,415,904.0	161,876.2	
<b>Total Non-General Funds (all allocations)</b>	<b>\$1,346,299.0</b>	<b>\$1,515,381.4</b>	<b>\$169,082.4</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>3,620</b>	<b>3,615</b>	<b>(5)</b>	
PFT	3,478	3,466	(12)	10
PPT	56	54	(2)	10
Temp	86	95	9	
<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	2,834.3	-	2,834.3	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	2,050.0	-	2,050.0	
Information Systems and Technology	2,219.2	554.8	2,774.0	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$7,103.5</b>	<b>\$554.8</b>	<b>\$7,658.3</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 FY17 Department of Health and Social Services unrestricted general fund (UGF) operating budget request submitted on December 15, 2015 is \$42,947.2 (3.4%) *below* the FY17 Adjusted Base. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: (\$5,864.3) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$5,864.3 of the reduction to the Department of Health and Social Services. The agency spread its reduction as follows:

- Alaska Pioneer Homes: \$23.8
- Behavioral Health/Alaska Psychiatric Institute: \$1.8
- Juvenile Justice: \$19.4
- Public Health: \$25.9
- Senior & Disabilities Services: \$1.6
- Departmental Support Services: \$15.1
- Medicaid Services: \$5,776.7

2. **FY17 Treatment of FY16 One-Time Salary Increases: (\$4,661.3) UGF.**

FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

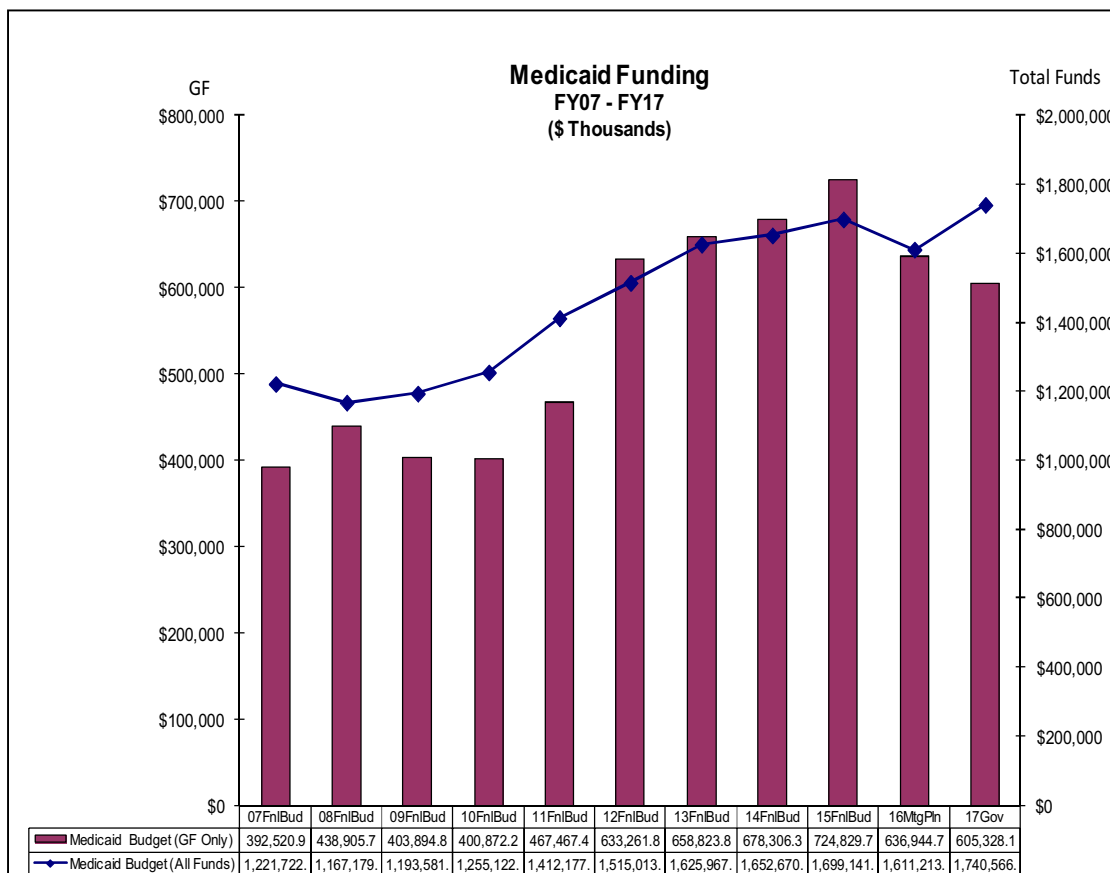
For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## FUNDING INCREASES

3. **Medicaid Services:** The total budget request increased by \$129.4 million (8%) while UGF *decreased* by \$31.6 million (5%) from the FY16 Management Plan. While the graph illustrates overall changes between FY07 and FY17, the following bullets highlight FY17 changes that occur in the Medicaid Budget:



- Potential savings from reforms and efficiencies: (\$46.3) million total [(\$31.6) million UGF/ (\$14.7) million Federal Receipts]
- Support Tribal Medicaid Administrative Claiming: \$1,943.7 SDPR (Other)
- Medicaid Expansion: \$173.7 million Federal Receipts



**Legislative Fiscal Analyst Comment:** On July 17, 2015, Governor Walker submitted Medicaid Expansion RPLs (totaling \$147 million Federal Receipts and \$1.59 million MHTAAR Receipts to the LB&A Committee with the intention of implementing Medicaid Expansion on September 1, 2015.

Pursuant to AS 37.07.080(h), “45 days shall elapse before commencement of expenditures under the revised program unless the Legislative Budget and Audit Committee earlier recommends that the state take part in the federally or otherwise funded activity.”

Because the LB&A Committee did not address the RPLs in the July 22, 2015 meeting (or any other LB&A Committee meeting), the funding requested in the RPLs was available on September 1, 2015.

**Allocation of Department-wide FY16 Unallocated Reduction:** To reflect UGF savings resulting from Medicaid Expansion in FY16, the Department allocated almost \$2 million of the \$2,218.5 million department-wide unallocated reduction to the following allocations:

- Behavioral Health Treatment and Recovery Grants: (\$1.0) million
- Health Care Services/Catastrophic and Chronic Illness Assistance: (\$971.0)

**4. Children’s Services/Subsidized Adoptions & Guardianship – Add Funding to Reflect a Growing Caseload and Increased Rates: \$9.65 million Total [\$4,825.0 G/F Match (UGF)/ \$4,825.0 Federal Receipts].**

Per AS 25.23.190, a “hard-to-place child in the permanent custody of the department in a foster home for not less than one year may not be denied the opportunity for a permanent home if the achievement of this depends on continued subsidy by the state.” Based on numbers provided by the department, annual caseloads have grown by 4.5% while annual costs have increased by 7.7% since 2012 (and 7% to 9% since FY14). According to the Department, contributing factors for increased costs are that the:

- special needs of many children are increasingly complex,
- cost of treatment services has increased, and
- Office of Children’s Services (OCS) increased foster care rates twice in recent years. In July 2008 and, as a result of a lawsuit (Mulgrew vs. State of Alaska), again in July 2013.

**Legislative Fiscal Analyst Comment:** Although OCS did not request (or receive) an increment in FY16, a FY15 supplemental appropriation for \$3.4 million (\$1.7 million UGF and \$1.7 million Federal Receipts) was approved by the legislature last session and another \$6.65 million is expected to be needed in FY16.

The legislature may wish to ask if the FY17 increment request is sufficient. With another \$6.65 million needed in FY16 and an estimated 7% growth rate, it would appear that the FY17 increment should be \$7.1 million UGF—not \$4.8 million.

**5. Juvenile Justice – Funding Request: \$1 million UGF.** Additional funding is requested for the following purposes:

- **Maintain Youth Facilities Staffing: \$890.0 UGF.** According to the Department, an additional 2.2% is needed in the personal services line due to the low rate of staff turnover and to meet the Division of Juvenile Justice’s (DJJ) minimal staffing requirement to ensure the safety and security of youth in custody.
- **Juvenile Justice Health Care – Medical Costs for Supervised Youth: \$110.0 UGF.** Statutes require that the division provide for the medical, dental and psychiatric needs of youths in DJJ’s facilities. According to the Department, additional funding is

needed because, as medical service contracts are renewed, the division is consistently seeing an increase in the cost of these services. This is an increase of 10.8% from the FY16 Management Plan.

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

- 6. Public Assistance/ Energy Assistance Program – Eliminate the Alaska Affordable Heating Program (AKHAP): (\$9,174.3) UGF.** The Alaska Affordable Heating Program was established to provide expanded eligibility for Alaska residents for home heating assistance. AKHAP supplements the federal Low Income Heating and Energy Assistance Program (LIHEAP). Although the expanded AKHAP program will be eliminated, the Department will continue to administer the federally funded Low Income Home Energy Assistance Program (LIHEAP).

**Legislative Fiscal Analyst Comment:** Until FY09, funding for LIHEAP (AKA the “Energy Assistance Program”) was 100% federally funded. Although the Governor’s request removes all UGF, the budget allows for the continuation of the federally funded LIHEAP program.

- 7. Public Assistance Field Services – Maintain Staffing Levels: \$500.0 UGF.** The Governor is requesting that \$500.0 of “excess” UGF in Work Services be transferred to Public Assistance Field Services to “maintain staffing.”

**Legislative Fiscal Analyst Comment:** Although the Department’s description as to why this funding is needed is light, a request for additional funding in FY17 was anticipated. The Governor submitted Medicaid Expansion RPLs to the LB&A Committee on July 17, 2015 in order to implement Medicaid Expansion on September 1, 2015. Public Assistance Field Services received \$1,385.6 of MHTAAR funding from the Medicaid Expansion RPLs to fund an additional 23 permanent full-time positions. The MH Trust had indicated that the MHTAAR funding was one-time and another funding source would be needed in FY17.

This funding was transferred from \$1 million of “excess UGF” in the Work Services Allocation. \$500.0 was transferred to PA Field Services and \$500.0 was transferred to Tribal Assistance Programs.

- 8. Public Assistance/ Tribal Assistance Programs – Funding to Satisfy MOE Requirements for Tribal Assistance Grants: \$500.0 UGF.** These grant expenditures are used by the division to satisfy a Maintenance of Effort (MOE) mandate for the receipt of the Temporary Assistance for Needy Families block grant. The Governor is requesting that \$500.0 of “excess” UGF in Work Services be transferred to Tribal Assistance to “satisfy MOE requirements.”

**Legislative Fiscal Analyst Comment:** This funding was transferred from \$1 million of “excess UGF” in the Work Services Allocation – \$500.0 was transferred to PA Field Services and \$500.0 was transferred to Tribal Assistance Programs.

- 9. Behavioral Health (BH) Treatment & Recovery Grants – Transition BH Treatment and Recovery Grants to Medicaid Expansion: (\$5,779.6) UGF.** Because federal receipts from Medicaid Expansion are expected to cover a portion of behavioral health services that had been funded with UGF, the Department is expecting to maintain services despite a 13.6% reduction in UGF in this allocation. Services that will be transitioned to Medicaid reimbursement (from UGF grant funding) include services for adults with Serious Mental Illness (SMI grants) and eligible adults with Substance Use Disorders (SUD grants).

- 10. Pioneer Homes (PH): (\$720.0) UGF and (11) positions.** As a cost saving measure, eight PFT positions and three PPT positions are being deleted in FY17 from the following Pioneer Homes: Fairbanks (2 PFTs), Palmer (1 PFT), Anchorage (3 PFTs and 1 PPT), Ketchikan (1 PFT and 1 PPT), Juneau (1 PPT), Sitka (1 PFT). To maintain the current direct care staff to resident ratios, an estimated six beds will be reduced.

**Legislative Fiscal Analyst Comment:** When compared to the FY15 Management Plan, the Governor's FY17 budget request for the PH budget has *decreased* by \$2 million (5.5%). In FY16, the Department reports that 19 positions were deleted (along with about \$1.7 million UGF). In addition, to partially offset the negative impacts of the FY16 UGF reductions, DHSS planned to collect additional GF/Prgm Receipts by increasing PH rates (for the first time since 2009). The rates will increase by 8.5% on February 1, 2016.

- 11. Health Care Services/Catastrophic and Chronic Illness Assistance – Cost Containment Due to Medicaid Expansion: (\$329.0) UGF.** Because many recipients of the Catastrophic and Chronic Illness Assistance program are now covered under the expanded Medicaid program, most of the UGF has been cut from this budget. With this reduction, the Department has reduced the program by 88% since FY15 (from \$1,471.0 to \$171.0 in the FY17 request). Additional funding was reduced in the FY16 Authorized budget when the Department allocated \$971.0 UGF of the FY16 unallocated reduction. (see item #1).

## ORGANIZATIONAL CHANGES

There are no significant organization changes.

## CAPITAL PROJECTS

DHSS has proposed a total capital budget of \$6.1 million, which is comprised of \$5.55 million of state funds and \$554.8 of federal funds. The six significant projects requested are listed below.

