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# Short Fiscal Summary - FY21/FY22 Budget

(\$ Millions) (Non-duplicated Funds)		FY21		FY22		Change in UGF		Change in All Funds	
		UGF	All Funds	UGF	All Funds				
1	<b>Revenue</b>	<b>4,443.2</b>	<b>10,883.0</b>	<b>4,271.9</b>	<b>10,286.1</b>	<b>(171.3)</b>	<b>-4%</b>	<b>(596.9)</b>	<b>-5%</b>
2	UGF Revenue (Fall 2020 Forecast)	1,243.1	1,311.0	1,202.6	1,244.0	(40.5)	-3%	(67.0)	-5%
3	POMV Draw	3,091.5	3,091.5	3,069.3	3,069.3	(22.2)	-1%	(22.2)	-1%
4	Misc/Adjust/Non-UGF Revenue	108.6	6,480.5	-	5,972.8	(108.6)		(507.7)	-8%
5	<b>Appropriations</b>	<b>6,520.8</b>	<b>12,953.7</b>	<b>6,313.8</b>	<b>12,324.8</b>	<b>(207.0)</b>	<b>-3%</b>	<b>(628.9)</b>	<b>-5%</b>
6	<b>Operating Budget</b>	<b>4,490.0</b>	<b>9,708.4</b>	<b>4,231.3</b>	<b>8,826.2</b>	<b>(258.6)</b>	<b>-6%</b>	<b>(882.2)</b>	<b>-9%</b>
7	Agency Operations	4,008.9	8,349.9	3,810.5	8,073.5	(198.4)	-5%	(276.5)	-3%
8	Statewide Items (1)	446.3	1,339.8	420.8	752.7	(25.5)	-6%	(587.0)	-44%
9	Supplemental Appropriations	34.8	18.7	-	-	(34.8)		(18.7)	
10	<b>Capital Budget</b>	<b>125.3</b>	<b>1,271.9</b>	<b>58.5</b>	<b>1,433.2</b>	<b>(66.8)</b>	<b>-53%</b>	<b>161.4</b>	<b>13%</b>
11	Current Year Appropriations	120.3	1,201.9	58.5	1,433.2	(61.8)	-51%	231.3	19%
12	Supplemental Appropriations	5.0	69.9	-	-	(5.0)		(69.9)	
13	<b>Permanent Fund</b>	<b>1,905.5</b>	<b>1,973.4</b>	<b>2,023.9</b>	<b>2,065.3</b>	<b>118.4</b>	<b>6%</b>	<b>91.9</b>	<b>5%</b>
14	Permanent Fund Dividends	1,905.5	1,905.5	2,023.9	2,023.9	118.4	6%	118.4	6%
15	Inflation Proofing/Other Deposits	-	67.9	-	41.4				
16	<b>Pre-Transfer Surplus/(Deficit)</b>	<b>(2,077.7)</b>		<b>(2,041.9)</b>					
17	Permanent Fund Earnings Reserve Account	(1,225.5)		(2,023.9)					
18	Other Fund Transfers	40.9		19.9					
	<b>Post-Transfer Surplus/(Deficit)</b>	<b>(893.1)</b>		<b>(37.9)</b>					
19	CBR Direct Appropriations	(1,064.2)		-					
20	Draw After Direct CBR Appropriations	171.1		(37.9)					
21	<b>Total CBR Draw</b>	<b>(893.1)</b>		<b>(37.9)</b>					
								Reserve Balances (EOY)	
								FY21	
								FY22	
								CBR	
								ERA	
								12,052.8	
								10,955.6	

(1) FY22 includes Governor's proposed retirement system (PERS) legislation

# Projected Fund Balances -- FY21 and FY22 (\$ millions)

	FY21				FY22			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
	16,134.1	4,946.7	6,594.8	14,486.0	14,486.0	5,444.0	6,553.8	13,376.2
Total Budget Reserves and Designated Funds								
Undesignated Reserves	1,763.9	63.0	894.1	932.8	932.8	25.6	38.6	919.7
Constitutional Budget Reserve Fund	1,762.0	62.0	893.1	930.9	930.9	25.6	37.9	918.6
Statutory Budget Reserve Fund	0.0	-	-	0.0	0.0	-	-	0.0
Alaska Housing Capital Corporation Fund	1.9	1.0	1.0	1.9	1.9	-	0.8	1.1
Select Designated Funds	14,370.2	4,883.8	5,700.7	13,553.2	13,553.2	5,418.4	6,515.2	12,456.4
Total Excluding Permanent Fund	1,476.0	142.1	117.8	1,500.4	1,500.4	152.4	152.0	1,500.8
Alaska Capital Income Fund	(5.9)	23.1	17.4	(0.3)	(0.3)	49.0	49.8	(1.0)
Alaska Higher Education Investment Fund	343.8	20.6	21.0	343.3	343.3	20.5	21.8	342.0
Community Assistance Fund	60.0	28.7	20.0	68.7	68.7	12.4	22.9	58.2
Power Cost Equalization Endowment	1,078.2	69.8	59.3	1,088.6	1,088.6	70.4	57.5	1,101.5
Permanent Fund Earnings Reserve Account*	12,894.2	3,498.7	4,340.0	12,052.8	12,052.8	4,023.0	5,120.2	10,955.6
Unrestricted General Fund Appropriations				6,520.8				6,313.8
Reserves Ratio (Undesignated Reserves / Pre-Transfer Budget)				14%				15%
Pre-Transfer Deficit				(2,077.7)				(2,041.9)
Years of Deficit Coverage (Undesignated Reserves / Pre-Transfer Deficit)				0.45				0.45
Permanent Savings								
Permanent Fund Principal -- Market Value * (no appropriations allowed)	52,408.1	768.7	0.0	53,176.8	53,176.8	481.0	0.0	53,657.8
* Alaska Permanent Fund Corporation (APFC) median projection for FY21 and FY22 as of November 30, 2020. January 15, 2021								

\* Alaska Permanent Fund Corporation (APFC) median projection for FY21 and FY22 as of November 30, 2020. January 15, 2021

## Executive Summary

As required by law, the Governor released his FY22 budget proposal to the public and the legislature on December 15, 2020. The Legislative Finance Division prepared this Overview of the Governor's Budget and "Subcommittee Books" for each agency in accordance with AS 24.20.211-.231.

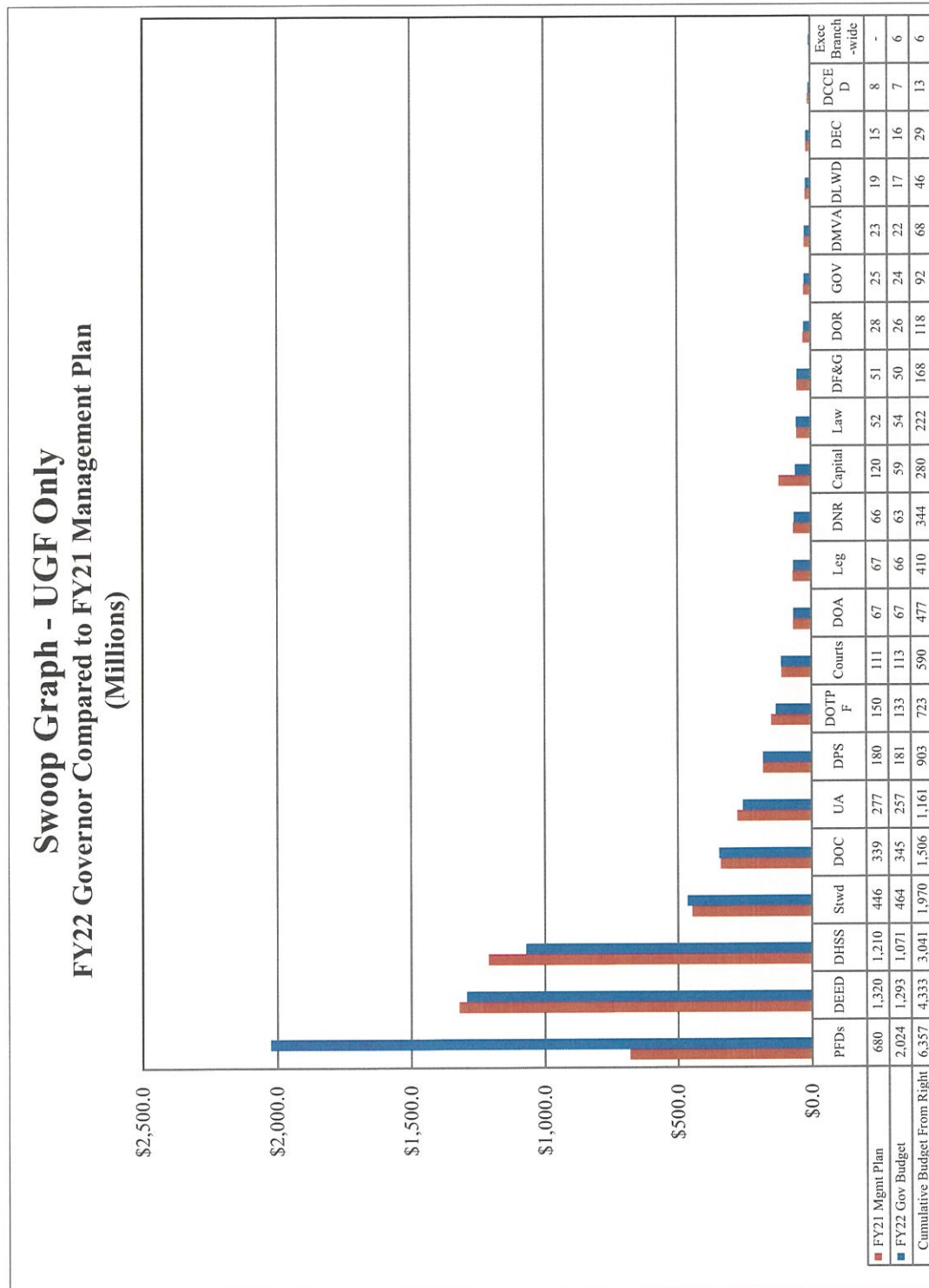
The overview provides a starting point for legislative consideration of the Governor's spending and revenue plans. It does not discuss the merits of budget plans; it focuses on outlining the fiscal situation and presenting the budget in a way that provides simple, clear information to the legislature.

Alaska has a long-term fiscal challenge: the current fiscal year, Fiscal Year 2021 (FY21) is the ninth straight year of deficit spending. Though the State has reduced UGF expenditures by 43% over that time and increased revenue by setting up a structured draw from the Permanent Fund, we still face a structural deficit. During this period, the State has gone from \$16.3 billion in reserves to under \$1 billion at the end of this year.

The Governor's FY22 budget request is smaller than the FY21 budget (other than the Permanent Fund Dividend) but still leaves a deficit of over \$2 billion, which the Governor fills by increasing the draw from the Permanent Fund beyond the statutory sustainable draw. The Governor also draws an additional \$1.2 billion from the Permanent Fund for a second dividend payment in FY21, for a total of \$3.2 billion in overdraws from the Fund.

The Governor recognizes that this is unsustainable, however, and in his budget release he emphasized that these draws are necessary because of the COVID-19 pandemic. The Governor's long-term plan calls for balancing the budget in FY23 by adding \$1.2 billion of unspecified new revenue, reducing the dividend by \$400 million, and further reducing agency operations.

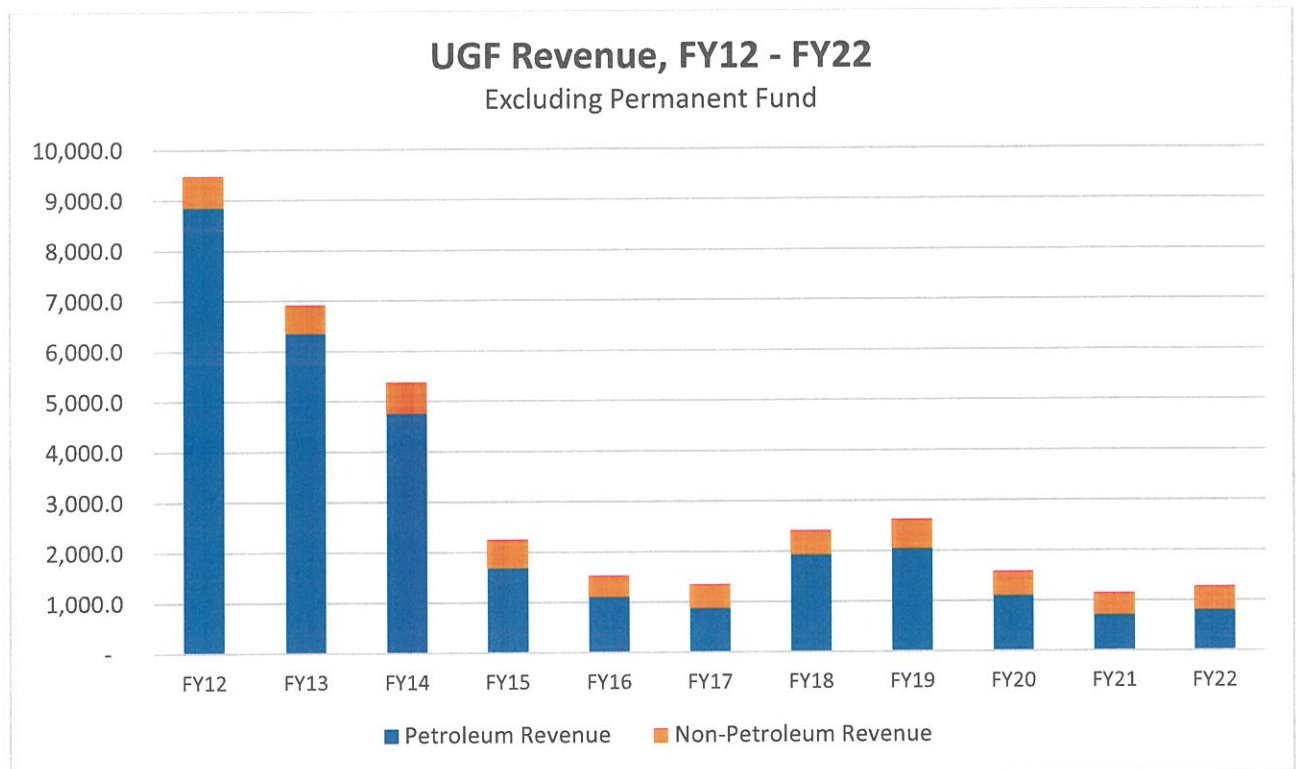
The legislature faces dual problems: a state struggling with a historic pandemic that has caused record unemployment and economic hardship, and a long-term budget crisis that has drained the State's budget reserves. The incoming legislature faces difficult choices that will have a lasting effect on the State of Alaska.



## Alaska's Long-Term Fiscal Challenge

Fiscal Year 2021 represents the ninth straight year the State of Alaska has run a fiscal deficit, starting in FY13 when oil prices exceeded \$100 per barrel. Large but manageable deficits in FY13 and FY14 gave way to multi-billion-dollar gaps when oil prices crashed in FY15.

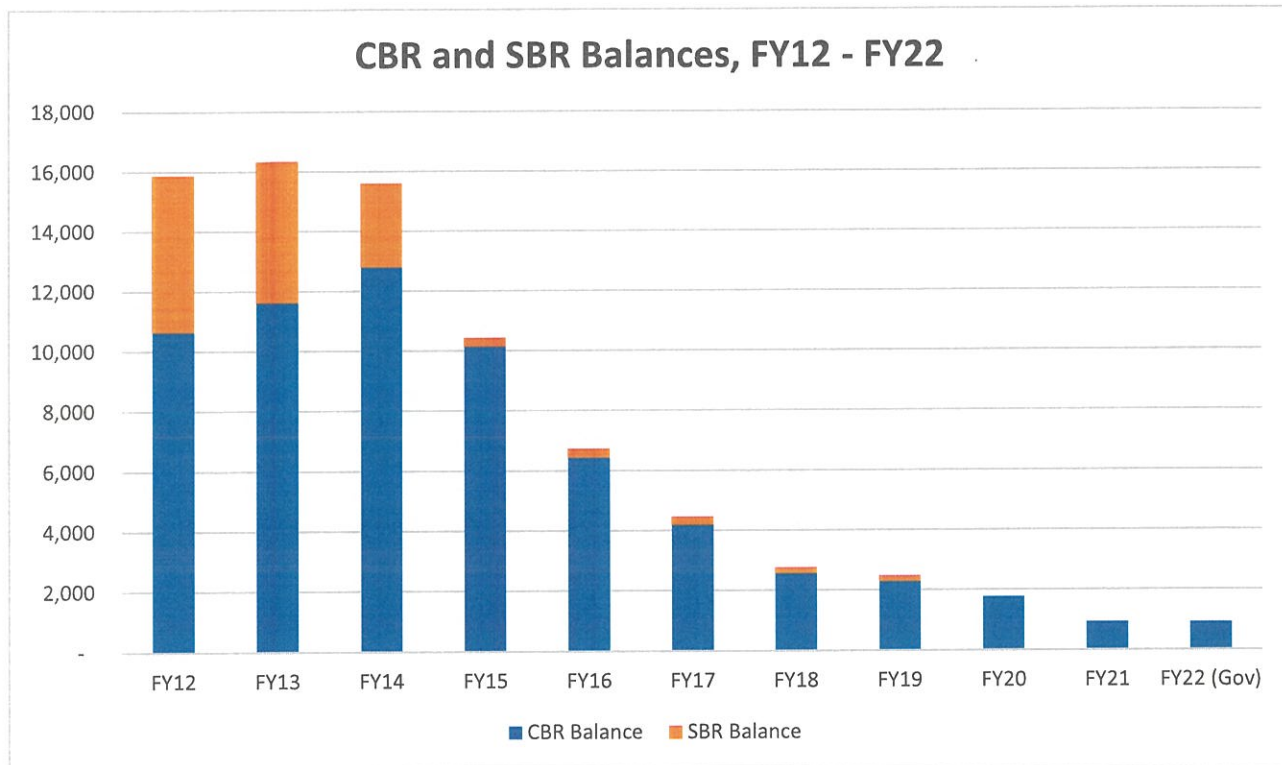
The degree to which petroleum revenue collapsed is striking: in FY12, UGF petroleum revenue totaled \$8.9 billion, while in FY22 it is projected to total just \$808.9 million. This is lowest total in *nominal* terms since FY78, the year oil began flowing down the Trans-Alaska Pipeline. In inflation-adjusted terms it is the lowest since FY75, the year construction began on the pipeline. This decline is primarily due to reduced production (current production is about a quarter of the peak) and lower prices.



