

1/17/08

PRESENT.:

LEGIS.

FINANCE

BUDGET

(W/SFC)

HFIN

FILE

Alaska State Legislature
SENATE/HOUSE JOINT
FINANCE COMMITTEE

Agenda

January 17, 2008

1:00 PM

Overview of Governor's Proposed FY 2009 Budget
Director David Teal-Legislative Finance Division

also present:

Rep. Paul Koch

Rep. Hallenberg

Sen Gary Stevens

absent:

~~Rep. [unclear]~~

Sen Steve Egan

~~[unclear]~~

David Seal 1-17-08

State of Alaska Fiscal Summary

(\$ millions)

	FY08 Management Plan with Adjustments				FY09 Governor's Request				GF Change	
	GF	Federal	Other	Total	GF	Federal	Other	Total	\$	%
REVENUE (Excludes Permanent Fund Earnings)										
1 Unrestricted General Fund Revenue (1)	3,572.0			3,572.0	5,222.8			5,222.8	1,550.2	146%
2 Carryforward (2)	18.0	6.2	2.0	26.8						
3 Public Education Fund Balance (3)	614.7			614.7						
4 Bond Proceeds and Other Borrowing (4)				0.0			50.0	60.0		
5 Net Corporate Dividends (5)			86.5	86.5			87.6	87.6		
6 Federal and Other Funds		2,538.9	1,114.4	3,653.3		2,571.2	1,217.3	3,788.5		
7 Total Revenue	4,205.9	2,545.1	1,202.9	7,953.9	5,222.8	2,571.2	1,364.9	9,158.9		
APPROPRIATIONS										
9 Operating	3,763.0	1,761.8	1,024.2	6,539.0	4,241.7	1,779.5	1,131.4	7,152.7	478.7	13%
10 Agency Operations (Non-Formula)	1,573.0	851.1	1,410.5	3,834.6	1,697.8	890.9	1,586.8	4,175.5	124.8	
11 Formula Programs	1,508.1	855.9	92.5	2,456.5	1,516.6	843.1	98.3	2,458.0	8.5	
12 Debt Service	124.8	11.8	317.0	453.6	115.2	13.1	245.9	374.1	(9.6)	
13 Fund Capitalization	28.4	21.0	23.0	72.4	32.4	27.5	28.0	87.9	4.0	
14 Direct Appropriations to Retirement	455.0	0.0	0.0	455.0	408.4	0.0	0.0	408.4	(46.6)	
15 New Legislation (6)					155.3	0.0	0.4	155.7	155.3	
16 RPLs	0.0	0.0	1.5	1.5	0.0	0.0	0.0	0.0	0.0	
17 Revenue Sharing	48.7	0.0	0.0	48.7	75.0	0.0	0.0	75.0	26.3	
18 Oil & Gas Tax Refunds	25.0	0.0	0.0	25.0	200.0	0.0	0.0	200.0	175.0	
19 Governor's Unspecified Amendments					41.0	5.0	16.0	62.0	41.0	
20 Duplicated Authorization (7)	0.0	0.0	(80.2)	(80.2)	0.0	0.0	(843.9)	(843.9)		
21 Capital	358.8	700.1	176.6	1,235.5	317.8	791.7	233.5	1,343.0	(41.0)	-11%
22 Project Appropriations & RPLs (Revised Programs)	345.1	650.0	210.8	1,205.9	292.8	791.6	322.6	1,407.0	199.1	
23 Mental Health Projects	12.7	50.1	5.8	68.6	4.6	0.0	13.0	17.6	(5.0)	
24 Projects Funded with Debt Proceeds (4)	0.0	0.0	54.2	54.2	0.0	0.0	326.6	326.6		
25 Fund Capitalization	11.1	0.0	71.1	82.2	10.0	0.1	127.8	137.9	55.7	
26 Governor's Unspecified Amendments					10.5	0.0	0.0	10.5	10.5	
27 Duplicated Authorization (7)	0.0	0.0	(31.6)	(31.6)	0.0	0.0	(568.5)	(568.5)		
28 Total Authorization (unduplicated)	4,121.8	2,541.9	1,202.8	7,866.5	4,559.6	2,571.2	1,364.9	8,495.7	437.8	11%
29 Unadjusted Surplus (Draw From CBRF)	84.1				663.2					
ADJUSTMENTS TO REVENUE										
31 Fall 2007 Revenue Adjustment (1)	2,567.2			2,567.2		0.0	0.0	0.0		
32 Total Adjusted Revenue	6,773.1	2,545.1	1,202.9	10,521.1	5,222.8	2,571.2	1,364.9	9,158.9	(1,550.3)	-23%
33 Adjusted Surplus (Draw From CBRF)	2,651.3				663.2					
ADJUSTMENTS TO AUTHORIZATION										
34 K-12 GF Obligations paid by the PEF (3)	352.6	2.7	0.0	970.0	23.5	0.0	0.0	50.0		
35 Public Education Fund for Future Fiscal Years (3)	(614.7)	0.0	0.0	(614.7)	(1,026.5)	0.0	0.0	(1,026.5)		
36 Governor's Proposed Supplemental Authorization										
37 Operating Placeholder	108.3	0.0	(0.0)	108.3	50.0	0.0	0.0	50.0		
38 Capital Projects (net of Duplication)	34.0	2.7	0.1	36.8	0.0	0.0	0.0	0.0		
39 Deposits to Retirement Accounts (8)	450.0	0.0	0.0	450.0	0.0	0.0	0.0	0.0		
40 Energy Fund	250.0	0.0	0.0	250.0	0.0	0.0	0.0	0.0		
41 Oil & Gas Tax Refunds	125.0	0.0	0.0	125.0	0.0	0.0	0.0	0.0		
42 Pro-Savings Authorization (unduplicated)	4,474.4	2,544.5	1,202.9	8,836.5	4,583.1	2,571.2	1,364.9	8,545.7	108.6	2%
43 Pre-Savings Surplus (Draw From CBRF)	2,298.7				639.7					
44 Governor's Proposed Savings	2,298.7	0.0	0.0	2,298.7	655.3	0.0	0.0	655.3		
45 Public Education Fund for Future Fiscal Years (3)	1,575.0	0.0	0.0	1,575.0	0.0	0.0	0.0	0.0		
46 Transportation Fund	500.0	0.0	0.0	500.0	500.0	0.0	0.0	500.0		
47 Deposit to Constitutional Budget Reserve Fund (9)	223.7	0.0	0.0	223.7	155.3	0.0	0.0	155.3		
48 Other Savings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
49 Final Anticipated Authorization (unduplicated)	6,773.1	2,544.5	1,202.9	11,135.2	5,238.4	2,571.2	1,364.9	9,201.0		
50 Final Anticipated Surplus (Draw From CBRF)	0.0				(15.6)					
51 Permanent Fund Dividends	0.0	0.0	1,251.0	1,251.0	0.0	0.0	1,357.0	1,357.0		
52 Permanent Fund Inflation Proofing & Other Deposits (10)	0.0	0.0	3,217.0	3,217.0	0.0	0.0	803.0	803.0		
53 TOTAL BUDGET WITH PERMANENT FUND	6,773.1	2,545.1	5,670.9	15,603.7	5,238.4	2,571.2	3,524.9	11,361.0	(1,534.8)	-23%