- **Office of Civil Rights Remediation Completion:** \$2,774.0 [\$2,219.2 GF Match (UGF) and \$554.8 Fed Repts]. Under a Corrective Action Plan (CAP) and settlement with the Office of Civil Rights (OCR), DHSS is required to remediate issues what were identified by federal investigators responding to a lost hard drive. In addition to the one-time remediation under the CAP, the Department is obligated to implement a HIPAA ongoing compliance program to ensure that health data continues to be protected.

**Legislative Fiscal Analyst Comment:** The Department has included \$955.6 of ongoing costs in the funding for this project. Because the Department is obligated to implement an ongoing compliance program, the portion of funds included in this capital project related to on-going costs should be placed in the operating budget.

**Legislative Fiscal Analyst Recommendation:** Due to the operating nature of a portion of this request, \$955.6 of this project should be moved from the capital budget to the operating budget.

If the legislature intends to remove this portion of the capital budget request, they should inform the Governor before February 1 in order to give the Governor time to submit an operating budget amendment.

- **Pioneer Homes Deferred Maintenance, Renovation, Repair and Equipment:** \$1,417.5 UGF.
- **Non-Pioneer Home Deferred Maintenance, Renovation, Repair and Equipment:** \$1,416.8 UGF.
- **MH Home Modification and Upgrades to Retain Housing (HD 1-40):** \$1,050.0 [\$250.0 UGF/ \$500.0 GF/MH (UGF)/ \$300.0 MHTAAR (Other)].
- **Emergency Medical Services Match for Code Blue Project (HD 1-40):** \$500.0 GF Match (UGF).
- **MH Essential Program Equipment:** \$500.0 [\$250.0 GF/MH (UGF)/ \$250.0 MHTAAR (Other)].

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## Department of Labor and Workforce Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$62,264.7</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(418.1)			3
<b>FY16 Management Plan (GF only)</b>	<b>\$61,846.6</b>	(\$418.1)	-0.7%	
One-time Items Removed	(225.9)			
Misc Adjustments	-			
Agency Transfer In/ Out	(924.1)			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	0.8			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$60,697.4</b>	(\$1,149.2)	-1.9%	
Unallocated	(235.3)			4
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	9.4			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(796.6)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$59,674.9</b>	(\$1,022.5)	-1.7%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$1,022.5)</b>	
Leasing	3,500.3	3,400.3	(100.0)	7
Second Injury Fund	4,012.5	3,412.5	(600.0)	8
Fisherman's Fund	1,657.2	1,457.2	(200.0)	8
Construction Academy Training	600.0	-	(600.0)	5
Workforce Development	16,856.2	17,122.4	266.2	1
Unemployment Insurance	861.0	865.0	4.0	1
Client Services	4,539.8	4,614.8	75.0	6
Alaska Vocational Technical Center	10,205.8	10,338.1	132.3	1, 2
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	20,592.8	20,417.8	(175.0)	6
Federal Funds (all allocations)	94,038.1	85,438.1	(8,600.0)	9
<b>Total Non-General Funds (all allocations)</b>	<b>\$114,630.9</b>	<b>\$105,855.9</b>	<b>(\$8,775.0)</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>854</b>	<b>806</b>	<b>(48)</b>	
PFT	775	735	(40)	
PPT	71	62	(9)	
Temp	8	9	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	-	-	-	
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 FY17 Department of Labor and Workforce Development general fund operating budget submitted by the Governor on December 15, 2015 is \$1,022.5 (1.7%) *below* the FY17 Adjusted Base [(\$774.9) Unrestricted General Funds (UGF)/ (\$247.6) 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: \$402.5**

**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 (Chapter 15, SLA 2014) made several changes related to TVEP. For FY17, the estimated available TVEP receipts are \$13,836.0 (\$783.8 more than the amount available in FY16). Due to the Department reorganization attached to the Governor's Administrative Order No. 275, the Division of Business Partnerships was dissolved. Eight allocations that previously received (and tracked) TVEP funds were merged into a single allocation – Workforce Development – within the new Employment & Training Services appropriation. Therefore, FY17 TVEP increases are reflected in the following allocations:

- Workforce Development \$266.2
- Unemployment Insurance \$4.0
- Alaska Vocational Technical Center \$132.3

**Legislative Fiscal Analyst Comment:** Multiple allocations may inhibit efficiency, but they can provide helpful information about how funding is budgeted and expended. The Administrative Order cites the need for independent policy development by the Alaska Workforce Investment Board, but the creation of a \$32 million allocation and the dissolution of the nine business partnership and adult basic education allocations may hinder the legislature and the public from easily tracking and obtaining programmatic and regional information.

#### **2. Alaska Vocational Technical Center (AVTEC) Fund Source Change from UGF to GF/Program Receipts to Support Operations: (\$74.9) UGF/\$74.9 GF/Program Receipts (DGF).**

The Governor's budget submission includes a fund change which will enable AVTEC to reduce reliance on unrestricted general funds and substitute

GF/Program Receipts from increased tuition and additional fees. AVTEC's primary mission is to provide market-driven vocational and technical training to prepare state residents for jobs.

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

3. **FY16 Branch-Wide Unallocated Reduction: (\$418.1) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$418.1 of the reduction to the Department of Labor and Workforce Development. The agency distributed the reductions as follows:

- **\$81.1 UGF – Commissioner and Administrative Services/ Leasing** – absorbed as a result of space consolidation efforts and department reorganization;
- **\$154.8 UGF – Business Partnerships/ Business Services** – Reduction absorbed due to consolidation efforts from Administrative Order No. 275; and
- **\$182.2 UGF – Employment and Training Services/ Workforce Services** – Reduction absorbed due to consolidation efforts from Administrative Order No. 275.

4. **FY17 Treatment of FY16 One-Time Salary Increases: (\$235.3) UGF (\$83.4 G/F Match/ \$151.9 UGF).** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

5. **Business Partnerships/ Construction Academy Training – Reduce Grant Funding: (\$600.0) UGF.** In accordance with FY16 legislative intent, the Department of Labor and Workforce Development reduced the general fund authority supporting the Alaska Construction Academies (ACA) by \$600.0 UGF in FY17. (The remaining Construction Academy Training funding, totaling \$1,964.2 UGF, was transferred to the Workforce Development allocation as part of the division merger under Administrative Order No. 275.) The Department is currently working with ACA to identify federal and/or private funding to help backfill this reduction.



**Legislative Fiscal Analyst Recommendation:** Merging Construction Academies into Workforce Development no longer allows Construction Academies funding to be identified. In order to track the intended five-year phase-out of funding, Construction Academy Training should remain as a distinct allocation.

6. **Vocational Rehabilitation/ Client Services – Fund Source Change to Accurately Reflect Authorization for the State Portion of the Business Enterprise Program Fund: (\$75.0) VocRehab Fund (Other)/ \$75.0 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. This fund switch adjusts a previous action to display the appropriate authorization by fund source.

**Legislative Fiscal Analyst Comment:** The fund source “1237 VocRehab S” was created in the Legislative Finance budget system in FY16. 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.

7. **Commissioner and Administrative Services/ Leasing – Additional Savings as a Result of Space Consolidation Efforts: (\$100.0) UGF.** The Department is reviewing and consolidating leased space to fully utilize its longest term and least expensive space and release its shortest term and most expensive leased space. The Department anticipates reducing its leased costs by \$100.0 in FY17 as a result of these efforts.
8. **Workers’ Compensation Designated General Fund Reductions: (\$800.0) Total.** Reduce authority to align with anticipated revenue collections and spending for the following funds:
- (\$600.0) Second Injury Fund Reserve Account (DGF)
  - (\$200.0) Fishermen’s Fund (DGF)
9. **Federal Receipt Authority Reductions: (\$8,600.0).** Decrements to align with anticipated revenue collections and spending as follows:
- Commissioner and Administrative Services/ Data Processing: \$1,000.0 Fed Receipts
  - Labor Standards and Safety/ Occupational Safety and Health: \$200.0 Fed Receipts
  - Business Partnerships/ Business Services: \$7,000.0 Fed Receipts
  - Alaska Vocational Technical Center: \$400.0

## ORGANIZATIONAL CHANGE

A significant reorganization occurred within the Department of Labor and Workforce Development with Governor's Administrative Order No. 275, dated June 10, 2015. **The Division of Business Partnerships was dissolved and functions of that division were merged into a new Division of Employment and Training Services.** Funding from the following nine allocations was transferred into the single Workforce Development allocation (within the Employment & Training Services Appropriation).

- Business Services
- Alaska Technical Center (Kotzebue)
- Southwest Alaska Vocational and Education Center Operations Grant
- Yuut Elinaurviat, Inc. People's Learning Center Operations Grant
- Northwest Alaska Career and Technical Center
- Partners for Progress in Delta, Inc.
- Amundsen Educational Center
- Ilisagvik College
- Construction Academy Training

Also, as part of the Administrative Order No. 275, the **Adult Basic Education allocation was dissolved and all funds were transferred to Workforce Development.**

**Legislative Fiscal Analyst Comment:** Multiple allocations may inhibit efficiency, but they can provide helpful information about how funding is budgeted and expended. The Administrative Order cites the need for independent policy development by the Alaska Workforce Investment Board, but the creation of a \$32 million allocation and the dissolution of the nine business partnership and adult basic education allocations (including Construction Academy Training) may hinder the legislature and the public from easily tracking and obtaining programmatic and regional information.

**In an interdepartmental reorganization, all funds related to the Designated State Entity for the Independent Living Part B Grant were transferred to the Department of Health & Social Services from Labor and Workforce Development and the Independent Living Rehabilitation Allocation in the Vocational Rehabilitation Appropriation was dissolved.** The Department of Health and Social Services (H&SS) will now be Alaska's designated state entity for that grant. The Workforce Innovation and Opportunity Act transferred oversight of the Independent Living program from the U.S. Department of Education to the U.S. Department of Health and Human Services and provided an opportunity to change designated state entities.

The Independent Living program facilitates services to Alaskans that allow them to live independently and participate in their communities. While many disabled Alaskans require Independent Living services prior to receiving vocational services from the Department of Labor and Workforce Development, the Independent Living program is not a vocational program and more closely aligns with the mission and other programs of H&SS.

## CAPITAL REQUEST

No capital projects are included for the Department of Labor and Workforce Development in the Governor's FY17 Capital budget submission.

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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

<b>Department of Law</b>				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See
<b>FY16 Conference Committee (GF Only)</b>	<b>\$56,619.0</b>			
FY16 Fiscal Notes	-			
CarryForward	1,688.6			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(927.7)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$57,379.9</b>	\$760.9	1.3%	
One-time Items Removed	(6,314.2)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$51,065.7</b>	(\$6,314.2)	-11.0%	
Unallocated	(927.7)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	2.1			
FY17 Governor's UGF Increments/Decrements/Fund Changes	3,526.1			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$53,666.2</b>	\$2,600.5	5.1%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$2,600.5</b>	
Third JD: Outside Anchorage	5,216.0	4,876.0	(340.0)	3
Criminal Appeals/Special Litigation	3,918.8	4,237.5	318.7	4
Criminal Division Unallocated Reduction	-	(92.5)	(92.5)	5
Natural Resources	3,440.7	6,490.7	3,050.0	6
Reg Affairs Public Advocacy	2,332.6	2,707.6	375.0	6
Civil Division Unallocated Reduction	-	(669.3)	(669.3)	5
Administration and Support Unallocated Reduction	-	(41.4)	(41.4)	5
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	30,600.6	49,115.6	18,515.0	6
Federal Funds (all allocations)	1,020.1	1,020.1	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$31,620.7</b>	<b>\$50,135.7</b>	<b>\$18,515.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>555</b>	<b>545</b>	<b>(10)</b>	
PFT	553	544	(9)	3, 5
PPT	2	1	(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 FY17 Department of Law general fund operating budget as submitted by the Governor is \$2,600.5 (5.1%) above the FY17 Adjusted Base [\$1,775.5 Unrestricted General Funds (UGF)/ \$825.0 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.

## **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

**1. FY16 Branch-Wide Unallocated Reduction: (\$927.7) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$927.7 of the reduction to the Department of Law. The agency distributed the reductions as follows:

- **\$400.0 UGF – Criminal Division/ Second Judicial District.** The Department closed the Criminal Division's Barrow field office. This closure minimizes the need for further reductions in this Division. The cost per square foot for the Barrow office was one of the most expensive and it has been extremely difficult to keep it fully staffed; and
- **\$527.7 UGF – Civil Division – various allocations.** Reductions are being taken in nine allocations within the Civil Division (primarily in Personal Services). Several sections are aware that there will be employees taking leave without pay for extended periods of time and, on an ongoing basis, the Department is planning to increase the vacancy factor.

