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 FY18 general fund operating budget submitted by the Governor on December 15, 2016 is $51,862.9 (53.4%) above the FY18 Adjusted Base [a *decrease* of $2,250.5 Unrestricted General Funds (UGF) and an increase of $54,113.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. **Banking and Securities – Business Registration Examiner for Licensing: $74.9 GF/Program Receipts (DGF) and 1 PFT Position.** The Governor's request includes funding for a new Business Registration Examiner position to perform increased licensing and registration functions. The division reports an average increase of 12% in licensing and registrations across all programs. Mortgage loan originators and payday lenders have significant increases of 34% and 33%, respectively. Both of these programs require complex reviews requiring significant time to complete. Without additional staff resources, review of applicants' credit, criminal, and regulatory history will be reduced to allow existing staff to process applications received within existing regulatory timelines. The unique banking impacts of marijuana businesses and crowd funding investment have increased examination and enforcement activities, while other programs have grown in both the number of applicants and the complexity of review processes. The division currently has two Business Registration Examiner positions managing registration and licensing tasks.

2. **Corporations, Business and Professional Licensing (CBPL) – Implementation of the Occupational Licensing Examiner Classification Study: $131.6 Receipt Supported Services (DGF).** In 2013, the Division of Personnel and Labor Relations began a classification study to determine if Occupational Licensing Examiners should be reclassified due to the complexity of the work performed. In December 2016, the study indicated that all Occupational Licensing Examiners should be a range 14 instead of the

previous range 13. This one-range difference increased costs by an average of $4.7 for each of the division's 28 Occupational Licensing Examiners, for a total increase of $131.6. Professional Licensing does not have adequate receipt authority to absorb the increased cost without reducing services.

Legislative Fiscal Analyst Comment: In FY16, Corporations, Business and Professional Licensing was authorized to spend $9,837.0 Receipt Supported Services (RSS) for Professional Licensing. The actual expenditures totaled $9,712.0; leaving an unexpended balance of $125.0 (or 1.3%) at the end of the year. Based on the size of this budget and volatility of receipts, this offers very little flexibility for the licensing programs and boards to make operational decisions.

Legislative Fiscal Analyst Recommendation: In addition to the Governor's requested budget changes, the legislature should consider increasing the level of RSS authorization for Professional Licensing by $500.0.

3. **Alcohol and Marijuana Control Office – Increased Licensing Demands: $280.3 GF/Program Receipts (DGF) and 3 PFT Positions.** The Governor's request includes authorization for two new Occupational Licensing Examiners and one Administrative Assistant II.

   Although two full-time licensing examiner positions were added when marijuana licensing went into effect in May 2015, the department contends that additional staff is needed to adequately review and examine complex marijuana license applications. At the same time marijuana licenses were added, the alcohol licensing workload increased by 20%, primarily in the area of permits for non-licensees (such as catering and special event permits).

   The department also contends that an Administrative Assistant II position is necessary to manage the administrative work associated with the Marijuana Control Board and licensing system. The position will be responsible for website updates, document management, and assistance for administrative appeals in a timely manner, in addition to the more typical administrative duties such as recruitment, travel and waivers, and information requests from the public. It will also be used to support the Investigations section by issuing Marijuana Handler's Permits.

FUNDING REDUCTIONS

4. **Community & Regional Affairs – Reduced Grant Administration and Planning Activities: ($342.8) UGF and (3) PFT Positions.** The Division of Community and Regional Affairs will be deleting two vacant Grant Administrator positions and a Planner III position due to fewer new grant awards and closure of older completed grants. The number of grants managed by the division has declined from over 2,000 in FY15 to just under 1,200 at the end of FY16 (a 40% decrease). In addition, a recent reorganization in the division resulted in the Planner III duties and responsibilities being reassigned to a Local Government Specialist IV position. This change allows the division to operate without a Planner III.

5. **Tourism Marketing – Elimination of Grant Funding in the Operating Budget (Requested in the Capital Budget): ($1,500.0) UGF.** The FY18 Governor's Request eliminates all UGF funding for tourism marketing from the operating budget and requests funding in the capital budget for a tourism marketing grant to the Alaska Travel Industry Association. The marketing plan is designed by the Alaska Tourism Marketing Board, and implemented by the grantee.

   Legislative Fiscal Analyst Comment: Additional information on the capital request is provided below, under the section entitled "Capital Request."

11. **Alaska Energy Authority/ Rural Energy Assistance – Replacement of UGF with PCE Endowment Funding: ($381.8) UGF/ $381.8 PCE Endow (DGF).** The FY18 Alaska Energy Authority's budget request includes the replacement of UGF with PCE Endowment funds for management of the PCE program. An in-depth analysis of the PCE program by the department revealed that some PCE administrative costs have historically been paid by UGF in the Rural Energy Assistance allocation. This fund change will allow the full cost of managing the PCE program (working with rural utilities to ensure regulations compliance and required data collection) to be paid by the PCE Endowment fund.

12. **Alaska Seafood Marketing Institute (ASMI) – Fund Source Change: ($1,000.0) G/F Match (UGF) to $1,000.0 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 0.5 percent of the value of seafood products. This fund source change will replace UGF with SDPR collected from the industry. This change maintains the same level of overall funding as FY17, but reduces UGF by 50% (from $2 million in the FY17 Management Plan to $1 million in FY18).

Legislative Fiscal Analyst Comment: At the end of FY16, AMSI had a carryforward balance of $18.8 million SDPR. ASMI's FY18 requested level of authorization ($16.1 million) exceeds projected FY17 revenue ($9.2 million) by about $7 million. If ASMI spends the amount authorized, the reserve balance could be depleted by the end of FY19.

Legislative Fiscal Analyst Recommendation: Accept the UGF decrement but reject the addition of $1 million SDPR. Also, consider reducing excess program receipt authorization by another $5 million to $6 million.

Although ASMI's total authorization has decreased from $29.6 million in FY14 to $21.6 million in FY18, there are three budget issues concerning ASMI:

1. The potential reduction/loss of federal funding.
2. The decline in UGF authorization (given the State's current fiscal situation).
3. A declining carryforward balance may make it difficult to sustain marketing expenditures.

The legislature may want to work with ASMI to ensure that ASMI's budget is sustainable. Based on FY16 actual expenditures, ASMI's FY18 level of SDPR authorization includes about $6 million of unused authorization. Removing some of the unused authorization would prevent ASMI from over-spending receipts (and drawing down the carryforward balance too quickly). 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.