- Notes:
- The FY08 revenue forecast published in the Spring 2007 Sources Book (line 1) is revised upward by \$3.2 billion on line 31. The \$614.7 million balance of the Public Education Fund is removed from revenue on line 31. The Fall 2007 revenue forecast for FY08 is 0.731 million barrels per day at \$72.64 per barrel, the FY09 forecast is 0.701 mbd at \$66.32/bbl.
 - Carryforward is money that was appropriated in a prior year (but posted to FY08 authorization after June 30, 2006) that is made available for spending in FY08 via multiyear appropriations or reappropriations.
 - In recent years, the amount of the Public Education Fund (PEF) used for current year K-12 costs was shown as revenue in order to display how much K-12 funding came from prior fiscal years versus the current year. That presentation obscured the comparison of current-year revenue versus spending by over-stating current-year revenue. The FY09 presentation improves clarity with the same net effect, instead of increasing revenue (line 3). FY09 general fund authorization is reduced by the amount of K-12 costs that are included as general funds on lines 11 and 15, but that will actually be paid from the PEF (\$885 million under current law plus \$141.5 million for K-12 increases associated with new legislation = \$1,026.5 million, line 35). The FY08 reduction in authorization for PEF payments is \$614.7 million (line 35). FY09 deposits to the PEF are shown on line 36.
 - The FY09 budget includes \$60 million in projects funded with proceeds of bonds to be sold by the Alaska Student Loan Corporation. This amount appears as revenue because the state is not responsible for debt service on these bonds. The Governor proposed \$240 million in projects financed with general obligation bonds. GO bonds proceeds do not appear as revenue because the state is responsible for future debt service payments. The GO bond proceeds are included on line 24 and are deducted on line 27.
 - Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are excluded from the stated amount. Net dividends for FY08 and FY09, respectively, are AHFC-\$73.5 million and \$59.7, AIDEA-\$10 million and \$23.8 million, and ASLC-\$1.2 million, and \$4.1 million.
 - The amount for new legislation includes \$141.5 million to implement proposed changes to the K-12 formula and pupil transportation. An additional \$13.9 million is associated with unspecified legislation.
 - Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
 - The Governor proposes to deposit \$450 million to the Teachers Retirement System (TRS) account to pay a portion of the systemwide unfunded liability.
 - The Governor proposes to deposit specified amounts to the Constitutional Budget Reserve Fund (CBRF) in FY08 and FY09, in addition to available general funds that might be swept to the CBRF at year end.
 - Anticipated FY08 Deposits to the Permanent Fund include \$769 million for inflation proofing plus the Governor's proposed \$2.448 billion transfer from the Earnings Reserve Account.