**2. FY17 Treatment of FY16 One-Time Salary Increases: (\$927.7) UGF Total [(\$5.4) G/F Match/ (\$920.3) UGF/ (\$2.0) GF/MH].** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## **SIGNIFICANT BUDGET CHANGES**

3. **Criminal Division/ Third Judicial District: Outside Anchorage – Close the Dillingham Office: (\$340.0) UGF and (2) PFT positions.** Current budget constraints require reducing lease space and personnel. Grand juries for Dillingham are currently held in Anchorage and historically the Anchorage District Attorney's Office has supervised the Dillingham office, meaning frequent travel costs are incurred for both staff and witnesses. With this closure, the Anchorage office will assign a prosecutor within a trial team to focus on Dillingham matters.
4. **Criminal Appeals/ Special Litigation – Add Funds to the Office of Special Prosecutions (OSP) for Major Criminal Case Work: \$318.7 UGF.** The Governor's Request includes additional UGF to fund investigation and prosecution of major criminal cases. According to the Department, this increase will provide OSP with the ability to detect, investigate, deter, and reduce corruption, fraud, criminal activity, abuses of office and conflicts of interest. In order to achieve these results, five vacant positions will be filled and dedicated to these efforts.
5. **Mandatory Furloughs for Exempt/Partially-Exempt Employees and Savings as a result of Attrition: (\$803.2) UGF and (4) PFT positions.** Two significant reductions are included in the Governor's Request for the Department of Law. (1) The Department of Law will require two mandatory furlough days for exempt and partially-exempt staff--the day after the Thanksgiving holiday and the day before Christmas; and (2) savings is planned as a result of attrition. Staffing levels will be determined in conjunction with the need for legal services by the Department's client agencies but positions will be cut, hopefully with natural attrition as the mechanism for savings. These actions affect appropriations as follows:
  - Criminal Division: (\$92.5) UGF from furloughs;
  - Civil Division: (\$143.7) UGF from furloughs; (\$525.6) UGF from attrition and delete (4) PFT; and
  - Administration and Support: (\$2.5) UGF from furloughs; (\$38.9) UGF from attrition.
6. **Oil, Gas and Mining Issues: \$21.7 million Total [\$2.5 million UGF/ \$700.0 GF/LNG (UGF)/ \$18.5 million AK LNG I/A (Other)].** The Governor has requested funds to continue the Department's role in bringing natural gas to market. These requests restore \$3.2 million of IncOTI funds previously approved for FY17. (In FY16, the Department received \$3.7 million for the same purpose.) Also, the Governor's Request includes \$18.5 million in AK LNG I/A Receipt authority for contracts with outside law firms. 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.

## Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request

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. Overall, outside counsel for specialized expertise on oil, gas, and mining issues is *decreased* in the Governor's Request by \$500.0 UGF from FY16.

The following table summarizes the changes discussed below:

Oil & Gas Related Funding FY16-FY17	FY16 Budget		FY17 Request	
	Allocation	Funding	Allocation	Funding
(Non-Gasline) Outside Counsel for Specialized Expertise in Oil, Gas, and Mining Issues	Oil, Gas & Mining	\$3 million UGF-IncOTI	Natural Resource Allocation  Regulatory Affairs Public Advocacy (RAPA)	\$2.125 million UGF-IncOTI related to the collection of oil and gas taxes and royalties.  \$375.0 UGF-IncOTI UGF funding to support pipeline tariff proceedings
Gasline - Alaska LNG (internal costs)	Oil, Gas & Mining	\$700.0 UGF-IncOTI	Natural Resources	\$700.0 GF/LNG-IncOTI
Gasline - Alaska LNG (outside counsel)		\$10.1 million GF/LNG (UGF) Supplemental - lapses 6/30/16 <i>New GF fund code established with the passage of Ch. 1, TSSLA15 (SB3001) to track expenditures associated with a natural gas pipeline.</i>		\$18.5 million AK LNG I/A

- **Natural Resources – \$700.0 GF/LNG (UGF) (IncOTI) – Legal Services and Oversight of Alaska Liquefied Natural Gas Pipeline Project.** (This request restores a FY16 IncOTI for the same amount.) The Department of Law's Natural Resources section attorneys advise the Alaska Natural Gas Pipeline Project office, the Governor's Office, and the Commissioners of the Departments of Natural Resources and Revenue regarding construction of a gas treatment plant, gas pipeline and a liquefied natural gas (LNG) plant.

**Legislative Fiscal Analyst Comment:** A new general fund code (1241) GF/LNG was created by the Legislative Finance Division to ease tracking of appropriations and expenditures associated with a natural gas pipeline. This fund code was first used in Chapter 1, TSSLA15 (SB 3001) for \$10.1 million GF/LNG (UGF) supplemental funding. These general funds were appropriated to the Department's Oil, Gas & Mining allocation to support the drafting and review of contracts related to the AK LNG project. Funds will lapse 6/30/16.

- **Outside Counsel for Specialized Expertise in Oil, Gas and Mining Issues – \$2.5 million UGF (IncOTI).** This request is a **partial** restoration of \$3 million of FY16 funding in the Oil, Gas and Mining component. The Oil, Gas and Mining section has previously represented the Department of Revenue and the Department of Natural Resources in disputes relating to the collection of oil and gas taxes and royalties, using both department personnel and outside counsel. These activities will now be taken over by the Natural Resources and Regulatory Affairs and Public Advocacy (RAPA) allocations. This increment will fund contracts with outside counsel and consultant expert specialists.
  - **Natural Resources – the \$2,125.0 (UGF) (IncOTI).** The issues to be funded include taxes (\$1,184.0) and royalty reopeners (\$941.0).

- **Regulatory Affairs Public Advocacy (RAPA) – \$375.0 UGF (IncOTI).** These funds will support the Pipeline Tariff Proceeding (\$375.0).
- **Natural Resources – \$18.5 Million AK LNG I/A (Other) (IncOTI) – Outside Legal Services for the Liquefied Natural Gas Project.** These Inter-Agency Receipts provide the ability to contract with law firms to assist the Departments of Natural Resources and Revenue in drafting and reviewing contracts related to the Alaska Liquefied Natural Gas Project and to provide legal and regulatory support for state participation in that project for FY17.

**Legislative Fiscal Analyst Comment:** An Inter-Agency Receipt fund code (1236) AK LNG I/A was created by the Legislative Finance Division to track expenditures from the Alaska Liquefied Natural Gas Project Fund. The LNG fund consists of money appropriated to it. Interest and other income received on money in the fund may be appropriated to the fund. Agencies can spend code 1236 only as specified in a reimbursable services agreement signed by the Alaska Gasline Development Corporation (AGDC).

## **ORGANIZATIONAL CHANGES**

Technical restructuring of the Civil Division is reflected in the Governor's Request to allow for greater efficiency as well as to create hubs of required legal expertise. Primary changes are as follows:

- Oil, Gas and Mining issues are being merged with the Natural Resources and the Regulatory Affairs and Public Advocacy allocations;
- A new allocation is added – Special Litigation – so that the Civil Division will have a formal, consolidated structure for handling large-scale, complex and specialized litigation; and
- Timekeeping and Litigation Support has been renamed “Information and Project Support.”

## **CAPITAL BUDGET**

No capital projects are included for the Department of Law in the Governor's FY17 Capital budget submission.



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## Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$17,628.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(374.4)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$17,254.5</b>	(\$374.4)	-2.1%	
One-time Items Removed	(174.0)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$17,080.5</b>	(\$174.0)	-1.0%	
Unallocated	(274.2)			2
Lang/Lang OTIs/MiscAdj/Carryforward/Multi Years/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	1,757.2			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$18,563.5</b>	\$1,483.0	8.7%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$1,483.0</b>	
Office of the Commissioner	2,348.7	3,768.7	1,420.0	3 & 4
Retirement Benefits	734.5	797.5	63.0	5
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	16,217.9	16,217.9	-	
Federal Funds (all allocations)	26,605.2	26,605.2	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$42,823.1</b>	<b>\$42,823.1</b>	<b>\$0.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>321</b>	<b>297</b>	<b>(24)</b>	
PFT	318	294	(24)	
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	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,000.0	-	1,000.0	
Information Systems and Technology	-	-	-	
Other	-	4,600.0	4,600.0	
<b>TOTAL CAPITAL</b>	<b>\$1,000.0</b>	<b>\$4,600.0</b>	<b>\$5,600.0</b>	

## Department of Military and Veterans' Affairs

The Department of Military and Veterans' Affairs (DMVA) provides 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 FY17 Department of Military and Veterans' Affairs general fund operating budget submitted by the Governor on December 15, 2015 is \$1,483.0 (8.7%) above the FY17 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.

### FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

- 1. FY16 Branch-Wide Unallocated Reduction: (\$374.4) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$374.4 of the reduction to the Department of Military and Veterans' Affairs. The agency spread its reduction as follows:

- \$100.2 UGF to the Alaska Aerospace Corporation (eliminating all UGF)
- \$227.5 UGF and \$46.7 GF Match (UGF) to the Alaska Military Youth Academy (deleting authority for six permanent full-time positions)

- 2. FY17 Treatment of FY16 One-Time Salary Increases: (\$274.2) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

<b>Legislative Fiscal Analyst Comment:</b> Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.
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### NEW PROGRAMS/ PROGRAM EXPANSION

- 3. Office of the Commissioner – Rural Engagement – Increased Role of the Alaska State Defense Force: \$1.3 million UGF.** The FY17 Governor's budget includes a request to expand rural participation in the Alaska State Defense Force (ASDF). The

goal over the next three to five years is to expand to an ASDF Scout Battalion comprised of an 81-member headquarters in Bethel and three 77-person companies, each composed of four to five person Scout teams, initially from across the Yukon-Kuskokwim Delta region, but eventually statewide. Requested funding will be used to form and equip an initial force composed of the headquarters team and one company of Scouts. Federal regulations prohibit the use of federal funding for the ASDF.

**Legislative Fiscal Analyst Comment:** According to the Department, the ASDF is under state control at all times and is funded with state general fund money. This is in contrast to the Alaska National Guard, which is federally funded, subject to federal requirements and restrictions, and may be called into federal service, at which time the governor relinquishes the commander-in-chief role to the President of the United States. Federal funds may not be used for the ASDF. The legislature may wish to inquire further on the following:

- 1) What purposes will the Alaska State Defense Force serve?
- 2) What are the consequences of failing to expand?

The Department is also requesting \$1 million in the FY17 capital budget to purchase equipment to support a new Scout Battalion of the Alaska State Defense Force in rural Alaska. This is a phased project requiring \$1 million annually for five years. If this operating request is not approved, the capital funding should not be appropriated.

4. **Office of the Commissioner – Consulting Contract for Base Realignment and Closure (BRAC) Act Preparation: \$120.0 UGF.** Funding is requested to address the potential impact of a Base Realignment and Closure (BRAC) Act as early as FY18. The Department will establish a consulting contract, specifically seeking expertise in the areas of federal legislation affecting military base viability, reducing the energy cost differences between Alaska bases and those outside of Alaska, improving partnerships between host communities and military bases, and developing enhanced use leases. The Department believes that focusing on these areas will allow it to enhance military, community and legislative partnerships in order to better prepare for and respond to a BRAC in the future, as well as hedge against any proposed force structure decrements.

## MAINTENANCE OF SERVICES

5. **National Guard and Naval Militia Retirement System Actuarial Adjustment: \$63.0 UGF.** The National Guard and Naval Militia Retirement System Roll-Forward Actuarial Valuation dated June 30, 2014 identified the FY17 total annual contribution as \$797.5 to fund this retirement system. There is base funding of \$734.5 UGF within the Alaska National Guard Benefits appropriation and, with this increment request, there will be a total of \$797.5 UGF.

**Legislative Fiscal Analyst Comment:** The Actuarial Valuation also identifies FY17 Past Service Costs as \$69.4. An appropriation for past service costs is included in section 23(g) of the operating language (State Assistance to Retirement).

**Legislative Fiscal Analyst Recommendation:** The National Guard and Naval Militia Retirement System pays benefits to retired National Guard members. These costs are state obligations and should not be shown as agency operating costs. The Legislative Finance Division recommends moving the annual contribution to fund the retirement system from the Department of Military and Veterans' Affairs/

Alaska National Guard Benefits appropriation to State Assistance to Retirement/Direct Military appropriation.
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## ORGANIZATIONAL CHANGES

There are no organizational changes requested.

## CAPITAL REQUEST

The Governor's FY17 Department of Military and Veterans' Affairs capital budget totals \$5.6 million (\$1 million UGF and \$4.6 million Federal Receipts). A summary of the projects is as follows:

- **Bethel Scout Battalion – Phase 1 of 5: \$1 million UGF.** This project will purchase equipment to support a new Scout Battalion of the Alaska State Defense Force in rural Alaska. This is a phased project requiring \$1 million annually for five years.

<b>Legislative Fiscal Analyst Comment:</b> The agency is requesting \$1.3 million UGF in the FY17 operating budget to increase the role of the Alaska State Defense Force. If funding is denied in the operating budget, this capital funding will not be needed.
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- **National Guard Counterdrug Support: \$100.0 Federal Receipts.** The National Guard Counter Drug Support Program is federally funded and supports law enforcement agencies in drug enforcement operations, assists in training Law Enforcement Officers and provides community-based drug awareness programs. This funding is primarily used for technological support supplies and/or facility improvements to the program.
- **State Homeland Security Grant Programs: \$4,500.0 Federal Receipts.** The State of Alaska receives Homeland State Security Grants from the U.S. Department of Homeland Security. Typically 80% of this funding is passed-through to communities statewide for infrastructure installation and maintenance for emergency preparedness and response in the event of a catastrophe or emergency. Funding at the state level provides for crisis management, emergency notifications, infrastructure analysis, project mitigation, policy development and grant administration.