This is not a temporary problem: while FY21 and FY22 likely represent a low point for Alaska's revenue outlook due to the coronavirus pandemic, the Department of Revenue projects petroleum revenue to increase by a few hundred million over the FY22 low. While there are some promising potential fields that could be developed to increase production, new fields like Pikka or Willow may take several years to provide significant production tax revenue. Even if the State's revenue position improves significantly (due to higher oil prices or increased production), the State would face a structural deficit, as it did in FY18 and FY19 when petroleum revenue was more than double its current level.

Alaska had ample budget reserves at its disposal to cushion the shock when revenue plummeted in FY15. The State's budget reserves peaked in FY13 with \$16.3 billion combined in the Constitutional Budget Reserve (CBR) and Statutory Budget Reserve (SBR). Using budget reserves has shielded

Alaska's economy from some of the impact of the budget problems. At the end of FY21, however, the SBR will be empty and the CBR is projected to hold under \$1 billion, so we are now essentially out of spendable reserves. The remaining balance of the CBR can still serve as a cashflow tool but can no longer absorb the State's deficit spending.

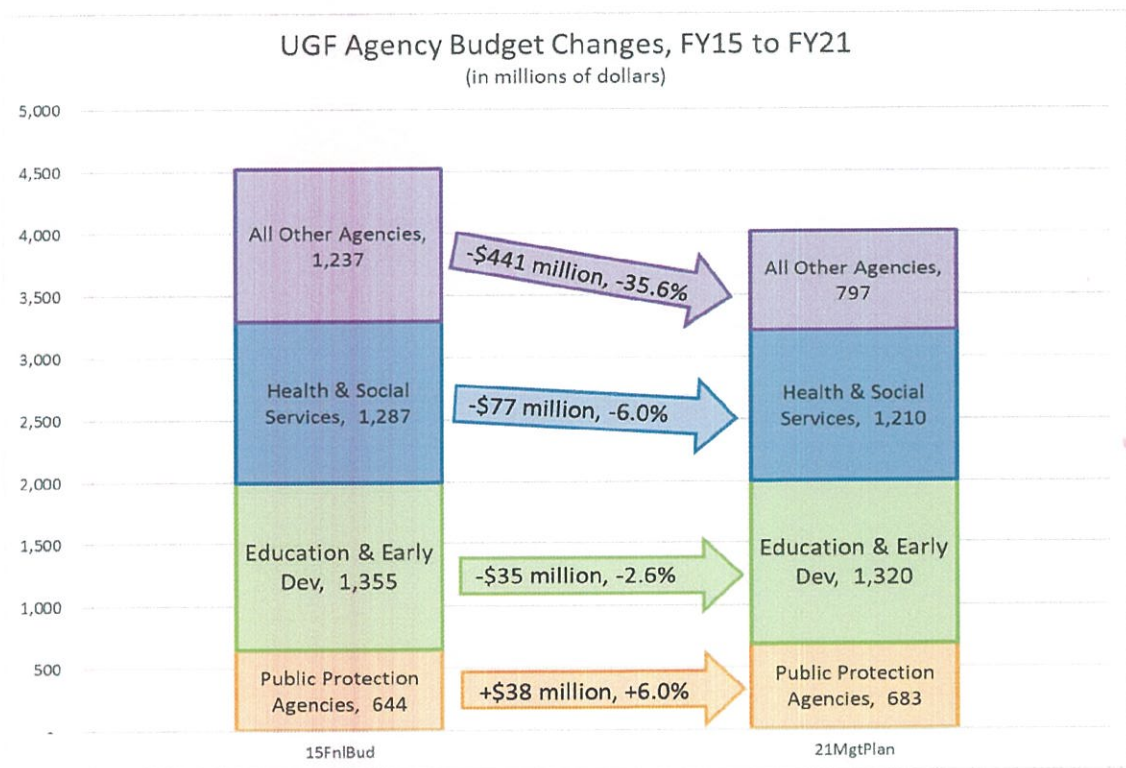
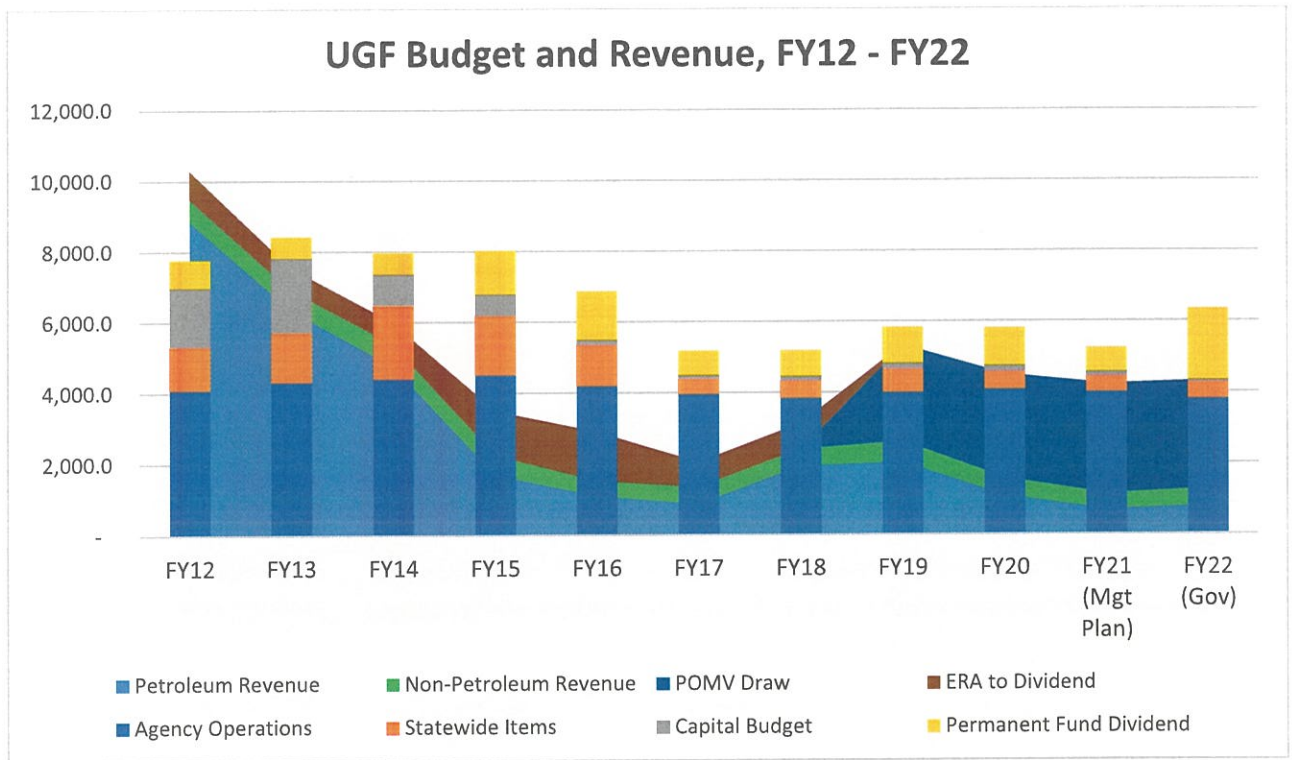


Heading into FY22, a structural deficit remains but is much smaller than it would have been without action by policymakers. It is tempting to regard nine years of budget deficits as wasted time, but in truth the legislature and Governors have managed to reduce the budget significantly and adopt a major revenue measure. These efforts have not been sufficient to eliminate the deficit, but they do improve our position.

The FY13 budget totaled \$7.8 billion UGF, compared to just \$4.5 billion in FY21 (a 43% reduction). By far the largest reduction was to the capital budget, which dropped from \$2.1 billion UGF in FY13 to \$120 million UGF in FY21. Reductions occurred in most major expenditure categories: statewide items fell from \$1.4 billion in FY13 to \$446 million in FY21, and agency operations fell from \$4.5 billion at their peak in FY15 to \$3.9 billion in FY21.

The only major item to increase over this period is the Permanent Fund Dividend, even though appropriations for this item have not followed the statutory formula since FY16. The FY14 dividend (following the statutory formula) was \$900 per person and cost \$604 million, while the FY21 dividend (appropriated below the statutory amount) was \$992 per person and cost \$680 million. From FY10 through FY14, the statutory PFD amount was depressed by the stock market crash of the 2008-2009 Great Recession. Starting in FY15, the recession fell out of the five-year average, so the statutory

calculation doubled from \$604 million in FY14 to \$1.2 billion the following year; it is projected to cost just over \$2 billion in FY22.



The agency operations reductions appear relatively modest compared to the size of the drop in revenue: the \$514.2 million reduction in UGF spending from FY15 to FY21 represents an 11.4% decrease. Those reductions have not been equally spread, however. Public protection agencies (the departments of Corrections, Law, Public Safety, and the Judiciary) actually saw an increase of \$38 million (6.0%). The Department of Education, which mostly consists of formula-driven funding for school districts, was reduced by \$35 million (2.6%). Health and Social Services, which includes large formula-driven programs such as Medicaid, was reduced by \$77 million (6.0%), although the FY21 budget was inflated somewhat by \$95 million of one-time spending on the COVID-19 pandemic. Most of the reductions fell on the other twelve agencies, which saw their budgets reduced by \$441 million (35.6%).

On the revenue side, Alaska adopted a Percent of Market Value (POMV) draw from the Permanent Fund starting in FY19, which is now the largest source of UGF revenue. This had a major impact on the deficit: without the POMV draw, the FY21 deficit would balloon from an estimated \$900 million to over \$3 billion. However, no broad-based revenue measures have been adopted. A few minor revenue-generation bills have been adopted, such as legislation increasing hunting and fishing license fees and a \$0.0095 per gallon fee on motor fuels to support oil spill response, but these measures have had a limited impact on the deficit.

Despite these spending reductions and the POMV draw, Alaska still faces a massive deficit in FY22 and future years. Making up this gap from reserves is no longer possible, so the State now has a choice: enact some combination of spending cuts and revenue increases to eliminate the deficit or spend unsustainably out of the Permanent Fund or other accounts, which will make the deficit even larger in subsequent years.

## Alaska's Fiscal Situation in FY22

Entering the FY22 budget year, Alaska faces a difficult budget situation. The COVID-19 pandemic damaged the State's economy and drove down oil prices even further, exacerbating the State's fiscal situation. There are insufficient budget reserves available to continue to fill the deficit.

The Legislative Finance Division has two budget baselines for FY22, one reflecting current policy and the other reflecting current law. Both baselines assume that agency operations budgets match the FY22 Adjusted Base, which is the FY21 budget with one-time spending removed and contractual obligations added.<sup>1</sup> Both assume a capital budget of \$150 million, which represents a typical capital budget over the past six years. The difference is their treatment of statewide items: in the current policy scenario, we assume that items will be funded as they were in FY21, while the current law scenario assumes that they will be funded in accordance with statutory formulas.

FY22 Current Policy and Current Law Scenarios		
<b>UGF Revenue</b>	<b>4,271.9</b>	<b>4,271.9</b>
	<b>Current Policy</b>	<b>Current Law</b>
Agency Operations	3,887.9	3,887.9
Statewide Items	434.5	603.0
Capital Budget	150.0	150.0
<b>Subtotal</b>	<b>4,472.4</b>	<b>4,640.9</b>
PFD	680.0	2,023.9
<b>Total Spending</b>	<b>5,152.4</b>	<b>6,664.8</b>
<b>Deficit</b>	<b>(886.2)</b>	<b>(2,392.9)</b>

In FY21, the Governor vetoed all funding for school debt reimbursement, municipal capital project reimbursement, and the Regional Educational Attendance Area (REAA) fund capitalization. The legislature did not override these vetoes. The legislature also declined to fund the statutory calculation for oil and gas tax credit purchases (due to a bonding bill that was later ruled unconstitutional) and funded the PFD below the statutory calculation. The Current Policy scenario assumes that these policies

continue into FY22. The Current Law scenario assumes that statutory calculations are followed for all these items.

Under the Current Policy scenario, FY22 UGF spending would total \$5.2 billion, leaving a deficit of \$886.2 million. In the Current Law scenario, FY22 UGF spending would be about \$6.7 billion, leaving an even greater deficit of about \$2.4 billion.

To put this deficit in perspective, \$2.4 billion is equal to 62% of UGF agency operations spending, or 52% of the non-PFD budget.

Statewide Items Detail		
	<b>Current Policy</b>	<b>Current Law</b>
Debt Service	92.5	94.9
School Debt Reimbursement	-	54.2*
State Retirement Payments	342.0	342.0
REAA Fund Capitalization	-	34.2
Community Assistance	-	17.6**
Oil and Gas Tax Credits	-	60.0
<b>Statewide Items Total</b>	<b>434.5</b>	<b>603.0</b>
*Plus \$29.3 million from the School Fund (DGF)		
**Plus \$12.4 million from the PCE Fund (DGF)		

<sup>1</sup> The one exception is the K-12 formula; for this item, both scenarios use the FY22 projected formula amounts rather than the Adjusted Base figure, which represents the FY21 budgeted amount.

## Governor's Budget Proposal

### Overall View

The Governor's FY22 budget totals \$6.3 billion UGF. This leaves a deficit of over \$2 billion, which the Governor fills by making two draws from the ERA: a \$3.1 billion POMV draw and a separate \$2 billion draw for the FY22 statutory dividend. The Governor also proposes paying an additional \$1.2 billion from the ERA for an FY21 supplemental PFD. In total, the Governor's budget proposal calls for \$6.3 billion from the ERA, \$3.2 billion above the statutory POMV draw.

The Governor's 10-year plan, however, points toward a path to a balanced budget in FY23. The Governor proposes to change the statutory PFD formula from 50% of statutory net income to 50% of the POMV draw, which reduces projected dividend payments by about \$400 million below the current statute. His 10-year plan calls for about \$100 million in agency operations reductions per year in FY23 and FY24 and then sub-inflationary growth in subsequent years. Most significantly, his plan calls for between \$900 million and \$1.2 billion in undefined "new revenue" beginning in FY23.

The Governor's plan aims to combine immediate economic stimulus with a longer-term solution to Alaska's budget challenge. The stimulus comes in the form of the supplemental FY21 PFD, the larger FY22 PFD, and a \$350 million general obligation bond package. The long-term solutions come as a combination of reduced future PFDs, undefined future spending cuts, and undefined future revenue.

There are several challenges for this approach:

1. Overdrawing the ERA reduces the Permanent Fund's value, increasing future deficits and necessitating more significant budget reductions or revenue measures in the future.
2. The need for economic stimulus is acute and immediate, but the stimulative effect of a bond package and large fall PFD will not be felt for months. By then, the economy may be well on its way to a vaccine-fueled recovery.
3. Legislators and the Governor would need to quickly agree on new sources of revenue – to raise the \$1.2 billion the Governor's plan requires in FY23, a new tax would need to take effect July 1, 2022. Such a plan would need to be enacted in the 2021 session to take effect that immediately. The Governor also indicated that future taxes should be subject to a popular vote, which may also impact the timeline if the legislature agrees.
4. The Governor has not yet stated which future budget reductions and new revenue he would support. Legislators may be wary of signing onto a plan without knowing what concepts the Governor would support or oppose.

In evaluating the Governor's plan, legislators will need to weigh the economic benefit of stimulus spending against the long-term cost of overdrawing the ERA. Each \$1 billion drawn from the ERA increases the long-term deficit by \$50 million in inflation-adjusted terms, so the Governor's \$3.2 billion of overdrafts will increase future deficits by \$160 million per year in real terms. Is this a worthwhile trade? Should stimulus spending be targeted more narrowly? Will the federal government provide sufficient stimulus, or will federal efforts continue to stall? These are literally billion-dollar questions for the State, and legislators will need to weigh the trade-offs carefully.

A major risk with this plan is that it may prove easier to approve spending than deficit-filling measures. If the legislature agreed to the Governor's FY21/22 stimulus proposals but did not act on revenue measures or future spending reductions, Alaska's fiscal situation would become further unbalanced. The ERA could rapidly meet the same fate as the CBR and SBR if the legislature authorizes overdraws this year without taking action to address the long-term budget gap.

