

Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See
FY18 Conference Committee (GF Only)	\$149,811.7			
<i>FY18 Fiscal Notes</i>	32.6			
<i>CarryForward</i>	35,000.0			
<i>Misc Adjustments</i>	-			
<i>Multi-Years/Specials</i>	-			
<i>Vetoes</i>	-			
FY18 Management Plan (GF only)	\$184,844.3	\$35,032.6	23.4%	
<i>One-time Items Removed</i>	(91,624.4)			
<i>Fiscal Note One-Time Items</i>	(32.6)			
<i>Fund Source Change</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>Maintenance Increments (IncMs) and Increments</i>	-			
<i>FY19 Contractual Salary Increases</i>	118.1			
FY19 Adjusted Base Budget (GF only)	\$93,305.4	(\$91,538.9)	-49.5%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(37,855.0)			
<i>FY19 Governor's GF Increments/Decrements/Fund Changes</i>	33,174.9			
FY19 Governor's Agency Request (GF only)	\$88,625.3	(\$4,680.1)	-5.0%	

FY19 Governor's Increments, Decrements, Fund Changes and Language	FY19 Adjusted Base Budget (GF Only)	FY19 Governor's Request (GF only)	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Allocation			(\$4,680.1)	
Banking & Securities	3,680.2	3,964.0	283.8	1
Investments	5,297.4	5,259.1	(38.3)	
Alcohol and Marijuana Control	2,219.0	3,793.4	1,574.4	2
AEA Power Cost Equalization	37,855.0	32,355.0	(5,500.0)	4
Alaska Seafood Marketing Institute	1,000.0	-	(1,000.0)	5
Non-General Fund Agency Summary	FY19 Adjusted Base Budget	FY19 Governor's Request	Change from FY19 Adj Base to FY19 Governor's Request	See Note:
Other State Funds (all allocations)	58,277.6	57,044.5	(1,233.1)	
Federal Funds (all allocations)	20,361.5	21,111.5	750.0	3
Total Non-General Funds (all allocations)	\$78,639.1	\$78,156.0	(\$483.1)	
Position Changes (From FY18 Authorized to Gov)	517	505	(12)	
PFT	512	500	(12)	
PPT	-	-	-	
Temp	5	5	-	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	152.0	-	152.0	
Maintenance and Repairs	415.0	-	415.0	
Remodel, Reconstruction and Upgrades	15,030.5	10,900.0	25,930.5	
New Construction and Land Acquisition	6,817.5	1,378.3	8,195.8	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	3,710.0	6,000.0	9,710.0	
TOTAL CAPITAL	\$26,125.0	\$18,278.3	\$44,403.3	

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;
- assist in the development of sustainable energy systems and reduce the cost of energy in rural Alaska;
- assist communities with achieving maximum local self-government and foster volunteerism statewide; and
- regulate and enforce consumer protection and provide a stable business climate.

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; Alcohol and Marijuana Control Office; Alaska Seafood Marketing Institute; and the Regulatory Commission of Alaska.

BUDGET SUMMARY

DCCED's FY19 general fund operating budget submitted by the Governor on December 15, 2017 is \$4,680.1 (5%) *below* the FY19 Adjusted Base [a *decrease* of \$474.6 Unrestricted General Funds (UGF) and \$4,205.5 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.

PROGRAM EXPANSION

1. Banking and Securities Increases: \$283.8 GF/Program Receipts (DGF) and 1 PFT Position. The Governor's request includes two increments for the Division of Banking and Securities:

- **Licensing and Regulatory Management Database Hosting and Support: \$180.4 GF/ Program Receipts (DGF).** In FY15, the division entered into a contract using a capital appropriation to purchase a licensing and regulatory management system to replace multiple department maintained databases and spreadsheets. This database is a single repository for managing and tracking filings, examinations, and enforcement cases and is the division's primary database. Annual hosting and support is needed to maintain functionality of the software. The capital appropriation funding for the initial purchase, development, and implementation is exhausted, and the division does not have sufficient operating receipt authority to cover the on-going hosting and support costs.
- **Financial Examiner I/II for Alaska Native Claims Settlement Act Filings and Support: \$103.4 GF/Program Receipts (DGF).** Per AS 45.55.139, the division is required to receive various proxy-related filings from Alaska Native Claims Settlement

Act (ANCSA) corporations and shareholders. ANCSA, passed in 1971 and amended in 1988, exempted ANCSA corporations and securities from federal securities laws. Accordingly, the division is the only regulatory agency or consumer protection agency with oversight of or involvement with these filings. The filings, reports, proxy solicitations and statements are significant because they can be used to influence the board elections, management direction, and ultimately the financial profitability of Alaska's regional and village Native corporations through election-related balloting.