*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## Department of Natural Resources

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$97,715.6</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(1,173.7)			2
<b>FY16 Management Plan (GF only)</b>	<b>\$96,541.9</b>	(\$1,173.7)	-1.2%	
One-time Items Removed	(3,445.3)			
Misc Adjustments	56.8			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$93,153.4</b>	(\$3,388.5)	-3.5%	
Unallocated	(1,062.0)			3
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	56.8			
FY17 Governor's UGF Increments/Decrements/Fund Changes	36,783.6			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$128,931.8</b>	\$35,778.4	38.4%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>\$35,778.4</b>	
Administration & Support	17,412.3	52,616.5	35,204.2	1, 4, 5
Oil & Gas	9,604.3	9,464.8	(139.5)	6
Fire, Land & Water Resources	52,745.2	51,451.5	(1,293.7)	7 - 11
Agriculture	3,743.6	5,850.9	2,107.3	12 - 15
Parks & Outdoor Recreation	9,648.0	9,548.1	(99.9)	16
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	40,559.4	40,675.2	115.8	
Federal Funds (all allocations)	21,757.3	21,882.3	125.0	
<b>Total Non-General Funds (all allocations)</b>	<b>\$62,316.7</b>	<b>\$62,557.5</b>	<b>\$240.8</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>1,035</b>	<b>1,033</b>	<b>(2)</b>	
PFT	719	726	7	1, 4, 6, 7, 12, 15
PPT	219	217	(2)	4, 13, 16
Temp	97	90	(7)	9
<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	300.0	300.0	600.0	
Maintenance and Repairs	200.0	4,700.0	4,900.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	250.0	-	250.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	550.0	2,050.0	2,600.0	
<b>TOTAL CAPITAL</b>	<b>\$1,300.0</b>	<b>\$7,050.0</b>	<b>\$8,350.0</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;
- Mitigating threats to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geologic hazards;
- Providing access to state lands for public and private use, settlement, and recreation; and
- Ensuring sufficient data acquisition and assessment of land and resources to foster responsible resource and community development and public safety.

### BUDGET SUMMARY

The FY17 Department of Natural Resources general fund operating budget as submitted by the Governor on December 15, 2015 is \$35,778.4 (38.4%) above the FY17 Adjusted Base. Of this, \$31,806.3 is Unrestricted General Funds (UGF) and \$3,972.1 is 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. North Slope Gas Commercialization: \$35,733.1 GF/LNG (UGF) and 21 PFT Positions.** With the planned progression to the next phase of the Alaska Liquefied Natural Gas (AKLNG) project in FY17, DNR will significantly increase its gasline work.

Funding for this increment is split into two increments: an \$8,986.7 IncM to match the regular session appropriation, and an increment for \$26,746.4. In addition to the regular session appropriation, DNR received \$1,849.5 in supplemental funding from SB 3001 (Chapter 1, TSSLA 2015).

The \$35.7 million FY17 AKLNG funding request can be broken down into two parts: \$15.1 million to support continuing negotiations and \$20.6 million to advance marketing objectives. The first part consists of a continuation of work done in previous years to secure marketing agreements. That portion of the funding would support eight current positions, legal work from the Department of Law, other contract work, travel, and administrative expenses such as office space.

The remaining \$20.6 million is to advance the project's marketing objectives and build the state's capacity and expertise. It includes 13 new positions and funding for additional outside legal counsel through the Department of Law. This marketing organization will begin to negotiate agreements to sell the state's share of the project's gas.

Item	FY17 Request
Personal Services	\$11,148.0
Legal Work from DOL	\$18,000.0
Contractual Services	\$5,650.0
Travel	\$500.0
Administrative Costs	\$435.1
<b>Total</b>	<b>\$35,733.1</b>

**Legislative Fiscal Analyst Comment:** DNR's request uses a new fund code, GF/LNG (1241), which was established for SB 3001. It is a UGF code, but allows expenditures on the AKLNG project to be tracked across agencies.

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

2. **FY16 Branch-Wide Unallocated Reduction: (\$1,173.7) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction spread among Executive Branch agencies. The Governor allocated \$1,173.7 UGF of the reduction to the Department of Natural Resources. The agency spread its reduction across most allocations with the following actions:

1. Mandatory five day furloughs for exempt positions (such as division directors);
2. Hiring delays that may result in less timely responses in some cases while certain positions remain unfilled; and
3. Reductions in administrative expenses, such as mail service and maintenance of computer equipment.

3. **FY17 Treatment of FY16 One-Time Salary Increases: (\$1,062.0) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. That the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. An agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

<p><b>Legislative Fiscal Analyst Comment:</b> Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.</p>
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## FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

4. **Delete Citizen's Advisory Commission on Federal Areas (CACFA): (\$272.9) UGF and (1) PFT & (1) PPT Positions.** CACFA is responsible for identifying and reducing potential negative impacts on Alaska and its citizens from federal actions on federal land in the state. The Governor's budget removes all funding for CACFA because the commission is not a core part of DNR's operations.

5. **Work with Department of Administration to Find Efficiencies: (\$136.9) UGF.** The Governor's request includes two decrements related to as-yet undiscovered interdepartmental efficiencies:

1. Interdepartmental Chargebacks - Find efficiencies in Information Technology and Human Resources: (\$52.8) UGF
2. Facilities – Find efficiencies to reduce facilities charges: (\$84.1) UGF

6. **Oil & Gas – Reduce Best Interest Findings, Lease Sale Preparations, Public Record Requests and Communications: (\$139.5) UGF and (2) PFT Positions.** This decrement would eliminate two positions and \$139.5 UGF. Tasks assigned to



these positions will be allocated to other positions, which will reduce responsiveness and increase processing time.

7. **Mining, Land & Water – Reduce Public Land Stewardship: (\$363.2) UGF and (2) PFT Positions.** This reduction would reduce funding and staffing of the Public Land Stewardship unit. To reach this reduction, the division will postpone the purchase of equipment, not renew the contracts for portable toilets or dumpsters on state land, and eliminate two positions. The loss of the positions would result in slower response times and reduced web services. \$54.5 of the decrement comes from reduced lease costs due to staff reductions.

8. **Mining, Land & Water – Fund Source Switch from UGF to DGF Using Existing Program Receipts: (\$2,000.0) UGF/ \$2,000.0 GF/Program Receipts.** The Division of Mining, Land & Water is a revenue-producing division, generating about \$19.7 million in FY15. This request would transition some of the division's work from UGF to those existing program receipts. According to the Department, this would better show the correlation between work demand and revenues collected by the division.

**Legislative Fiscal Analyst Comment:** This money is currently flowing into the general fund, so this change would reduce UGF revenue while reducing apparent UGF expenditures by the same amount; the fund change saves no money.

9. **Forest Management & Development – Reduce Annual Forest Road Maintenance and Administrative Support: (\$66.5) UGF and (1) Temp Position.** Annual forest road maintenance will be reduced to every two to three years, reducing the public's ability to access state forests. One temporary administrative position will be eliminated, with duties reassigned to other staff.

10. **Geological & Geophysical Surveys – Decrease Expenditure Level: (\$52.9) UGF.** The Geological and Geophysical Surveys unit will reduce expenditures by \$52.9 through three reductions:

- Reduce production and content of annual minerals report: (\$25.0) UGF
- Reduce presence at mineral and energy trade shows: (\$20.4) UGF
- Reduce software licensing cost: (\$7.5) UGF

11. **Fire Suppression Activity – Reduce Base Funding for Fire Suppression Activity: (\$686.1) UGF.** Fire Suppression Activity base funding ensures access to resources required to suppress wildland fires early in the fiscal year. In most fire seasons, supplemental funding is granted via an emergency declaration. This decrement could result in earlier and/or larger supplemental requests.

**Legislative Fiscal Analyst Comment:** After this decrement, base UGF funding would be \$5,973.0. The actual amount of UGF spent has averaged \$32.3 million over the past decade, with a low of \$7.6 million in FY09. It is extremely likely that the actual amount needed will be more than the requested funding level. Budgeting far below anticipated spending levels forces supplemental appropriations, which reduce the apparent size of the current budget without actually reducing expenditures.

12. **Northern Latitude Plant Material Center – Maintain Seed Potato Program: \$147.6 UGF and 2 PFT Positions.** This program supports the commercial potato industry through the production of Generation Zero, disease-free potato seed, and assists producers with on-farm disease monitoring and management recommendations. In FY16, the

legislature made this a one-time item, which the Governor restores as a permanent item in the FY17 request.

- 13. Northern Latitude Plant Material Center – Reduce Seasonal Mechanics Capacity: (\$58.0) UGF and (1) PPT Position.** The Plant Material Center will eliminate a seasonal mechanic position and shorten the seasons for two other maintenance positions by one month. This will decrease the center's capacity and limit more labor-intensive farm practices.
- 14. Agricultural Development – Reduce Alaska Grown Marketing and Farm Site Inspections and Assistance: (\$29.8) UGF.** Alaska Grown promotional items will be scaled back. One state vehicle will be eliminated, requiring employees to utilize personal vehicles to conduct farm and site visits and inspections. Travel and communication costs will also be reduced.
- 15. Agriculture Revolving Loan Program Administration – Maintain McKinley Meat and Sausage Plant: \$2,047.5 ARLF (DGF) and 3 PFT Positions.** The McKinley Meat and Sausage Plant is an asset funded by the Agricultural Revolving Loan Fund (ARLF). It is the only USDA slaughter facility in Southcentral Alaska. According to the Department, the plant's continued operation is necessary for the red meat industry. The Division of Agriculture has attempted to privatize the facility, most recently in 2007, without success. In FY16, the legislature made this a one-time item, which the Governor restored in the FY17 request. The Department requests continued funding until an alternative plan can provide the service.

**Legislative Fiscal Analyst Comment:** The ARLF financed the construction of the plant in the early 1980s and purchased it in foreclosure a few years later. A 2013 Legislative Audit raised concerns about the Division of Agriculture's management of the facility. AS 03.10.050 states that property acquired by the ARLF through foreclosure should be disposed of to maximize the State's return. Instead of disposing of the property, the Division of Agriculture has continued to run it (mostly at a loss) for three decades.

- 16. Parks Management & Access – Reduce Funding for Permit Applications Statewide and Administrative Support in Kodiak: (\$86.4) UGF and (1) PPT Position.** The Governor's request eliminates one position in Kodiak, requiring existing staff to take on additional duties. A Natural Resource Specialist position will also be transferred to another program within the same allocation and reclassified to a Park Specialist funded with federal dollars. These reductions will reduce the timeliness and effectiveness of the division and require hiring temporary seasonal staff.

## ORGANIZATIONAL CHANGES

In FY16, the State Pipeline Coordinator's Office (SPCO) was incorporated into the Division of Oil and Gas. As part of this change, the allocation was moved into the Oil & Gas appropriation. In FY17, the Governor's request moves the remaining funding and positions into the Oil & Gas allocation, fully incorporating the SPCO into the division's structure.

## CAPITAL BUDGET

The DNR capital budget totals \$8.4 million (\$650.0 UGF, \$250.0 DGF, \$400.0 Other State Funds, and \$7,050.0 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:

- **USGS State Map Grant to Spur Mineral Investment and Exploration: \$600.0 [\$300.0 Fed/ \$300.0 G/F Match (UGF)].** This project will leverage federal funds, existing airborne geophysical surveys, and on-going federal and academic research to create geologic maps, mineral deposit assessments and geochemical data in the Tok area.
- **National Historic Preservation Fund: \$800.0 [\$650.0 Fed/ \$150.0 G/F Match (UGF)].** 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 (UGF)].** 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>FY16 Conference Committee (GF Only)</b>	<b>\$169,874.2</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(2,600.6)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$167,273.6</b>	(\$2,600.6)	-1.5%	
One-time Items Removed	(1,457.7)			2
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	1,138.4			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$166,954.3</b>	(\$319.3)	-0.2%	
Unallocated	(1,457.7)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(2,715.1)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$162,781.5</b>	(\$4,172.8)	-2.5%	

<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation</b>			<b>(\$4,172.8)</b>	
Fire & Life Safety	4,344.2	4,274.1	(70.1)	3
Alaska Fire Standards Council	231.9	231.9	-	
Alaska State Troopers	118,532.4	115,460.5	(3,071.9)	3,4,6,9,10,12
Village Public Safety Officers	14,295.7	13,785.7	(510.0)	6,7
Alaska Police Standards Council	1,283.6	1,283.6	-	
Council on Domestic Violence and Sexual Assault	11,336.8	10,996.8	(340.0)	8
Statewide Support	16,929.7	16,748.9	(180.8)	3,5,11
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	14,417.4	14,417.4	-	
Federal Funds (all allocations)	10,808.7	10,808.7	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$25,226.1</b>	<b>\$25,226.1</b>	<b>\$0.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>883</b>	<b>855</b>	<b>(28)</b>	
PFT	851	830	(21)	3
PPT	18	18	-	
Temp	14	7	(7)	3

<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 FY17 Department of Public Safety general fund operating budget as submitted by the Governor on December 15, 2015 is \$4,172.8 (2.5%) *below* the FY17 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.