Public Education Fund--Cash Flow Mechanics				Governor's Budget Proposal														
Line		FY06		FY07		FY08		FY09		FY10		FY11		FY12		FY13		FY09-FY13 Cost Increase
		Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	
1	Beginning Balance			7.9		538.8		922.9		2,612.9		1,604.3		311.2		(895.5)		
	Supplemental Appropriation	400.0	Sec. 4(i), Ch. 6, SLA 2005-FY05 \$ for FY05	300.0	Sec. 16(a) Ch. 13, SLA 2006-FY06 \$	1,000.0	Sec. 1, Ch. 10, SLA 2007-FY07 \$	1,575.0	Gov. \$900 for FY10, plus \$975 for cost increases for 3 years									
2	Supplement: Appropriation	16.8	Sec. 4(e) Ch. 6, SLA 2005-FY05 Lapse \$ for FY06	565.0	Sec. 20(a) Ch. 82, SLA 2006-FY06 \$													
3	Supplemental Appropriation			209.1	Sec. 16(b) Ch. 13, SLA 2006-FY06 Gf Sweep													
4	Available Balance	416.8		1,082.0		1,538.8		2,497.9		2,612.9		1,504.3		311.2		(895.5)		
5	Expenditures																	
7	Foundation Base	827.8		897.5		853.8		832.1		967.0		1,047.1		1,081.6		1,094.2		235.0
8	BSA Increase							44.8	+\$200 to \$5.5-10	46.0	+\$200 to \$5.780	47.2	48.0	48.0	49.0	49.0	49.0	100.4
9	Distinct Cost Factors							48.3	Year 1 of 5 remains at 50% of ISER	12.7	Year 2 of 5 +12.5 to 62.5% of ISER	13.1	13.6	13.6	12.7	12.7	12.7	
10	Intensive Needs							41.3	Year 1 of 3 +4 to 9+AADM	21.4	Year 2 of 3 +2 to 11+AADM	22.2	22.2	22.2	22.2	22.2	22.2	84.9
11	Hold Harmless							0.5										0.5
12	Subtotal Foundation	827.8		897.5		853.8		967.0		1,047.1		1,129.6		1,143.2		1,155.9		420.8
14	Pupil Trans Base	54.3		54.7		53.6		53.0		59.5		61.5		63.5		63.5		
15	Pupil Trans Proposed Increase							6.5		2.0		2.0		2.0		2.0		
16	Subtotal Pupil Trans	54.3		54.7		53.6		59.5		61.5		63.5		63.5		63.5		
17	Total K-12 Expenditures	882.2		952.2		907.4		1,026.5		1,108.6		1,193.1		1,206.7		1,219.4		
18	Surplus/(Deficit)	(465.3)		129.8		631.5		1,471.4		1,504.3		311.2		(895.5)		(2,114.9)		
21	Current Year Appropriations																	
22	Appropriation	473.2	Sec. 4(i), Ch. 6, SLA 2005	278.0	Sec. 25(m), Ch. 33, SLA 2006	291.4	Sec. 14(a), Ch. 29, SLA 2007	1,000.0		unspecified		unspecified		unspecified		unspecified		
23	Fiscal Note			131.0	Fiscal Note to Hb 13-BSA 5429 and DCI			141.5	Fiscal note for Education Tax Slice Implementation									
24	Subtotal Current Year Approps	473.2		409.1		291.4		1,141.5		1,504.3		311.2		(895.5)		(2,114.9)		
25	Year-End Balance	7.9		538.8		922.9		2,612.9		1,504.3		311.2		(895.5)		(2,114.9)		
26	Anticipated Expenditures in Next Year	952.2		907.4		939.9		1,108.6		1,103.1		1,200.7		1,219.4		1,219.4		
27	Early Funding Level (Target 10%)	1%		59%		98%		236%		126%		26%		73%		173%		
28	Short/(over) Target Balance	953.9		377.6		26.4		(1,493.2)		(299.2)		607.6		2,127.1		3,340.5		

