ALASKA STATE LEGISLATURE

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Senate Finance Subcommittee

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

FY22 Operating Budget Subcommittee Binder

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Tab 1. Legislative Finance Fiscal Information

Projected Fund Balances -- FY21 and FY22

($ millions)

	FY21				FY22			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Total Budget Reserves and Desginated Funds	16,134.1	4,946.7	6,594.8	14,486.0	14,486.0	5,444.0	6,553.8	13,376.2
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

State of Alaska Detailed Fiscal Summary--FY21 and FY22

($ millions)

		FY21 Management Plan + Governor's Supplementals					FY22 Governor					Change in UGF	
		Unrestricted General Funds	Designated General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Other State Funds	Federal Receipts	All Funds	$	%
1	**REVENUE**	4,443.2	1,069.8	739.6	4,630.4	10,883.0	4,271.9	990.7	948.6	4,074.8	10,286.1	(171.3)	-3.9%
2	Unrestricted General Fund Revenue (Fall 20 Forecast) **(1)**	1,243.1	67.9	-	-	1,311.0	1,202.6	41.4	-	-	1,244.0		
4	POMV Payout from ERA	3,091.5	-	-	-	3,091.5	3,069.3	-	-	-	3,069.3		
5	Carryforward, Repeals, and Reappropriations **(2)**	108.6	69.5	8.5	193.5	380.1	-	-	-	-	-		
6	Restricted Revenue **(3)**	-	932.4	731.1	4,436.9	6,100.4	-	949.3	948.6	4,074.8	5,972.8		
	APPROPRIATIONS												
7	**TOTAL OPERATING APPROPRIATIONS**	4,490.0	946.4	698.0	3,573.9	9,708.4	4,231.3	876.1	802.6	2,916.2	8,826.2	(258.6)	-5.8%
8	**Agency Operations**	4,013.7	815.6	620.7	2,909.9	8,359.9	3,810.5	785.4	606.0	2,871.5	8,073.5	(203.1)	-5.1%
9	**Current Fiscal Year Appropriations**	4,008.9	810.4	620.7	2,909.9	8,349.9	3,810.5	785.4	606.0	2,871.5	8,073.5	(198.4)	-4.9%
10	Agency Operations (Non-Formula) **(9)**	1,946.4	761.8	574.9	988.2	4,271.3	1,810.0	734.3	558.8	999.9	4,103.1	(136.4)	-7.0%
11	K-12 Foundation and Pupil Transportation (Formula)	1,260.5	-	30.3	20.8	1,311.6	1,233.7	-	31.7	20.8	1,286.3	(26.8)	-2.1%
12	Medicaid Services (Formula)	645.1	0.9	15.5	1,750.6	2,412.1	610.0	0.9	15.5	1,750.5	2,376.9	(35.1)	-5.4%
13	Other Formula Programs	157.0	47.7	-	97.8	302.5	156.8	50.2	-	100.2	307.2	(0.2)	-0.1%
14	Revised Programs Legislatively Approved (RPLs)	-	-	-	52.5	52.5	-	-	-	-	-	-	
15	*Duplicated Authorization (non-additive)* **(4)**	-	-	*890.9*	-	*890.9*	-	-	*852.6*	-	*852.6*	-	
16	**Supplemental Appropriations (Agency Operations)**	4.8	5.2	-	-	9.9	-	-	-	-	-	(4.8)	
17	Supplemental Appropriations	4.8	5.2		-	9.9	-	-	-	-	-		
18	**Statewide Items**	476.3	130.8	77.4	664.0	1,348.5	420.8	90.7	196.6	44.7	752.7	(55.5)	-11.7%
19	**Current Fiscal Year Appropriations**	446.3	130.8	98.6	664.0	1,339.8	420.8	90.7	196.6	44.7	752.7	(25.5)	-5.7%
20	Debt Service	100.7	0.0	39.3	5.2	145.3	105.0	29.3	39.5	5.3	179.1	4.3	4.2%
21	Fund Capitalizations	-	40.7	26.4	26.9	94.0	17.1	27.5	110.3	25.7	180.7	17.1	
22	*Community Assistance*	-	-	-	-	-	-	*12.4*	-	-	*12.4*	-	
23	*REAA School Fund*	-	-	-	-	-	*17.1*	-	-	-	*17.1*	*17.1*	
24	*Other Fund Capitalization*	-	*40.7*	*26.4*	*26.9*	*94.0*	-	*15.1*	*110.3*	*25.7*	*151.2*	-	
25	State Payments to Retirement Systems **(9)**	345.6	-	-	-	345.6	342.0	-	-	-	342.0	(3.6)	-1.0%
26	Retirement System (PERS) Proposed Legislation **(5)**						(43.3)	4.6	24.9	13.8	(0.0)		
27	Shared Taxes	-	36.6	32.9	-	69.5	-	29.2	21.8	-	51.0	-	
28	Alaska Comprehensive Insurance Program	-	53.5	-	78.8	132.3	-	-	-	-	-	-	
29	Revised Programs Legislatively Approved (RPLs)				553.1	553.1							
30	*Duplicated Authorization (non-additive)* **(4)**	-	-	*716.7*	-	*716.7*	-	-	*9.4*	-	*9.4*	-	
31	**Supplemental Appropriations (Statewide Items)**	30.0	-	(21.3)	-	8.7	-	-	-	-	-		
32	*Supplemental Appropriations*	30.0	-	(21.3)	-	8.7	-	-	-	-	-		
33	**TOTAL CAPITAL APPROPRIATIONS**	125.3	48.7	41.3	1,056.5	1,271.9	58.5	70.3	145.7	1,158.6	1,433.2	(66.8)	-53.3%
34	**Current Fiscal Year Appropriations**	120.3	25.2	37.7	1,018.7	1,201.9	58.5	70.3	145.7	1,158.6	1,433.2	(61.8)	-51.3%
35	Project Appropriations	120.3	25.2	37.4	983.3	1,166.2	58.5	70.3	145.7	1,158.6	1,433.2	(61.8)	
36	Revised Programs Legislatively Approved (RPLs)	-	-	0.3	35.4	35.7	-	-	-	-	-	-	
37	*Duplicated Authorization (non-additive)* **(4)**	-	-	*17.7*	-	*17.7*	-	-	*30.5*	-	*30.5*	-	
38	**Supplemental Appropriations (Capital)**	5.0	23.5	3.6	37.8	69.9	-	-	-	-	-	(5.0)	
39	Capital Projects	5.0	23.5	3.6	37.8	69.9	-	-	-	-	-	(5.0)	-100.0%
40	*Duplicated Authorization (non-additive)* **(4)**	-	-	*25.5*	-	*25.5*	-	-	-	-	-		
41	*Money on the Street (includes all fund sources)* **(6)**	*125.3*	*48.7*	*84.5*	*1,056.5*	*1,315.1*	*58.5*	*70.3*	*176.3*	*1,158.6*	*1,463.8*		
42	**Pre-Permanent Fund Authorization (unduplicated)**	4,615.3	995.2	739.4	4,630.4	10,980.3	4,289.9	946.4	948.3	4,074.8	10,259.5	(325.4)	-7.1%
43	***Revenue less operating and capital appropriations***	*(172.2)*					*(18.0)*						
44	**Permanent Fund Appropriations**	1,905.5	67.9	-	-	1,973.4	2,023.9	41.4	-	-	2,065.3	118.4	6.2%
45	Permanent Fund Dividends **(9)**	680.0	-	-	-	680.0	2,023.9	-	-	-	2,023.9	1,343.9	197.6%
46	Amerada Hess Earnings to Alaska Capital Income Fund	-	67.9	-	-	67.9	-	41.4	-	-	41.4		
47	Inflation Proofing Deposits to Principal	-	-	-	-	-	-	-	-	-	-		
48	Inflation Proofing Deposits from ERA	-	-	-	-	-	-	-	-	-	-		
49	**Supplemental Appropriations (Permanent Fund)**	1,225.5	-	-	-	1,225.5	-	-	-	-	-	(1,225.5)	
50	Permanent Fund Dividends	1,225.5	-	-	-	1,225.5	-	-	-	-	-		
51	**Pre-Transfers Authorization (unduplicated)**	6,520.8	1,063.1	739.4	4,630.4	12,953.7	6,313.8	987.8	948.3	4,074.8	12,324.8	(207.0)	-3.2%
52	***Pre-Transfer Surplus/(Deficit)* (8)**	*(2,077.7)*	***Revenue =***	***68.1%***	***of Appropriations***		*(2,041.9)*	***Revenue =***	***67.7%***	***of Appropriations***			

January 15, 2020

State of Alaska Detailed Fiscal Summary--FY21 and FY22

($ millions)

		FY21 Management Plan + Governor's Supplementals					FY22 Governor					Change in UGF	
		Unrestricted General Funds	Designated General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Other State Funds	Federal Receipts	All Funds	$	%
53	**Fund Transfers (7)**	(1,184.6)	6.7	0.2	-	(1,176.9)	(2,004.0)	3.0	0.3	-	23.1	(819.4)	
54	**Current Fiscal Year Transfers**	30.4	2.9	0.2	-	33.6	19.9	3.0	0.3	-	23.1	(10.5)	
55	AK Marine Highway System Fund	14.5	-	-	-	14.5	-	-	-	-	-	(14.5)	
56	Alaska Capital Income Fund *(non-additive)*	-	-	-	-	-	5.3	-	-	-	5.3	-	
57	Oil & Hazardous Substance Fund	15.6	1.9	-	-	17.5	14.3	1.9	-	-	16.2	(1.3)	-8.0%
58	Other Fund Transfers	0.4	1.0	0.2	-	1.6	0.3	1.1	0.3	-	1.6	(0.0)	
59	**Supplemental Appropriations (Fund Transfers)**	(1,215.0)	3.8	-	-	(1,210.4)	(2,023.9)	-	-	-	-	(809.0)	
60	Permanent Fund Earnings Reserve Account	(1,225.5)	-	-	-	(1,225.5)	(2,023.9)						
61	Alaska Capital Income Fund (non-additive)	12.8	3.8	-	-	16.5	-	-	-	-	-	(12.8)	
62	Alaska Housing Capital Corporation	(0.8)											
63	Misc. GF Transfers	(1.4)	-	-	-	(1.4)	-	-	-	-	-	1.4	
64	**Post-Transfers Authorization** (unduplicated)	5,336.3	1,069.8	739.6	4,630.4	11,776.8	4,309.8	990.7	948.6	4,074.8	12,348.0	(1,026.5)	-19.2%
65	*Post-Transfer Surplus/(Deficit) to/(from) CBR (8) (9)*	*(893.1)*	*Revenue =*	*83.3%*	*of Appropriations*		*(37.9)*	*Revenue =*	*99.1%*	*of Appropriations*			
66	**FISCAL YEAR SUMMARY**	5,336.3	1,069.8	739.6	4,630.4	11,776.8	4,309.8	990.7	948.6	4,074.8	10,324.0	(1,026.5)	-19.2%
67	**Agency Operations**	4,013.7	815.6	620.7	2,909.9	8,359.9	3,810.5	785.4	606.0	2,871.5	8,073.5	(203.1)	-5.1%
68	Statewide Items	476.3	130.8	77.4	664.0	1,348.5	420.8	90.7	196.6	44.7	752.7	(55.5)	-11.7%
69	Permanent Fund Appropriations	1,905.5	67.9	-	-	1,973.4	2,023.9	41.4	-	-	2,065.3	118.4	6.2%
70	**Total Operating**	6,395.5	1,014.3	698.0	3,573.9	11,681.8	6,255.3	917.5	802.6	2,916.2	10,891.6	(140.2)	-2.2%
71	**Capital**	125.3	48.7	41.3	1,056.5	1,271.9	58.5	70.3	145.7	1,158.6	1,433.2	(66.8)	-53.3%
72	***Transfers***	*(1,184.6)*	*6.7*	*0.2*	-	*(1,176.9)*	*(2,004.0)*	*3.0*	*0.3*	-	*(2,000.8)*	*(819.4)*	

Notes:

January 15, 2020

(1) The Department of Revenue's Fall 2020 oil forecast for FY21 is 0.477 mbd at $45.32 per barrel; the FY22 forecast is 0.440 mbd at $48.00 per barrel.

(2) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY22 will be unknown until the close of FY21. Reappropriations to operating budget funds are counted as UGF revenue.

(3) Restricted revenue equals spending for each category. Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose. Other funds have stricter restrictions on usage, and federal funds originate from the federal government and can be used only for a particular purpose. Several appropriations for federal receipts include "open ended" authorization that allow the agencies to accept any amount of federal funds received in connection to COVID-19 response (Medicaid, Public Health Emergency Programs, Disaster Relief Fund, Unemployment Insurance, and Workforce Services). The amount of actual FY21/FY22 federal receipts for COVID-19 response may be greater than shown.

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

(5) Retirement legislation proposal to change the payroll rate for the Public Employee Retirement System (PERS) for State of Alaska employees from 22% to the annual actuarial rate, estimated to be 30.11% in FY22. The Public Employee Retirement System (PERS) unfunded liability is financed through a combination of contributions from PERS employers of 22 percent of payroll and a state assistance payment for the remaining liability made by the State of Alaska. The proposed change to the PERS statutes will impact the State of Alaska as a PERS employer by lifting the 22 percent cap on the payroll contribution for the State of Alaska only. All other

(6) Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

(7) "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate. For example, the appropriation to transfer court filing fees from the general fund to the civil legal services fund.

(8) Based on language in FY21's capital budget and the FY22 budget, the General Fund deficit for FY21 and FY22 will be drawn from the Constitutional Budget Reserve Fund. The CBR balance is estimated to be $917.9 million at the end of FY22, however general fund borrowing reduces the cash balance by approximately $500 million for cash flow purposes.