A Financial Examiner I/II position is requested to maintain service levels for ANCSA filings and requests for information. According to the department, overall ANCSA candidate and corporate filings increased over 300% in FY17 – from 399 in FY16 to 1,212 in FY17. In addition, requests for investigation because of alleged untrue or misleading information (AS 45.55.160) have increased 62% over the last year, from 29 to 47.

MAINTENANCE OF SERVICES

2. Alcohol and Marijuana Control Office – FY19 Marijuana Regulation Funding: \$1,574.4 Total [\$525.4 UGF/ \$1,049.0 GF/Program (DGF)]. The FY19 Governor's request continues the same level of total funding for the implementation of marijuana regulation activities as was appropriated in FY17 and FY18. The FY19 budget request is consistent with the expectation that state UGF support would decline as the program matures. Total funding, by fiscal year, is as follows:

- FY17 Appropriation – IncOTI \$100.0 GF/ Program Receipts and \$1,474.4 UGF
- FY18 Appropriation – IncOTI \$525.4 GF/ Program Receipts and \$1,049.0 UGF
- FY19 Governor's Request - IncOTI \$1,049.0 GF/ Program Receipts and \$525.4 UGF

The department anticipates that the Alcohol and Marijuana Control Office will be fully self-supporting by FY20.

3. Alaska Energy Authority Rural Energy Assistance – Rural Alaska Energy Needs & Infrastructure: \$750.0 Federal Receipts. The Alaska Energy Authority (AEA) has been seeking alternative funding sources to replace lost state funding. AEA Rural Energy Assistance's UGF has been reduced by \$861.0 (49.6%) since FY16. In FY19, AEA is requesting federal authority to receive funding via a Memorandum of Understanding (MOU) with the Denali Commission, the Department of Energy Office of Indian Energy, and the United States Department of Agriculture Rural Utility Service. The increase in federal funding will assist AEA in continuing to meet rural community energy needs, including technical assistance and operator training.

FUNDING REDUCTIONS

4. Alaska Energy Authority – Power Cost Equalization (PCE) Program: (\$5,500.0) PCE Endow (DGF). The Alaska Energy Authority (AEA) is requesting a total of \$32,355.0 for the PCE program in FY19. This is a \$5.5 million reduction in the estimated level of funding compared to FY18. Power Cost Equalization program payments are expected to decline in FY19 because of lower fuel costs. Program costs are also

impacted by the "PCE floor" calculated by the Regulatory Commission of Alaska. In FY17, because of increases in the cost of power in urban Alaska, the PCE floor was raised, reducing the number of communities eligible for residential reimbursement and lowering the overall cost of the program. As of June 30, 2017, the endowment fund balance was \$1.023 billion.

Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates, from the PCE Endowment fund, the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 10(f) in the discussion of Operating Language in this publication.

FY17 earnings were \$112.3 million, which is more than sufficient to cover FY19 PCE program costs.

5. Alaska Seafood Marketing Institute (ASMI) – Eliminate All General Funds: (\$1,000.0) G/F Match (UGF). During the 2016 session, the legislature included intent language that the Alaska Seafood Marketing Institute (ASMI) develop a plan to phase out reliance on unrestricted general funds by FY19. During the 2017 session, the legislature accepted a request to replace \$1 million UGF (half of the \$2 million in the FY17 budget) with Statutory Designated Program Receipts (SDPR), leaving \$1 million of UGF in the FY18 budget. The FY19 request eliminates all remaining UGF. ASMI's budget will be funded primarily with SDPR collected from the industry-determined seafood marketing assessment (AS 16.51.120), currently set at 0.5 percent of the value of seafood products.

Legislative Fiscal Analyst Comment: At the end of FY17, ASMI had a carryforward balance of \$19.1 million SDPR. ASMI's FY19 requested level of authorization (\$16.1 million) exceeds projected FY18 revenue (\$8.2 million) by about \$7.6 million. In FY17, ASMI spent \$9.3 million of the \$15 million SDPR appropriation. If ASMI spends the amount authorized, the reserve balance could be depleted by the end of FY20.