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Public Education Fund--Cash Flow Mechanics

Legislative Intent

Line	FY06		FY07		FY08		FY09		FY10		FY11		FY12		FY13		FY09-FY13
	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cash Flow	Notes	Cost Increase
1	Beginning Balance		7.9		638.8		922.9		1,146.5		1,231.0		1,244.6		1,257.3		
2	Supplemental Appropriation	400.0	373.0	1,000.0													
3	Supplemental Appropriation	16.8	565.0														
4	Supplemental Appropriation		209.1														
5	Available Balance	416.8	1,082.0	1,538.8	922.9	1,146.5	1,231.0	1,244.6	1,257.3								
7	Expenditures																
8	Foundation Base	827.8	897.5	853.8	832.1	967.0	1,047.1	1,129.6	1,047.1	1,081.6	1,143.2	1,155.9	1,094.2	1,155.9	1,094.2		
9	BSA Increase				44.8	40.0	47.2	49.0	47.2	48.0	48.0	49.0	49.0	49.0	49.0		235.0
10	Distinct Cost Factors				40.3	12.7	13.1	13.6	13.1	13.6	13.6	12.7	12.7	12.7	12.7		100.4
11	Intensive Needs				41.3	21.4	22.2		21.4	22.2							84.0
12	Hold Harmless				0.5				0.5								0.5
13	Subtotal Foundation	827.8	897.5	853.8	967.0	1,047.1	1,129.6	1,143.2	1,129.6	1,143.2	1,155.9	1,155.9	1,094.2	1,155.9	1,094.2		
14	Pupil Trans Base	54.3	54.7	53.6	53.0	59.5	61.5	63.5	59.5	61.5	63.5	63.5	63.5	63.5	63.5		
15	BSA Increase				6.5	2.0	2.0		2.0	2.0							
16	Pupil Trans Proposed Increase				6.5	2.0	2.0		2.0	2.0							
17	Subtotal Pupil Trans	54.3	54.7	53.6	59.5	61.5	63.5	63.5	61.5	63.5	63.5	63.5	63.5	63.5	63.5		
18	Total K-12 Expenditures	882.2	952.2	907.4	1,026.5	1,108.6	1,193.1	1,206.7	1,193.1	1,206.7	1,219.4	1,219.4	1,219.4	1,219.4	1,219.4		
19	Surplus/(Deficit)	(465.3)	129.8	631.5	(103.6)	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9	37.9		
23	Current Year Appropriations	473.2	278.0	291.4	1,108.6	1,103.1	1,206.7	1,219.4	1,103.1	1,206.7	1,219.4	1,219.4	1,219.4	1,219.4	1,219.4		
24	Fiscal Note		131.0	141.5													
25	Subtotal Current Year Approps	473.2	409.1	291.4	1,250.1	1,193.1	1,206.7	1,219.4	1,193.1	1,206.7	1,219.4	1,219.4	1,219.4	1,219.4	1,219.4		
26	Year-End Balance	7.9	538.8	922.9	1,146.5	1,231.0	1,244.6	1,257.3	1,231.0	1,244.6	1,257.3	1,257.3	1,257.3	1,257.3	1,257.3		
29	Anticipated Expenditures in Next Year	952.2	907.4	1,026.5	1,108.6	1,193.1	1,206.7	1,219.4	1,193.1	1,206.7	1,219.4	1,219.4	1,219.4	1,219.4	1,219.4		
30	Early Funding Level (Target 101%)	59%	59%	90%	103%	103%	103%	103%	103%	103%	103%	103%	103%	103%	103%		
31	Short/(over) Target Balance	953.9	377.6	113.9	(20.8)	(25.0)	(25.8)	(25.7)	(25.0)	(25.8)	(25.7)	(25.7)	(25.7)	(25.7)	(25.7)		