Differences in revenue and actual spending of appropriations impact the actual CBR balance. Operating appropriations may not be fully spent, capital appropriations are not fully spent in the fiscal year appropriated, settlements and investment income can be different than projected, disasters can occur, and appropriations based on estimates or based on actual revenue received can be different than estimated. Uncertainty associated with the COVID 19 pandemic, both on State income and expenditures, along with the impact of the federal response, may result in a change in the CBR draw and balance. This fiscal summary includes appropriations and RPLs authorized through December 10, 2021.

It is unlikely that the CBR will have sufficient cash to cover appropriations or general fund cash borrowing beyond FY22.

(9) Direct appropriations from the Constitutional Budget Reserve (CBR) are classified as unrestricted general funds. FY21 CBR appropriations total $1,064.2 and are: $575.1 million agency operating appropriations, $84.6 for State Retirement appropriations, $320 million for permanent fund dividends, $75 million for DHSS COVID-19 response.

The Governor's budget proposes direct FY21 CBR supplemental appropriations to reappropriate $30 million of the $75 million DHSS COVID-19 response appropriation to the Disaster Relief Fund and $9.5 million of capital projects to the Alaska Capital Income Fund. No direct CBR appropriations are proposed in the Governor's FY22 budget.

CBR Direct Appropriations	FY21	
Agency Operations	575.1	
DHSS Public Health Emergency COVID-19 Response	75.0	(Proposed $30M Reappropriation to Disaster Relief Fund)
State Retirement System	84.6	
Permanent Fund Dividends	320.0	
Proposed Capital Reappropriations to AK Capital Inc Fund	9.5	
Total CBR Direct Appropriations	1,064.2	

Short Fiscal Summary - FY21/FY22 Budget

#	($ Millions) (Non-duplicated Funds)	FY21 UGF	FY21 All Funds	FY22 UGF	FY22 All Funds	Change in UGF		Change in All Funds	
1	**Revenue**	**4,443.2**	**10,883.0**	**4,271.9**	**10,286.1**	**(171.3)**	**-4%**	**(596.9)**	**-5%**
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	**Appropriations**	**6,520.8**	**12,953.7**	**6,313.8**	**12,324.8**	**(207.0)**	**-3%**	**(628.9)**	**-5%**
6	**Operating Budget**	**4,490.0**	**9,708.4**	**4,231.3**	**8,826.2**	**(258.6)**	**-6%**	**(882.2)**	**-9%**
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	**Capital Budget**	**125.3**	**1,271.9**	**58.5**	**1,433.2**	**(66.8)**	**-53%**	**161.4**	**13%**
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	**Permanent Fund**	**1,905.5**	**1,973.4**	**2,023.9**	**2,065.3**	**118.4**	**6%**	**91.9**	**5%**
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	**Pre-Transfer Surplus/(Deficit)**	**(2,077.7)**		**(2,041.9)**					
17	Permanent Fund Earnings Reserve Account	(1,225.5)		(2,023.9)					
	Other Fund Transfers	40.9		19.9					
18	**Post-Transfer Surplus/(Deficit)**	**(893.1)**		**(37.9)**					
19	CBR Direct Appropriations	(1,064.2)		-					
20	Draw After Direct CBR Appropriations	171.1		(37.9)					
21	**Total CBR Draw**	**(893.1)**		**(37.9)**					

Reserve Balances (EOY)	FY21	FY22
CBR	930.9	918.6
ERA	12,052.8	10,955.6

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

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.

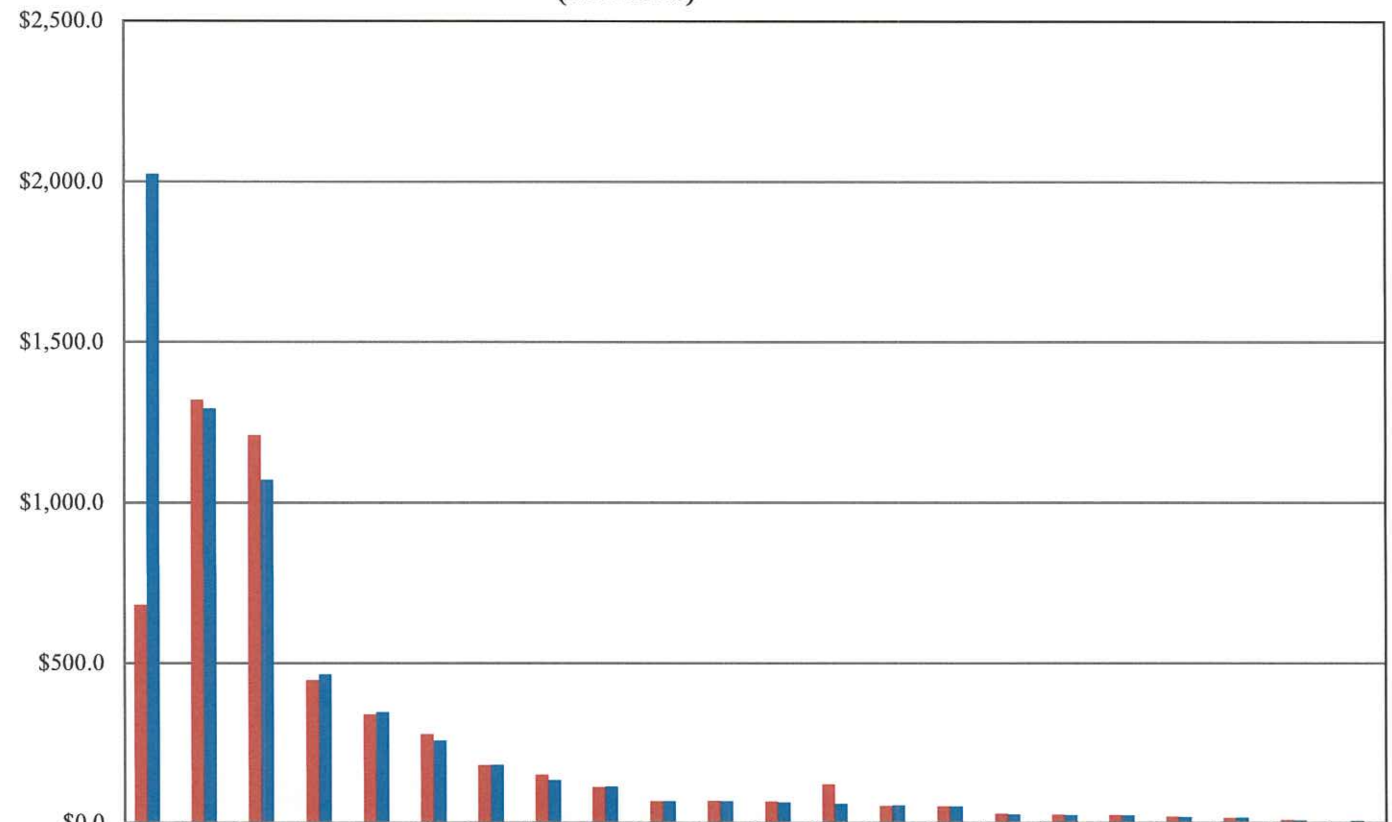
Alaska has a long-term fiscal challenge: the current fiscal year, Fiscal Year 2021 (FY21) is the ninth straight year of deficit spending. Though the State has reduced UGF expenditures by 43% over that time and increased revenue by setting up a structured draw from the Permanent Fund, we still face a 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.

Swoop Graph - UGF Only
FY22 Governor Compared to FY21 Management Plan
(Millions)

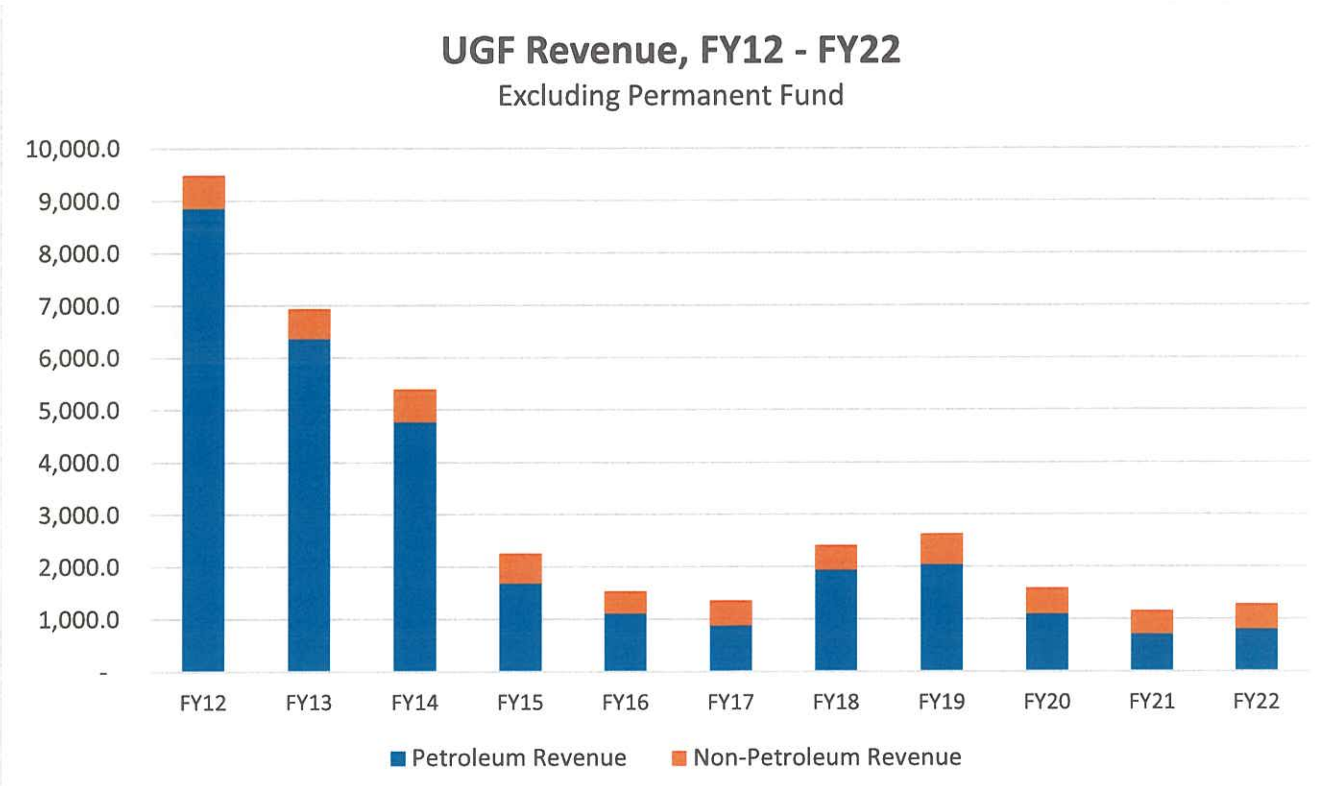


	PFDs	DEED	DHSS	Stwd	DOC	UA	DPS	DOTPF	Courts	DOA	Leg	DNR	Capital	Law	DF&G	DOR	GOV	DMVA	DLWD	DEC	DCCED	Exec Branch-wide
FY21 Mgmt Plan	680	1,320	1,210	446	339	277	180	150	111	67	67	66	120	52	51	28	25	23	19	15	8	-
FY22 Gov Budget	2,024	1,293	1,071	464	345	257	181	133	113	67	66	63	59	54	50	26	24	22	17	16	7	6
Cumulative Budget From Right	6,357	4,333	3,041	1,970	1,506	1,161	903	723	590	477	410	344	280	222	168	118	92	68	46	29	13	6

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.

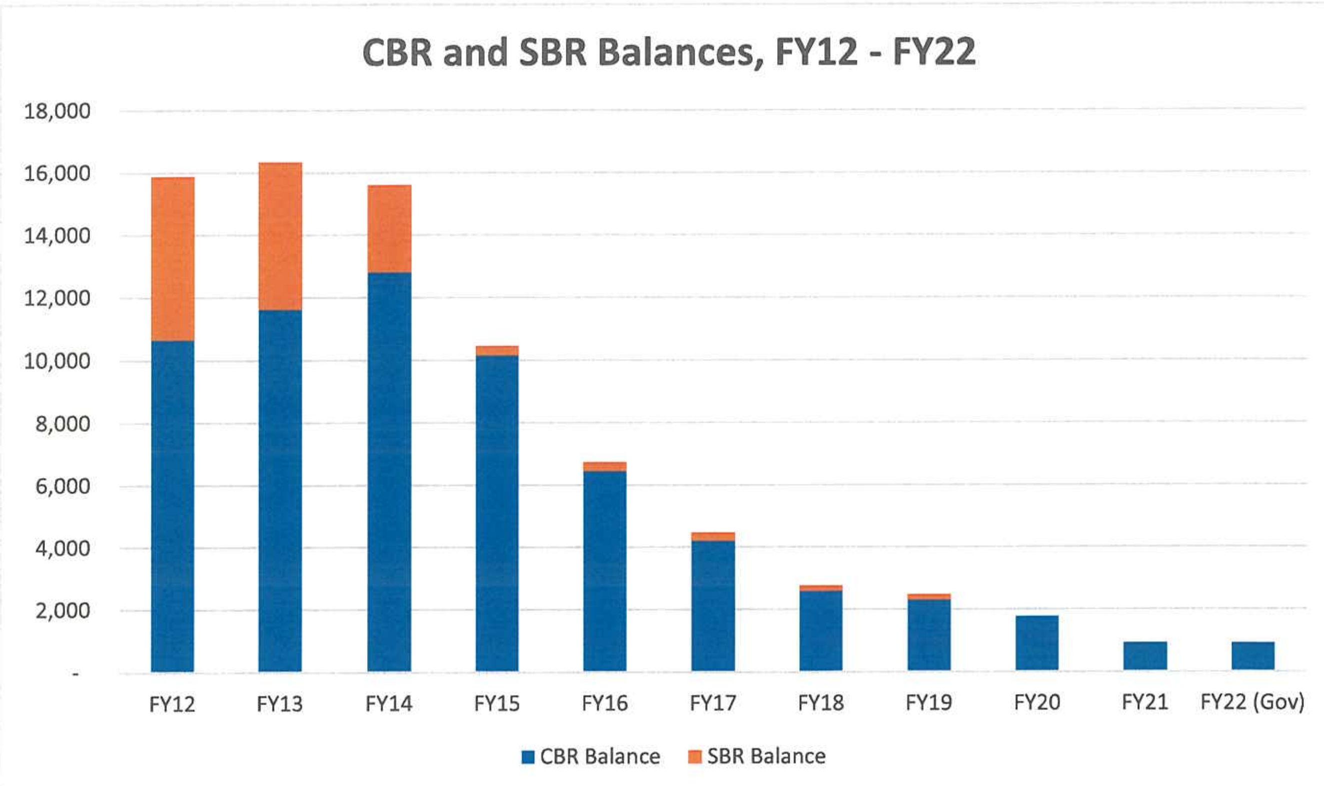
The degree to which petroleum revenue collapsed is striking: in FY12, UGF petroleum revenue totaled $8.9 billion, while in FY22 it is projected to total just $808.9 million. This is lowest total in *nominal* terms since FY78, the year oil began flowing down the Trans-Alaska Pipeline. In inflation-adjusted 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