## **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

**1. FY16 Branch-Wide Unallocated Reduction: (\$2,600.6) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$2,600.6 of the reduction to the Department of Public Safety. The agency spread its reduction to the following appropriations:

- Fire and Life Safety - \$30.0
- Alaska State Troopers - \$572.7
- Village Public Safety Officer Program - \$611.7
- Council on Domestic Violence and Sexual Assault - \$889.0
- Statewide Support - \$497.2

**2. FY17 Treatment of FY16 One-Time Salary Increases: (\$1,457.7) UGF.**

FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

**MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS**

**3. Savings Related to Deletion of PCNs and Associated Funding: (\$2,665.5)**

**UGF.** The Governor's request includes the deletion of 17 PFT and 7 non-permanent positions:

<b>DPS - FY17 Deleted Positions and Associated Funding</b>						
<b>Appropriation</b>	<b>Allocation</b>	<b>PFT</b>	<b>Temp</b>	<b>Title</b>	<b>Funding</b>	<b>Vacant/Filled</b>
Fire and Life Safety	Fire and Life Safety	1		Office Assistant	\$ (62.3)	1 Filled
Alaska State Troopers	Statewide Drug and Alcohol Enforcement Unit	1		Trooper Investigator	\$ (142.7)	1 Vacant
			1	Corporal	\$ (76.3)	1 Vacant
	AST Detachments	5		Troopers	\$ (817.5)	3 Vacant, 2 Filled
			5	Various	\$ (359.5)	5 Filled
	Alaska Bureau of Investigation	2		Trooper Investigator	\$ (267.7)	1 Vacant, 1 Filled
	Alaska Wildlife Troopers	2		1 Captain and 1 Trooper	\$ (294.3)	2 Vacant
	Alaska Wildlife Troopers Marine Enforcement	3		2 Boat Officers and 1 Vessel Technician	\$ (304.4)	2 Filled, 1 Vacant
Statewide Support	Statewide Information Technology Services	1		Criminal Justice Specialist	\$ (145.0)	1 Vacant
	Laboratory Services	2		Forensic Technicians	\$ (167.8)	1 Filled, 1 Vacant
	Administrative Services		1	College Intern	\$ (28.0)	1 Vacant
<b>Subtotal 17 PFTs and 7 Temps</b>					<b>(\$2,665.5) UGF</b>	

4. **Alaska Wildlife Troopers (AWT) Aircraft Section – Offset Absence of Fuel Allocation: \$300.0 UGF.** Low oil prices have resulted in no branch-wide fuel distribution, of which the AWT Aircraft Section received \$180.0 in recent fiscal years. Additionally, aircraft usage has increased due to department mission requirements (Special Emergency Response Team (SERT), prisoner transport, search and rescue, dignitary travel, etc.) which necessitate this request for additional funding.
5. **Laboratory Services – Increased Utility and Maintaining Fuel Costs: \$250.0 UGF.** Additional funding is requested to offset:
  - Increased utility expenses at the Alaska Scientific Crime Detection Laboratory and are 2.5 times greater than the previous facility. No increase in the crime lab's operating budget was provided to account for this shortfall when it began operations in 2012 ; and
  - Fuel assistance from the branch-wide fuel allocation is no longer available (the Crime Lab received \$62.0 from the FY15 fuel distribution).
6. **Various Allocations – Reduce Overtime and Premium Pay: (\$700.3) UGF.** Savings will be achieved through decreased overtime and premium pay in the following allocations:
  - Alaska Bureau of Highway Patrol – (\$12.0)
  - Statewide Drug and Alcohol Enforcement Unit – (\$60.0)
  - Alaska State Trooper Detachments – (\$553.3)
  - Alaska Bureau of Investigation – (\$65.0)
  - Village Public Safety Officer Program – (\$10.0)
7. **Village Public Safety Officers (VPSO) Program: (\$500.0) UGF.** After this reduction, the FY17 funding is sufficient to support approximately 78 VPSO positions (61 are currently filled) and 10 VPSO coordinator positions (of which seven are currently filled).
8. **Council on Domestic Violence and Sexual Assault: (\$340.0) UGF.** Community-based batterer's intervention programs will be discontinued and funding for victim service agencies will be reduced to FY13 levels.
9. **Alaska Wildlife Troopers – Reduce Overtime, Patrol Sea Days, and Patrol Flights: (\$185.0) UGF.** In order to meet the agency's target reduction, personal services will be reduced.
10. **Alaska State Trooper Detachments – Reduce Vehicle Fleet: (\$150.0) UGF.** Approximately fifteen vehicles will be returned to the Department of Transportation and Public Facilities (DOT&PF)/State Equipment Fleet (SEF), reducing the monthly operating and maintenance fees charged to DPS. The vehicles (primarily AST pursuit rated sedans, SUVs and special purpose trucks at the end of life cycle) are associated with eliminated PCNs.
11. **Statewide Support – Reduced Overhead: (\$90.0) UGF.** Personal services, travel and commodities will be reduced in the following allocations:
  - Commissioner's Office – \$35.0 UGF
  - Training Academy – \$55.0 UGF

- 12. Discontinue Rural Trooper Housing Leases in Ninilchik, McGrath, and Cooper Landing: (\$84.2) UGF.** Both trooper posts in Ninilchik and McGrath were closed and the troopers reassigned. Additionally, the Cooper Landing post was reduced and one trooper reassigned to Seward. As a result, trooper housing for these locations is no longer needed.

## **CAPITAL REQUEST**

The Department of Public Safety's FY17 capital budget includes:

- **Marine Fisheries Patrol Improvements:** \$1.2 million Federal Receipts.
- **Reappropriations from Two P/V Woldstad Engine Repower Projects:** \$3.6 million UGF.
  - \$2.3 million for aircraft and vessel repair and maintenance. Approximately (\$80.0) was expended from the original appropriation of \$2.4 million [Chapter 17, SLA 2012 (SB 160)].
  - \$1.3 million UGF for deferred maintenance on aircraft hangars – original appropriation \$1.3 million [Chapter 18, SLA 2014, (SB 119)].

These prior year capital appropriations to repair the aging P/V Woldstad's engine proved to be insufficient and, according to the Department, the vessel should be decommissioned.



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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## Department of Revenue

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$39,884.6</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(532.2)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$39,352.4</b>	(\$532.2)	-1.3%	
One-time Items Removed	(578.2)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	46.0			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$38,820.2</b>	(\$532.2)	-1.4%	
Unallocated	(532.2)			2
Lang/Lang OTIs/MiscAdj/Carryforward/Multi Years/Contingent	6.7			
FY17 Governor's UGF Increments/Decrements/Fund Changes	1,785.4			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$40,080.1</b>	\$1,259.9	3.2%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>\$1,259.9</b>	
Tax Division	13,653.3	13,390.5	(262.8)	10
Treasury Division	4,504.2	4,502.4	(1.8)	10
Unclaimed Property	577.2	581.7	4.5	
ARM Board	(2.2)	-	2.2	
Permanent Fund Dividend Division	8,501.4	8,734.2	232.8	5
Child Support Services	8,750.9	8,663.0	(87.9)	
Commissioner's Office	230.8	233.7	2.9	
Administrative Services	505.7	515.7	10.0	
Natural Gas Commercialization	-	1,876.7	1,876.7	6, 7
Long Term Care Ombudsman	445.4	454.2	8.8	
Agency Unallocated Appropriation	-	(525.5)	(525.5)	
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	281,435.1	282,785.5	1,350.4	3,4,8,9,11
Federal Funds (all allocations)	78,130.6	79,698.3	1,567.7	
<b>Total Non-General Funds (all allocations)</b>	<b>\$78,130.6</b>	<b>\$79,698.3</b>	<b>\$1,567.7</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>922</b>	<b>915</b>	<b>(7)</b>	
PFT	873	865	(8)	
PPT	32	32	-	
Temp	17	18	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	1,000.0	-	1,000.0	
Maintenance and Repairs	-	5,000.0	5,000.0	
Remodel, Reconstruction and Upgrades	-	4,000.0	4,000.0	
New Construction and Land Acquisition	5,550.0	-	5,550.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	1,700.0	3,300.0	5,000.0	
Other	14,800.0	7,500.0	22,300.0	
<b>TOTAL CAPITAL</b>	<b>\$23,050.0</b>	<b>\$19,800.0</b>	<b>\$42,850.0</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 FY17 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$1,259.9 (3.2%) *above* the FY17 Adjusted Base [\$1,009.4 Unrestricted General Funds (UGF)/ \$250.5 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.

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: (\$532.2) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$532.2 of the reduction to the Department of Revenue. The agency spread its reduction entirely to the Treasury Division.
2. **FY17 Treatment of FY16 One-Time Salary Increases: (\$525.2) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## **PROGRAM EXPANSION**

3. **Treasury Division – New Investment Officers and Support Position: \$711.5 Total [\$710.2 I/A Receipts/ Retirement Funds (Other)/ \$1.3 PCE Endowment (DGF) and 3 PFT Positions].** This increment provides funding primarily via inter-agency receipts paid from the pension funds managed by the Alaska Retirement Management Board (ARMB) and invested by the Treasury Division. There is a commensurate increment in the ARM Board for the funding. The additional staff would include two new State Investment Officers (with base salaries of \$218.5 each) and one new Accountant (with a base salary of \$82.0).

**Legislative Fiscal Analyst Comment:** Funding was also provided in FY16 for two new State Investment Officers also funded via the ARM Board. When at full implementation, projected savings to the State from in-house investment management is expected at approximately \$1.2 million (the difference between the salaries and the external management fees). As recently as December, those two positions and three others investment officer positions were vacant. However, three successful hires have been made in January 2016, leaving Treasury with only two currently vacant.

4. **Treasury Division - Market Based Salary Adjustment: \$857.8 Total [\$832.7 I/A Receipts/ Retirement Funds (Other)/ \$11.9 PCE Endowment (DGF)].** According to the Department, this increment would increase investment officer salaries to a level more “competitive” with similar positions at the Alaska and national level. A similar increment (albeit smaller at \$327.0) was requested and denied in the FY16 budget. An increment is also included in the ARM Board for the funding to be RSA’d to Treasury.

Historically, there hasn’t been a retention problem with Treasury Division Investment Officers, however, three positions became vacant within the last twelve months (see item #3).

**Legislative Fiscal Analyst Comment:** The Alaska Permanent Fund Corporation (APFC) and the Treasury Division are unusual in that they compete for investment staff that can earn significantly more money in the private sector. This causes pressure within the organizations to increase salaries in order to attract and retain employees. While significant investment occurs in the training of investment officers, attempting to keep 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.

The legislature should consider all aspects of increasing any salaries in the current fiscal environment. Most agencies, including the other divisions within DOR, are reducing personnel, taking furloughs, and absorbing previously negotiated union raises.

5. **Permanent Fund Dividend Division 7% Coordination Fees Under Pick Click Give: \$232.8 GF/Program Receipts (DGF).** Chapter 106, SLA 2014 (HB 75), added a provision to the Pick, Click, Give Program allowing 7% of each donation to be withheld for administrative costs of the program. Previously all marketing and outreach costs of the program were paid by the Rasmussen Foundation. However, this statutory change was intended to enable the program to be self-supporting and this increment would be utilized to pay for the costs previously paid by Rasmussen.

6. **Natural Gas Commercialization Bond Issuance Contract Services: \$1,700.0 GF/LNG (UGF).** In preparation for the Front End Engineering and Design (FEED) phase of AKLNG, DOR is requesting \$1.7 million UGF for the costs associated with issuing bonds. Bond proceeds are anticipated as necessary to fund the Alaska Gasline Development Corporation's (AGDC) participating interest share of the AKLNG Project FEED costs. Bond

counsel, financial advisor services, trustee fees, underwriting fees, etc. would be covered by this increment.

**Legislative Fiscal Analyst Comment:** These are not atypical costs in any bond offering by the state. Recent General Obligation Bond offerings have cost roughly 0.25% (or \$250,000 per \$100 million issued). The costs for other types of issues can be significantly higher and, given the recent Standard and Poor's rating downgrade, debt for the project will likely cost more.

Testimony on SB 3001, during the recent special session, had the state's share of FEED costs at \$875 million. Assuming bonding of the full amount and the 0.25% cost, a budget of \$2.2 million is not an unreasonable starting point. The \$1.7 million figure built into the DOR budget implies issuance of less than the full \$875 million amount.