Conclusions

The Governor's proposed \$1.575 billion FY08 supplemental appropriation is not required to meet the target of one year early funding.
 The Governor's proposed \$1 billion FY09 appropriation is insufficient (by \$108.6 million) to meet the target of appropriating FY09 money for FY10 K-12 needs.
 The target balance can be met with approximately \$20 million less than is expected to accompany a bill implementing the Education Task Force recommendations.

Millions

\$7,000

\$6,000

\$5,000

\$4,000

\$3,000

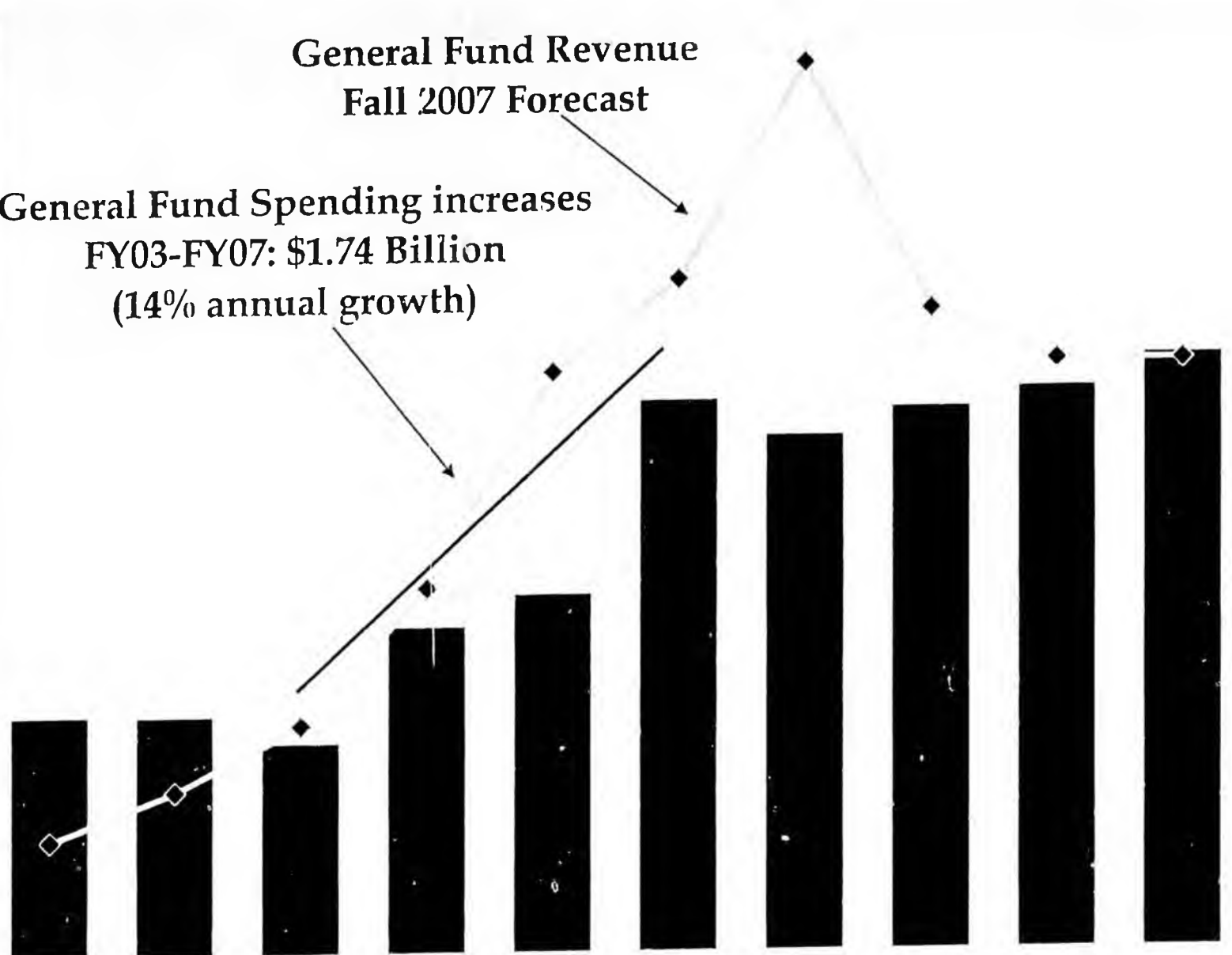
\$2,000

\$1,000

General Fund Revenue Fall 2007 Forecast

General Fund Spending increases
FY03-FY07: \$1.74 Billion
(14% annual growth)

FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11



State of Alaska

Fiscal 2009 Governor's Budget Fiscal Summary (dollars shown in millions)

	FY2008 Authorized				FY2009 Governor				FY2009 to FY2008	
	General Fund	Federal Funds	Other Funds	Total Funds	General Fund	Federal Funds	Other Funds	Total Funds	General Fund	%
1 Revenues										
2 Unrestricted General Fund Revenues (Fall 2007 Forecast) (A)	6,604.5			6,604.5	5,038.4			5,038.4		
3 Department of Revenue O&G Tax Credits (expensed below)	150.0			150.0	200.0			200.0		
4 Reappropriations and Carry Forward (B)	633.5	6.2	1.5	641.1	1,026.5			1,026.5		
5 Corporate Dividends and Bonds(C)			86.5	86.5			147.6	147.6		
6 Federal and Other State Funds		2,538.4	1,114.1	3,652.5		2,571.2	1,217.3	3,788.5		
7 Total Revenues	7,388.0	2,544.5	1,202.1	11,134.6	6,264.9	2,571.2	1,354.9	10,201.0	(1,123.1)	-15.2%
8 Authorization to Spend										
9 Operating, Debt and Fund Capitalization	3,741.0	1,751.9	1,100.8	6,593.7	3,780.4	1,774.6	1,143.0	6,698.1	39.4	1.1%
10 Agency Operations (Non-formula)	1,596.9	861.2	1,499.2	3,957.3	1,673.4	865.4	1,584.3	4,123.1		
11 Formula Programs and Potential Rate Adjustments	559.2	855.8	92.5	1,507.5	655.9	868.5	98.3	1,622.8		
12 Public Education Fund and K-12 School Grants (D)	973.9			973.9	885.1			885.1		
13 Direct Deposit to PERS and TRS	455.0			455.0	408.4			408.4		
14 Debt Service (H)	22.5	0.0	210.9	233.4	-43.8	0.0	209.6	253.4		
15 Debt Retirement Fund Capitalization (H)	102.3	11.8	7.0	121.1	71.4	13.1	36.2	120.7		