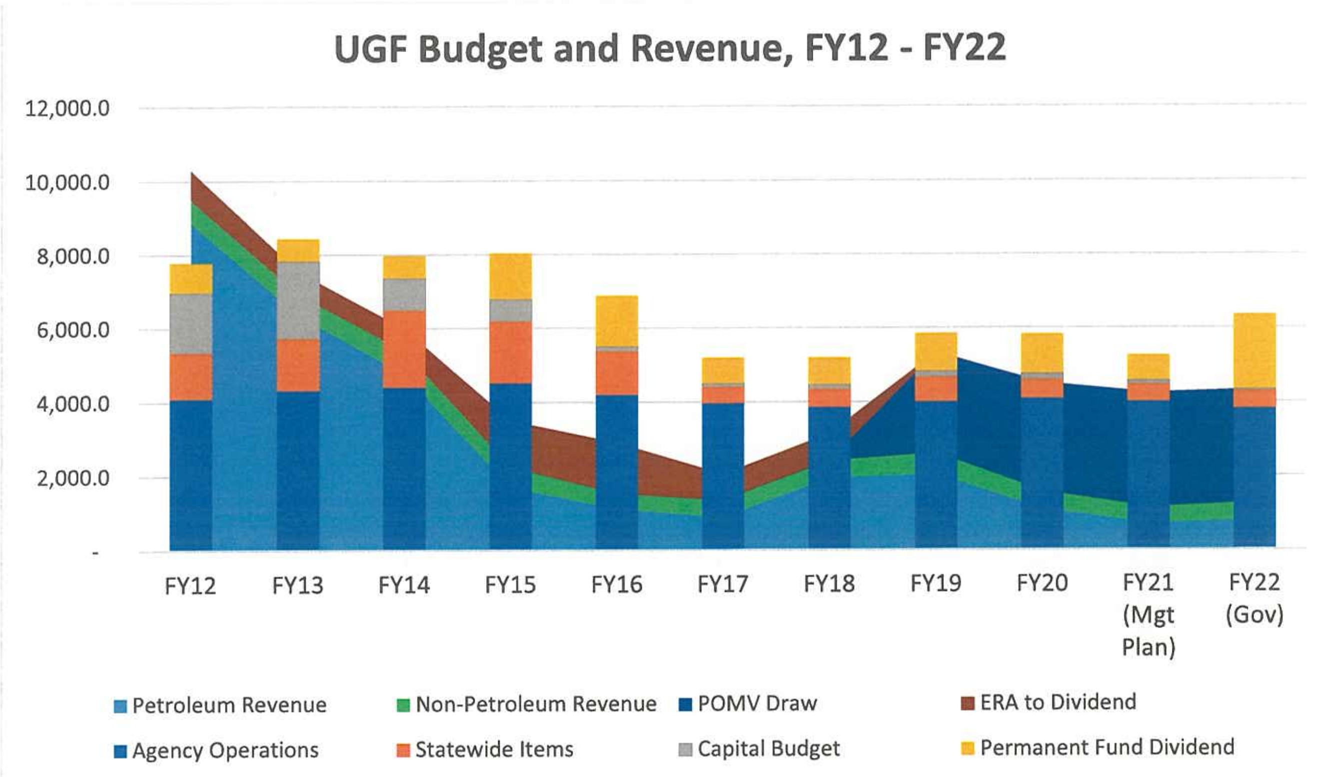
Alaska's economy from some of the impact of the budget problems. At the end of FY21, however, the SBR will be empty and the CBR is projected to hold under $1 billion, so we are now essentially out of spendable reserves. The remaining balance of the CBR can still serve as a cashflow tool but can no longer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

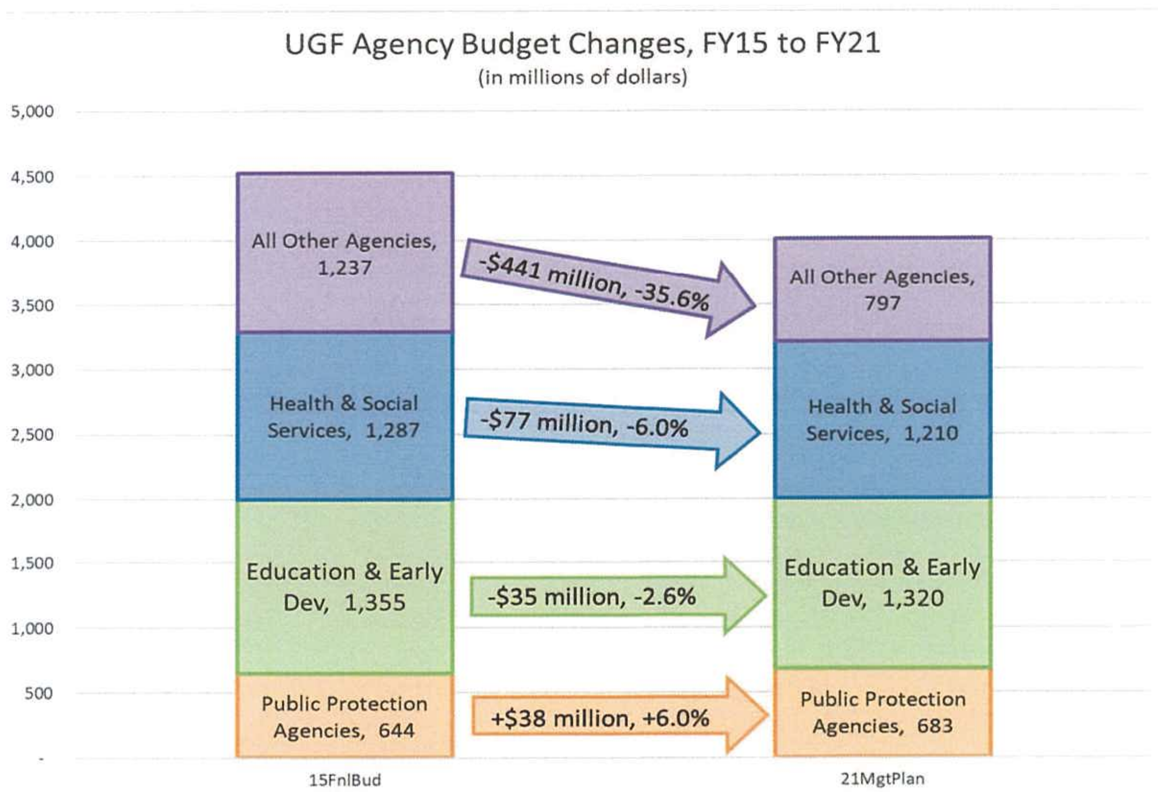


Heading into FY22, a structural deficit remains but is much smaller than it would have been without action by policymakers. It is tempting to regard nine years of budget deficits as wasted time, but in truth the legislature and Governors have managed to reduce the budget significantly and adopt a major 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.

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

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.[1] 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.

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.

Statewide Items Detail		
	Current Policy	**Current Law**
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
Statewide Items Total	**434.5**	**603.0**
*Plus $29.3 million from the School Fund (DGF) **Plus $12.4 million from the PCE Fund (DGF)		

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.

[1] 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 overdraws 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.

	FY21	FY22 (Gov)	FY23
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	?

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 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 divided 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.

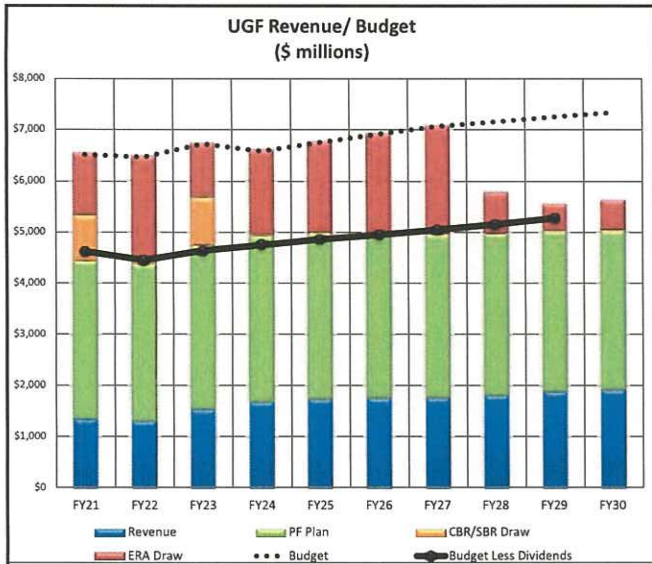
The model also assumes $50 million in supplemental appropriations per year, and the statutory draw to the oil and gas tax credit fund is made from the general fund.

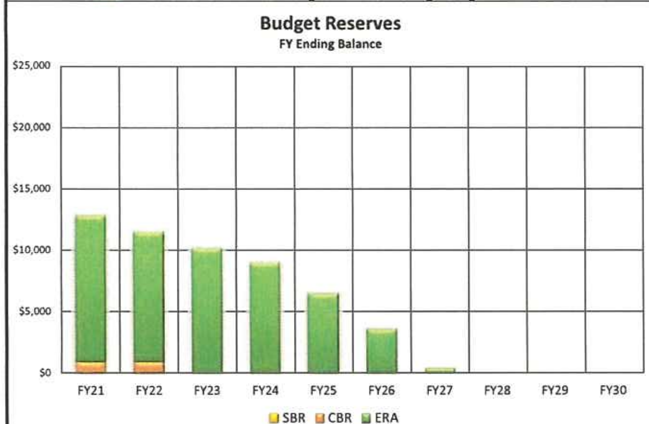
The second scenario differs from the Governor's 10-year plan for a few reasons. The 10-year plan does not include an assumption for supplemental appropriations. While the 10-year plan's undefined revenue averages out to $1 billion per year, the FY23 revenue is $1.2 billion. This differs from LFD's flat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

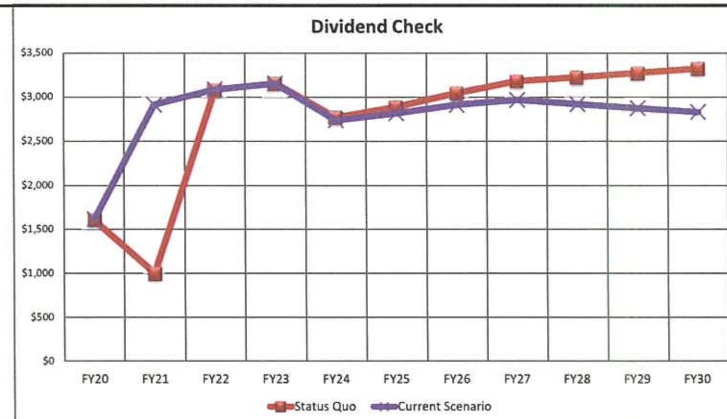
Right side: the top graph shows a comparison of the PFD per recipient under model assumptions vs. the statutory calculation. The middle graph shows how ERA overdraws affect future POMV calculations. Since the POMV calculation is based on a five-year average of the Permanent Fund value, each FY in the 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.