The legislature may want to work with ASMI to ensure ASMI's budget is sustainable. The ASMI board consistently sets annual spending plans lower than the level of appropriate authorization, and ASMI has expressed a desire to maintain excess authorization in order to address an emergency or the loss of federal funding part way through the fiscal year. However, ASMI can request additional SDPR authorization through the Legislative Budget and Audit (LB&A) review process.

OTHER ISSUES

6. Multi-Year Funding – Reinsurance Program. During the 2016 legislative session, two multi-year appropriations were approved for the Alaska Reinsurance program. The program went into effect on January 1, 2017 and is operated on a calendar year basis.

- \$55 million Alaska Comprehensive Health Insurance (ACHI) Fund (DGF) for FY17-FY18 (multi-year) for calendar year 2017
 - \$20 million was expended in FY17 and \$35 million is available for FY18.
- \$55 million ACHI Fund for FY18-FY23 (multi-year) for calendar years 2018 through 2023
 - It is unknown how much of this appropriation will be carried forward into FY19. The amount can be determined at the end of FY18 (June 30, 2018). With approval

of the 1332 Federal Waiver, it was anticipated that annually \$11 million would be needed to match approximately \$44 million of federal receipts.

- Federal Open-ended Appropriations. The FY18 budget and the FY19 Governor's request include open-ended, multi-year appropriations that allow the Division of Insurance to collect and expend all federal receipts related to the Alaska Reinsurance Program.

7. Professional Licensing Programs within Corporations, Business and Professional Licensing. The November 2017 Professional Licensing report shows that several boards continue to have fees that are not set on a cost recovery basis. However, progress continues to be made by the department to reverse biennium deficits and recover negative carryforward balances. At the end of FY17, 13 of 41 (32%) professional licensing programs had a deficit; in FY13, 29 of 37 (78%) had a deficit. The department continues to utilize a standardized methodology for setting fees as each licensing program comes up for renewal.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor's FY19 Department of Commerce, Community and Economic Development capital budget request totals \$44.4 million (\$3.725 million UGF/ \$22 million DGF/ \$400.0 Other/ \$18.3 million Federal Receipts). A summary of the projects follows:

- **Alaska Energy Authority – Rural Power Systems Upgrades:** \$21.9 million [\$10.9 Federal Receipts/ \$11 million PCE Endow (DGF)]
- **Alaska Energy Authority – Electrical Emergencies Program:** \$330.0 UGF
- **Community Block Grants:** \$6,060.0 [\$6 million Federal Receipts/ \$60.0 G/F Match (UGF)]
- **National Petroleum Reserve – Alaska Impact Grant Program:** \$1,378.3 National Petroleum Reserve Fund (Fed)
- **Alaska Energy Authority – Round IX Renewable Energy Project Grants:** \$11 million Renewable Energy Funds (DGF)

Legislative Fiscal Analyst Comment: Per statutory guidelines established during the 2016 legislative session (AS 42.45.085), \$25 million is available from the Power Cost Equalization (PCE) Endowment Fund for FY19 energy programs. The Governor's budget request includes a total of \$25 million for the following energy programs:

- 1) \$11 million – FY19 capital project to AEA for Rural Power Systems Upgrades
- 2) \$14 million – FY18 supplemental fund transfer to the Renewable Energy Grant Fund (section 25(e))

Legislative Fiscal Analyst Recommendation: The legislature should make the transfer in section 25(e) effective in FY19 to follow statutory guidelines.

- **Grants to Named Recipients (AS 37.05.316)**

- **Alaska Travel Industry Association - Tourism Marketing and Development:** \$3 million UGF
- **Hope Community Resources, Inc. - Upgrades to Housing to Meet State Licensing Requirements:** \$85.0 UGF
- **Inter-Island Ferry Authority:** \$250.0 UGF
- **Marine Exchange of Alaska - Alaska Vessel Tracking System Upgrades and Expansion:** \$400.0 Commercial Vessel Passenger Tax (Other)

The Governor's "Alaska Economic Recovery Plan" includes \$45 million UGF from the proposed Alaska Economic Recovery Act account and \$12 million Federal Receipts for DCCEC capital projects in FY19.

- Alaska Energy Authority – Bulk Fuel Upgrades: \$17 million Total (\$5 million UGF/ \$12 million Federal Receipts)
- Grant to Municipalities: Anchorage – Port of Anchorage: \$40 million UGF

Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.