16 Other Fund Capitalization (I)	31.3	23.1	23.0	77.4	42.4	27.6	130.3	200.3		
17 AK Capital Income Fund Capitalization (Am Hess) (J)			78.4	78.4			28.0	28.0		
18 Duplicated Authorizations (E)			(810.2)	(810.2)			(943.7)	(943.7)		
19 Supplementals	142.3	2.7	0.8	145.8	50.0	0.0	0.0	50.0	(92.3)	-64.9%
20 Capital Projects Funded from FY2008 Surplus	34.0	2.7	6.0	42.7				0.0		
21 Statewide Supplementals (placeholder)	108.3		(41.0)	67.3	50.0			50.0		
22 Duplicated Authorizations (F)			35.8	35.8				0.0		
23 Capital	355.9	790.0	100.5	1,246.4	372.3	791.6	205.5	1,369.4	16.4	4.6%
24 Project Appropriations and Revised Programs	266.2	790.0	310.5	1,366.7	297.3	791.6	322.4	1,411.3		
25 Revenue Sharing				0.0	75.0			75.0		
26 DEED Major Maintenance Grants Fund Capital Projects (F)				0.0			80.7	80.7		
27 DEED School Construction Grant Fund (G)	89.7			89.7			19.1	19.1		
28 Duplicated Authorizations (E)			(210.0)	(210.0)			(216.7)	(216.7)		
29 New Legislation				0.0	155.3	0.0	0.4	155.7		
30 Public Education Fund				0.0	141.4			141.4		
31 Other New Legislation Items				0.0	13.9		0.4	14.3		
32 FY2009 Potential Amendments				0.0	51.5	5.0	16.0	72.5		
33 Operating				0.0	41.0	5.0	16.0	62.0		
34 Capital				0.0	10.5			10.5		
35 Total Authorization to Spend	4,239.3	2,544.5	1,202.1	7,985.9	4,409.6	2,571.2	1,364.9	8,345.7	170.3	4.0%
36 PF Dividends / PFD Division Operations (K)			1,251.0	1,251.0			1,357.0	1,357.0		
37 PF Inflation Proofing		0.6	769.0	769.6			803.0	803.0		
38 Total AK Permanent Fund		0.6	2,020.0	2,020.6			2,160.0	2,160.0		
39 Totals with Permanent Fund	4,239.3	2,545.1	3,222.1	10,006.5	4,409.6	2,571.2	3,524.9	10,505.7		
40 Additional Legislation	750.0				500.0					
41 Transportation Endowment	500.0				500.0					
42 Energy Fund	250.0									
43 Additional Savings / Investments	2,175.0				1,200.0					
44 Oil and Gas Tax Credits (appropriated)	25.0				200.0					
45 Oil and Gas Tax Credits (Supplemental placeholder)	125.0									
46 Teachers Retirement System - reduce unfunded liability	-450.0									
47 Public Education Fund	1,575.0				1,000.0					
48 Balance to Constitutional Budget Reserve	223.7				155.3					