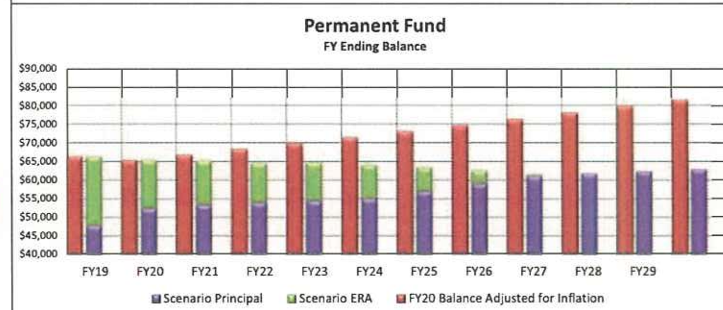


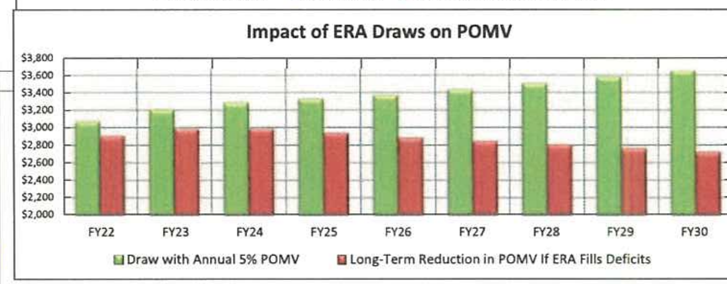


	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
ERA Bal.	11,912	10,579	10,163	9,018	6,424	3,541	358	0	0	0
Surplus/ (Deficit)	-2,119	-2,108	-2,017	-1,683	-1,795	-1,964	-2,119	-2,189	-2,248	-2,330
CBR/SBR Bal.	931	939	11	0	0	0	0	0	0	0
%Budget fr. Savings	32%	32%	30%	25%	26%	28%	30%	31%	31%	32%
Unplanned ERA Draw	1,225	2,070	1,063	1,658	1,785	1,954	2,109	787	528	590

Price Scenario	Fall Forecast
Production	Fall Forecast
COST VARIABLES	
Operating Budget	
Starting Point (FY22)	22 Gov
Growth Rate	2.25%
Budget Change (FY22+)	$ -
Tax Credit Payments	Statutory
School Debt Reimbursement	50%
Capital Budget (FY22-30)	FY22OMB10yrPlan
Supp Budget (FY22+)	50.0
REVENUE VARIABLES	
Sales Tax Type	N
Sales Tax Rate	0%
Income Tax	N
Motor Fuel Tax	N
Assumptions	
Inflation Rate	2.25%
PF Investment Return	Callan (6.48% FY21 then 6.75%)
% Realized	6.40%
Population Growth Rate	Labor Stats
CBR Earnings	2.25%
Reserve Priority	CBR
Minimum CBR Balance	$ -
Unplanned ERA Draws	Y
Permanent Fund Plan	**SB 26**
PLAN SPECIFICATIONS	
	Payout to GF
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
	Dividend
FY22 Override	N
% of Stat Net Income to Div	50%
% of POMV Draw to Div	0%
Dividend Floor	0%
Floor Ends	0%
% of Royalties to Div	0%
Fixed Dividend	$ -
Repay Dividends	FY21 Only
Balanced Budget Dividends	N
POMV Deduction Before Div	None
	Other Provisions
New Royalties to PF	50%
All Royalties to PF	N

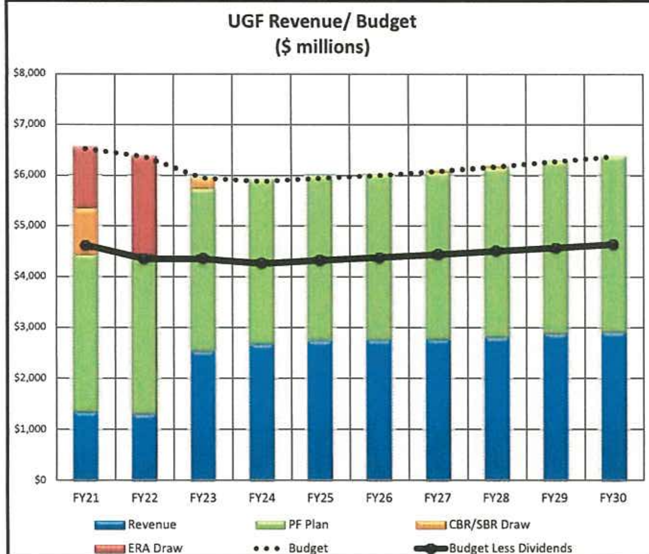


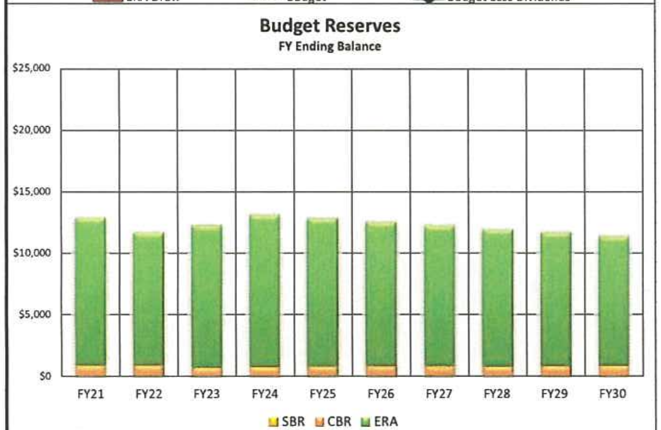




	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
POMV Draw	2,933	3,091	3,069	3,194	3,241	3,237	3,214	3,195	3,168	3,138	3,110
Inflation Proofing	4,758	-	-	-	-	1,079	1,111	1,144	-	-	-
Plan %	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.4%	6.6%	7.9%	6.6%	7.6%	7.8%	8.2%	8.5%	6.4%	5.9%	5.9%

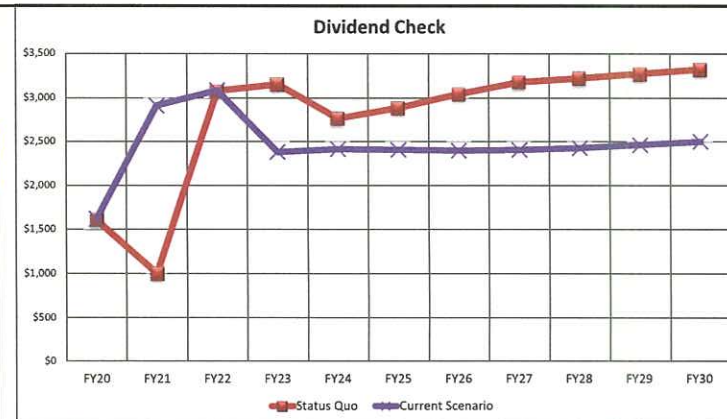
Scenario 1 - Status Quo

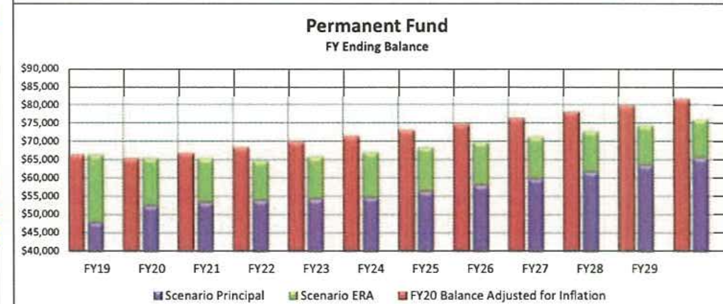


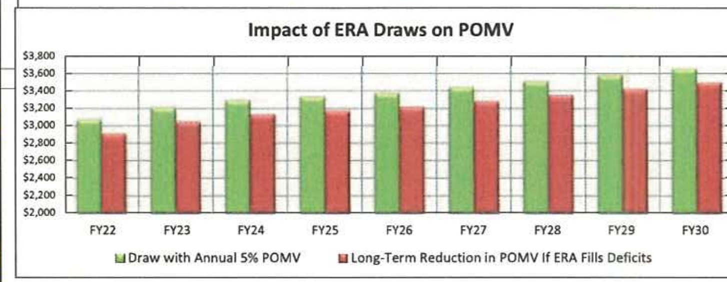


	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
ERA Bal.	11,912	10,694	11,479	12,288	11,933	11,622	11,335	11,059	10,774	10,476
Surplus/ (Deficit)	-2,119	-2,005	-231	24	29	-7	-44	-43	-3	-2
CBR/SBR Bal.	931	939	742	798	855	877	863	849	875	902
%Budget fr. Savings	32%	31%	4%	0%	0%	0%	1%	1%	0%	0%
Unplanned ERA Draw	1,225	1,967	0	0	0	0	0	0	0	0

Price Scenario	Fall Forecast
Production	Fall Forecast
COST VARIABLES	
Operating Budget	
Starting Point (FY22)	22 Gov
Growth Rate	-2.6% FY23, -2.7% FY24, 1.5% FY25+
Budget Change (FY22+)	$ (43.3)
Tax Credit Payments	None
School Debt Reimbursement	50%
Capital Budget (FY22-30)	FY22OMB10yrPlan
Supp Budget (FY22+)	50.0
REVENUE VARIABLES	
Sales Tax Type	N
Sales Tax Rate	0%
Income Tax	N
Motor Fuel Tax	N
Undefined New Revenue	$1 Billion/yr, FY23+
Assumptions	
Inflation Rate	2.25%
PF Investment Return	Callan (6.48% FY21 then 6.75%)
% Realized	6.40%
Population Growth Rate	Labor Stats
CBR Earnings	2.25%
Reserve Priority	CBR
Minimum CBR Balance	$ -
Unplanned ERA Draws	Y
Permanent Fund Plan	**Gov 50% of POMV**
PLAN SPECIFICATIONS	
	Payout to GF
POMV Payout	5.00%
POMV Override	5.25%
Override Ends	21
	Dividend
FY22 Override	Statutory
% of Stat Net Income to Div	0%
% of POMV Draw to Div	50%
Dividend Floor	0%
Floor Ends	0%
% of Royalties to Div	0%
Fixed Dividend	$ -
Repay Dividends	FY21 Only
Balanced Budget Dividends	N
POMV Deduction Before Div	None
	Other Provisions
New Royalties to PF	50%
All Royalties to PF	N







	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
POMV Draw	2,933	3,091	3,069	3,194	3,242	3,250	3,256	3,285	3,329	3,394	3,464
Inflation Proofing	4,758	-	-	-	-	1,079	1,111	1,144	1,178	1,213	1,250
Plan %	5.25%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Effective %	4.4%	6.6%	7.7%	4.9%	4.9%	4.9%	4.8%	4.7%	4.7%	4.7%	4.7%

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 2nd, 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 3rd, 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 23rd, 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.

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

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 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 send 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 the in 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 21st 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.

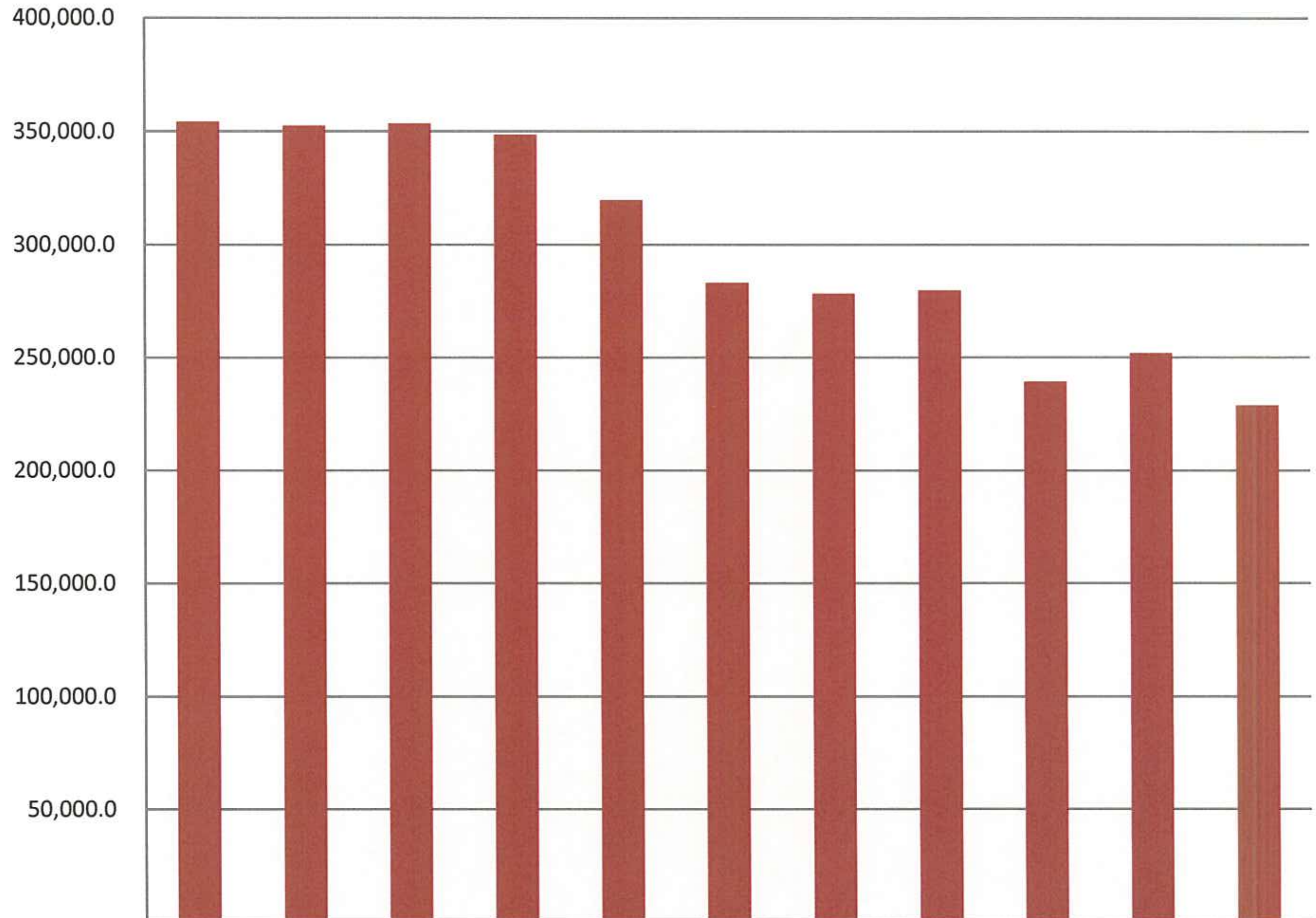
The salary adjustments total $11.1 million, of which $6.1 million is UGF.

Tab 2. 10-Year Budget History

Department of Transportation & Public Facilities Share of Total Agency Operations
(GF Only)
($ Thousands)

The Department's GF budget *decreased* by about $125.7 million between FY12 and FY22 -an average annual decline rate for that period of -4.3%.