The Governor does not specify which potential new revenue sources he would support. For more information about potential revenue sources, see the chapter in this publication entitled "Revenue Requirements of the State."

The legislature could also choose an entirely different combination of spending reductions, dividend formula changes, and revenue increases to close the deficit. What is clear is that further delay is costly because the remaining funds available to bridge the gap are dwindling. Spending the ERA causes future deficits to grow, requiring more future taxes or spending reductions, and increases the risk of depleting the ERA. Spending designated reserves like the Power Cost Equalization fund would increase the need for UGF spending to maintain the programs they support. These DGF funds only combine for a \$1.5 billion balance anyway, so even drawing these funds in full would only delay the problem slightly, not resolve it. With insufficient funds left in the CBR to fill the deficit in the Governor's budget, every year of delay will only cause the problem to grow.

Some advocates for the Governor's plan note that the Permanent Fund has greatly exceeded investment forecasts thus far in FY21, and therefore spending beyond the statutory draw poses no problems because the money is available. This argument ignores the central reasoning behind the adoption of the POMV draw in the first place: investment returns are inherently volatile, and a stable draw allows the State to budget predictably through the highs and lows. The ERA is not a budget reserve, it is the safety margin supplementing the source of the majority of the State's general fund revenue. There is enough money to support overdraws now but riding the upswing of a volatile stock market is an inherently risky strategy. If the additional earnings are left in the ERA, future POMV draws will be larger (meaning future deficits will be smaller) and the ERA will be more resilient against future downswings.

The legislature could reject the Governor's calls for stimulus spending and pass a budget with a smaller dividend, once again filling the deficit from the CBR. The Governor's budget, modified to include a reduced PFD that matches the FY21 payment, would leave a roughly \$700 million deficit, which could be filled from the CBR. However, this does not avoid the need for additional budget reductions or revenue starting in FY23, since the CBR does not have a sufficient balance to fill the deficit in both years.

### **Governor's Agency Operations Changes**

The Governor's budget for agency operations totals \$3,810.5 million UGF, \$77.4 million below LFD's baseline. Detailed analysis of these changes appears in the Agency Narratives section of this publication. A few highlights:

- Medicaid funding is reduced by \$35.1 million UGF. However, the Governor's budget reappropriates FY21's estimated Medicaid lapse of \$35 million to FY22 Medicaid operations. This effectively negates any reduced funding in FY22.

- The University of Alaska is reduced by \$20 million UGF, per the three-year compact agreement between the Governor and the Board of Regents.
- The Department of Transportation and Public Facilities is reduced by \$17.2 million UGF below Adjusted Base. \$14.1 million of this is due to one-time fund source changes to utilize federal funds available to DOT through the CARES Act and \$3.6 million is a reduction to the Alaska Marine Highway System.
- Public Assistance Administration is reduced by \$3.4 million UGF (\$7.0 million all funds) and 101 positions due to enhanced use of Electronic Document Management and telework.
- All other changes net to a reduction of \$1.7 million.

The reductions in this budget illustrate the difficulty of making further large-scale operating cuts. The DOT fund changes will likely need to be reversed in FY23. The \$35.1 million Medicaid reduction relies on one-time backstop funding; maintaining this funding level in FY23 will require a decrease in service level. This is the final year of the University's \$70 million reduction compact. To make the deeper reductions proposed in FY23 and FY24 in the Governor's 10-year plan, larger statutory changes will need to be explored.

### **Governor's Statewide Operating Items**

The Governor's budget for statewide items totals \$464.1 million UGF, which is \$29.6 million above LFD's Current Policy baseline, and \$139.9 million below the Current Law Baseline.

#### *School Debt Reimbursement and the REAA Fund*

The Governor funds School Debt Reimbursement and the Regional Educational Attendance Area (REAA) fund at 50% of the statutory funding level. In FY21, the legislature's budget included full funding for these items, but the Governor vetoed it. The Governor's FY21 veto totaled \$100.2 million, of which \$84.3 million was UGF and \$15.8 million came from the School Fund (DGF).

In FY22, the estimated amount for full funding of school debt reimbursement drops to \$83.5 million, as several older projects are paid off and the moratorium on new debt continues. In addition, the vetoed money from the School Fund is still available, which reduces the UGF need for this item. As a result, full funding would require \$54.2 million in addition to the School Fund balance. The Governor's 50% funding totals \$12.5 million.

The Governor also funds the REAA capitalization at 50%, which is calculated to be \$17.1 million. This amount is set by a statutory formula that links the school debt amount to the relative share of students in rural and urban communities. The fund is used without further appropriation by the Department of Education and Early Development for school construction and major maintenance in the REAAs. Over the past several years, reductions in school debt reimbursement have been matched by reductions to the REAA capitalization.

#### *Oil and Gas Tax Credits*

HB 331, a 2018 bill to establish the Alaska Tax Credit Certificate Bond Corporation to purchase oil and gas tax credits, was declared unconstitutional by the Alaska Supreme Court in September 2020. As a result, approximately \$760 million of oil and gas tax credits are available for State purchase. AS 43.55.028(c) provides a formula for appropriations to the oil and gas tax credit fund to purchase these

credits. When oil prices are below \$60, that calculation is 15% of production taxes levied (not including tax credits taken against the production tax), which is an estimated \$60 million in FY22. These purchases are subject to appropriation, and the legislature did not appropriate anything to the Tax Credit fund in FY21.

The Governor's budget includes the statutory \$60 million deposit in FY22 but takes it from Alaska Industrial Development and Export Authority (AIDEA) Receipts, which are considered an Other fund source. The use of this fund source is clearly an attempt to lower the apparent cost of the budget, as there is no link between AIDEA and the tax credits. This item should be funded with UGF, if the legislature chooses to fund it. If the legislature determines that AIDEA has excessive funds on hand, it can either appropriate these funds directly to the general fund or change AIDEA's dividend calculation in statute. Using AIDEA receipts directly in the budget is not consistent with transparent budgeting practices.

### *Community Assistance*

The Community Assistance Program provides funding to municipalities, unincorporated communities, and Native village councils in Alaska to support local government activities. The total distribution each year equals one-third of the balance of the Community Assistance Fund on June 30 of the previous fiscal year. This means that there is a built-in delay to the program: capitalization of the fund in FY22 will contribute to the payments made in FY23.

The current iteration of the program pays out base payments, which cost a total of about \$19.5 million, and then distributes remaining funding on a per-capita basis. Per AS 29.60.850, the annual deposit into the fund may not exceed \$30 million or the amount necessary to bring the fund balance to \$90 million, whichever is greater. In FY20, the Governor twice vetoed \$30 million deposits appropriated by the legislature and vetoed \$1.3 million of the FY21 deposit made by the legislature. In FY22, the distribution will be \$22.9 million total.

AS 42.45.085 provides that the Power Cost Equalization Endowment (PCE) Fund may be used as a funding source for this program if it has sufficient earnings. The statutory amount available from PCE to Community Assistance in FY22 is \$12.4 million. However, this statute does not override AS 29.60.850, which allows the fund to

	<b>FY21</b>	<b>FY22 (Gov)</b>	<b>FY23</b>
Starting Balance	60.0	68.7	58.2
Distribution (1/3 of balance)	20.0	22.9	19.5
Deposit to Fund	28.7	12.4	?
Ending Balance	68.7	58.2	?

be capitalized up to a \$90 million balance; it merely provides one possible funding source for that capitalization. A larger capitalization using UGF would be allowable under the statute if the legislature wants to increase payments. Based on the Governor's proposed FY22 deposit, \$19.5 million would flow out to local governments in FY23, roughly enough to pay the base payments but no per capita payments.

### *Other Statewide Items*

The Governor's budget fully funds State debt and retirement obligations. It does not fund municipal capital project debt totaling about \$2.4 million, which the Governor also vetoed in FY20 and FY21.

The Governor's December 15 budget submission included legislation regarding the Public Employee Retirement System (PERS), which is not actually built into his budget but is included in the accompanying fiscal summary. Currently, PERS employers (including the State of Alaska, many

municipal governments, and some school district employers) pay 22% of employee payroll to the PERS trust to pay off the unfunded liability in that system. The 22% rate is set in statute, but the actuarial contribution in FY22 is 30.11% percent. The difference between the 22% cap and the actuarial rate is paid by the State with UGF, estimated to be \$193.5 million in FY22.

The Governor's proposed legislation would eliminate the cap for the State as an employer and instead pay the full actuarial contribution, causing about \$95 million of State costs to move from this statewide item to agency budgets. It would not affect rates for non-State employers, including subdivisions of the State such as State-owned corporations. The shift into agency operations allows some of the \$95 million to be paid for with non-UGF fund sources. The Office of Management and Budget (OMB) estimates a savings of \$43.3 million UGF, which will be shifted to other fund sources (primarily the federal government).

OMB's estimated savings includes a \$10 million "buffer" for UGF to be used in place of funds sources that may prove unrealizable – not all of the identified non-UGF fund sources have additional receipts that could be used. The actual savings will be determined in a fiscal note when the bill is heard by the legislature.

### Capital Budget

The Governor's FY22 capital budget submission totals \$1.5 billion, of which \$58.5 million is unrestricted general funds (UGF). The Governor's capital budget consists primarily of projects that leverage other Non-UGF fund sources. \$7.5 million (12%) of the UGF in the Governor's capital budget is used to match federal funding totaling \$1.16 billion. The remaining \$101.6 million required match is covered through the Governor's proposed Alaska Housing Finance Corporation Statewide bonding package. The major federal match projects are:

- Federal-Aid Highway Match (Department of Transportation and Public Facilities) – (\$71.2 million in AHFC Statewide Bonding) to match \$680 million of federal funds;
- Federal-Aid Aviation State Match (Department of Transportation and Public Facilities) – (\$14.7 million in AHFC Statewide Bonding) to match \$190 million of federal funds; and
- Village Safe Water and Wastewater Infrastructure Projects (Department of Environmental Conservation) – (\$15.7 million in AHFC Statewide Bonding, and \$0.5 million in Statutory Designated Program Receipts) to match \$52.3 million of federal funds.

The Governor's office has not provided any information regarding the estimated annual cost of servicing the AHFC bond debt going forward. The language of the proposed bond package states that the cost of debt service will be deducted from the annual dividend that AHFC pays to the General fund, essentially making this an annual UGF cost in all but name. While this does lower the FY22 UGF amount, this mechanism cannot be counted on to reduce future capital budgets.

The Governor's FY22 capital budget spends \$49.3 million on the State's \$1.3 billion backlog of deferred maintenance. No Deferred Maintenance (DM) funding was appropriated in FY21 and the Governor proposes a total of \$13.3 million in supplemental DM spending. The Governor's budget does not include specific funding for the University of Alaska's DM backlog, which makes up the vast

majority of the State's total backlog. Both the FY21 supplemental and the FY22 appropriations would be paid for out of the Alaska Capital Income Fund (ACIF).

For the second year in a row the budget does not include funding for School Construction or Major Maintenance. The Governor has announced that he will put forward a proposed General Obligation Bond package that may address one or both of these areas.

In FY21 no specific Capital budget was passed, though some items were included in the Operating bill (HB 205). This left approximately \$172 million in unfunded Governor's proposed projects. The Governor approached this issue in three ways.:

- Through the Legislative Budget and Audit committee Revised Program Legislative (RPL) process
- By proposing a fast track supplemental bill
- By delaying the project or program until FY22

After taking these actions there are still around \$54 million in unfunded projects; with some of them funded indirectly through Federal CARES act funding.

## LFD Fiscal Model and Status Quo

The Legislative Finance Division's (LFD) fiscal model provides legislators with a projection tool that is designed to show the impact of policy changes on the State's fiscal situation. By default, it uses the Department of Revenue's revenue forecast, inflation and investment earnings rates from Callan (the State's investment consultant), and assumptions based on the current budget.

The scenario included on the following page provides projections of what would happen given model input assumptions and the Governor's FY22 and FY21 Fast Track Supplemental budgets adopted as-is with no additional budget cuts or revenue. This scenario is presented to show the magnitude of the fiscal problem that needs to be addressed, based on current forecasts. LFD is policy-neutral regarding the method of addressing the issue and therefore leaves any possible scenarios for fiscal improvement at the request of legislative committees or individual legislators.

Under these fiscal conditions, the FY21 Fast Track Supplemental would require an additional \$1.2 billion from the ERA in addition to the POMV. The FY22 budget deficit is projected to be \$2.2 billion, all of which would be drawn from the ERA. As a result, the ERA's balance would quickly erode and our total reserves would be insufficient to cover the State's budget deficit beginning in FY28. Over the model time span, fiscal deficits total almost \$17 billion. That is the size of the issue that must be addressed through further budget reductions or revenue measures.

The second scenario depicts a scenario based on the Governor's 10-year plan. This plan suggests raising new revenue beginning with \$1.2 billion in FY23 and decreasing to \$900 million in FY30. The Governor's 10-year plan does not specify the source of this possible revenue. LFD's model of this scenario assumes a flat \$1 billion per year of new revenue (the average value in the Governor's plan) rather than a fluctuating amount. The Governor is yet to propose a new tax or other revenue-generating measure. The Governor's scenario also assumes \$100 million reductions to agency operations per year in FY23 and FY24 and 1.5% growth from FY25 on. An additional \$43.3 million in savings from proposed legislation are included. In this scenario, the budget is balanced in FY23 and beyond.

LFD's assumptions for the scenario based on the Governor's plan differ slightly from those in the Governor's scenario, which causes LFD to show an FY23 deficit in the \$200 million range even in the Governor's plan. These differences are caused by LFD's assumption of \$50 million per year of UGF supplementals, LFD's assumption of a flat \$1 billion per year in new revenues, versus a fluctuating amount, and some minor differences in baseline costs of statewide items.

## Guide to LFD Fiscal Model Output

The LFD fiscal model output assumes that statutory inflation proofing does not occur until FY25, due to the additional \$4 billion deposit made in FY20. The model assumes an additional \$1.2 billion PFD in FY21, a statutory PFD beginning in FY22.

The model also assumes \$50 million in supplemental appropriations per year, and the statutory draw to the oil and gas tax credit fund is made from the general fund.

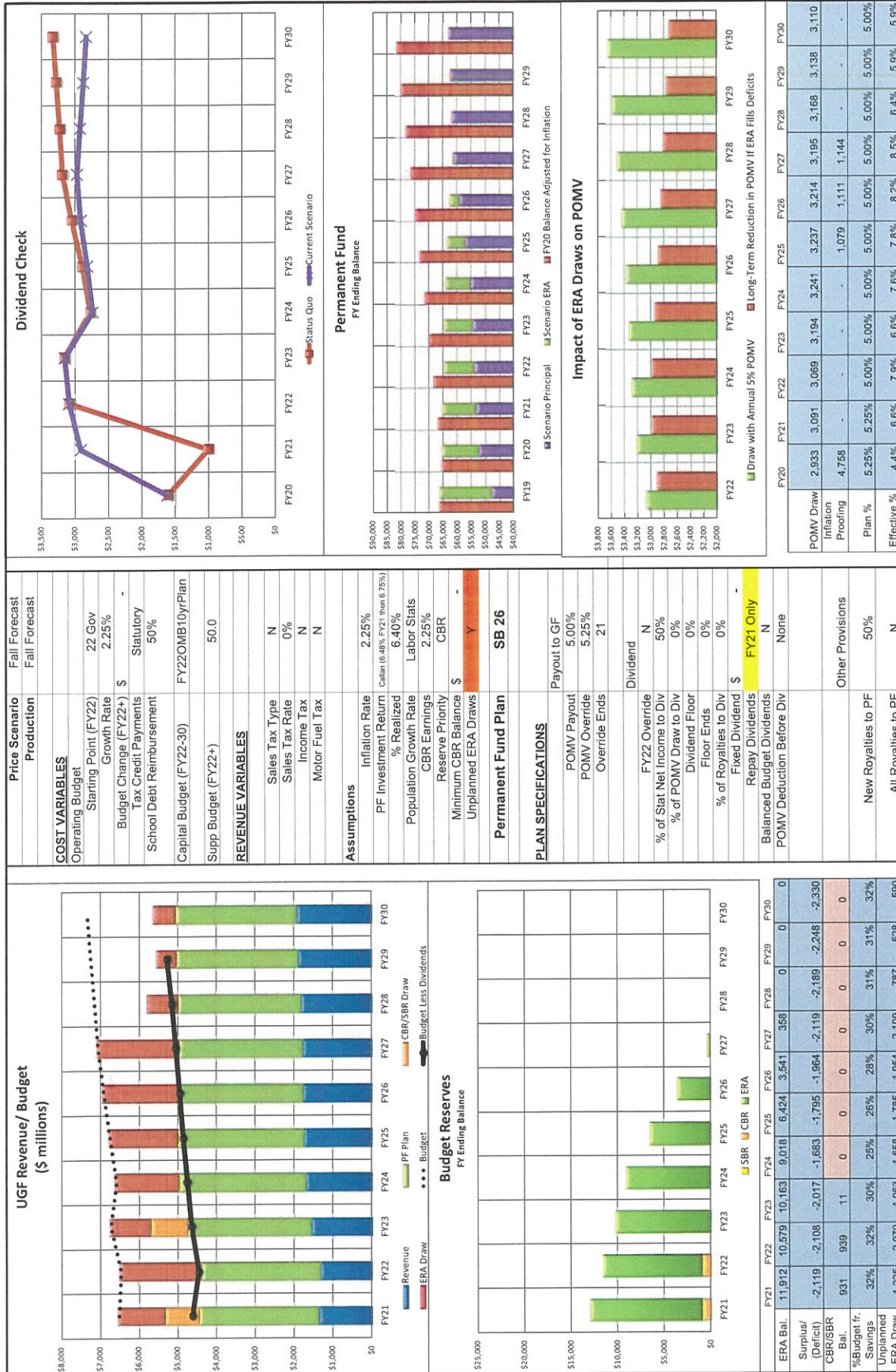
The second scenario differs from the Governor's 10-year plan for a few reasons. The 10-year plan does not include an assumption for supplemental appropriations. While the 10-year plan's undefined revenue averages out to \$1 billion per year, the FY23 revenue is \$1.2 billion. This differs from LFD's flat \$1 billion.