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The Fiscal Year 2009 Budget: Legislative Fiscal Analyst's Overview of the Governor's Request



Legislative Finance Division

<http://www.legfin.state.ak.us/>

The Legislative Fiscal Analyst Office has a professional, non-partisan staff that provides general budget analysis for members of the legislature and specifically supports the Legislative Budget and Audit Committee and the House and Senate standing finance committees. Each fiscal analyst is assigned agency areas of responsibility. Duties of the office are to:

- (1) *analyze the budget and appropriation requests of each department, institution, bureau, board, commission or other agency of state government;*
- (2) *analyze the revenue requirements of the state;*
- (3) *provide the finance committees of the legislature with comprehensive budget review and fiscal analysis services;*
- (4) *cooperate with the Office of Management and Budget in establishing a comprehensive system for state budgeting and financial management as set out in the Executive Budget Act (AS 37.07);*
- (5) *complete studies and prepare reports, memoranda or other materials as directed by the Legislative Budget and Audit Committee;*
- (6) *with the Governor's permission, designate the legislative fiscal analyst to serve ex officio on the Governor's budget review committee. [AS 24.20.231]*

Legislative Finance Budget System. The system tracks budget transactions and provides comparative reports for committees and subcommittees. In addition, the system is used to produce the Governor's budget request books, the general appropriations bills, Conference Committee reports and a breakdown of the capital budget by House district.

LEGISLATIVE FINANCE DIVISION FISCAL ANALYST/BUDGET ASSIGNMENTS

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Introduction

As required by law, the Governor released her FY09 budget proposal to the public and the legislature before December 15, 2007. The Legislative Finance Division prepared this Overview of the Governor's proposal and "subcommittee books" for each agency in accordance with AS 24.20.211-231.

Although the statement has little to do with the budget as a policy document, the Legislative Finance staff would like to express appreciation to the Governor and her staff for submitting the budget five days before the deadline. The additional time for analysis is particularly important as legislators face their first 90-day session.

Alaska's Fiscal Situation

For the fourth consecutive year, legislators will begin a legislative session facing decisions about the disposition of surplus general fund revenue. The magnitude of the expected FY08 surplus—\$2.65 billion, or 65% of the FY08 budget—is staggering. In contrast to past sessions, there is also a substantial surplus projected for the coming fiscal year (\$680 million).