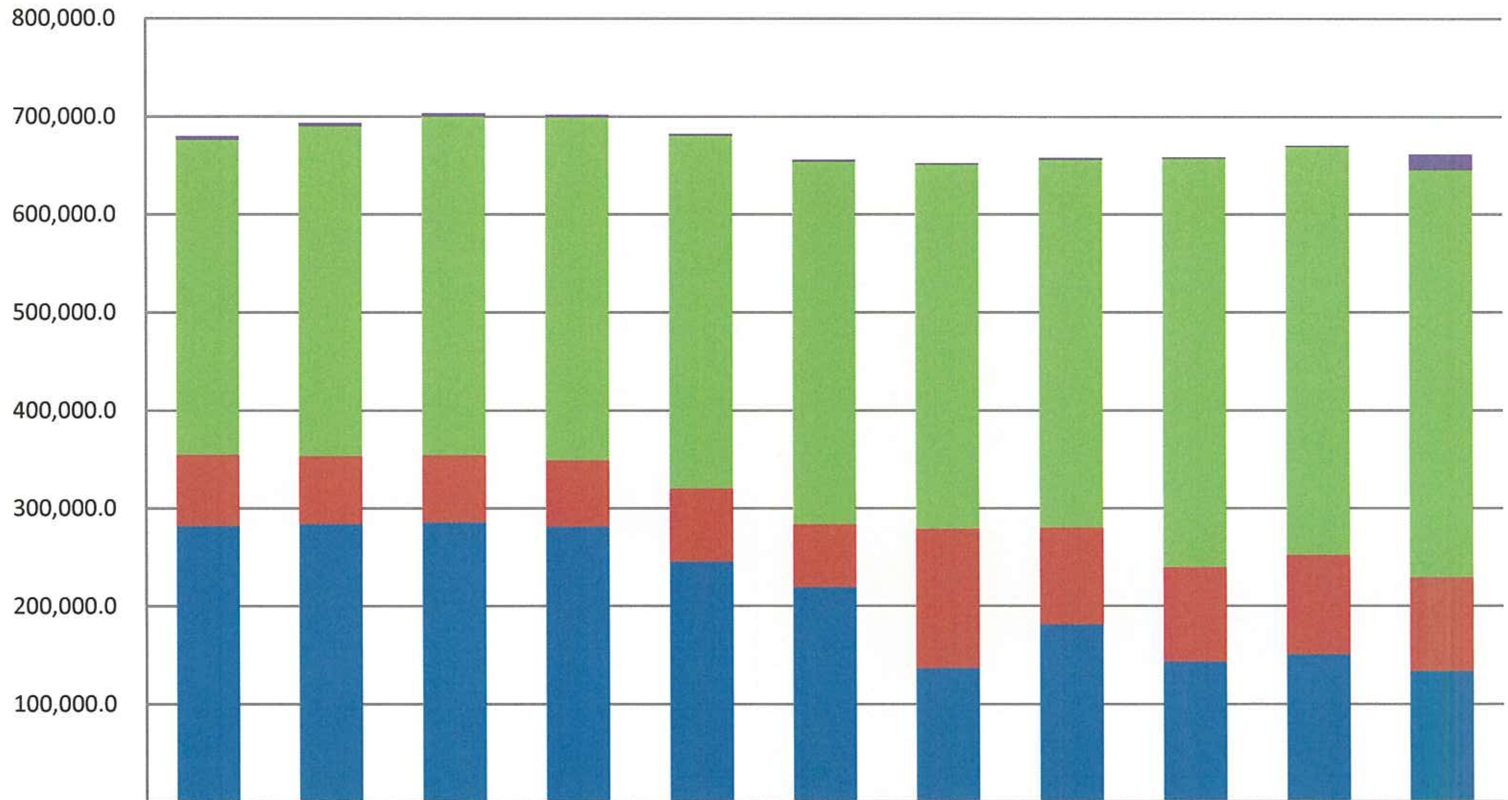
The Department's total FY22 GF budget equals $706 per resident worker, based on 323,711 resident workers.



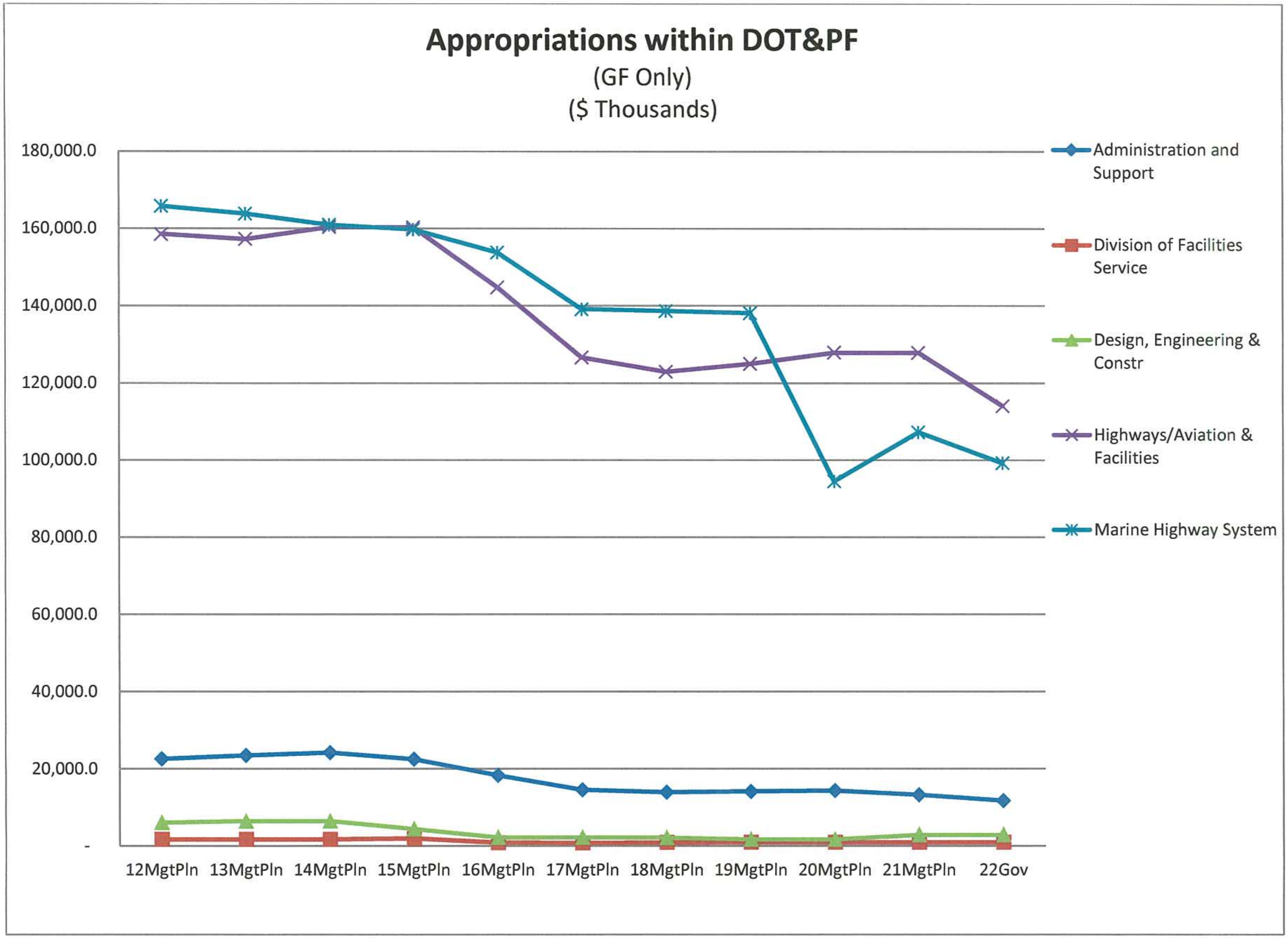
	12MgtPln	13MgtPln	14MgtPln	15MgtPln	16MgtPln	17MgtPln	18MgtPln	19MgtPln	20MgtPln	21MgtPln	Gov
Total Agency Budget (GF Only)	354,314.7	352,454.7	353,455.8	348,620.9	319,590.5	282,951.1	278,216.6	279,633.3	239,142.6	251,878.6	228,641.2
Average of Agency Budget to Total Agencies Budgets	7.52%	7.05%	6.99%	6.70%	6.61%	6.03%	6.08%	5.89%	5.25%	5.23%	4.97%

Department of Transportation & Public Facilities Total Funding Comparison by Fund Group (All Funds) ($ Thousands)

Between FY12 & FY22 Gov:
-UGF *decreased* by $148.0 million (-53%)
-DGF increased by $22.3 million (31%)
-Other funds increased by $94.7 million (29%)
-Federal funds increased by $12.5 million (315%)



	12MgtPln	13MgtPln	14MgtPln	15MgtPln	16MgtPln	17MgtPln	18MgtPln	19MgtPln	20MgtPln	21MgtPln	22Gov
Federal Receipts (Fed)	3,972.9	3,827.7	3,844.6	2,850.4	2,028.7	2,033.9	2,066.2	2,135.1	1,617.1	1,618.6	16,495.8
Other State Funds (Other)	321,539.5	337,107.8	346,390.8	350,461.9	360,553.0	370,679.2	372,081.0	375,841.9	417,559.6	417,099.3	416,272.3
Designated General (DGF)	73,194.7	69,053.3	68,640.8	68,167.7	74,777.4	64,134.4	142,543.4	99,163.1	96,711.2	101,765.0	95,523.6
Unrestricted General (UGF)	281,120.0	283,401.4	284,815.0	280,453.2	244,813.1	218,816.7	135,673.2	180,470.2	142,431.4	150,113.6	133,117.6


Appropriations within DOT&PF
(GF Only)
($ Thousands)
180,000.0
160,000.0
140,000.0
120,000.0
100,000.0
80,000.0
60,000.0
40,000.0
20,000.0
-
12MgtPln
13MgtPln
14MgtPln
15MgtPln
16MgtPln
17MgtPln
18MgtPln
19MgtPln
20MgtPln
21MgtPln
22Gov
Administration and Support
Division of Facilities Service
Design, Engineering & Constr
Highways/Aviation & Facilities
Marine Highway System

Tab 3. Statutory Requirements

DOTP&F Program Priority Table

Program	*Constitutional Requirement*	*Federal Requirement*	*Statutory Req.*	*# of Alaskans Served*	*% Cost Through Fees*	*Rating of Importance to Mission*	*Most and Least Important Activity*	*Rating of Effectiveness*
Administration & Support								
Commissioner's Office	Yes	No	Yes-AS 02, 19, 35, 44		0%	Critical	Most: Provide executive leadership for all department activities. Least: Travel and Hire approval process.	Effective
Contracting and Appeals	No	No	Yes-AS 02,19, 35, 36, 44		0%	Important	Most: Oversee compliance for construction procurements and contract administration. Least: Provide expert advice to other state agencies and the Department of Law.	Effective
Equal Employment and Civil Rights	**No**	**Yes**	**No**		**0%**	Critical	Most: Promote, implement and monitor compliance with affirmative action programs (AAP). Least: Educating DOT&PF employees on AAP.	Effective
Internal Review	No	Yes	Yes-AS 19, 35, 36, 44		0%	Important	Most: Assure compliance with Federal Highway Administration and Federal Aviation Administration requirements. Least: Internal DOT&PF reviews for non federal processes.	Effective
Statewide Administrative Services	**No**	**No**	**Yes-AS 02, 19, 29, 34-37, 39, 44**		**0%**	Important	Most: Collection of revenues & accounts payables. Least: Retention schedules.	Effective
Information Systems and Services	No	No	Yes-AS 02, 19, 35, 36, 39, 44		0%	Important	Most: Development and maintenance of information systems. Least: Commodity purchase process.	Effective
Leased Facilities	No	No	No		0%	Important	Most: Leasing administration. Least: N/A - one function in component.	Effective
Statewide Procurement	No	No	Yes-AS 36		0%	Important	Most: Non-construction procurement administration Least: Activity tracking for performance measures.	Effective
Regional Support Services Components	No	Yes	Yes-AS 02, 19, 36, 37, 44		0%	Critical	Most: Regional financial, budgetary, procurement and contract services. Least: Retention schedules.	Effective
Statewide Aviation	**No**	**Yes**	**Yes-AS 02,19,44**		**90%**	Critical	Most: Rural airport infrastructure funding, development and land management. Least: retention schedules.	Effective
Program Development and Statewide Planning	No	Yes	Yes-AS 19, 29, 44		0%	Critical	Most: Optimize state investment in transportation infrastructure. Least: Public outreach.	Effective
Measurement Standards and Commercial Vehicle Enforcement	No	Yes	Yes-AS 19, 45		53%	Beneficial/Critic al	Most: Protect public infrastructure, safety of motoring public and assure market place confidence and equitable trade. Least: Permit form updates.	Effective
Design, Engineering & Construction								
Statewide Design and Engineering Services	No	Yes	Yes-AS 02, 08, 19, 34, 35, 36, 36, 44		0%	Critical	Most: Project development Least: Project development local roads.	Effective
Regional Design and Engineering Services Components	No	Yes	Yes-AS 02, 08, 19, 29, 30, 34, 35, 36, 44		2%	Critical	Most: Leadership, technical services and guidance to satisfy State and Federal- aid funding agency requirements. Least: Coastal engineering support to other agencies.	Effective