The middle columns show variables and assumptions that can be modified in the model. The inputs included in the example use LFD's default assumptions as outlined above.

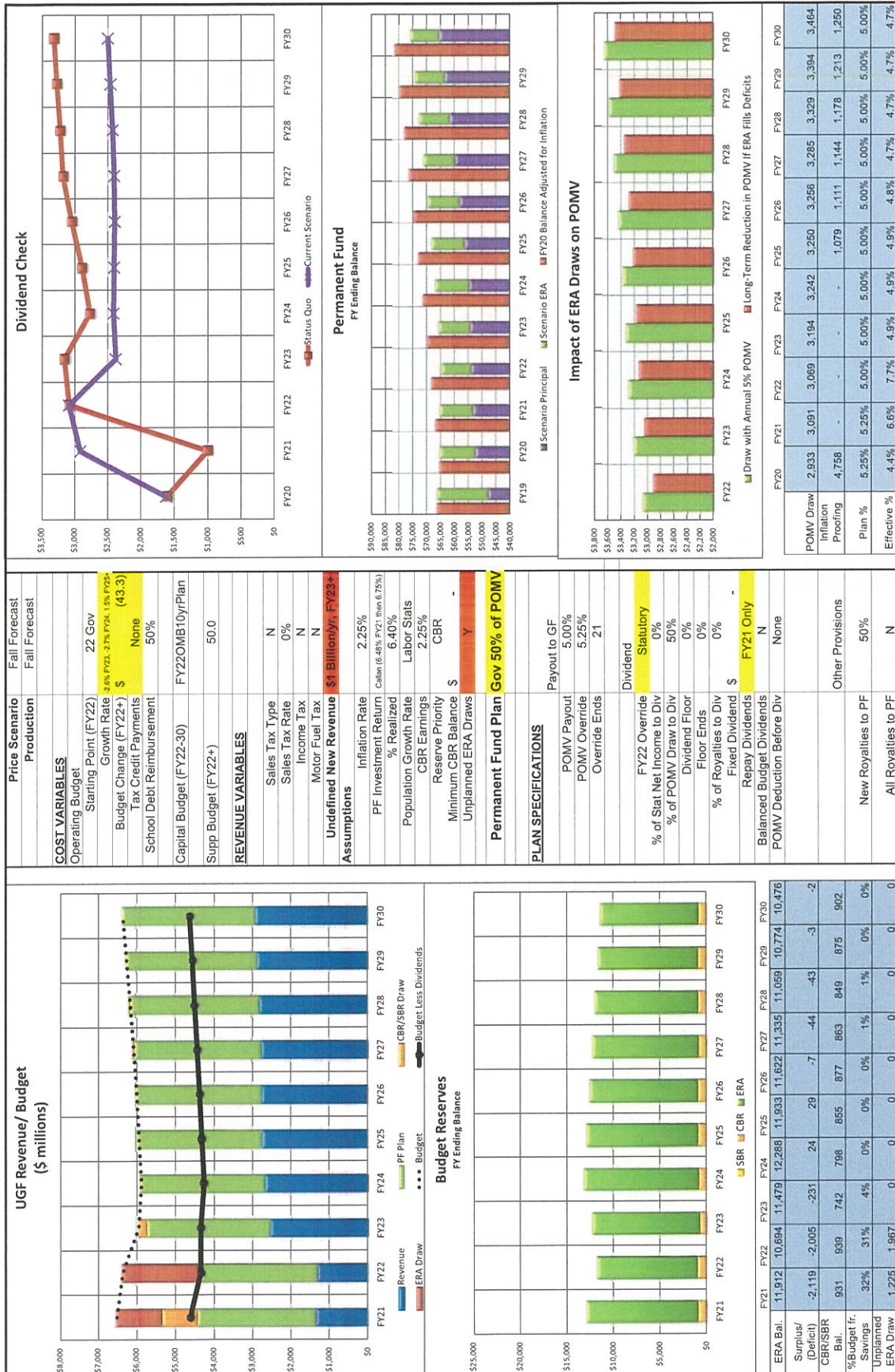
Left side: the top graph shows UGF revenue compared to the UGF budget, and which fund sources would be used to fill deficits. The next graph shows budget reserve balances, including the CBR, SBR, and ERA. The table on the bottom provides data on the total reserve balances, the size of the deficits, and how much of the deficit is being filled by the ERA.

Right side: the top graph shows a comparison of the PFD per recipient under model assumptions vs. the statutory calculation. The middle graph shows how ERA overdraws affect future POMV calculations. Since the POMV calculation is based on a five-year average of the Permanent Fund value, each FY in the chart shows the total 5-year impact on the POMV calculation resulting from that FY's lower Permanent Fund value. The final graph shows the payouts from the ERA for dividends and the general fund. The bottom table summarizes the draws from the ERA.

# Legislative Fiscal Analyst's Overview of the Governor's FY2022 Request



## Scenario 1 - Status Quo



## Scenario 2 - Governor's 10-Year Plan

## Recap of 2020 Session and Overview of Governor's Supplemental Requests

The 2020 legislative session ended abruptly due to the coronavirus pandemic, forcing legislators to quickly wrap up work on the budget in March. As a result, the budget process diverged significantly from previous years.

The FY20 budget process had also been unusual, with two rounds of appropriation bills and vetoes. That process was not wrapped up until the signing of SB 2002 and HB 2001 in August of 2019. In December 2019, the Governor submitted a fast track supplemental budget, HB 234, to fill emergent holes in the FY20 budget. The Governor's proposed fast track supplemental budget totaled \$303.8 million UGF (\$576.0 million all funds), covering items such as Medicaid and fire suppression. This exceeded the amount of UGF appropriations that could be made without a supermajority vote to access the CBR.

Without supermajority support for CBR access, the fast track bill languished in the Senate. On March 2<sup>nd</sup>, the Governor requested a supplemental appropriation for the State's response to the COVID-19 pandemic. Instead of attaching the items to the fast track, the legislature added them to the Mental Health budget bill, HB 206. The Mental Health bill is required by the terms of a legal settlement to contain only mental health items, but the Mental Health Trust agreed to waive this requirement to allow passage of this unique bill.

The House passed the operating budget on March 3<sup>rd</sup>, widely reported as the earliest in recent history. This allowed the Senate to act very quickly and pass its version of the operating budget on March 23<sup>rd</sup>, which again was historically early. The Senate followed an unusual, accelerated process: subcommittees met but did not close out and make official recommendations. Instead, subcommittees' informal

recommendations were incorporated by the Senate Finance Committee. That committee also added most of the Governor's capital budget to the operating bill, making it an omnibus bill.

Not all of the Governor's proposed capital budget was incorporated into HB 205, however, as the legislature appeared to anticipate returning to session later in the year. LFD identified \$172 million of projects (\$34 million of which was funded with UGF) that were not added to the operating bill. These included routine items such as deferred maintenance and Fish and Game federal projects, as well as one-time requests such as technology upgrades for the Department of Administration.

Many of these "missing" capital projects are included in the Governor's FY21 fast track supplemental budget request. Others are incorporated into the Governor's FY22 request, which includes increased

Timeline of 2020 Budget Bills	
12/15/19	Governor's budget release
1/21/20	First day of session
2/26/20	House passes fast track supplemental bill (HB 234) without CBR access
3/2/20	Governor's first COVID-19 supplemental budget request
3/3/20	House passes operating (HB 205) and Mental Health (HB 206) budgets
3/11/20	Senate passes Mental Health (HB 206) budget with COVID-19 supplemental items, House concurs
3/18/20	Senate passes fast track supplemental (HB 234) with CBR access
3/23/20	Senate passes combined operating and capital budget (HB 205)
3/25/20	House concurs on fast track but CBR access fails
3/28/20	Conference Committee on HB 205 adopts budget bill; House and Senate pass bill with CBR access on 3/29

amounts for some projects. Several projects were also funded through the RPL process in August (see the “RPLs and Ratification Bill” section on the following page). See the Capital Budget Overview section of this publication for details on the status of the FY21 capital budget.

The Governor's FY21 fast track also includes operating items to adjust Technical Vocational Education Program Account funding to address a shortfall, replace lost revenue in the Alaska Vocational Technical Center, and to replace administrative funding in the Department of Education and Early Development that was previously funded through the School Bond Debt Reimbursement appropriation that the Governor vetoed. The largest item is an additional Permanent Fund Dividend payment of about \$1.2 billion; combined with the \$992 check sent out earlier in the fiscal year, the total distribution in FY21 would match the statutory calculation.

### **RPLs and Ratification Bill**

The day before the legislature passed the operating budget, March 27, 2020, President Trump signed the Coronavirus Aide, Relief, and Economic Security Act (known as the CARES Act). This legislation resulted in a large flow of federal money to the State of Alaska, which had not been accounted for in the preparation of the FY20 and FY21 budgets.

The CARES Act provided a \$1.25 billion from the COVID-19 Relief Fund (CRF) for the State to spend on COVID-19 relief but allowed the State to determine how to deploy this funding. It also provided over \$280 million for specific purposes, including stimulus payments for Alaska fisheries, education funding, rural and international airport funding, and more. In some cases, the legislature had appropriated sufficient receipt authority to spend the added federal money without immediately modifying the budget. The legislature had granted open-ended federal receipt authority to the Department of Health and Social Services' Public Health division, so the Governor directed \$337.5 million to that division to be spent by State agencies for COVID-19 costs. In many other cases, however, there was not sufficient budgetary authority.

On May 1, the Governor proposed to distribute the federal funding using the Revised Program Legislative (RPL) process laid out in AS 37.07.080(h). This process allows for “the increase of an appropriation item based on additional federal or other program receipts” conditional on review by the Legislative Budget and Audit (LB&A) Committee. The Governor's proposed RPLs included \$562.5 million of grants to local governments, \$290.0 million for Small Business Relief grants, \$100.0 million for Alaska fisheries, and \$490.0 million for Statewide Aviation and the Rural Airport System.

The LB&A Committee approved these RPLs on May 11, but not before noting concerns raised by Legislative Legal Services that these items were outside the scope of the RPL process and were vulnerable to legal challenge. That legal challenge came just two days later, prompting the legislature to return to session on May 18. The legislature approved HB 313 on May 20, which ratified the previous RPLs as valid appropriations.

The RPL process has been used twice so far in FY21. In August, the LB&A committee approved a package of RPLs that primarily consisted of capital projects that had not been included in HB 205. In December, the LB&A Committee approved a package of miscellaneous non-CARES Act items. The Governor proposed three more RPLs in January 2021 covering items from the December 2020 federal stimulus bill.

## Revenue Requirements of the State

AS 24.20.231(2) provides that the Legislative Finance Division analyze the revenue requirements of the State. The following section provides a brief analysis along with potential revenue sources and any issues therein.

UGF revenue projections are approximately \$2.1 billion less than what is needed to balance revenue with proposed appropriations in the Governor's FY22 budget. AS 37.07.020(c), Responsibilities of the Governor, states that "proposed expenditures may not exceed estimated revenue for the succeeding fiscal year." This statute requires that the Governor's December 15 budget proposal must be balanced with sufficient anticipated revenue to meet appropriations. The Governor's 10-year plan includes new revenue beginning in FY23 ranging from \$900 million to \$1.2 billion per year but does not specify the source.

## New Revenue Options

To introduce additional revenue, the State could increase existing taxes or impose new ones. Alaska is the only state without a statewide broad-based tax, so existing taxes are primarily resource-based taxes or excise taxes on certain consumer items such as motor fuels, alcohol, and tobacco. Increasing existing taxes may cause Alaska to have higher rates than other states, but increases could bring in revenue quickly with minimal administrative costs. New taxes would take longer to set up and would require additional administrative costs. However, significant revenue could be generated with new broad-based taxes.

The following options are reflective of common practice in other states, and do not constitute a policy recommendation. Equity, economic impacts, efficiency, and other considerations are not presented here but should be addressed if the legislature chooses to explore revenue options.

## Modify Existing Taxes

**Oil and Gas Production Tax:** Alaska's oil and gas production tax is projected to bring in \$156.1 million in FY22. Past proposals to increase this tax have included raising the tax "floor" from 4% of gross revenue to 5% or higher; capping the per-taxable barrel credit at \$5; or more complex changes proposed in the House version of Chapter 3, SSLA 17 (HB 111) or the Ballot Measure 1, which failed to pass in 2020.

**Corporate Income Tax:** The petroleum and non-petroleum corporate income taxes are projected to bring in a combined \$5 million in FY22. This low amount (compared to \$217.7 million in FY19) is due to economic conditions as well as provisions in the federal CARES Act which have allowed taxpayers to carryback losses against past tax liabilities. Alaska's 9.4% top marginal rate is the fourth highest in the US. Alaska is one of two states with a corporate income tax but no individual income tax (along with Florida), which results in C-Corporations paying taxes but S-Corporations not paying taxes (as their income flows through to the owners and personal income is not taxed). The Department of Revenue (DOR) estimates that taxing S-Corporations at the same rates as C-Corporations would raise \$80 million in the first full year administered. Another potential change would be to decouple Alaska's tax code from the federal code, which would eliminate unanticipated shifts in revenue due to changes in federal tax law (such as the aforementioned CARES Act provision).

**Other Resource Taxes:** Alaska's Mining License Tax is estimated to bring in \$43.3 million in FY22. The Fisheries Business and Fishery Resource Landing taxes are estimated to bring in \$20.8 million in UGF revenue and an additional \$24.2 million that is shared with municipal governments. National comparisons for these taxes are difficult.

**Excise Taxes:** Alaska imposes excise taxes on several consumer goods. The largest of these are:

- Tobacco taxes: Estimated FY22 revenue is \$55.2 million, of which \$37.9 million is UGF and \$17.3 million is DGF. Alaska's cigarette tax of \$2 per pack ranks 16th nationwide. The tax on other tobacco products is 75% of the wholesale price, which ranks 8th nationwide.
- Alcoholic beverage tax: \$41.2 million, split equally between UGF and DGF. Alaska's tax is designed to tax all alcoholic beverages equally on a per-drink basis. The \$12.50 per gallon tax on liquor and \$2.50 per gallon tax on wine are the highest in the country, and the \$1.07 per gallon tax on beer is second highest.
- Motor fuel tax: \$34.7 million, all DGF. Alaska's \$0.08 per gallon tax ranks 50th nationwide. Tripling Alaska's tax to the national median of \$0.24 would bring in an additional \$69.4 million.
- Marijuana taxes: \$32.0 million, of which \$8.0 million is UGF and \$24.0 million is DGF. Alaska taxes \$50/ounce for flowers, \$15/ounce for stems and leaves, and \$25/ounce for immature flowers/buds. National comparisons are challenging because many states have a mix of per-ounce and excise taxes. Eleven states currently permit and tax retail marijuana sales.

## New Taxes

### *Income Tax*

Income is taxed in 41 states, while two states exclusively tax dividends and interest. Alaska had an income tax from statehood until 1980, when it was repealed. Of these, 32 have progressive income taxes, and the remaining 9 have flat taxes. At the time of its repeal, Alaska's income tax brackets ranged from 3% to 14.5% and brought in \$117 million in FY79. Adjusted for inflation and population, that is the equivalent of about \$600 million in 2020.

The most recent income tax bill considered in Alaska, HB 115 (introduced in the 2017 session), had a progressive tax rate ranging from 2.5% to 7% and was estimated to bring in about \$700 million per year. HB 115 called for implementation in the following January, so the first fiscal year would only see half a year of revenue.

DOR estimates an individual income tax levied at 10% of federal income tax liability would generate \$350 million in the first full year administered. Using federal income tax liability would be consistent with Alaska's existing corporate income tax. However, most other states levy individual income taxes based on federal Adjusted Gross Income (AGI). LFD estimates an individual income tax based on 3% of AGI, with no exemptions or deductions, would generate \$850 million in the first full year administered.

### *Sales Tax*

Statewide sales taxes exist in 45 states, while four states have no state or local sales tax. Alaska is the only state that has no statewide sales tax but allows for the collection of local sales taxes. Of the 45 states with a statewide sales tax, 37 have additional municipal sales taxes. In Alaska, sales taxes may be

levied at the city or borough level. As of 2019, 103 of Alaska's 129 taxing municipalities imposed sales taxes, at rates ranging from 1.5% to 7.5%.