7. **Natural Gas Commercialization – Non-Perm Program Manager: \$176.7 GF/LNG (UGF) and 1 Temp Position.** This increment would provide funding to hire a new long-term non-permanent Program Manager position to act as the administrative and project coordinator for the Department of Revenue in development of the AKLNG project. The position will be responsible for planning, coordinating, and overseeing activities, as well as budgetary and administrative responsibilities within DOR. Bonding efforts are expected to ramp up significantly prior to FY17 as the project moves toward a Front End Engineering and Design (FEED) decision.

**Legislative Fiscal Analyst Comment:** This position uses a new fund code, GF/LNG, which was established for SB 3001. It is a UGF code, but allows expenditures on the AKLNG project to be tracked across agencies.

Questions should continue to be asked as to the overall coordination, project management and funding requirements of the AKLNG project. Why this position would reside within DOR versus the Alaska Gasline Development Corporation is unclear.

8. **Permanent Fund Corporation (APFC) – Staff Retention Funding: \$216.0 Permanent Fund Corporation Receipts (Other).** Included in the FY17 APFC budget is an increment for \$216.0 which, according to the agency, is intended to provide the corporation with the additional resources necessary to retain their professional staff. APFC is exempt from the State Personnel Act and the board is responsible for implementing a salary management program that meets the needs of the corporation. A similar increment of \$290.0 was requested, but denied in the FY16 budget.

**Legislative Fiscal Analyst Comment:** The Alaska Permanent Fund Corporation (APFC) and the Treasury Division are unusual in that they compete for investment staff that can earn significantly more money in the private sector. This causes pressure within the organizations to increase salaries in order to attract and retain employees. While significant investment occurs in the training of investment officers, attempting to keep 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.

The legislature should consider all aspects of increasing any salaries in the current fiscal environment. Most agencies, including the other divisions within DOR, are reducing personnel, taking furloughs, and absorbing previously negotiated union raises.

9. **New Permanent Fund Corporation Positions: \$1,030.0 Permanent Fund Corporation Receipts (Other) and 6 PFT Positions.** APFC has two increments totaling just over \$1 million for six new positions – two Senior Investment Officers, three Investment Analysts and one IT Specialist. One of the analyst positions, for \$145.0, would expand the Special Opportunities and Alternative Investments Program. A similar senior level position for this program was requested and approved in the FY16 budget. An increment for \$885.0 would fund the other five positions to (like the Treasury Division) bring management of additional assets

“in-house.” The potential savings of this Quantitative Equities Program is projected at \$3.2 million and a decrement of that amount is included in the budget for APFC Investment Management Fees. (See item #11.)

## **FUNDING REDUCTIONS**

### **10. Personnel Services Reductions: (\$807.3) UGF and (13) PFT Positions.**

Included in the Tax, Treasury and Child Support Services (CSSD) allocations are decrements reducing personal services and eliminating positions. A total of thirteen positions are deleted – six in the Tax Division, two in the Treasury Division, and five in CSSD. The UGF reduction in CSSD is also a match for federal receipts. A commensurate reduction of \$429.8 in federal receipts is included in the decrement for CSSD positions. Details of position titles and locations can be found in the notes for each decrement transaction.

### **11. APFC Investment Management Fees Reduction: (\$3.2) million Permanent Fund Corporation Receipts (Other).**

As mentioned in Item #9, additional assets will be brought in-house for management, thereby reducing external management fees and potentially realizing savings of approximately \$3.2 million. This request reflects anticipated savings if the positions requested for in-house management of the assets are approved.

## **ORGANIZATIONAL CHANGES**

For the most part, the agency is unchanged organizationally. However, one change in the bill structure is the combination of the two FY16 APFC appropriations into one with two allocations. APFC Investment Management Fees are combined with APFC Operations.

**Legislative Fiscal Analyst Comment:** One reason for establishing two appropriations was that doing so prevents the Corporation from using money appropriated for management fees to increase salaries within the Corporation.

## **CAPITAL REQUEST**

The Governor’s FY17 Department of Revenue capital budget totals \$42.85 million (\$19.15 million general funds, \$3.9 million Other State Funds and \$19.8 million Federal Receipts). The budget contains projects primarily for the Alaska Housing Finance Corporation (AHFC) with the exception of one project for the Child Support Services Division. Also included are two reappropriations (totaling \$8.3 million of ~\$20 million unexpended and unobligated) of prior AHFC Home Energy Rebate Program projects to AHFC Senior Citizens Housing Development and AHFC Weatherization programs. Details of each project can be seen on the Legislative Finance website.

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## Department of Transportation and Public Facilities

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$322,741.3</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	(3,949.5)			1
<b>FY16 Management Plan (GF only)</b>	<b>\$318,791.8</b>	(\$3,949.5)	-1.2%	
One-time Items Removed	(4,029.2)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	1,232.6			5
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$315,995.2</b>	(\$2,796.6)	-0.9%	
Unallocated	(1,393.9)			2
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	8.8			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(15,956.6)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$298,653.5</b>	(\$17,341.7)	-5.5%	
<div> <div></div> <div>FY17 Governor's Increments, Decrements, Fund Changes and Language</div> </div>				
	FY17 Adjusted Base Budget (GF Only)	FY17 Governor's Request (GF only)	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
<b>Appropriation</b>			(\$17,341.7)	
Administration and Support	18,538.5	17,669.8	(868.7)	2
Design, Engineering and Construction	2,054.3	2,117.4	63.1	
Highways, Aviation and Facilities	143,970.3	138,329.3	(5,641.0)	3
Marine Highway System	151,432.1	140,537.0	(10,895.1)	4, 5
<div> <div>Non-General Fund Agency Summary</div> </div>				
	FY17 Adjusted Base Budget	FY17 Governor's Request	Change from FY17 Adj Base to FY17 Governor's Request	See Note:
Other State Funds (all allocations)	289,316.2	290,999.2	1,683.0	7, 8
Federal Funds (all allocations)	2,036.3	2,036.3	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$2,036.3</b>	<b>\$2,036.3</b>	<b>\$0.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>3,742</b>	<b>3,685</b>	<b>(57)</b>	
PFT	3,148	3,098	(50)	
PPT	373	379	6	
Temp	221	208	(13)	
<div> <div>Governor's Capital Request</div> </div>				
	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	20,000.0	-	20,000.0	
Remodel, Reconstruction and Upgrades	128,600.0	842,200.0	970,800.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	31,650.0	10,000.0	41,650.0	
Information Systems and Technology	-	-	-	
Other	-	8,000.0	8,000.0	
<b>TOTAL CAPITAL</b>	<b>\$180,250.0</b>	<b>\$860,200.0</b>	<b>\$1,040,450.0</b>	



## Department of Transportation and Public Facilities

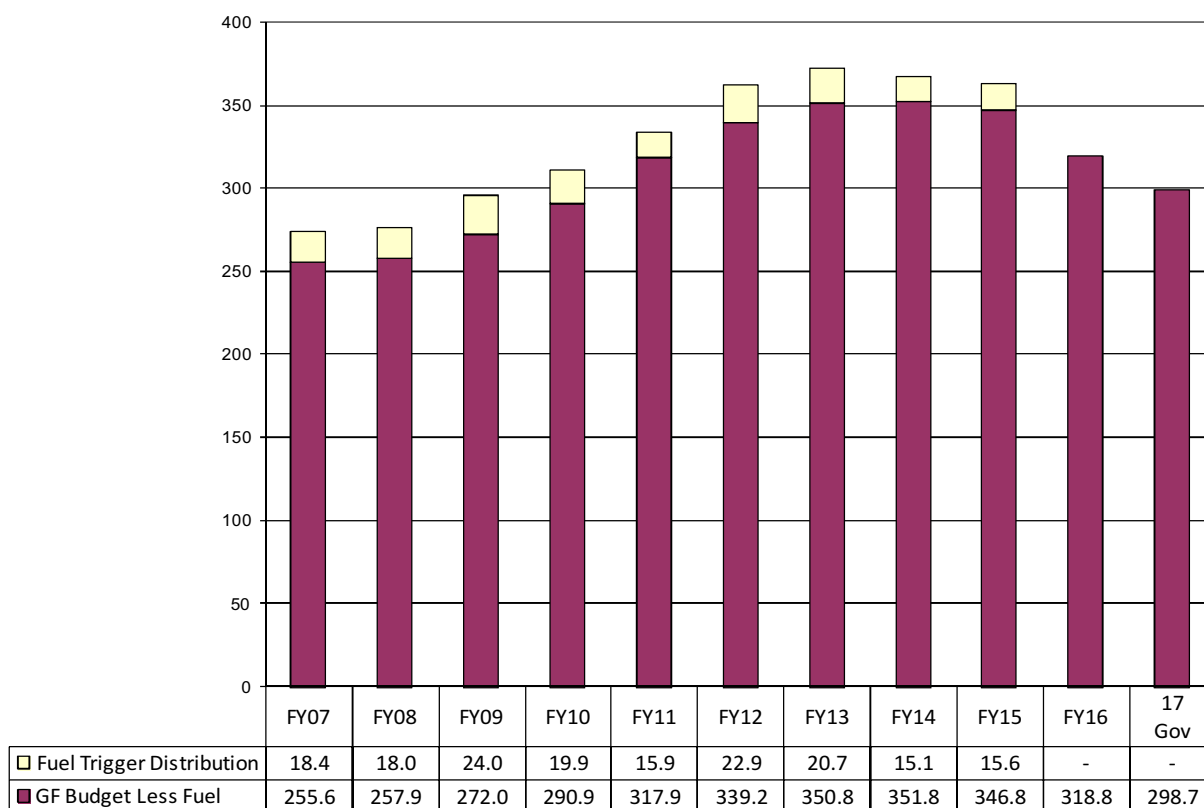
The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and many public facilities. This includes approximately 251 state-owned airports, 5,589 miles of state roads, 720 buildings ranging from maintenance shops to state office complexes, and 21 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 8,100 light and heavy duty vehicles and attachments.

### BUDGET SUMMARY

The Department of Transportation and Public Facilities (DOT&PF) FY07 general fund operating budget was \$274 million. Corresponding with oil prices, the budget grew to a peak of \$372 million in FY13 and has subsequently been reduced to \$319 million in FY16.<sup>1</sup> General Funds totaling \$28 million were cut last session (excluding the Fuel Trigger appropriation).

The FY17 general fund operating budget submitted by the Governor on December 15, 2015 is **\$20.1 million (6.3%) below** the FY16 Management Plan [(\$12.7) million Unrestricted General Funds (UGF)/ (\$7.4) million Designated General Funds (DGF)] and is **\$17.3 million (5.5%) below** the FY17 Adjusted Base [(\$12.2) million UGF/ (\$5.1) million DGF].

Department of Transportation & Public Facilities Budget  
General Funds  
(\$ Millions)



<sup>1</sup> These figures include the Fuel Trigger Appropriation. DOT&PF is not expected to receive FY16 fuel trigger funding because the activation price per barrel of oil is \$70.

Because over 90% of the UGF appropriated to DOT&PF resides in two appropriations – Highways, Aviation and Facilities (the budget for road maintenance and rural airport operations) and the Alaska Marine Highway System – the majority of reductions in FY16, and similarly the proposed reductions in FY17, have been made in those two appropriations.

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

## FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS

1. **FY16 Branch-Wide Unallocated Reduction: (\$3,949.5) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$3,949.5 of the reduction to the Department of Transportation and Public Facilities. The agency spread its reduction to the following appropriations:

- Administration and Support – \$735.6
- Design, Engineering & Construction – \$1,188.3
- Highways, Aviation and Facilities – \$703.1
- Marine Highway System – \$1,322.5

2. **FY17 Treatment of FY16 One-Time Salary Increases: (\$1,393.9) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

For all agencies except the legislature, the judicial branch and the University of Alaska, the Governor requests:

1. that the UGF portion of the COLA be restored to each affected allocation in FY17. These actions are shown with *IncM* transaction types.
2. an agency-wide unallocated reduction equal to the sum of the amounts restored within each agency. These actions are shown with *Unalloc* transaction types.

**Legislative Fiscal Analyst Comment:** Legal Services has consistently opposed unallocated appropriations at any stage of the budget process on constitutional grounds. Legislative Finance views unallocated reductions as a tool to be used sparingly in the final stages of budget negotiations, but opposes their use in early stages of the budget process.

## FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

3. **Highways, Aviation and Facilities Appropriation: (\$5.6) million General Funds.** The Highways, Aviation and Facilities appropriation is *reduced* by \$6.4 million general funds [a *decrease* of \$6.9 million UGF/ and increase of \$496.5 DGF] from the FY16 Management Plan to the FY17 Governor's request. From the FY17 Adjusted Base the *reduction* is \$5.6 million as the removal of one-time items decreases the starting point and lessens the difference. Significant actions in the appropriation follow:

- **Service Level Reductions: (\$5,840.2) UGF.** Road maintenance service level reductions are proposed in the three regions in order to reduce UGF spending. Twenty-five full-time and five part-time Equipment Operator positions (costing \$2.7 million), equipment fleet rental and other contract services (totaling \$2.3 million) and commodities (totaling \$842.0) would be cut with the

proposed decrements. The positions to be eliminated include six in the Central Region, twenty in the Northern Region (15 PFT, 5 PPT), and four in the Southcoast Region.<sup>2</sup> The decrements total \$1.7 million for the Central Region, \$2.9 million for the Northern Region, and \$1.2 million for the Southcoast Region.