DOTP&F Program Priority Table

Program	*Constitutional Requirement*	*Federal Requirement*	*Statutory Req.*	*# of Alaskans Served*	*% Cost Through Fees*	*Rating of Importance to Mission*	*Most and Least Important Activity*	*Rating of Effectiveness*
Regional Construction and CIP Support Components	No	Yes	Yes-AS 02, 08, 19, 34, 35 36, 44		0%	Critical	Most: Preserve and improve transportation system by constructing safe, environmentally sound, reliable and cost- effective highways, airports, harbors, docks, and buildings. Least: Coastal engineering support to other agencies.	Effective
State Equipment Fleet								
State Equipment Fleet	No	No	Yes-AS 44		100%	Important	Most: Procure, maintain and sell vehicles, equipment, and attachments for use by Executive Branch agencies to meet their mission. Least: Vehicle auction oversight.	Effective
Highways, Aviation & Facilities								
Facilities Services	No	Yes	Yes-AS 35, 36, 44		Approximately 91% anticipated	Important	Most: Provide maintenance for state-owned buildings to preserve infrastructure and provide safe and functional facilities. Least: Art in facilities.	Effective
Regional Facilities Components	No	Yes	Yes-AS 35, 36, 44		0%	Critical	Most: Provide and maintain cost effective, environmentally sound and reliable public facilities. Least: N/A - one function in component.	Effective
Traffic Signal Management	No	Yes	Yes-AS 44		0%	Critical	Most: Preserve and operate state traffic control devices in Anchorage and Eagle River area through contractual agreements with the Municipality of Anchorage. Least: N/A - one function in component.	Effective
Regional Highways and Aviation Components	No	Yes	Yes-AS 02, 19, 30, 38, 44		3%	Critical	Most: Operate, preserve, protect, manage and control the state's highway, airport and harbor systems. Least: Rural airports with populations under 25 people.	Effective
Whittier Access and Tunnel	No	Yes	Yes-AS 37, 19		31%	Critical	Most: Safe and efficient transportation of passengers and freight. Least: N/A - one function in component.	Effective
International Airports								
International Airports	No	Yes	Yes-AS 02, 18, 37, 44		99%	Critical	Most: Safe, effective and efficient operation and maintenance of both Ted Stevens Anchorage and Fairbanks International Airports. Least: Non-aviation grounds keeping.	Effective
Marine Highway System								
Marine Highway System	No	No	Yes-AS 19, 23, 36, 44		37%	Critical	Most: Safe, secure, reliable, and efficient transportation of people, goods, and vehicles. Least: Schedule adjustments for special events.	Effective

Tab 4. FY21 Budget Issues

Department of Transportation and Public Facilities

FY21 - Summary of Significant Budget Issues

($ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
1	Administration and Support / Statewide Aviation	**FY20 and FY21** RPL 25-2020-8771 Rural Airport System	$49,000.0 COVID Fed (Fed)	$49,000.0 COVID Fed (Fed)	**RPL 25-2020-8771** provided funding for Alaska's state-owned airports per a federal formula for both FY20 and FY21. The additional funding was provided due to COVID-19, but its usage is not restricted to COVID-19 related expenditures. The funding is split as follows: **FY20:** Statewide Aviation: $1,000.0 Central Region Highways & Aviation: $3,860.7 Northern Region Highways & Aviation: $5,951.0 Southcoast Region Highways & Aviation: $3,188.3 **FY21**: Statewide Aviation; $1,000.0 Central Region Highways & Aviation: $10,617.0 Northern Region Highways & Aviation: $16,365.2 Southcoast Region Highways & Aviation: $7,017.8
2	Administration and Support / Measurement Standards & Commercial Vehicle Compliance	**FY20 and FY21** RPL 25-2020-8772 MSCVE 5001(d) CARES Funding	$1,350.0 COVID Fed (Fed)	$1,350.0 COVID Fed (Fed)	**RPL 25-2020-8772** provides $900.0 in FY20 and $450.0 in FY21. This funding replaces lost revenue from fees that were suspended due to COVID-19.
3	Highways, Aviation and Facilities / Central Region Highways and Aviation	Equate Available Revenues Proportionate to Share of Overhead Costs	**Net Zero** ($55.0) Gen Fund (UGF) $55.0 WhitTunnel (Other)	**Net Zero** ($55.0) Gen Fund (UGF) $55.0 WhitTunnel (Other)	The Whittier Tunnel represents approximately 10 percent of the total Central Region maintenance and operations program. This fund change will utilize available receipts from the Whittier Tunnel to more proportionately pay the overhead salaries of the maintenance and operations chief, and the manager and administrative support staff.

Department of Transportation and Public Facilities

FY21 - Summary of Significant Budget Issues
($ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
4	Highways, Aviation and Facilities / Various	Replace UGF with Available Airport Receipts	**Net Zero** ($500.0) Gen Fund (UGF) $500.0 AirptRcpts (Other)	**Net Zero** ($500.0) Gen Fund (UGF) $500.0 AirptRcpts (Other)	Last session, rural airport leasing revenue combined with carry-forward of prior year receipts was projected to be short of budgeted amounts. The FY20 budget included fund source changes totaling $2 million in the three regions replacing airport receipts with UGF. Given new updated projections for carry-forward and revenues, along with the actions in FY20, the FY21 budget includes fund changes reversing $500.0 of the $2,000.0 as follows: Central Region Highways and Aviation - ($160.8) UGF, $160.8 Airport Receipts Northern Region Highway and Aviation - ($248.0)UGF, $248 Airport Receipts Southcoast Region Highways and Aviation - ($91.2) UGF, $91.2 Airport Receipts
5	Highways, Aviation and Facilities / Various	Legislative Additions for Quinagak Airport and Napaimute Ice Road Totaling $140.0 UGF Vetoed by Governor	n/a	n/a	The legislature added two UGF increments that were vetoed by the Governor. One, for $90.0, would have added funding for State management of the Quinhagak Airport. The Quinhagak airport needs significant repairs. The other increment, for $50.0, would have supported State maintenance of the Napaimute Ice Road.
6	Highways, Aviation and Facilities / Northern Region Highways and Aviation	**FY20** RPL 25-2020-8777 NR H&A 5001(d) CARES Funding	$465.0 COVID Fed (Fed)	$465.0 COVID Fed (Fed)	**RPL 25-2020-8777** provides funding for costs related to COVID-19. Dalton Highway maintenance crew schedules were adjusted to minimize the risk of infection, which caused increased overtime.
7	Marine Highway System / Marine Vessel Operations	Maintain Alaska Marine Highway System Service **Supplemental**	$7,050.0 Marine Hwy (DGF)	$7,050.0 Marine Hwy (DGF)	Additional expenditure authority was projected to be needed to pay for unforeseen FY2020 expenditures and avoid a reduction in the planned operating schedule for the spring and summer of calendar year 2020. The funding source utilized was the Alaska Marine Highway System Fund. After the supplemental appropriation, the FY2020 ending balance of the Marine Highway Fund was projected to be $18,474.0. Due to the COVID-19 pandemic and the subsequently decreased demand for Alaska Marine Highway System (AMHS) service, spring and year end expenditures were lower than anticipated. Revenues were also impacted and

Department of Transportation and Public Facilities

FY21 - Summary of Significant Budget Issues
($ thousands)

Item	Appropriation / Allocation	Description	Governor Request	Amount Enacted	Comment
7	Marine Highway System / Marine Vessel Operations	Maintain Alaska Marine Highway System Service **Supplemental**	$7,050.0 Marine Hwy (DGF)	$7,050.0 Marine Hwy (DGF)	(continued) significantly lower than projected, falling $23M short of spring revenue projections. The AMHS received $10M of CARES Federal Transportation Agency funding approved as an FY20 capital budget RPL by the Legislative Budget & Audit committee, used to prevent layoffs during the shutdown. The Marine Highway Fund FY2020 ending balance is now estimated to be $9M.
8	Marine Highway System / Various	Add Funding to Reduce Service Gaps and Increase Weeks of Service	**Total: $4,735.2** $3,302.7 Gen Fund (UGF) $1,432.5 Marine Hwy (DGF)	**Total: $12,042.7** $7,408.3 Gen Fund (UGF) $4,634.4 Marine Hwy (DGF)	The Governor's budget proposed an increase of $3.3 million UGF, which would have added 8.8 weeks of service. The legislature added an additional $16.7 millon UGF, which would have significantly reduced gaps in service. The Governor vetoed $12.7 million of that addition, for a net increase of $7.3 million UGF over FY20 funding levels. Due to the COVID-19 pandemic, the actual service that will be provided is unclear.
9	Various	Restore non-UGF Travel Vetoes from FY20 totaling $1,023.2	n/a	n/a	The legislature restored non-UGF funding for travel that had been vetoed by the Governor in FY20. The Governor again vetoed the funding.
10	Various	Fund Source Change of 25% of UGF to CBR	n/a	**Net Zero** $27,784.9 CBR Fund (UGF) ($27,784.9) 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 Transportation, that resulted in $27.8 million being switched from codes 1003 (GF Match) and 1004 (UGF) to code 1001. Subsequently, the Governor vetoed $12.8 million in CBR funding. The total CBR amount for the Department in the Enacted FY21 budget was $27.8 million. Because all three sources are counted as UGF, this change will have no impact on the agency's operations.

Tab 5. FY22 Proposed Budget Items

Department of Transportation and Public Facilities

Summary of Budget Changes
($ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
1	Division of Facilities Services / Various	Consolidate Facilities Services in New Division of Facilities Services	n/a	The State of Alaska is transitioning from the decentralized method of facility maintenance to the shared services method. By centralizing this function within the Department of Transportation and Public Facilities (DOT&PF), the process of maintaining public facilities could become more effective and efficient. With added accountability between the Department of Transportation and Public Facilities (as the service provider) and customer agencies (the facilities owner), the process of maintaining these buildings can be streamlined and may result in savings. The Facilities Services allocation was moved from the Highways, Aviation, & Facilities appropriation into the new Facilities Services appropriation. Additionally, the following allocations were moved from the Department of Administration into the new Facilities Services appropriation: -Leases -Lease Administration -Facilities -Facilities Administration -Non-Public Building Fund Facilities
2	Highways, Aviation and Facilities / Various	One-Time Fund Source Swap to Utilize FAA CARES Act Funding and Displace Unrestricted General Fund	**Net Zero** $14,600.8 Fed Rcpts (Fed) ($14,600.8) Gen Fund (UGF)	Approximately $10 billion in grants for airports is available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, of which the State of Alaska Rural Airport System was allocated approximately $49 million. Funds provided under the grant agreement must only be used for purposes directly related to airports. Such purposes can include the reimbursement of an airport's operational and maintenance expenses. A one-time fund source change will allow the utilization of Federal Aviation Administration CARES Act revenue in the following allocations: Central Region Facilities $1,122.8 Fed/ ($1,122.8) UGF Northern Region Facilities $2,621.0 Fed/ ($2,621.0) UGF Southcoast Region Facilities $1,569.2 Fed/ ($1,569.2) UGF Central Region Aviation $1,875.5 Fed/ ($1,875.5) UGF Northern Region Aviation $4,638.5 Fed/ ($4,638.5) UGF Southcoast Region Aviation $2,773.8 Fed/ ($2,773.8) UGF

Department of Transportation and Public Facilities

Summary of Budget Changes
($ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
3	Highways, Aviation and Facilities / Various	One-time Use of FAA CARES Act Federal Funding to Cover Aviation Fuel Tax Shortfall	**Net Zero** $276.4 Fed Rcpts (Fed) ($276.4) AvFuel Tax (Other)	Approximately $10 billion in grants for airports is available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, of which the State of Alaska Rural Airport System was allocated approximately $49 million. Funds provided under the Grant Agreement must only be used for purposes directly related to airports. Such purposes can include the reimbursement of an airport's operational and maintenance expenses. Federal receipt authority is required to expend increased federal revenues related to CARES Act. The fund source change took place in the following allocations: Central Highways & Aviation: $86.5 Fed/ ($86.5) Aviation Fuel Tax Northern Highways & Aviation: $141.5 Fed/ ($141.5) Aviation Fuel Tax Southcoast Highways & Aviation: $48.4 Fed/ ($48.4) Aviation Fuel Tax
4	Highways, Aviation and Facilities / Various	One-time Fund Source Swap to Address Projected Motor Fuel Tax Shortfall	**Net Zero** $502.8 Gen Fund (UGF) ($502.8) Motor Fuel (DGF)	The projected motor fuel tax revenue shortfall is based on pre-COVID revenue projections and the Department of Revenue's assumption that revenues will return to pre-COVID levels by FY22. This fund source change takes place in the following allocations: Central Highways & Aviation: $138.8 UGF/ ($138.8) Motor Fuel Tax Northern Highways & Aviation: $269.5 UGF / ($269.5) Motor Fuel Tax Southcoast Highways & Aviation: $94.5 UGF/ ($94.5) Motor Fuel Tax **Fiscal Analyst Comment:** The department's revenue from Motor Fuel tax dropped by over $2.6 million dollars between FY19 and FY20, which only included a few months of COVID-19 related decreases from March to June. While a portion of this fund source change may be reversible in the future, it is unknown if motor fuel tax receipts will return to pre-COVID levels given the downward trend in motor fuel tax receipts due to increased fuel efficiency in vehicles, increases in hybrid and electric vehicle ownership, and a reduction in driving overall. Even with this reduction there is still a $1.8 million shortfall between what is being appropriated to the Department and what the Department of Revenue projects the motor fuel tax will generate in FY22.
5	Highways, Aviation and Facilities / Various	Add Authority to Cover Uncollectable State Equipment Fleet Collective Bargaining Unit Increases	$716.0 Gen Fund (UGF)	Salary adjustments were included in the FY19 and FY20 budget in the State Equipment Fleet (SEF) allocation increasing the authority to collect receipts for services but with no corresponding adjustment to the allocations which are paying fees to SEF for services in order to accommodate the increased cost. This effectively made the salary adjustment in SEF fee authority an uncollectible fund source.

($ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
5	Highways, Aviation and Facilities / Various	Add Authority to Cover Uncollectable State Equipment Fleet Collective Bargaining Unit Increases	$716.0 Gen Fund (UGF)	(continued) Increments are requested in the following allocations to allow them to pay SEF for those increased service costs: Central Highways & Aviation: $252.0 (UGF) Northern Highways & Aviation $464.0 (UGF) **Fiscal Analyst Comment:** The Department was able to accommodate this shortfall in fee revenue over the last two years, but has determined that an increment from a collectible fund source is now necessary. The salary adjustment was the last major unfunded cost increase added to these allocations' budgets, and therefore is the easiest to point to as a cause for their budget shortfall.
6	Marine Highway System / Marine Vessel Operations	Reduce Authorization to FY2021 Governor's Proposed Levels to Provide Essential Service	**Total: ($8,338.3)** ($3,589.0) Gen Fund (UGF) ($4,749.3) Marine Hwy (DGF)	The Governor's FY21 budget proposed an increase of $3.3 million UGF, which would have added 8.8 weeks of service. The legislature added an additional $16.8 million UGF (spread across multiple allocations), which would have significantly reduced gaps in service. The Governor subsequently vetoed $12.7 million UGF of that addition (all located in the Vessel Operations allocation), for a net increase of $7.3 million UGF over FY20 funding levels. The Governor's FY22 proposed budget would bring the Alaska Marine Highway System (AMHS) budget back to the Governor's initial proposed FY21 budget level and remove all increases included by the Legislature in the FY21 budget. This would bring the budget for AMHS down to $50.4 million UGF and $48.8 million DGF. The AMHS plans to absorb this decrement through a reduction in port calls, and service gaps during seasons with minimal demand. The administration asserts that this authorization will allow for an essential level of service. AMHS operations in the first half of FY21 were significantly impacted by the COVID-19 emergency, along with mechanical failures that substantially reduced service. This meant that some costs such as fuel usage decreased, but the pandemic has further lowered already reduced passenger usage and an increased reliance upon AMHS passenger receipts will mean considerable draw down from the Marine Highway fund balance. Some operational costs in FY20 and FY21 were met through the use of Federal CARES act funding for a total of $10 million over two years, but this does not come close to making up for the added costs and reduced revenue caused by the pandemic. Early projections indicate that the entire Marine Highway fund will be drawn down in FY21. This is primarily caused by self-generated revenue falling from $50.8 million in FY19 to

($ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
6	Marine Highway System / Marine Vessel Operations	Reduce Authorization to FY2021 Governor's Proposed Levels to Provide Essential Service	**Total: ($8,338.3)** ($3,589.0) Gen Fund (UGF) ($4,749.3) Marine Hwy (DGF)	(continued) $28.2 million in FY20. Current projections estimate FY21 revenue further reduced to only $25 million. This will cause the AMHS to run at a $29.7 million deficit in FY21. The Alaska Marine Highway Fund is projected to only have $23 million in available funding in FY21. The table on the last page of this summary section provides historical AMHS budget information along with projected AMHS fund balances. **Fiscal Analyst Comment:** As can be seen from the table, the projected FY21 ending balance is negative $6.6 million and AMHS will likely require an FY21 supplemental appropriation of UGF to sustain operations. Given this known shortfall in FY21 it is likely that considerable reductions in service would be necessary to operate at the Governor's FY22 proposed funding level, which relies heavily upon AMHS revenues. Those revenues have not materialized in the previous two fiscal years. This greatly increases the likelihood of a substantial FY22 supplemental appropriation being necessary.
7	Marine Highway System / Various	Transfer from Marine Vessel Fuel to Align System Authority with Location of Governor's Reduction	n/a	In FY21 the legislature restored funding for the Alaska Marine Highway System (AMHS) back to FY19 levels in a number of allocations. Specifically there was an increment of $3.7 million in the Marine Vessel Fuel allocation. The FY22 proposed budget transfers $3,715.6 in Marine Highway fund authority from the Marine Vessel Fuel allocation into the Marine Vessel Operations allocation in order to offset the proposed reduction noted above. **Fiscal Analyst Comment:** This brings the Marine Vessel Fuel allocation down to $12.7 million, including $7.8 million UGF. This remaining authority should be sufficient to meet short term needs, given the reduced need for fuel over the last two fiscal years. However, any increase in vessel sailings will also increase fuel costs provided fuel prices remain steady. In FY19 AMHS fuel costs were $19.5 million; well above the proposed FY22 level.
8	Administration and Support / Statewide Administrative Services	Delete Authority No Longer Needed Based on Prior Year Actuals and Operational Plans	**Total: ($507.1)** ($0.1) GF/Prgm (DGF) ($507.0) Marine Hwy (DGF)	This is a technical adjustment and reflects a substantial decrease in the amount of available Marine Highway funds. In FY19 the allocation expended $1.1 million in Marine Highway fund receipts and that has dropped to $0.6 million in FY20. This lowers the allocation's authority to $0.7 million in FY22.

($ thousands)

Item	Appropriation / Allocation	Description	Amount / Fund Source	Comment
9	Administration and Support / Various	Transfer to Various Allocations From Information Systems and Services for Employee Based Rates Funding - OIT	**Total: $3,390.8** $501.8 Gen Fund (UGF) $70.0 HwyCapital (Other) $244.5 IntAirport (Other) $2,325.0 CIP Rcpts (Other) $249.5 Marine Hwy (DGF)	There were multiple transfers from Information System Services to fund Department of Administration's Office of Information Technology rates which have been incorporated into individual positions located throughout the Department's many divisions.
10	Administration and Support / Various	Transfers to Various Allocations from Human Resources to Fund Employee Based Rates DOPLR/IRIS HRM	**Total: $2,209.2** $531.0 Gen Fund (UGF) $92.7 HwyCapital (Other) $206.7 IntAirport (Other) $1,265.3 CIP Rcpts (Other) $113.5 Marine Hwy (DGF)	There were multiple transfers from Human Resources to fund Division of Personnel and Labor Relations and Integrated Resource Information System Human Resource Management rates which have been incorporated into individual positions throughout the Department's divisions.

Tab 6. Intent Responses

DEPARTMENT OF TRANSPORTATION

Department of Transportation and Public Facilities

Operating/Capital Budget (CCS HB 205)

It is the intent of the legislature that the State repair the M/V Aurora and place the vessel into service before December 31, 2020.

PARTIAL COMPLIANCE

The steel work that is needed to repair the M/V Aurora is currently underway. The original plan was to have the work completed and the vessel available to operate in October 2020. However, due to discovery of additional steel that needs to be replaced, the repairs are now projected to be completed by December 2020. Following the steel repairs, the vessel will need to complete her annual overhaul and Certificate of Inspection recertification with the U.S. Coast Guard. The Department of Transportation and Public Facilities, Alaska Marine Highway System plans to have the vessel operational by April 2021. While DOT&PF will not be able to satisfy the Legislature's intent language that the Aurora returns to revenue service by the end of 2020, the Department shares the Legislature's goal that the Aurora return to service as soon as safely possible.

Legislative Fiscal Analyst Comment: The department has made efforts to implement the intended repairs, but due to unforeseen factors did not meet the desired December 31st, 2020 deadline.

Tab 7. Department Narrative

State of Alaska
FY2022 Governor's Operating Budget

Department of Transportation/Public Facilities

Department of Transportation/Public Facilities

Mission

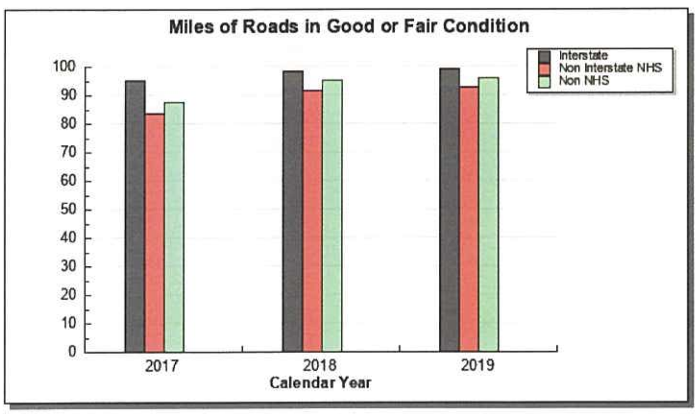
Keep Alaska Moving through service and infrastructure.

	Core Services (in priority order)	UGF	DGF	Other	Fed	Total	PFT	PPT	NP	% GF
1	Preserve Alaska's Transportation Infrastructure	20,785.0	15,395.6	75,299.5	166.2	111,646.3	595.3	97.8	45.1	14.4%
2	Operate Alaska's Transportation Infrastructure	49,009.2	29,474.8	16,367.0	483.9	95,334.9	388.0	41.8	24.6	31.3%
3	Modernize Alaska's Transportation Infrastructure	1,486.2	719.1	55,124.6	0.0	57,329.9	336.8	71.1	12.4	0.9%
4	Provide Transportation Services	53,064.2	51,035.2	96,919.6	808.4	201,827.5	1,121.7	65.3	49.8	41.5%
5	Shared Services	21,211.1	2,015.1	83,577.1	160.1	106,963.4	319.3	5.0	3.0	9.3%
6	Mission Support Services	4,076.1	2,783.2	26,259.2	0.0	33,118.4	162.0	0.0	10.0	2.7%
	FY2021 Management Plan	**149,631.9**	**101,422.9**	**353,547.0**	**1,618.6**	**606,220.4**	**2,923.0**	**281.0**	**145.0**	

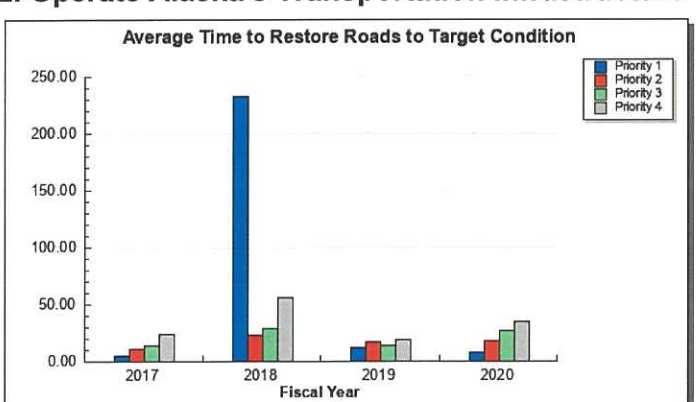
Measures by Core Service

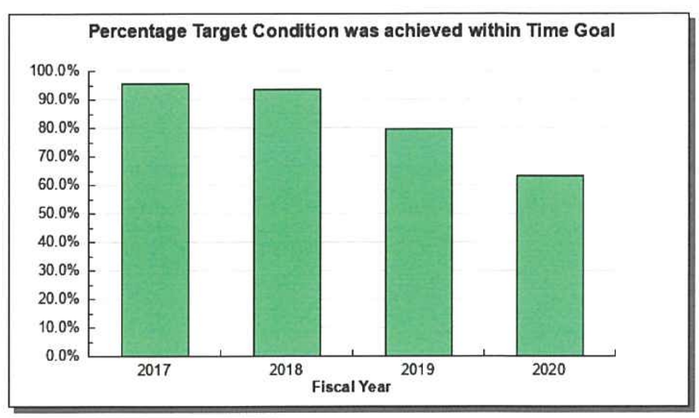
(Additional performance information is available on the web at https://omb.alaska.gov/results.)

1. Preserve Alaska's Transportation Infrastructure

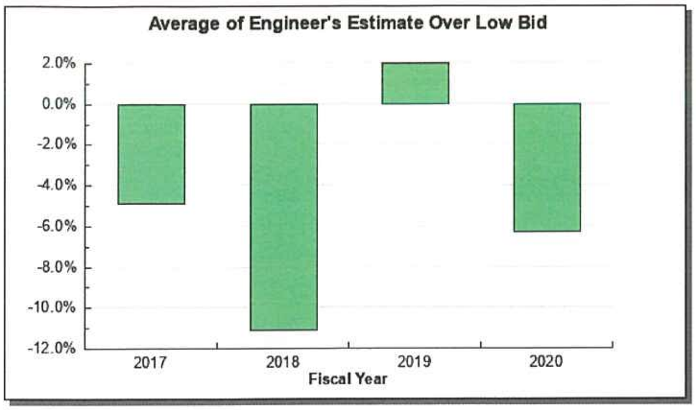


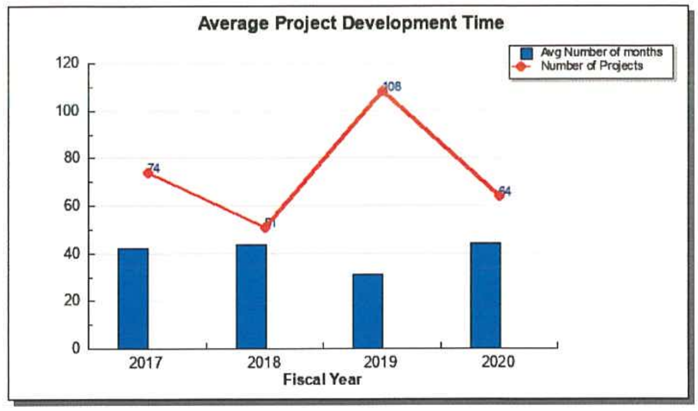
2. Operate Alaska's Transportation Infrastructure