The most recent statewide sales tax proposed in Alaska was HB/SB 5004 (introduced in 2016), which would have imposed a 3% sales tax with exemptions for groceries. It was projected to bring in \$500 million per year. Like an income tax, a sales tax would likely take at least six months to implement.

DOR estimates a broad-based 4% sales tax including all services and exempting only prescription drugs, medical equipment, and business-to-business purchases to resale, would generate \$1.2 billion in the first full year administered. DOR estimates that a 4% sales tax styled on Wyoming's sales and use tax would generate \$630 million in the first full year administered. This tax would exempt groceries, prescription medicine, medical equipment, and all business-to-business sales and services.

### *Property Tax*

All 50 states have property taxes that are applied by either local or municipal governments. Alaska has a statewide property tax for oil and gas property, but other property is taxed only at the municipal level. Fifteen of Alaska's nineteen boroughs levy personal property taxes, in addition to twenty-one cities (some of which are within boroughs). Some boroughs rely very heavily on property tax revenue, and Alaska's average property tax burden ranks 21<sup>st</sup> nationwide despite not being universally applied.

Alaska could impose a statewide property tax that excludes oil and gas property. Implementing such a tax would be administratively challenging because property values would have to be determined in any area of the state that does not already have a property tax. Unlike most states, Alaska does not require that real estate sale prices be reported publicly to ensure accurate assessments.

DOR estimates that a tax on all in-state property of 0.1% (10 mills) of assessed value would generate \$117.5 million in the first full year administered.

### *Payroll Tax or Head Tax*

Alaska had a \$10 per worker "head tax" to pay for a portion of the education budget until its repeal in 1980. Such taxes are a flat amount per person rather than a percentage of income. No other state currently imposes a head tax.

Several pieces of legislation have proposed graduated head taxes or other payroll taxes. Such taxes could build on the existing payroll tax administered for worker's compensation so they could be implemented with fewer additional resources. However, these taxes would have a narrower base than an income tax because they exclude dividend and investment income, so their revenue-raising potential is more limited.

DOR estimates a \$30 payroll tax on all resident and nonresident workers in Alaska would generate \$13.5 million in the first full year administered. DOR estimated the initial implementation cost to be \$11 million, with an additional \$0.8 million in annual administration costs.

## Multi-Agency Items: Rates, Consolidations, and Salary Adjustments

The Governor's budget contains several changes that affect multiple agencies. This section provides an overview of these items so that readers can see an explanation in a single place.

### Central Service Agency Rate Adjustments

Central service agencies such as the Division of Personnel and Labor Relations (DOPLR) and the Office of Information Technology (OIT) provide services that support programs across State agencies. These agencies are funded by charging other programs for their services. These rates are based on relevant cost drivers; for example, DOPLR costs are driven by employees, so other programs are charged based on the number of employees.

These rates are often set after budgets have been approved by the legislature, which causes strain on agencies if their rates turn out to be higher than expected. This can cause agencies to make mid-year expenditure reductions to ensure they can pay their rates, which may cause them to provide a lower service level than the legislature expected in preparing their budgets.

The Office of Management and Budget (OMB) and these central service agencies are working to change the rate structure to provide rates in advance to make costs more predictable during the budget development process. This process will also change the rate structure to be simpler, basing more rates on easy-to-understand metrics like employee counts.

Locking in rates in advance poses some risk to the rate-setting agencies, however, if their rates do not generate sufficient revenue to meet their expenditures. The Governor's budget addresses this concern through adding appropriations (see Operating Language, Section 13) that allow OMB to transfer up to \$5 million of lapsing general funds to cover unexpected shortfalls. \$5 million represents about 3% of the total amount billed by these agencies.

There are several changes in agency budgets that are related to these changes. OMB will no longer charge agencies for its budget analysts, so it is no longer a central service agency (making it a more neutral party to distribute the lapsing funds). This shows up in the Office of the Governor's budget as a fund change (see the Office of the Governor section of this publication). The Governor's budget also reduces receipt authority for several central service agencies (OIT, DOPLR, and Accounting) so that their budgets are in line with anticipated revenue with the new rate structure (see the Department of Administration section of this publication). The Department of Corrections and the Department of Transportation and Public Facilities budgets also feature significant movement of funds within the agencies to match the new billing structures.

### Administrative Consolidations and Reorganization

In the FY22 budget, the Governor continues the centralization process of many administrative functions begun under the previous governor. In FY22, procurement staff from all executive branch agencies will be consolidated into a new Office of Procurement and Property Management (OPPM) within the Department of Administration. 62 positions will be transferred into this new office from twelve agencies. This consolidation process is directed by Administrative Order 304, issued in February 2019. For more details on this new office, see the Department of Administration section of this publication.

The Statewide Contracting and Property allocation will no longer exist, and all remaining funding will be transferred to OPPM.

A separate reorganization effort continues in the Department of Transportation and Public Facilities' Division of Facilities Services. This division was established in FY19 to centralize facilities staff across agencies, covering State-owned buildings. In the FY22 budget, the Governor proposes transferring management of all State facilities from the Department of Administration to this division. This transfer includes lease management and facilities administration. For more details on the transfer, see the Department of Transportation and Public Facilities' section of this publication.

### Salary Adjustments

The Governor's budget bill as submitted to the legislature consolidated contractual salary adjustments into a single statewide appropriation for each union. This structure is intended to clearly identify the fiscal impact of each change but poses some problems for the technical budget process.

The Governor's budget was written with the assumption that these salary adjustments will be moved to agency budgets. As drafted, it has negative fund sources in some allocations and Transfers in (TrIn transactions) and out (TrOut transactions) are often for amounts that include salary adjustments. Astute readers of budget reports on OMB's website may notice that totals slightly differ between reports, as some reports reflect the Governor's bill as written and others reflect the Governor's budget with the salary adjustments allocated to agencies. LFD's reports match the Governor's bill as transmitted, but additional minor adjustments by the legislature will be necessary to avoid negative appropriations.

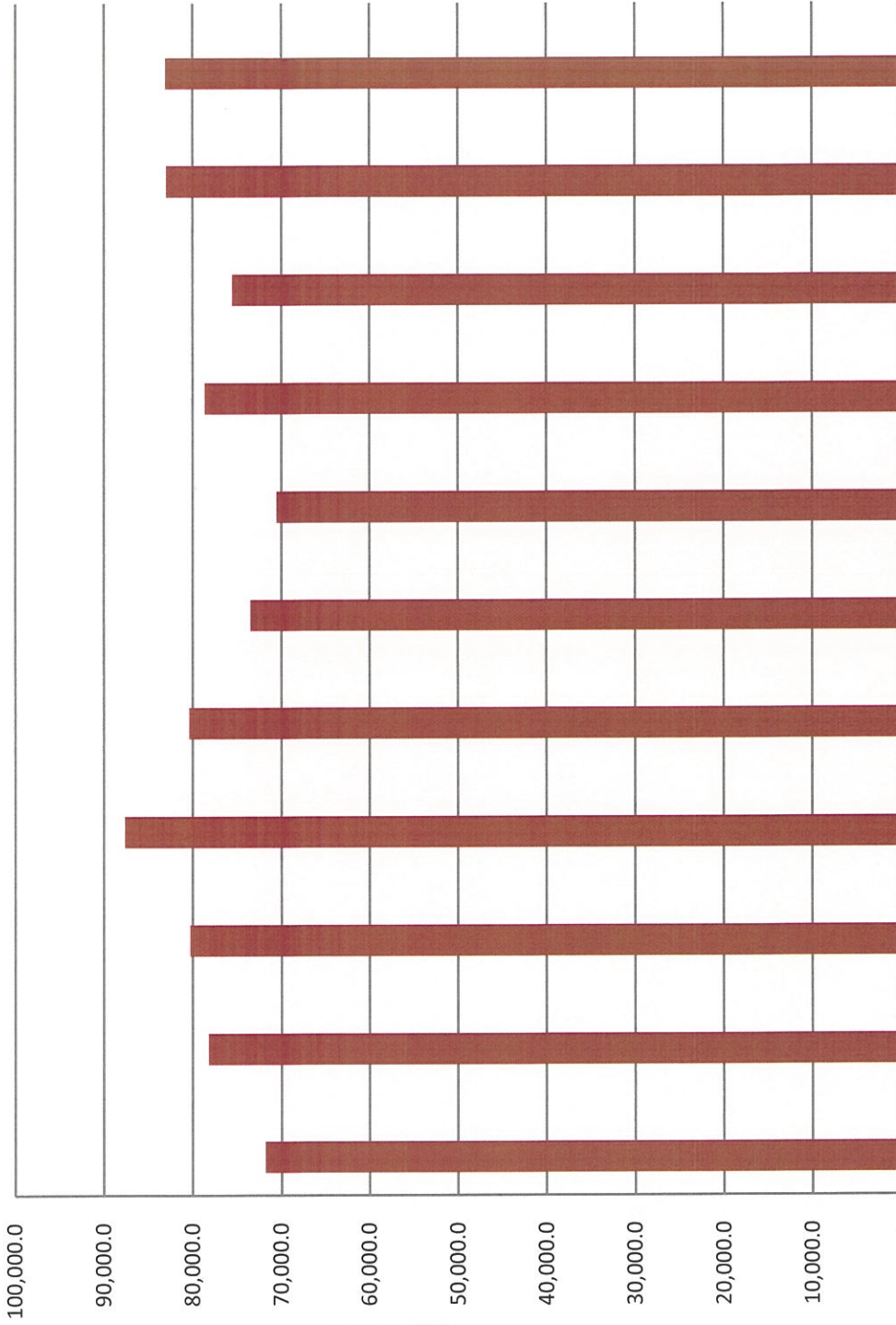
The salary adjustments total \$11.1 million, of which \$6.1 million is UGF.



# Department of Education and Early Development Share of Total Agency Operations

(GF Only, excluding K-12 Formula)

(\$ Thousands)



DEED's GF budget (excluding K-12 Formula) increased by \$11.2 million between FY12 and FY22 Governor - an average annual growth rate of 1.5%. The FY22 GF budget equates to **\$257 per resident worker**, based on 323,711 Alaskan workers in 2019.

Total Agency Budget (GF Only)	71,793.4	78,160.8	80,259.0	87,617.9	80,398.3	73,457.7	70,543.3	78,603.1	75,498.4	82,980.2	83,074.3
Average of % of All Agencies' Budgets	1.52%	1.56%	1.59%	1.68%	1.66%	1.57%	1.54%	1.66%	1.66%	1.72%	1.81%

# Department of Education and Early Development

## Total Funding Comparison by Fund Group

(All Funds, Excluding K-12 Formula)

(\$ Thousands)

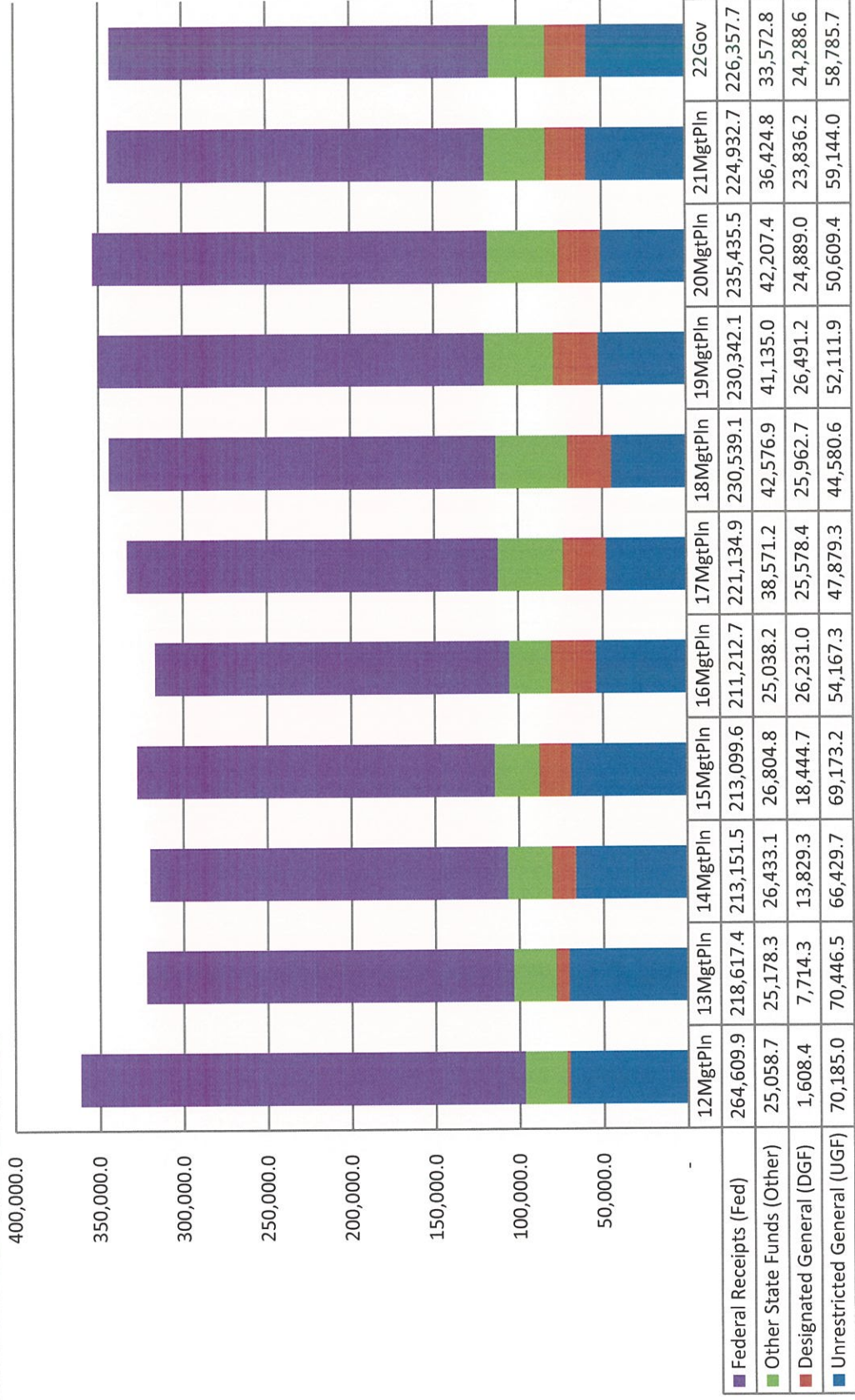
Between FY12 & FY22 Gov:

--UGF decreased by \$11.4 million (-16%)

--DGF increased by \$22.7 million (1410%)

--Other funds increased by \$8.5 million (34%)

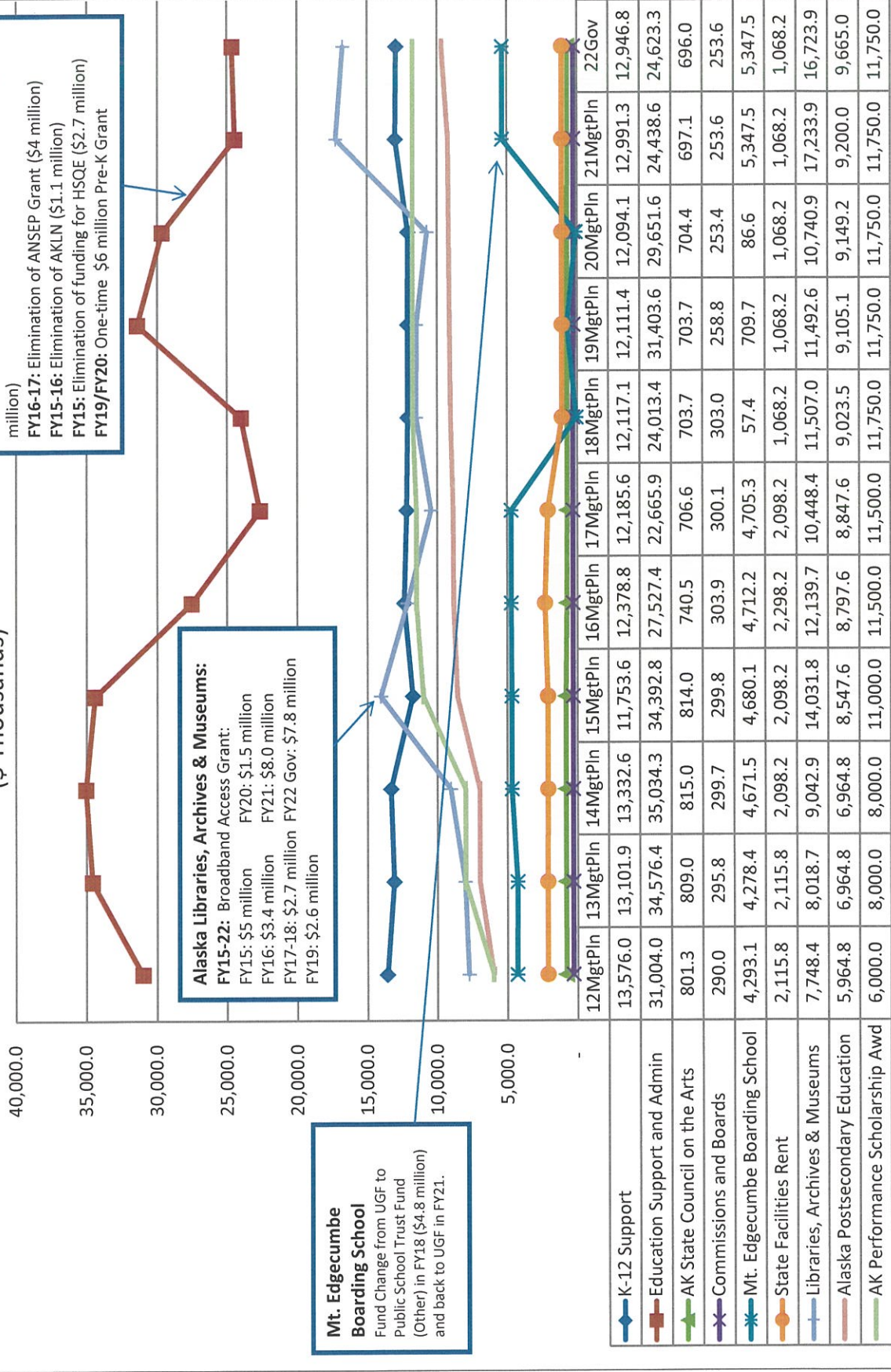
--Federal Funds decrease by \$38.3 million (-14%)