Along with positions being reduced, overtime would be curtailed. It is reasonable to assume that these changes would further reduce winter snow and ice control response times (from FY16). Summer maintenance would also continue to be reduced – which could contribute to continued deterioration of state roads.

**Legislative Fiscal Analyst Comment:** There is a federal requirement that highways built with federal dollars be properly maintained. Continued reductions in road maintenance is concerning because improper maintenance could lead to penalties imposed by the Federal Highway Administration (FHWA).

- **Maintenance Station Closures: (\$419.7) UGF.** Six maintenance stations will be closed and all utilities shut off in the Central and Northern Regions. The affected stations are in Seward (Central Region) and the following Northern Region locations: Birch Lake, Central, Chitina, Northway, and O'Brien Creek. With the closure of each maintenance station, there is an increase in the number of road miles each operator and piece of equipment serves.

- 4. Offset UGF Reduction with Available Airport Receipts: \$700.0 GF/Program Receipts (DGF).** In an effort to alleviate reliance on UGF, DOT&PF has been increasing various revenues at its non-international airports. Increments in the three regions, totaling \$700.0 of GF Program Receipts, are proposed to utilize this available airport revenue. The following table provides a brief history of airport revenue.

Rural Airport Revenue Collections & Carry Forward Amounts				
	FY16	FY15	FY14	FY13
Actual Revenues	?	\$5,754,807	\$5,278,286	\$4,860,538
Carry Forward from Prior FY	\$1,284,979	\$1,500,496	\$692,735	\$18,689
Approximate Total Aviation Expenditures	?	\$34,114,700	\$34,487,800	\$33,444,300
Ratio of Revenue to Total	?	17%	15%	15%

**Legislative Fiscal Analyst Comment:** The FAA requires all airport revenue to be utilized for airport operations and maintenance. There was some concern last year by the Department of Revenue that not budgeting airport revenue directly could be a concern to the FAA. However, there has been an understanding with FAA that, given the significantly larger proportion of unrestricted general funds that go toward operating non-international airports (approximately 83% of the \$34 million total in FY15), direct budgeting of the airport revenue was not necessary.

- 5. Replace UGF with Full-Year Landing Fee Collections at Deadhorse Airport: (\$285.3) UGF/ \$285.3 GF/Program Receipts (DGF).** In compliance with legislative intent, DOT&PF submitted a landing fee report 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.

Last session, however, the Deadhorse airport was presented as unique enough in its direct support for the oil and gas industry on the North Slope that landing fees could be implemented to support airport operations. It was expected that the regulatory process and appropriate public involvement would make fee implementation unlikely prior to January 2016 resulting in only half a year revenue being budgeted

<sup>2</sup> Details on each position (including location) can be seen in the transaction notes.

for FY16. For the FY17 budget, a full year of revenue is assumed for collection and a fund source change for the other half is requested.

**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, DOT&PF reduced projected revenue generation to \$700.0 based on limiting landing fees to only the larger aircraft which most critically impact services.

**To date, a landing fee has not been implemented at the airport and one does not appear imminent.** Discussions are underway with Alaska Airlines on some sort of cost recovery for the support of their flights, but it is not clear at this time on whether the requested GF/Program Receipts will be collectable.

- 6. Marine Highway System Vessel Operations/ Fuel Decrements: (\$11,853.0 Total [(\$5,392.0) UGF and (\$6,461.0) AMHS Funds (DGF)].** From a simple financial perspective, the Alaska Marine Highway System (AMHS) runs on the revenue it generates (primarily through passenger and vehicle fares) and a subsidized amount from the general fund. AMHS revenue has typically covered approximately 30% of the cost of operating the system (see table below).

Description	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Estimated FY16	Governor FY17	Difference FY16-17
Weeks of Service	412.5	403.8	376.6	378.3	353.9	309.6	(44.3)
Revenue Ratio (AMHS Revenue/Revenue+UGF)	31%	30%	30%	31%	33%	36%	
\$ Revenue/ Week of Service	130.1	131.8	135.1	142.5	139.9	166.8	
<b>Cash Flow</b>							
<b>Operating Sources</b>							
AMHS Generated Revenues	53,684.0	53,234.0	50,877.0	53,896.0	49,500.0	51,628.8	2,128.8
Restricted Revenues (CIP Rcpts)	968.0	1,047.0	892.0	896.0	1,833.4	1,833.4	-
GF Appropriations (base budget)	97,684.5	111,464.4	111,389.9	107,781.6	96,660.3	92,189.1	(4,471.2)
Fuel Trigger Appropriation	19,088.5	12,295.6	5,440.1	4,808.4	-	-	-
Fund Balance Draw/ Other	-	-	-	7,179.0	2,600.0	-	(2,600.0)
Total Sources	171,425.0	178,041.0	168,599.0	174,561.0	150,593.7	145,651.3	(4,942.4)
<b>Operating Uses</b>							
Vessel Operations (less fuel)	113,456.0	115,635.0	113,196.0	112,120.0	109,210.5	100,947.2	(8,263.3)
Vessel Fuel Base	26,056.3	30,312.6	28,913.6	26,401.0	27,513.6	22,556.5	(4,957.1)
Fuel Trigger	12,027.7	6,139.4	3,052.4	-	-	-	-
Shoreside/ Other	17,139.0	17,986.0	18,426.0	19,845.0	18,866.7	18,866.7	-
Operating Expenses	168,679.0	170,073.0	163,588.0	158,366.0	155,590.8	142,370.4	(13,220.4)
Support Services-DOT/DOA	2,363.0	2,454.0	2,434.0	2,431.9	3,280.9	3,280.9	-
Transfer to Capitalization Acct	-	-	-	-	-	-	-
Total Uses	171,042.0	172,527.0	166,022.0	160,797.9	158,871.7	145,651.3	(13,220.4)
<b>Operating Suplus/(Deficit)</b>	<b>383.0</b>	<b>5,514.0</b>	<b>2,577.0</b>	<b>13,763.1</b>	<b>(8,278.0)</b>	-	
Traditional Fund -Draw	-	-	-	-	8,278.0	-	
Remaining Deficit	-	-	-	-	-	-	
<b>Fund Balances</b>							
<b>Traditional Fund</b>							
BOY Balance	5,217.0	1,543.0	4,567.0	7,144.0	20,907.1	12,629.1	
Deposits	383.0	5,514.0	2,577.0	13,763.1	-	-	
Withdrawals	(4,057.0)	(2,490.0)	-	-	(8,278.0)	-	
EOY Balance	1,543.0	4,567.0	7,144.0	20,907.1	12,629.1	12,629.1	
<b>Capitalization Acct</b>							
BOY Balance	10,097.0	14,154.0	16,644.0	2,644.0	2,644.0	44.0	
Deposits	4,057.0	2,490.0	-	-	-	-	
Withdrawals	-	-	(14,000.0)	-	(2,600.0)	-	
EOY Balance	14,154.0	16,644.0	2,644.0	2,644.0	44.0	44.0	

The Governor's FY17 budget reduces the number of weeks of service from an estimated 354 in FY16 to 310 in FY17 – a decrease of 44 weeks. Two decrements are included for this action – (\$9,495.9) to Vessel Operations and (\$2,357.1) to Vessel Fuel.

The Taku, Fairweather, and Chenega are not scheduled to operate at all during the year and would be in lay-up status. According to the agency, this will leave multiple week gaps in service due to “single boat coverage.” Prince William Sound will experience a six-week gap when the Aurora has her scheduled overhaul, the Northern Panhandle has a five-week gap during the LeConte's overhaul, and the Southwest route will experience a seven-week gap during the Tustumena overhaul. Additionally, ports throughout the system will see fewer port calls in FY17 compared to FY16.

**Legislative Fiscal Analyst Comment:** There are several things to note from the AMHS table – the projected revenue for FY17 is \$2.1 million higher than the estimated FY16 revenue even though there are 44 fewer weeks of service in the FY17 operating plan. Although a portion of new revenue is expected as a result of implementing increased fares in FY16, these projections raise several questions. Will fare volume decrease or remain steady with fewer operating weeks? Will the ships be filled more to capacity and therefore be more efficient? Or, is the projection *considerably* optimistic? It appears that the FY17 revenue projection is coincidentally the amount necessary to “balance” the AMHS budget for FY17.

Another point of interest is the growth and projected use of the AMHS “Traditional” Fund balance. Last session, an agreement was reached between the legislature and OMB at the end of the regular session “authorizing” OMB to distribute excess FY15 Fuel Trigger funding (undistributed to other agencies) to AMHS for use in FY15. This allowed AMHS to carry-forward FY15 revenue in the AMHS Fund for use in FY16. That funding (\$7.2 million) and another \$1.1 million (a total of \$8.3 million) is expected to be needed to balance the AMHS FY16 budget. This will still leave a sizable balance entering FY17 (of ~\$12.6 million) which would provide a cushion should the current revenue projection be less favorable.

7. **Contractual Salary Adjustments: \$1,429.0 Total [\$920.8 UGF/ \$311.8 AMHS Funds (DGF)/ \$188.8 International Airport Revenue Funds (Other)/ and \$7.6 Federal Receipts].** Two AMHS unions are in year three of their last negotiated contracts which include a 2% COLA. The Governor's budget includes salary adjustments totaling \$1.2 million for the Organization of Masters, Mates, and Pilots plus the Inlandboatmen's Union. Likewise, the Public Safety Employees Association is in year three and also receiving a 2% COLA, and thus the Anchorage and Fairbanks International Airport's Safety allocations include \$196.4 for Airport Police and Fire Officer positions assigned to airport safety.

## **PROGRAM EXPANSION**

8. **Whittier Tunnel Maintenance and Operations: \$1.5 million CIP Receipts (Other).** The contract to operate and maintain the Whittier Tunnel was recently renegotiated and awarded for the period of 2016-2020. An additional \$1.5 million annually was built into the contract for a total annual cost of \$4.1 million. These additional receipts will come from the capital budget and be derived from Federal Highway Surface Transportation Program dollars.

**Legislative Fiscal Analyst Comment:** The Whittier Tunnel is currently funded with approximately \$2 million in toll revenue, and including this increment, ~\$4.5 million of federal receipts (provided via the Surface Transportation program in the capital budget). It is unique in that federal receipts may be used for operations and maintenance of the asset due to its Intelligent Transportation System designation (ITS). No other assets in the State are eligible to utilize federal funding for the operations side of the budget.

## **ORGANIZATIONAL CHANGES**

The three regional planning allocations will be blended into Program Development to form a single organization focused on the Statewide Strategic Long Range Transportation Plan, other area plans, data collection for the road system that meets federal reporting requirements, and prioritization of highway investments.

The functions of Transportation Management and Security are being consolidated within other components in the department.

## **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.

Atypical this year is the exclusion of project allocations in both the Surface Transportation Program and the Airport Improvement Program. DOT&PF is hoping to gain efficiencies in the administration of its federally funded capital improvement program by requesting significantly reduced annual capital budget requests without project specific allocations. Further discussion of this development can be found in the section on the capital budget.

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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## University of Alaska

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$682,957.0</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	(0.6)			
Multi-Years/Specials	-			
Unallocated	(5,000.0)			2
<b>FY16 Management Plan (GF only)</b>	<b>\$677,956.4</b>	(\$5,000.6)	-0.7%	
One-time Items Removed	(10,227.1)			3
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	1.0			
FY17 Contractual Salary Increases	19,637.0			5
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$687,367.3</b>	\$9,410.9	1.4%	
Unallocated	-			
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(15,180.8)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$672,186.5</b>	(\$15,180.8)	-2.2%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$15,180.8)</b>	
Budget Reductions/Additions - Systemwide	9,410.3	(5,770.5)	(15,180.8)	1, 4
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	86,027.9	86,875.4	847.5	6
Federal Funds (all allocations)	150,852.7	150,852.7	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$236,880.6</b>	<b>\$237,728.1</b>	<b>\$847.5</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>4,852</b>	<b>4,734</b>	<b>(118)</b>	<b>4</b>
PFT	4,628	4,513	(115)	
PPT	224	221	(3)	
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	10,000.0	-	10,000.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$10,000.0</b>	<b>\$0.0</b>	<b>\$10,000.0</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 FY17 University of Alaska (UA) general fund operating budget submitted by the Governor on December 15, 2015 is \$15,180.8 (2.2%) *below* the FY17 Adjusted Base [(\$15,530.9) Unrestricted General Funds (UGF)/ \$350.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

### **PROGRAM EXPANSION**

- 1. Budget Reductions/Additions – Systemwide – Technical Vocational Education Program (TVEP) Receipts Funding: \$350.1 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 (Chapter 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 0.15 percent to 0.16 percent of wages [AS 23.15.835(a)]. For FY17, the University expects to receive a total of \$5,980.1 – an increase of \$350.1 over FY16. 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.