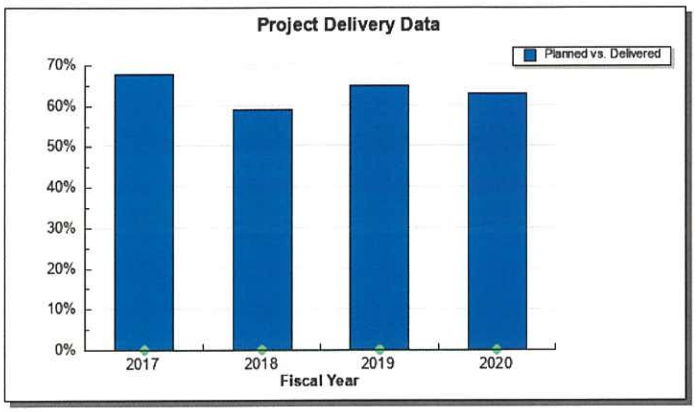


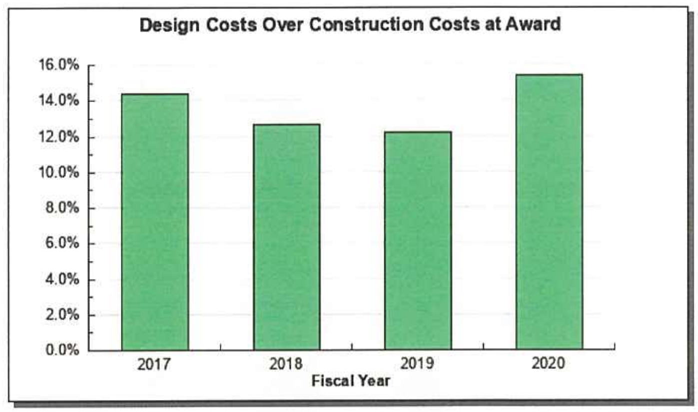


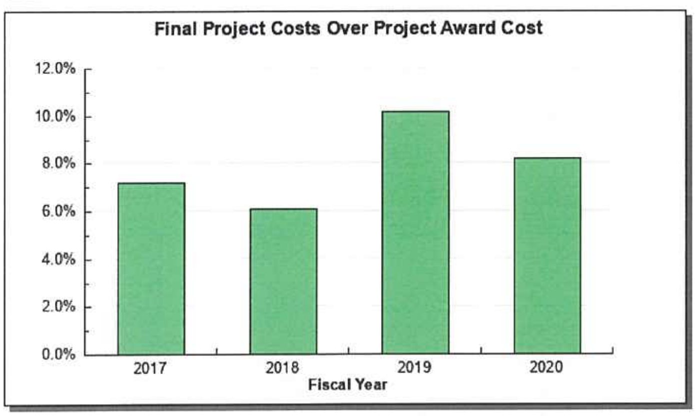
3. Modernize Alaska's Transportation Infrastructure

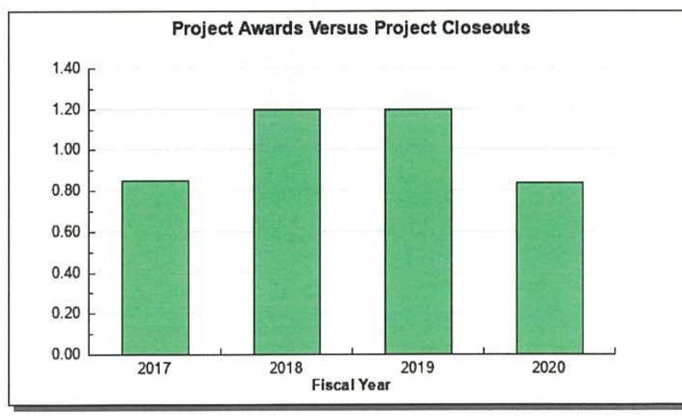


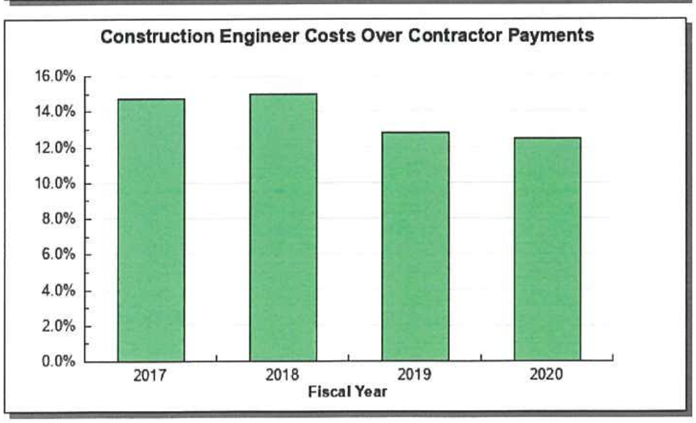






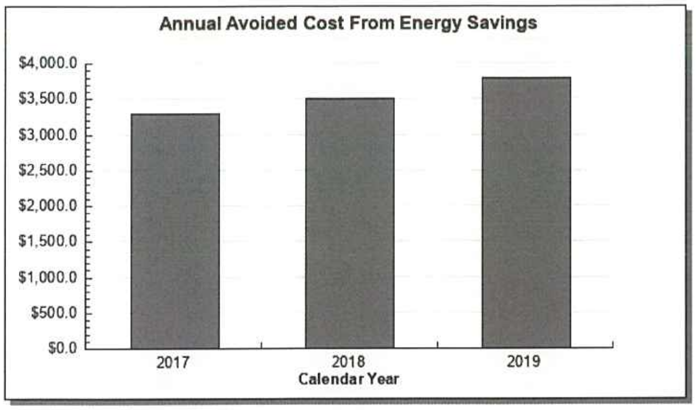




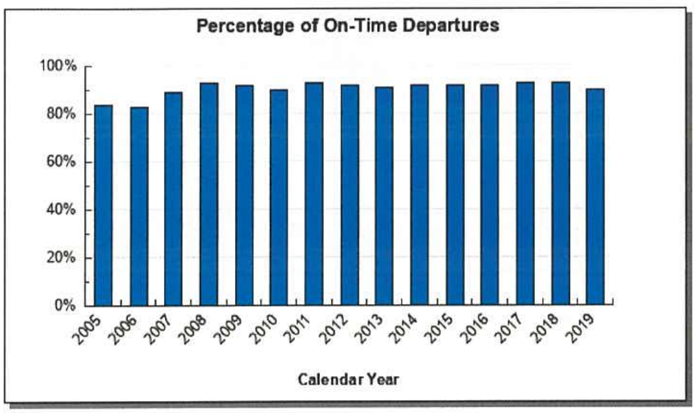


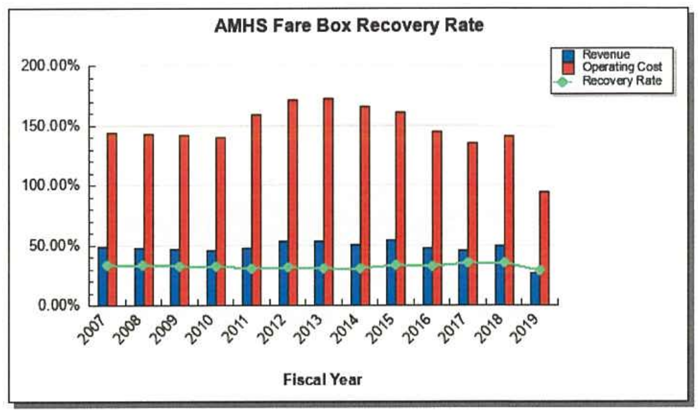
4. Mission Support Services

5. Shared Services



6. Provide Transportation Services





Major Department Accomplishments in 2020

- Successfully obligated $705,631.3 of federal aid highways, federal aid transit and federal safety funds to projects and grants, ensuring that no funds were lost for Alaska. Obligations in 2020 were higher due to Ferry Boat Funds, ongoing 2018 Earthquake Emergency Relief, and several other non-routine funding events.
- Successfully received and provided funding to communities for Transit and Aviation from CARES Act Coronavirus Relief. The amount of Section 5311 funding programed and distributed by the Department to various transit organizations across the State and Alaska Marine Highway System (AMHS) from CARES Act was $28,801.4.
- Executed $133,977.3 in rural airport improvements through Federal Aviation Administration.
- Developed a Part 107 operations manual for all DOT&PF Unmanned Aircraft Systems (UAS) operations.
- Per- and polyfluoroalkyl substances (PFAS) sampling was conducted at two airports not previously sampled and quarterly and annual monitoring sampling took place at four rural airports. Of the two new airports, one came back with no detections of PFAS while the other requires further investigation. A total of 505 wells have been sampled statewide with 136 above action levels.
- Alaska International Airport System maintained world-class operations despite 90% decline in air traffic. Air cargo surges elevated Anchorage International Airport to the busiest in North America several days in 2020.
- Maintained 24-hour availability of both international airports with no interruption to service.
- Alaska Marine Highway System (AMHS) provided 203 operating weeks of service and transported nearly 145,000 passengers and nearly 55,000 vehicles safely to their destinations while generating just under $30 million in revenue.
- AMHS managed in-state overhauls for seven vessels at Vigor Alaska LLC's Ketchikan ship repair facility.
- Maintained 19 state-owned harbor facilities, 12 seaplane floats including breakwaters and electrical systems.
- Managed the Highway Safety Improvement Program that obligated over $62,000.0 in federal fiscal year 2020.

- Collected 4,284 miles of pavement condition data on the road system as required for the National Highway Performance Program and to support Statewide Planning and Asset Management.
- Division of Facilities Services (DFS) executed Service Level Agreements for facility maintenance and operations, internally with DOT&PF, and externally with the Departments of Education and Early Development, Administration, Health and Social Services, Public Safety and Labor and Workforce Development. Continued onboarding of further departments for Service Level Agreement participation in FY2021.
- Consolidation of six state agencies and four regional components into the DFS. Looking at the lessons learned from other shared services initiatives and the conclusion of the first two years of DFS in FY2019 and FY2020; and using that information to make improvements for FY2021.
- Conducted 5,382 commercial motor vehicle safety inspections with 601 vehicles placed out-of-service for safety violations and 78 drivers placed out-of-service for safety violations.
- Inspected 6,592 scales, 5,313 meters, and 137 accessories (total of 12,042 in support of construction, fishing, mining, and petroleum industries).
- Completed testing and registration of 844 scales used in the regulation of the commercial marijuana industry.
- Initiated a comprehensive review of statewide equipment fleet operations with fleet consultants Mercury Associates. Review and report to be completed in FY2021.

Key Department Challenges

- Developing and implementing an affordable and sustainable multi-modal transportation system with the rising cost of operations, maintenance, and construction as well as the need for deferred maintenance with reduced general funds.
- Increasingly burdensome federal regulatory oversight in both reporting and compliance. New environmental regulations and agency interpretations continue to add complexity, cost, time, and risk to the delivery of projects.
- Reduced flexibility on how federal funds can be used across all modes of transportation.
- Increase in deferred maintenance needs for roads, airports and the marine transportation system.
- Sustaining an extensive, diverse, and geographically dispersed rural aviation infrastructure while facing increased costs of operation and maintenance and increasing FAA requirements.
- Balancing the various Alaska International Airport System cost center revenues so that costs incurred are being funded by the appropriate cost center users/customers.
- Producing a ferry schedule that meets the public's needs and expectations within the approved operating budget.
- Reduced ridership and revenues to offset operating costs for the AMHS.
- Accelerated maintenance (steel replacement) demands as a result of aging AMHS vessels.
- Recruitment and retention of qualified and skilled trades persons e.g., equipment operators in rural Alaska; engineers; airport fire and police officers; and commercial vehicle compliance and weights and measures inspectors.
- Fully utilizing the state's accounting, procurement, and human resource system – IRIS, as well as deficient IT resources across the department.
- Integrating and adopting new computerized systems that will significantly increase productivity while there is a two-year moratorium on syncing systems with IRIS.
- Right-sizing staff and assets to match the reduced budgets and equipment needs of all executive branch agencies.
- Managing impacts of 2021 Fast Act completion and either an extension or new bill of federal-aid contract authority.
- Prioritization of competing needs and investment options across the state with limited funding.
- Managing perceptions that federal funds are available for all projects.

COVID-19 Response and Telework Challenges

- In general, all positions capable of teleworking are teleworking successfully, keeping continuity of operations, and mitigating risk of an in-office outbreak. Approximately 30% of all full-time regular employees are teleworking.
- The department developed and published a comprehensive workplace operating plan for employees unable to telework or working part-time in the office.
- The Division of Facilities Services aided departments installing sneeze guards and barriers at necessary facilities.
- Altered staff schedules at remote maintenance camps to mitigate risk of COVID outbreak, resulting in significant increase in overtime.

- Supervisors report observable mental and physical stress on employees and managers due the pandemic
- COVID-19 response has proven to be very challenging aboard the vessels in the AMHS. An extensive mitigation plan has been drafted and is being followed by the vessel crews. Even under the plan, AMHS has experienced four COVID-19 related events, two of which have stopped ships from operating for a period, resulting in lost revenue.

Significant Changes in Results to be Delivered in FY2022

- Pursuing an online, digital, and publicly accessible Statewide Transportation Improvement Plan (STIP) solution.
- Expansion of building and service portfolio to an additional four or more agencies.
- Migration of select facilities into the Public Building Fund.
- Transfer of five components from Department of Administration for better management of facilities and workspace across the enterprise.
- Implementation of feasible changes recommended by the Governor's AMHS Reshaping Group.
- A new reservations system has been installed at all AMHS terminals and the Juneau Reservation Center. This system will be expanded to include chip and pin credit/debit card readers. The department is in the design process for a mobile application for use on smart phones.
- Statewide Equipment Fleet Implementation of a new fleet management system and converting 27 years of legacy fleet data to the new system.
- Review and implementation of results of fleet study conducted in FY2020/FY2021.
- Select Procurement functions being transferred to the Department of Administration.
- Continued consolidation of back-office functions through Shared Services initiatives, including travel and expense, collections, procurement, accounts payable, and Office of Information Technology (OIT).

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Tab 8. GF/Program Receipts

(Information will be added when available.)