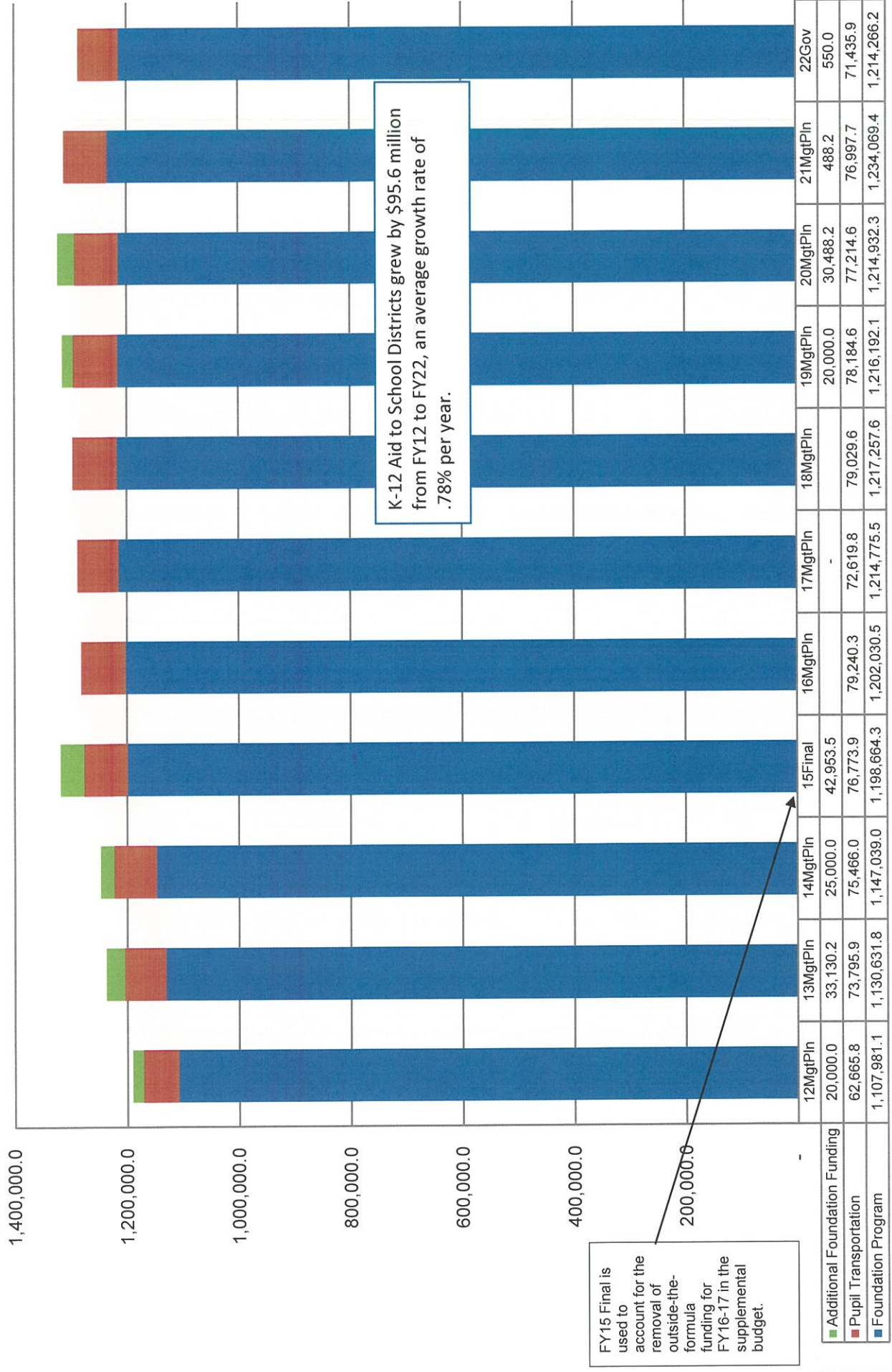
# Appropriations within the Department of Education and Early Development

(GF Only, Excluding K-12 Formula)

(\$ Thousands)



## K-12 Aid to School Districts (Formula, All Funds) (\$ Thousands)





## DEED Program Priority Table

Program	Constitutional Requirement	Federal Requirement	Statutory Req.
<b>K-12 Aid to School Districts</b>			
Foundation Program	Yes	Yes	Yes: AS 14.17
Pupil Transportation	No	Yes	Yes: AS 14.09
Additional Foundation Funding	Yes	Yes	Yes: AS 14.17
<b>K-12 Support</b>			
Residential Schools Program	Yes	Yes	Yes: AS 14.07.020
Youth in Detention	Yes	Yes	Yes: AS 14.30.600-660
Special Schools			
<b>Education Support and Administrative Services</b>			
Executive Administration	Yes	No	Yes: AS 14.07.145; 44.27.010-020
Administrative Services	No	No	Yes: AS 14; 23; 37; 39; 28.05.104
Information Services	No	No	Yes: AS 14.07.010-030
School Finance and Facilities	No	No	Yes: AS 14.03.140-150; 14.07; 14.08; 14.11; 14.17; 14.50; 37.15.011; 43.50.140
Child Nutrition Services	No	Yes	Yes: AS 14.50.010-080
Student and School Achievement	Yes	Yes	Yes: AS 14.30; 14.35.010-030; 14.50.080
State System of Support	No	No	Yes: AS 14.03.015; 14.03.123; 14.07.020
Teacher Certification	Yes	No	Yes: AS 12.62.160; 14.20.010-040

## DEED Program Priority Table

Program	Constitutional Requirement	Federal Requirement	Statutory Req.
Early Learning Coordination	No	Yes	Yes: AS 14.50.010-080; 14.38.010; 14.07.020
Pre-Kindergarten Grants	No	No	Yes: AS 14.07.020(8)
<b>Alaska State Council on the Arts</b>	<b>No</b>	<b>Yes</b>	<b>Yes: AS 44.27.040-060; 35.27.010-030; 45.65.010-070</b>
<b>Commissions and Boards</b>			
Professional Teaching Practices Commission	No	No	Yes: AS 14.20.030; 14.20.370-510; 44.62
<b>Mt. Edgecumbe Boarding School</b>			
Mt. Edgecumbe Boarding School	Yes	Yes	Yes: AS 14.16.010-080; 14.17.440
Mt. Edgecumbe Boarding School Facilities Maintenance	No	No	Yes: AS 14.07.020; 44.27.020; 37.07.020
Boarding Home Grants	Yes	Yes	Yes: AS 14.16.200; 14.07.030(a)
<b>State Facilities Maintenance</b>			
EED State Facilities Rent	No	No	Yes: AS 37.05.570
<b>Alaska State Libraries, Archives and Museums</b>			
Library Operations	No	No	Yes:
Archives	No	No	Yes: AS 40.21

## DEED Program Priority Table

<i>Program</i>	<i>Constitutional Requirement</i>	<i>Federal Requirement</i>	<i>Statutory Req.</i>
Museum Operations	No	No	Yes: AS 14.57
Online With Libraries	No	No	No
Live Homework Help	No	No	No
Andrew P. Kashevaroff Facilities Maintenance	No	No	Yes: AS 37.05.570
<b>Alaska Postsecondary Education Commission</b>			
Program Administration and Operations	No	Institutional Authorization	Yes: AS 14.42; 14.43; 14.44; 14.48
WWAMI Medical Education	No	No	Yes: AS 14.43.033
<b>Alaska Performance Scholarship Awards</b>	No	No	<b>Yes: AS 14.43.810</b>
<b>Alaska Student Loan Corporation</b>	No	No	<b>Yes: AS 14.42; 14.43</b>



# Department of Education and Early Development

FY21 - Summary of Significant Budget Issues  
(\$ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
1	K-12 Aid to School Districts / Foundation Program	Transition Public School Trust Fund to Language Section to Maximize Investment Returns	(\$21,537.4) Pub School (Other)	(\$21,537.4) Pub School (Other)	This action moves the Public School Trust Fund (PSTF) from a direct numbers section appropriation to pay foundation payments and operational costs at Mt. Edgecumbe High School (MEHS) and replaces it with a language section transfer to the Public Education Fund (PEF). This language item is a one-time item and not part of the Department's base budget. Similar language will be necessary next year in order to maintain this funding in the budget going forward.  <b>Fiscal Analyst Comment:</b> The PSTF was previously used to offset the amount of UGF needed in the PEF. This change has a net zero effect on the amount of PSTF or UGF in the budget, but it did remove unnecessary administrative challenges for multiple departments, and has the potential to increase revenue from the fund and further lower UGF expenditures. While the MEHS funding source change will have the most impact on the Department of Revenue's (DOR) ability to manage the PSTF, movement to the language section will have some impact as well by limiting the number of draws from the fund. DOR has indicated that limiting the PSTF to a single yearly draw provides predictability and is considered best practice under the funds new Percent of Market Value model. For additional information on the MEHS fund source change see item 12.
2	K-12 Aid to School Districts / Foundation Program	Sec 38(h), HB205 Foundation Program Expenditures from Public Education Fund	<b>Total:</b> \$1,213,278.4 \$1,183,504.2 Gen Fund (UGF) \$29,774.2 Pub School (Other)	<b>Total:</b> \$1,213,278.4 \$1,183,504.2 Gen Fund (UGF) \$29,774.2 Pub School (Other)	Under AS 14.17.300(b) funds may be expended from the Public Education Fund without further appropriation. In order to reflect the anticipated need in the Foundation Program, a miscellaneous adjustment is used to track appropriations. The FY21 Foundation Program estimate includes a base student allocation of \$5,930.  <b>Fiscal Analyst Comment:</b> The estimated necessary amount increased by \$19 million, or 1.6%, from FY20 levels. While the overall student count increased by 885 this year, the foundation formula includes a number of other factors such as the number of students identified with special education intensive needs (this number increased by 156 students, or 5%, from FY20).

## Department of Education and Early Development

### FY21 - Summary of Significant Budget Issues

(\$ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
3	K-12 Aid to School Districts / Pupil Transportation	Sec 38(i), HB205 Pupil Transportation Expenditures from Public Education Fund	\$76,997.7 Gen Fund (UGF)	\$76,997.7 Gen Fund (UGF)	Under AS 14.17.300(b), funds may be expended from the Public Education Fund without further appropriation. In order to reflect the anticipated need in Pupil Transportation, a miscellaneous adjustment is used to track estimated appropriations. The anticipated need is based on projected average daily memberships, excluding Mt. Edgecumbe High School.  <b>Fiscal Analyst Comment:</b> Pupil Transportation cost estimates decreased by \$216.9, or 0.3%, from FY20 levels. While overall student counts increased in FY21, the number of students attending 'brick and mortar' schools decreased to 114,332. This was a decrease of 279 students or 0.2% since FY20. Correspondence students are not counted when calculating student numbers for Pupil Transportation grants.
4	K-12 Aid to School Districts / Additional Foundation Funding	Veto of Additional Foundation Funding	n/a	n/a	The legislature included \$30 million in grant funding (outside the foundation formula) for school districts in HB 205 (Ch. 8, SLA 2020). The Governor vetoed this funding.  <b>Fiscal Analyst Comment:</b> In FY20, the legislature included \$30 million in additional foundation funding in the form of grants calculated using the formula. Without this additional grant funding included in FY21, districts will see the equivalent of a \$116 reduction to the Base Student Allocation amount.
5	K-12 Support / Residential Schools Program	Add Residential Programs for North Slope Borough School District and Lower Yukon School District	\$900.2 Gen Fund (UGF)	\$900.2 Gen Fund (UGF)	This additional authority is for two new residential programs: one in the North Slope Borough School District with 20 beds, and another in the Lower Yukon School District with 50 beds. Alaska Statute 14.16.100 allows districts to apply to the Department for authorization to establish and operate residential schools. When approved they are eligible for reimbursement of a per-pupil monthly stipend and one round-trip ticket per student, by the least expensive means. While programs can be approved by the Department, the funding of reimbursements is subject to appropriation by the legislature.  <b>Fiscal Analyst Comment:</b> The North Slope Borough School District first submitted its application in May of 2016, but associated funding was subject to appropriation. Lower Yukon submitted its application in May of 2019.

## Department of Education and Early Development

FY21 - Summary of Significant Budget Issues

(\$ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
6	Education Support and Administrative Services / Executive Administration	Add Authority for State Board of Education In-Person Meetings and Related Support	\$137.0 Gen Fund (UGF) <b>1 PFT Position</b>	n/a	The Governor proposed adding authority for the State Board of Education to move from quarterly meetings to a formal monthly meeting schedule and requested one additional administrative support position to arrange public notices, minutes, travel, and other support functions. The legislature did not include this increment in the budget.
7	Education Support and Administrative Services / Child Nutrition	<b>FY20</b> RPL 05-2020-75 U.S. Department of Agriculture FFCRA and CARES Act	\$41,869.6 COVID Fed (Fed)	\$41,869.6 COVID Fed (Fed)	<b>RPL 05-2020-75</b> added CARES Act federal funding for COVID-19 related federal child nutrition program expansion.
8	Education Support and Administrative Services / Student and School Achievement	Comprehensive Literacy State Development Federal Grant (FY21-FY25)	\$3,945.9 Fed Repts (Fed) <b>1 PFT Position</b> <b>IncT</b>	\$3,945.9 Fed Repts (Fed) <b>1 PFT Position</b> <b>IncT</b>	Add authority to accommodate a new U.S. Department of Education grant for the Alaska Comprehensive Literacy State Development Program and a permanent full-time Education Specialist to oversee and manage the program. The grant period is from October 1, 2019 through September 20, 2024.
9	Education Support and Administrative Services / Student and School Achievement	Reduce Excess Federal Authority to Better Reflect Multi-Year Federal Grants Cycle	(\$14,700.0) Fed Repts (Fed)	(\$14,700.0) Fed Repts (Fed)	<b>Fiscal Analyst Comment:</b> The Legislative Budget and Audit Committee approved <b>RPL 05-2020-0045</b> in October of 2019 for \$6,500.0 in Federal Receipt authority for the same purpose in FY20. Transition U.S. Department of Education multi-year federal grant authority to a language appropriation to better reflect an accurate projection of federal expenditures while also following proper accounting practices.
10	Education Support and Administrative Services / Student and School Achievement	<b>FY20</b> RPL 05-2020-74 U.S. Department of Education CARES Act	\$44,911.4 COVID Fed (Fed)	\$44,911.4 COVID Fed (Fed)	<b>RPL 05-2020-74</b> added federal authority to receive CARES Act funding from the Elementary and Secondary School Emergency Relief Fund and the Governor's Emergency Education Relief Fund. The majority of this funding is to be distributed to school districts to respond to COVID-19.
11	Education Support and Administrative Services / Pre-Kindergarten Grants	Pre-Kindergarten Transition Grants	n/a	n/a	The legislature appropriated \$4,300.0 in Pre-Kindergarten grants in order to maintain current funding levels for a multi-year program that ended in FY20 (Pre-Kindergarten Grant Program Sec21b Ch19 SLA2018 P30 L30 (SB142) (FY19-FY20)). The Governor vetoed this funding.