<b>Legislative Fiscal Analyst Comment:</b> The Governor's FY17 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.
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### **FY16 & FY17 AGENCY UNALLOCATED REDUCTIONS**

- 2. FY16 Branch-Wide Unallocated Reduction: (\$5,000.0) UGF.** HB 2001 (Chapter 1, SSSLA 2015) included a \$29.8 million UGF unallocated reduction to be spread among Executive Branch agencies. The Governor allocated \$5 million of the reduction to the University of Alaska. The University spread this reduction throughout the entire UA system (22 allocations) for cuts to contractual services.

- 3. FY17 Treatment of FY16 One-Time Salary Increases: (\$10,073.0) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The Governor's FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA – in the University's single appropriation structure, the total, one-time salary increase is reflected in a single allocation – Budget Reductions/Additions – Systemwide.

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

(Items 4 and 5 are found within the Budget Reductions/Additions – Systemwide – Allocation.)

- 4. University of Alaska FY17 Target Reduction: (\$15,530.9 UGF).** Specific actions needed to meet this reduction have not yet been identified. No specific decrements are outlined in the Governor's FY17 Request. However, due to current and anticipated fiscal challenges, the University has deleted a total of 118 positions (spread between ten allocations) in the FY17 submission (113 were deleted in the FY16 Management Plan; another reduction of five positions occurred in the FY17 Governor's Request). This UGF reduction is a cut of 4.5% from the University's FY16 Authorized budget.
- 5. FY17 Contractual Salary Increases: \$19,637.0 Total [\$9,818.5 UGF/ \$9,818.5 University Receipts (DGF)].** The December 15<sup>th</sup> budget includes a total of \$19,637.0 in previously negotiated compensation and benefit increases. These salary increases are funded by an even split of UGF and University Receipts (DGF). The Governor's proposed budget includes salary and benefit increases for union represented employees and "benefit only" increases for other employees. The FY17 increases include the contract amounts for Local 6070, United Academics Faculty (UNAC), UA Adjuncts (UNAD), UA Federation of Teachers (UAFT), and UA Staff.

<b>Legislative Fiscal Analyst Comment:</b> The contract for the Fairbanks Firefighters Union (FFU) is currently under negotiation. 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.
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## **MENTAL HEALTH TRUST FUNDING**

- 6. Anchorage Campus: \$2,022.6 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** FY17 will be the ninth year of zero-based budgeting for MHTAAR funding – meaning that all MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health (MH) Trust Authority. Trustees approve operating and capital budgets and provide annual recommendations to the Governor and the legislature.

- The Governor's FY17 request includes three **new** Anchorage Campus projects supported by the MH Trust Authority. A total of \$160.0 MHTAAR in FY17 first-year Mental Health increment requests are as follows:
  - **Workforce Grant 1335 Alaska Health Workforce Profile – IncOTI: \$40.0.** These funds will be used in partnership with the Department of Labor and Workforce Development to compile the results obtained through various studies

and assessments geared to identify the health occupations that are in highest demand and which would warrant an investment of resources.

- **Beneficiary Employment – Provider Training Infrastructure and Capacity – IncOTI: \$65.0.** These funds will be used to develop and implement a multi-level approach to benefits counseling and create a statewide system that includes training, credentials and certification for Community Rehabilitation Providers (CRPs) to provide quality employment placement and retention services.
  - **Workforce – Alaska Area Health Education Centers (AHECs) – Inc: \$55.0.** The AHECs will implement three community-based behavioral health day camps. Locations will include Barrow, the Interior and Southcentral and will concentrate on behavioral health career exploration to encourage and recruit youth into behavioral health occupations.
- The Governor's FY17 request also includes seven Anchorage Campus projects, totaling \$1,862.6 MHTAAR that are related in some way to grants or projects begun in previous years. Since the Mental Health Trust Authority reviews and re-approves all MH projects each year, these are presented for legislative review and approval as well. Following is the list of these projects:
    - **Workforce Grant 1384 – The Alaska Training Cooperative – IncT (FY14-FY17): \$984.0.** The Training Cooperative will promote career development opportunities for non-degreed professionals, direct service workers, supervisors, and professionals in the behavioral health, home and community-based, and long-term care support services working with MH Trust beneficiaries.
    - **Workforce Grant 2347 – Maintain Workforce Director – IncT (FY14-FY17): \$191.1.** 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 with emphasis and support of Medicaid Expansion and Reform and the Criminal Justice Reform.
    - **Disability Justice – Grant 582 Technical Assistance & Implementation of Disability Abuse Response Teams (D.A.R.T.) in Targeted Communities – IncM: \$210.0.** 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.
    - **Beneficiary Employment Grant 1291 – Partners in Policymaking – IncM: \$200.0.** 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.
    - **Disability Justice – Grant 573 Interpersonal Violence Prevention for Beneficiaries – IncM: \$80.0.** 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.
    - **Disability Justice – Grant 574 Specialized Skills and Services Training on Serving Cognitively Impaired Offenders – IncM: \$72.5.** 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.
    - **Disability Justice – Alaska Justice Information Center – IncOTI: \$125.0.** Funds will be used to assist in the establishment of the Alaska Justice Information

Center (AJIC). The AJIC will collect data from key criminal justice agencies to create an integrated data platform that would support many kinds of criminal justice research in Alaska.

## **BOARD OF REGENTS' REQUEST**

The FY17 Governor's budget submitted on December 15<sup>th</sup> is less than the University Board of Regents' request by approximately \$42.5 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 FY17 budget maintains the FY16 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.

Two FY17 organizational items are included in the Governor's Request:

- The allocation titled "Interior-Aleutians Campus" has been renamed to "Interior Alaska Campus".
- The Cooperative Extension Service will no longer exist as a separate allocation and will be reported as part of the Fairbanks Campus. The Governor's budget reflects transfers between allocations to enable this change.

## **CAPITAL REQUEST**

The Governor's FY17 University of Alaska capital budget totals \$10.0 million UGF for Deferred Maintenance, Renewal, Repair and Equipment. Statewide, the University of Alaska system's deferred maintenance need is over \$1 billion. Specific projects are prioritized and approved by the Board of Regents.

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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## Judiciary

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$110,920.9</b>			
FY16 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	-			
<b>FY16 Management Plan (GF only)</b>	<b>\$110,920.9</b>	\$0.0	0.0%	
One-time Items Removed	(2,297.3)			1
Misc Adjustments	17.8			1
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$108,641.4</b>	(\$2,279.5)	-2.1%	
Unallocated	-			
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	(1,577.7)			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$107,063.7</b>	(\$1,577.7)	-1.5%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Allocation</b>			<b>(\$1,577.7)</b>	
Appellate Courts	7,036.0	7,005.9	(30.1)	2
Trial Courts	84,620.4	83,430.3	(1,190.1)	2
Administration and Support	10,333.1	10,181.1	(152.0)	2
Therapeutic Courts	4,985.4	4,808.4	(177.0)	2
Judicial Council	1,253.8	1,225.3	(28.5)	2
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	1,752.6	1,982.0	229.4	3
Federal Funds (all allocations)	1,325.6	1,325.6	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$3,078.2</b>	<b>\$3,307.6</b>	<b>\$229.4</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>826</b>	<b>826</b>	<b>-</b>	
PFT	768	768	-	
PPT	51	51	-	
Temp	7	7	-	
<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	2,382.1	-	2,382.1	
Remodel, Reconstruction and Upgrades	1,351.2	-	1,351.2	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
<b>TOTAL CAPITAL</b>	<b>\$3,733.3</b>	<b>\$0.0</b>	<b>\$3,733.3</b>	

## Judiciary

Alaska has a unified, centrally administered, and primarily 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 FY17 general fund operating budget request is \$1,577.7 (1.5%) *below* the FY17 Adjusted Base [all Unrestricted General Funds (UGF)]. 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.

### FY17 FUNDING REDUCTIONS

**1. FY17 Treatment of FY16 One-Time Salary Increases: (\$2,279.5) UGF.**

FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

**Legislative Fiscal Analyst Comment:** While the Governor's request for most agencies restores the COLA decrements in each individual allocation and offsets the restoration with a single unallocated reduction, the UGF funding for COLA in the Judiciary's budget is simply removed.

**2. Reductions Associated with Leave Without Pay (LWOP), Attrition, and Reduced Work Week Schedule: (\$1,577.7) UGF.** The Court System will continue to achieve savings by adopting three principal strategies: 1) attrition; 2) employees taking voluntary leave without pay (LWOP); and 3) targeted court closures. Some of these strategies include:

- Taking voluntary LWOP. Court employees, including judges, are scheduled to take LWOP (e.g. every member of the Supreme Court is taking a minimum of six days of LWOP in FY16);
- Closing courts every Friday at noon beginning 7/1/16. Court employees will receive a 4% reduction in pay and work a 36 hour work week instead of a 37.5 hour week;
- Reducing hours of operations at court locations with a small number of case filings; and
- Eliminating some training and travel.

## **MENTAL HEALTH TRUST FUNDING**

- 3. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: \$475.3 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** All Mental Health Trust Authority Authorized Receipts (MHTAAR) funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year (zero-based budgeting). The Mental Health Trust is recommending \$475.3 in FY17 (\$125.0 less than FY16). MHTAAR funding for the Mental Health Trust Disability Justice Initiative is as follows:

- **\$245.9 IncT (FY15-FY17)** – maintain the Fairbanks Juvenile Therapeutic Court;
- **\$204.4 IncOTI** – 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;
- **\$15.0 IncOTI** – training for Therapeutic Court Staff; and
- **\$10.0 InOTI** – training for Judicial Conference.

## **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 to be forwarded to the legislature. This allows the budgets for all three branches to be introduced in the Governor's budget bills.

In prior years, the Governor has not included all of the Judiciary's capital projects in the budget request. This year all requested Judiciary capital projects were transmitted:

- **Deferred Maintenance Projects:** \$2.38 million UGF
- **Court Security Projects:** \$1.35 million UGF



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*Legislative Fiscal Analyst's Overview of the Governor's FY2017 Request*

## Alaska Legislature

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
<b>FY16 Conference Committee (GF Only)</b>	<b>\$73,461.3</b>			
FY16 Fiscal Notes	-			
CarryForward	198.7			
Misc Adjustments	-			
Multi-Years/Specials	-			
Unallocated	-			
<b>FY16 Management Plan (GF only)</b>	<b>\$73,660.0</b>	\$198.7	0.3%	
One-time Items Removed	(1,478.9)			1 & 2
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	8.9			
Maintenance Increments	-			
FY17 Contractual Salary Increases	-			
<b>FY17 Adjusted Base Budget (GF only)</b>	<b>\$72,190.0</b>	(\$1,470.0)	-2.0%	
Unallocated	-			
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY17 Governor's UGF Increments/Decrements/Fund Changes	-			
<b>FY17 Governor's Agency Request (GF only)</b>	<b>\$72,190.0</b>	\$0.0	0.0%	
<b>FY17 Governor's Increments, Decrements, Fund Changes and Language</b>	<b>FY17 Adjusted Base Budget (GF Only)</b>	<b>FY17 Governor's Request (GF only)</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
<b>Appropriation/Allocation</b>			<b>\$0.0</b>	
Legislative Council/ Administrative Services	8,941.1	9,018.2	77.1	
Information & Teleconference/ Information & Teleconference	3,476.2	3,399.1	(77.1)	
<b>Non-General Fund Agency Summary</b>	<b>FY17 Adjusted Base Budget</b>	<b>FY17 Governor's Request</b>	<b>Change from FY17 Adj Base to FY17 Governor's Request</b>	<b>See Note:</b>
Other State Funds (all allocations)	809.8	809.8	-	
Federal Funds (all allocations)	-	-	-	
<b>Total Non-General Funds (all allocations)</b>	<b>\$809.8</b>	<b>\$809.8</b>	<b>\$0.0</b>	
<b>Position Changes (From FY16 Authorized to Gov)</b>	<b>559</b>	<b>548</b>	<b>(11)</b>	
PFT	262	255	(7)	
PPT	297	293	(4)	
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 \$1.47 million (2%) *below* the spending level authorized for FY16 [all Unrestricted General Funds (UGF)]. Significant issues are summarized below.

### **FY17 REDUCTIONS**

- 1. FY17 Treatment of FY16 One-Time Salary Increases: (\$1,171.3) UGF.** FY16 operating budgets for all agencies contained COLA increases totaling approximately \$57 million (\$30.3 million UGF). For FY17, legislative intent stated that individual employees would continue to be paid at FY16 levels while agencies would absorb the UGF portion of the COLA.

The FY17 request removes the UGF portion of the FY16 COLA in every allocation that received the COLA.

- 2. Non-Salary Related One-time Items Removed: (\$298.7) UGF.** The following one-time items were removed from the legislature's budget.
  - Council and Subcommittees – Senate Special Committee on the Arctic IncT (FY15-FY16): (\$198.7) UGF.
  - Legislative Audit – Reverse Contracts for IT Training and Consulting: (\$100.0) UGF.

There are no capital projects or organizational changes requested.

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