## Department of Education and Early Development

### FY21 - Summary of Significant Budget Issues

(\$ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
12	Mt. Edgecumbe Boarding School / Mt. Edgecumbe Boarding School	Replace Funding Source to Maximize Investment Earnings	Net Zero \$4,639.1 Gen Fund (UGF) (\$4,639.1) Pub School (Other)	Net Zero \$4,639.1 Gen Fund (UGF) (\$4,639.1) Pub School (Other)	Replace Public School Trust Fund (PSTF) authority with UGF to maximize the earning potential of the PSTF.  <b>Fiscal Analyst Comment:</b> The use of the PSTF for the purpose of funding Mt. Edgecumbe Boarding School began in FY18 when it was used to replace UGF. The FY18 budget included intent language that it only be a one-time change. Any PSTF not currently used in Mt. Edgecumbe is used to offset the amount of UGF needed in the Public Education Fund. This fund change will have a net zero effect on the amount of PSTF or UGF in the overall state budget. However, it will remove unnecessary administrative challenges for multiple departments, and have the potential to increase revenue from the fund, further lowering UGF expenditures. For additional information on the movement of the PSTF into the language section see <b>item 1</b> .
13	Mt. Edgecumbe Boarding School / Mt. Edgecumbe Boarding School Facilities Maintenance	Add Authority to Maintain Mt. Edgecumbe High School Aquatic Center Operations and Maintenance	\$650.0 GF/Prgm (DGF)	<b>Total: \$650.0</b> \$400.0 Gen Fund (UGF) \$250.0 GF/Prgm (DGF)	The legislature agreed to include the Governor's proposed funding level but replaced \$400.0 of program receipt authority with UGF rather than relying entirely on program receipts to operate the facility.
14	Alaska State Libraries, Archives and Museums / Library Operations	Ch. 5, SLA 2020 (SB 74) INTERNET FOR SCHOOLS	n/a	<b>Total: \$6,552.0</b> \$8,039.5 Gen Fund (UGF) (\$1,487.5) High Ed (DGF)	The School Broadband Access Grant (School BAG) program was implemented to help schools reach a base level of internet access. SB74 increased the minimum level of broadband paid for by the State because the minimum level of bandwidth necessary to deliver online educational services has increased over time. The fiscal note for SB74 includes the current cost of getting the program's 72 participating schools up to 10 megabytes per second (mbps), and adds the cost of getting 173 schools up to 25 mbps. This fiscal note reflects the entire cost of the School BAG program and also changes the funding source for School BAG from the Higher Education Investment Fund (HEIF) to Unrestricted General Funds.  <b>Fiscal Analyst Comment:</b> The HEIF is a designated funding source that by statute is to be used for the Alaska Performance Scholarship and the Alaska

## Department of Education and Early Development

FY21 - Summary of Significant Budget Issues

(\$ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
14	Alaska State Libraries, Archives and Museums / Library Operations	Ch. 5, SLA 2020 (SB 74) INTERNET FOR SCHOOLS	n/a	<b>Total: \$6,552.0</b> \$8,039.5 Gen Fund (UGF) (\$1,487.5) High Ed (DGF)	(continued) Education Grant. School BAG is considered a non-designated use of the HEIF and thus was replaced with UGF.
15	Alaska State Libraries, Archives and Museums / Online with Libraries (OWL)	Eliminate Online with Libraries Video Conference System	(\$232.9) Gen Fund (UGF)	<b>Total: (\$200.0)</b> (\$168.1) CBR Fund (UGF) (\$31.9) Gen Fund (UGF)	The Governor proposed eliminating the Online with Libraries (OWL) video conference system due to the high cost of replacing the system hardware and minimal usage of the system. The OWL program has two components: (1) grants to assist libraries with paying for internet services; and (2) a video conferencing system installed in public libraries throughout the state. The legislature did not accept this decrement in HB 205 (Ch. 8, SLA 2020) and included intent language that directed the Department to consider the use of alternative equipment or technologies that accommodate equitable access to the video conference system. The Governor vetoed \$200.0 UGF from the program leaving \$32.9 UGF of authority to purchase licensing to ensure libraries can maintain access to video conference technology that does not rely on costly hardware or equipment.
16	Various	Replace UGF with CBR Direct 1001	n/a	<b>Net Zero</b> \$13,597.0 CBR Fund (UGF) (\$259.3) GF/Match (UGF) (\$13,337.7) Gen Fund (UGF)	The legislature funded 25% of numbers section UGF items directly from the Constitutional Budget Reserve (CBR) using fund code 1001. For the Department of Education and Early Development, that resulted in \$15.9 million being switched from codes 1003 (GF Match) and 1004 (UGF) to code 1001. Subsequently, the Governor vetoed \$2.4 million in CBR funding. The total CBR amount for the Department in the Enacted FY21 budget was \$13.6 million. Because all three sources are counted as UGF, this change will have no impact on the agency's operations.

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# Department of Education and Early Development

## Summary of Budget Changes (\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
1	K-12 Aid to School Districts / Foundation Program	FY2022 Foundation Program Expenditures from Public Education Fund	<p><b>Total:</b> \$1,193,475.2</p> <p>\$1,162,308.5 Gen Fund (UGF) \$31,166.7 Pub School (Other)</p>	<p>Under AS 14.17.300(b) funds may be expended from the Public Education Fund without further appropriation. In order to reflect the anticipated need in the Foundation Program, a miscellaneous adjustment is used to track appropriations. The FY22 Foundation Program estimate includes a base student allocation of \$5,930.</p> <p><b>Fiscal Analyst Comment:</b> The FY21 and FY22 amounts in the Governor's budget are based on draft student counts and are estimates which will change when the student counts are finalized. The public school funding program is fully funded in both FY21 and FY22. The student count period is a twenty school day period ending the fourth Friday in October. The FY21 student counts are scheduled to be finalized by mid-January, 2021. By statute, payments to school districts for the first nine months of a fiscal year are based on the prior fiscal year foundation formula; the final three months of payments are re-calculated and payments are based on the final student counts for the current fiscal year. The budgeted numbers in the FY21 management plan represent pre-pandemic projections and have not been updated to reflect the actual student count.</p> <p>For FY21, the pandemic has significantly changed traditional education delivery and the number of students attending classes in person and through correspondence schools. A "hold harmless" provision for districts with a five percent or greater reduction in average daily membership (ADM) counts, adjusted for school size, phase in the impacts of reduced student counts over three years. This provision applies to the count of non-correspondence students. In some districts, a large number of students switched from traditional school enrollment to correspondence school. This can result in districts seeing higher total funding because they trigger the hold harmless provision but also receive additional correspondence funding. As a result, in FY21 some districts will see increased funding over the original projection and others will see decreases. Actual funding to districts appears to be up overall by about \$25 million despite an overall reduced student count. Additional federal stimulus funding will be available to school districts but the full budget impacts are uncertain at the time of this publication.</p> <p>The FY22 projection is based on projections by school districts and reflect uncertainty about the status of in-school learning in FY22. The projection indicates decreased funding from FY21, but the actual funding will not be determined until the October 2021 student count.</p>

## Department of Education and Early Development

### Summary of Budget Changes (\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
2	K-12 Aid to School Districts / Pupil Transportation	FY2022 Pupil Transportation Expenditures from Public Education Fund	\$71,435.9 Gen Fund (UGF)	Under AS 14.17.300(b) funds may be expended from the Public Education Fund without further appropriation. In order to reflect the anticipated need in Pupil Transportation, a miscellaneous adjustment is used to track estimated appropriations. The anticipated need is based on projected average daily memberships, excluding Mt. Edgecumbe High School.  <b>Fiscal Analyst Comment:</b> Similar to the Foundation Program formula funding, student count changes related to the pandemic will likely reduce state funding for many school districts for pupil transportation.
3	K-12 Aid to School Districts / Additional Foundation Funding	Additional Foundation Funding	n/a	<b>Fiscal Analyst Comment:</b> Additional K-12 UGF funding outside of the formula has been appropriated in the years and amounts below:  FY12 - \$20 million FY13 - \$25 million FY14 - \$46 million FY15 - \$43 million FY19 - \$20 million FY20 - \$30 million FY21 - \$0 FY22 proposed - \$0  In FY21, \$30 million was appropriated by the legislature but vetoed to \$0 with the following explanation: "Additional State funding is not available to provide funding above the statutory foundation formula. The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act provides one-time additional assistance to school districts."  Districts did receive about \$38.4 million from the federal CARES Act, but this funding was restricted to coronavirus-related expenditures.
4	Education Support and Administrative Services / Executive Administration	Increase Interagency Receipt Authority to Align Budget with Anticipated Expenditures	\$210.0 I/A Repts (Other)	Increase interagency receipt authority to reflect a cost allocation plan implemented for the Commissioner's Office.  <b>Fiscal Analyst Comment:</b> Per the department, a cost allocation plan for the Commissioner's Office was implemented in FY21. Prior to this, specific expenditures were allocated to, and paid directly by, various divisions. While the expenditures were allowable expenses in the other divisions, this

## Department of Education and Early Development

### Summary of Budget Changes (\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
4	Education Support and Administrative Services / Executive Administration	Increase Interagency Receipt Authority to Align Budget with Anticipated Expenditures	\$210.0 I/A Repts (Other)	(continued) did not reflect the actual expenditures and revenues for the Commissioner's Office. The increment of interagency receipt authority reflects the amount of funds that will be collected from the various divisions across the department based on the implemented cost allocation plan.
5	Education Support and Administrative Services / Administrative Services	Increase Interagency Receipt Authority to Align the Budget with Anticipated Expenditures	\$176.0 I/A Repts (Other)	Increase interagency receipt authority to reflect a cost allocation plan implemented for Administrative Services.  <b>Fiscal Analyst Comment:</b> Per the department, a cost allocation plan for Administrative Services was implemented in FY21. Prior to this, specific expenditures were allocated to, and paid directly by, various divisions. While the expenditures were allowable expenses in the other divisions, this did not reflect the actual expenditures and revenues for Administrative Services. The increment of interagency receipt authority reflects the amount of funds that will be collected from the various divisions across the department based on the implemented cost allocation plan.
6	Education Support and Administrative Services / School Finance & Facilities	Replace Interagency Receipts for Facilities Staff with UGF	<b>Net Zero</b> \$933.0 Gen Fund (UGF) (\$933.0) I/A Repts (Other)	The School Finance and Facilities component has \$933.0 in inter-agency receipt authorization. This amount is 100% tied to the School Debt Reimbursement Program, of which \$793.0 or 85% comes from UGF and \$140.0 or 15% comes from the School Fund (DGF). When the School Debt Reimbursement program was vetoed for FY2021, all the interagency receipts became uncollectable, leaving an unintended shortfall within the School Finance and Facilities component.  This increment is a net zero, as it allows for an offsetting reduction to the School Debt Reimbursement appropriation.
7	Education Support and Administrative Services / School Finance & Facilities	FY2021 Supplement Request to address School Finance and Facilities shortfall <b>Supplemental</b>	\$928.0 School Fnd (DGF)	<b>Items 6 and 7 are related.</b> When the School Debt Reimbursement program was vetoed for FY2021, all the interagency receipts became uncollectable, leaving an unintended shortfall within the School Finance and Facilities component.  <b>Items 6 and 7 are related.</b>

## Department of Education and Early Development

Summary of Budget Changes  
(\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
8	Education Support and Administrative Services / State System of Support	Delete Education Associate II Position (05-1809) and Authority No Longer Needed	(\$109.2) Gen Fund (UGF) (1) PFT Position	<p>Delete a full-time Education Associate II position (05-1809), range 15, located in Juneau, and consolidate duties with an existing position (05-1819) with the same range and qualifications. The two positions contain duplicate duties, and both include a significant portion of their time allocated to travel management. With the significant reduction in travel and department-wide shift to virtual meetings and conferences, neither position is fully utilized.</p> <p>Additionally, the reduction in travel has reduced some of the demand on a third Education Associate II position (05-1759). The duties of two positions can be consolidated into one, and any overflow can be directed to the third position which currently has some additional time available to fully realize efficiencies in the division.</p> <p><b>Fiscal Analyst Comment:</b> The total number of positions authorized in the State System of Support allocation increased from 4 to 7 from FY19 to FY20; in FY21 the count was 6 and in the Governor's FY22 proposed budget it is 5. However, the number of positions in the Education Support and Administrative Services allocation has remained fairly stable with 97 in FY19, 98 in FY20 and FY21, and 96 in the Governor's FY22 proposed budget.</p>
9	Mt. Edgecumbe Boarding School / Mt. Edgecumbe Boarding School	Proceeds of Sale of State-owned Land in Sitka	Net Zero	<p><b>Fiscal Analyst Comment:</b> According to the department, multiple land sale inquiries are received annually. A memorandum from the Department of Law dated November 25, 2020 noted DEED's authority to transfer real property is limited by state statute AS 14.07.030(a)(6) to only allow the transfer of real property to federal or state agencies or political subdivisions. This issue was related to a land sale where Southeast Alaska Regional Health Consortium (SEARHC) seeks to buy three parcels on Japonski Island owned by the Department of Education and Early Development (DEED). However, the statutory restriction is not specific to a single land sale.</p>
10	Mt. Edgecumbe Boarding School / Mt. Edgecumbe Boarding School	Increase Federal Authority to Reflect Federal Awards in Budget	\$1,200.0 Fed Rcpts (Fed)	<p>Currently, Mt. Edgecumbe High School federal awards, foundation formula, and impact aid are reflected as interagency receipts. In an effort to clarify the budget, federal receipt authority is increased to distinguish between the foundation formula and impact aid received from other divisions within DEED and the federal awards (Elementary and Secondary Education Act amended by Every Student Succeeds Act and Child Nutrition) received annually. There are no new federal awards. The interagency receipt authority will be maintained in the budget to cover unbudgeted authority added annually for facilities maintenance costs.</p>

## Department of Education and Early Development

### Summary of Budget Changes (\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
11	Alaska State Libraries, Archives and Museums / Library Operations	Transfer School Broadband Assistance Budget to New Broadband Assistance Grants Allocation from Library Operations	n/a	<p>By assigning School Broadband Assistance Grants (BAG) to its own allocation stakeholders will have a transparent and effective way to monitor the budget of this critical educational infrastructure program, which is especially important in a time of virtual learning caused by the COVID-19 pandemic.</p> <p>From FY2015 through FY2020, the School BAG program provided annual financial assistance to Alaskan schools that could not afford to get 10 megabits per second (mbps) of download service each year. School BAG was appropriated \$5.0 million UGF in FY2015, then experienced annual decreases in funding to just under \$1.5 million UGF in FY2020.</p> <p>In FY21, the School BAG program provides state funds that combine with E-Rate and local school funds to help schools reach 25 mbps, per SB74 (Chapter 5 SLA 2020). The FY21 allocation was to increase 72 schools to 10 mbps and 173 schools from 10 to 25 mbps. The FY22 allocation is \$7,797.9.</p>
12	Alaska State Libraries, Archives and Museums / Library Operations	Delete Vacant Librarian I Position and Authority No Longer Needed	(\$91.9) Gen Fund (UGF) (1) PFT Position	<p>Delete vacant Librarian I (05-3049), range 16, located in Juneau, no longer needed due to duties being performed by other positions.</p> <p><b>Fiscal Analyst Comment:</b> The total number of positions in the Library Operations allocation is proposed to be reduced from 26 to 25, all located in Juneau. The number of librarians and librarian assistants would be reduced from 17 to 16.</p>
13	Alaska State Libraries, Archives and Museums / Museum Operations	Delete Vacant Positions and Authority No Longer Needed	(\$86.9) Gen Fund (UGF) (2) PPT Positions	<p>Delete the following vacant positions that are no longer needed due to duties being performed by other positions:</p> <p>Part-time Museum Protection and Visitor Services Assistant (05-4109), range 11, located in Juneau Part-time Museum Protection and Visitor Services Assistant 05-4111), range 11, located in Sitka</p> <p><b>Fiscal Analyst Comment:</b> The total number of positions in the Museum Operations allocation is proposed to be reduced from 16 to 14 (11 in Juneau and 3 in Sitka). The number of museum protection and visitor services assistants would be reduced to two full-time positions in Juneau and one full-time and one part-time position in Sitka.</p>

## Department of Education and Early Development

Summary of Budget Changes  
(\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
14	Alaska Commission on Postsecondary Education / Program Administration & Operations	Administration of State Programs by the Commission	\$431.5 High Ed (DGF)	The Alaska Commission on Postsecondary Education is required by statute to administer the Alaska Performance Scholarship, the Alaska Education Grant, WWAMI, and the State's institutional authorization programs but receives no appropriation to cover the costs of these requirements. The Alaska Student Loan Corporation (ASLC) has been absorbing these costs as de minimis to its overall costs. However, reductions in the size of the loan portfolio result in these costs no longer being de minimis. Statute (AS 14.42) provides that Corporation funds are to be used to finance and operate the loan programs.  <b>Items 14 and 17 are related.</b>
15	Alaska Commission on Postsecondary Education / Program Administration & Operations	Delete Full-Time Vacant Positions and Reflect Other Cost Saving Measures	(\$1,057.1) I/A Repts (Other) <b>(7) PFT Positions</b>	The Alaska Commission on Postsecondary Education has implemented outsourcing and technical efficiencies for the servicing of state loan programs resulting in a decrease of positions. Savings from outsourcing is primarily from position reductions and secondarily from information technology cost reductions no longer needed to maintain a complex loan servicing system. The following full-time vacant positions and associated authority are no longer needed:  Accountant (05-0206), range 18, located in Juneau Business Lead/Analyst III (05-0402), range 18, located in Juneau Loan Services Supervisor (05-0409), range 18, located in Juneau Customer Service Spec III (05-0429), range 13, located in Juneau Business Lead/Analyst III (05-0431), range 18, located in Juneau Program Coordinator (05-0436), range 18, located in Anchorage Programmer/Analyst (05-0301), range 22, located in Anchorage  <b>Items 15 and 16 are related.</b>
16	Alaska Student Loan Corporation / Loan Servicing	Delete Authority No Longer Needed	(\$1,057.1) ASLC Repts (Other)	This reduction is tied to the deletion of interagency receipts in the Program Administration and Operations allocation for the seven full-time positions and other related cost savings measures.  <b>Fiscal Analyst Comment:</b> The Alaska Student Loan Corporation (ASLC) operates as an enterprise agency of the State of Alaska - funding and facilitating the work of the Alaska Commission on Postsecondary Education (ACPE).  <b>Items 15 and 16 are related.</b>

**Department of Education and Early Development**  
**Summary of Budget Changes**  
(\$ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
17	Alaska Student Loan Corporation / Loan Servicing	Administration of State Programs by the Commission	(\$431.5) ASLC Rcpts (Other)	<p>This reduction is tied to the general fund increase in the Program Administration and Operations allocation for the administration of State programs: the Alaska Performance Scholarship, the Alaska Education Grant, WWAMI, and the State's institutional authorization programs.</p> <p><b>Fiscal Analyst Comment:</b> The Alaska Student Loan Corporation (ASLC) operates as an enterprise agency of the State of Alaska - funding and facilitating the work of the Alaska Commission on Postsecondary Education (ACPE).</p> <p><b>Items 14 and 17 are related.</b></p>
18	Various	Travel Budget Reductions Due to Increased Use of Virtual Meetings	(\$46.5) Gen Fund (UGF)	<p>In Executive Administration the State Board of Education will reduce in-person meetings from four to one time per year. Student and School Achievement and State System of Support are also reducing travel costs by increasing the use of virtual meetings and conferences.</p> <p>Executive Administration: (\$21.5)  Student and School Achievement: (\$10.0)  State System of Support: (\$15.0)</p>





# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE


### Division of Legislative Finance

P.O. Box 113200  
Juneau, AK 99811-3200  
(907) 465-3795  
FAX (907) 465-1327

### MEMORANDUM

**DATE:** February 1, 2021

**TO:** Senator Bert Stedman, Senate Finance Co-Chair  
Senator Click Bishop, Senate Finance Co-Chair  
Helen Phillips, House Finance Assistant

**FROM:** Alexei Painter   
Director of Legislative Finance Division

**SUBJECT:** Agency Responses to FY21 Legislative Intent Language

This memorandum restates FY21 legislative intent (*italics*) for each agency and provides agency responses (indented) to our request for status reports. Responses indicating non-compliance, partial compliance, and indeterminate compliance have been identified using bold font and yellow highlighting.

## DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

### Alaska State Libraries, Archives and Museums/ Online with Libraries (OWL)

Operating/Capital Budget (CCS HB 205)

*It is the intent of the legislature that the Department of Education and Early Development evaluate cost-efficiency measures that preserve access to the Alaska Online with Libraries (OWL) Program; considering the use of alternative equipment or technologies that accommodate equitable access to the video conference system, while saving unrestricted general funds.*

*It is also the intent of the legislature that the Department of Education and Early Development consult with all users of the Alaska Online with Libraries (OWL) Program to evaluate implications of eliminating the video conference services. The Department of Education and Early Development shall ensure that if the Alaska Online with Libraries (OWL) Program is eliminated, then alternative equipment or technology is provided. The Department of Education and Early Development shall prepare a report summarizing the results from those consultations and the proposed cost-efficiency measures and submit the report to the Finance co-chairs, and the Legislative Finance Division on or before January 1, 2021, and notify the legislature that the report is available.*

<b>Legislative Fiscal Analyst Comment:</b> The Department provided the required report.
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## Department of Education and Early Development

### Mission

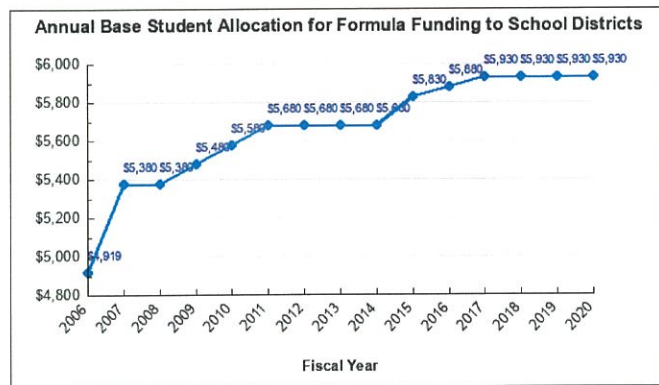
To ensure quality standards-based instruction to improve academic achievement for all students. Alaska Constitution Article 7, Sec. 1; Alaska Statute (AS) 14.17

Core Services (in priority order)	UGF	DGF	Other	Fed	Total	PFT	PPT	NP	% GF
1 Public School Funding	1,273,493.2	0.0	30,262.4	20,791.0	1,324,546.6	0.0	0.0	0.0	94.8%
2 Fiscal Accountability, Compliance and Oversight	10,466.8	939.3	2,310.8	222,140.9	235,857.8	90.0	0.0	1.0	0.8%
3 School Effectiveness Programs	12,801.4	17,665.7	0.0	123.8	30,590.9	8.0	0.0	0.0	2.3%
4 Active Partnerships	22,884.5	5,231.2	34,114.0	2,668.0	64,897.7	162.0	14.0	2.0	2.1%
<b>FY2021 Management Plan</b>	<b>1,319,645.9</b>	<b>23,836.2</b>	<b>66,687.2</b>	<b>245,723.7</b>	<b>1,655,893.0</b>	<b>260.0</b>	<b>14.0</b>	<b>3.0</b>	

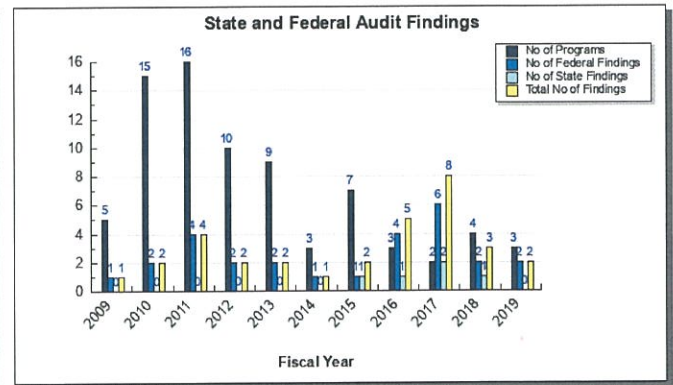
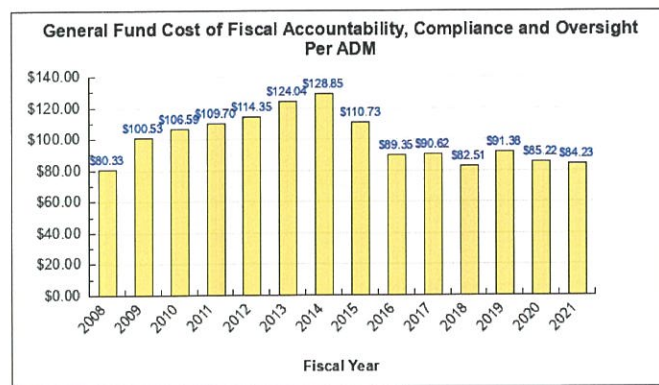
### Measures by Core Service

(Additional performance information is available on the web at <https://omb.alaska.gov/results>.)

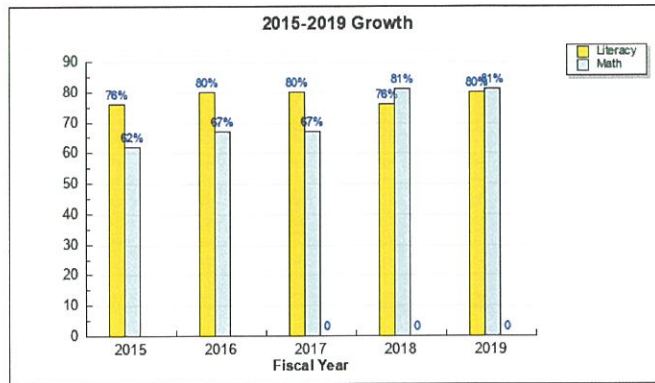
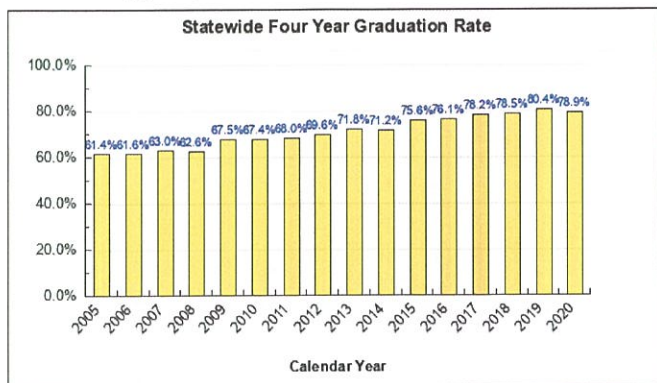
#### 1. Distribute public school funding to school districts and other educational institutions.



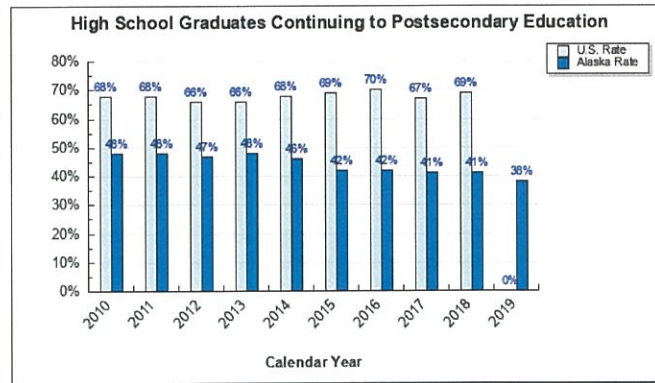
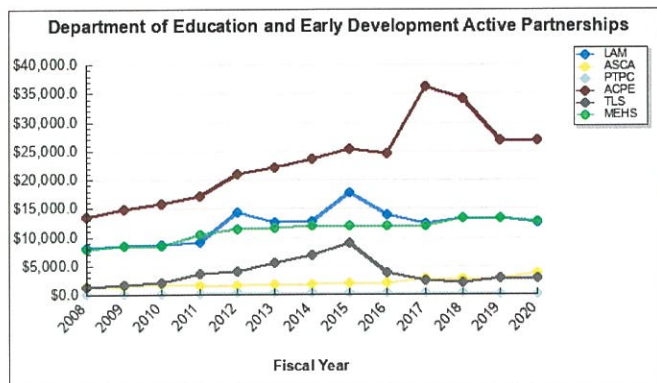
#### 2. Provide fiscal accountability, compliance and oversight.



### 3. Develop, implement and maintain school effectiveness programs.



### 4. Maintain active partnerships for pre-k through 20 and lifelong learning.



## Major Department Accomplishments in 2020

The Department of Education and Early Development (DEED) continued to implement Alaska's Education Challenge by focusing efforts on the identified five priorities:

1. Support all students to read at grade level by the end of 3rd grade;
  2. Increase career, technical, and culturally relevant education to meet student and workforce needs;
  3. Close the achievement gap by ensuring equitable educational rigor and resources;
  4. Prepare, attract, and retain effective education professionals; and
  5. Improve the safety and well-being of students through school partnerships with families, communities, and tribes.
- DEED staff worked to support the Alaska Reads Act; a bi-partisan bill intended to create a statewide

- comprehensive K-3 reading policy designed to improve reading outcomes
- DEED staff continued implementation of the \$6 million, five-year Comprehensive Literacy State Development (CLSD) Grant to advance literacy skills, pre-literacy skills, reading, and writing for children from birth through grade 12.
- DEED expanded the information available in the online data portal for Alaska's families, *The Compass: A Guide to Alaska's Public Schools*, by adding per pupil expenditure data. This information is a new reporting expectation of Every Student Succeeds Act (ESSA) with the intent to inform the public as to the amount of funding spent for instruction per student.
- DEED received approval from the U.S. Department of Education on the four-year state plan to strengthen career and technical education (CTE) in Alaska. The plan covers fiscal years 2020-2023 and implements the requirements of the Carl D. Perkins Career and Technical Education Act of 2006, as amended by the Strengthening Career and Technical Education for the 21st Century Act (Perkins V).
- DEED was awarded a five-year \$9.1 million Project AWARE (Advancing Wellness and Resiliency in Education) federal grant to assist in improving mental health by growing mental health literacy, reducing mental health stigma, strengthening early identification and intervention for student mental health conditions, and providing more services for students who are experiencing severe mental health issues.
- DEED awarded over \$6 million in Broadband Assistance Grants (BAG) to help schools increase their broadband internet capacities to reach a minimum of 25 megabits per second (mbps) per Senate Bill 74 (Chapter 5 SLA 20).

**COVID-19 health pandemic response efforts:**

- To provide information, resources, and leadership during the spring closure of school buildings, DEED launched a dedicated Teaching and Learning Support website ([aklearns.org](http://aklearns.org)). The website provides Alaska's educators and families with relevant resources as they navigate in-person and virtual models of instruction.
- Beginning in March, DEED implemented the Alaska Statewide Virtual System (AKSVS) to provide high-quality online courses for K-12 students. These optional courses were made available at no cost to teachers, schools, and parents to support them during the transition to a virtual delivery model of instruction. AKSVS also provided training and professional development in the area of virtual instruction to teachers across the state. 36 districts are using the AKSVS platform and content to support various teaching and learning delivery models (in-person, blended, hybrid, remote, and/or fully online) for the 2020-2021 school year.
- DEED's Child Nutrition team secured several waivers from the federal government to continue the distribution of meals in non-congregate settings.
- DEED held daily virtual informational meetings with school district superintendents and other educational leaders through the spring and continues to meet on a regular basis with educational leaders and Department of Health and Social Services (DHSS) staff.
- In close collaboration and partnership with DHSS and public health officials, DEED developed the Alaska Smart Start 2020 Framework Guidance for Reopening Schools. DEED subsequently released a complementary Toolkit to the Smart Start Guidance in the form of a Google Drive for districts to pull down resources and incorporate them into their local planning and communications.
- DEED conducted a series of professional development webinars in partnership with DHSS to support districts on the planning and implementation of their Alaska Smart Start 2020 Reopening plans, and hosted a Summer Virtual Summit to continue supporting teachers and district staff in preparing for a new and different way of delivering instruction and services.
- The Alaska Commission on Postsecondary Education (ACPE) deployed a disaster forbearance available to borrowers impacted by the COVID-19 health pandemic. In addition, Governor Dunleavy awarded \$786,000 in CARES Act funds to ACPE to effectively reduce interest rates to 0% for qualifying Alaska Student Loan Corporation borrowers requesting forbearance as economic hardship

- assistance for reasons related to the COVID-19 health pandemic.
- DEED requested, and the Governor subsequently approved, suspending various assessment and data reporting requirements for the previous school year (2019-2020), including school district operating fund balance amounts, performance designations, and certain accountability indicators. For the current school year (2020-2021), the physical activity standard for students and the reporting requirement for the fall developmental assessment of kindergarteners were suspended. Certain coursework, testing, and evaluation requirements for teachers and student teacher licenses and the prescribed length of student teaching were also suspended. These suspensions allowed districts to focus their efforts on restart efforts and continuing instruction for students.
  - DEED purchased a license using CARES Acts funds to provide an Instructure Canvas account for every teacher and student in the state. In partnership with NEA-Alaska, DEED is providing account access as a tool and asset at no cost to districts, teachers, and students. DEED is utilizing the Canvas platform to provide access to the AK Learns Commons, a statewide shared warehouse full of rich K-12 course content for all educators, including courses uploaded and reviewed by Alaska educators.
  - In partnership with the Association of Alaska School Boards (AASB), DEED released and is conducting webinars this winter on the use of a new Trauma-Engaged Toolkit for the pandemic and beyond. The toolkit includes strategies of support during times of stress and isolation.
  - In preparation for the 2020-2021 school year, DEED conducted professional development opportunities through the Summer Virtual Summit Series. This series included sessions from DEED staff on information and resources available, as well as featured national presenters on topics of virtual instruction and change management.
  - DEED has partnered with the Alaska Mental Health Trust Authority to secure funding, and received state approval, to create a long-term non-permanent School Counseling Education Specialist position that will reside on the DEED Health and Safety Team to provide mental health supports to schools as they endure the many stressors generated by the COVID-19 pandemic. This position will prioritize providing rural districts that have limited or no local school mental health capacity with COVID-19 response and recovery support for students, staff, and families.
  - To support professional learning of educators throughout the 2020-2021 school year, DEED launched a collection of after school virtual opportunities known as 'Beyond the Bell.'

## **Key Department Challenges**

### **Ongoing Focus on Alaska's Education Challenge**

DEED has continued working with partner organizations to implement Alaska's Education Challenge by focusing work on the identified five priorities:

1. Support all students to read at grade level by the end of 3rd grade;
2. Increase career, technical, and culturally relevant education to meet student and workforce needs;
3. Close the achievement gap by ensuring equitable educational rigor and resources;
4. Prepare, attract, and retain effective education professionals; and
5. Improve the safety and well-being of students through school partnerships with families, communities, and tribes.

With the changing needs of schools and districts, DEED is seeking ways to support teachers, students, and families in a distance delivery instructional model. Closing the achievement gap is one of the priorities as identified in Alaska's Education Challenge and supporting each part of the public education system to find success in a variety of instructional models is a necessary step toward the success of that priority.

### **Significant Changes in Results to be Delivered in FY2022**

- Successful transition to a telework environment for all DEED staff. DEED staff were able to create a very successful virtual environment, and continue to flourish and learn new ways to operate in that