The projected FY09 surplus is much smaller than in FY08 due to:

1. A projected decline in petroleum revenue—production is projected to drop from .731 million barrels per day (mbpd) to .701 mbpd, and price to drop from \$72.64 per barrel to \$66.32 per barrel. The resulting reduction of revenue is \$1.5 billion.
2. Proposed FY09 general fund appropriations that are \$440 million more than has been appropriated in FY08.

There are several clarifying statements associated with the second point. Of the \$440 million increase in appropriations:

1. \$175 million is attributable to oil and gas development credit refunds. While the refunds are undeniably a cost to the state, they are not associated with agency operations.
2. \$65 million is attributable to K-12 increases that are expected to be part of a fiscal note. Past governors have shown only their own legislation (and typically minimized the costs of that) in fiscal summaries. Inclusion of this amount provides a better picture of the full size of the budget.
3. \$41 million is attributable to anticipated amendments. Reporting of the estimated cost of amendments is unusual and provides a more accurate picture of anticipated costs.
4. \$26 million is attributable to proposed increases in revenue sharing. As with tax refunds, this amount is not associated with agency operations.
5. On the other hand, there are several items that understate the cost of continuing the FY09 level of general fund spending in the future (i.e., some FY09 spending that does not appear as general funds would likely need to be replaced with general funds in order to maintain the FY09 level of spending). These include appropriations of:
 - \$240 million of general obligation bonds;
 - \$60 million of Alaska Student Loan Corporation bonds; and
 - \$150 million from the Alaska Capital Income Fund.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

The Budget as an Expression of Policy

The complications listed above—which are typical of budget comparisons—make it difficult to compare budgets across years. Agency summaries (operating budget on pages 19 & 20 and capital budget on page 73) provide a quick look at the Governor's proposed budget compared with FY08 spending. Greater detail is available in the discussion of the operating budget (page 17) and the agency write-ups beginning on page 86. Subcommittee members will want to review the detailed agency books available in the Finance Committee rooms.

But agency budgets are not where significant current policy decisions reside. As usual, the largest general fund increase is in the Department of Health and Social Services (\$144 million), and the increase in all other agencies combined is less than half the amount for DHSS. Moreover, agency increases generally reflect increased costs driven by population, entitlements, fuel prices and other "hard to control" items.

The Governor's two major policy initiatives are

1. Slowing government growth and
2. Saving for the future.

The first initiative is reflected in a three-year plan. There is little to discuss at this point—details of the plan are not available, and any discussion of problems and the probability of success are premature in this forum.

The disposition of the surplus will be a focal point of the legislative session. The Governor's savings plan covers both FY08 and FY09 and leaves no money unappropriated. Components of the savings plan, and some discussion of various savings proposals, appear in the walk-through of the fiscal summary that starts on page 6 of this Overview.

State of Alaska Fiscal Summary

(\$ millions)

	FY08 Management Plan with Adjustments				FY09 Governor's Request				GF Change	
	GF	Federal	Other	Total	GF	Federal	Other	Total	\$	%
REVENUE (Excludes Permanent Fund Earnings)										
1 Unrestricted General Fund Revenue (1)	1,672.6			1,672.6	5,238.4			5,238.4	1,665.8	147%
2 Carryforward (2)	18.1	6.2	2.0	26.3						
3 Public Education Fund Balance (3)	614.7			614.7						
4 Bond Proceeds and Other Borrowing (4)							60.0	60.0		
5 Net Corporate Dividends (5)							87.8	87.8		
6 Federal and Other Funds		2,545.1	1,202.9	3,750.0		2,571.2	1,217.3	3,788.5		
Total Revenue	4,205.9	2,545.1	1,202.9	7,953.9	5,238.4	2,571.2	1,364.9	9,174.5		
APPROPRIATIONS										
8 Operating	3,793.0	1,751.8	1,024.2	6,539.0	4,241.7	1,779.5	1,131.4	7,152.7	478.7	13%
9 Agency Operations (Non-Formula)	1,723.0	881.1	1,339.0	3,943.1	1,697.8	890.9	1,586.8	4,175.5	124.8	
10 Formula Programs	1,869.0	870.7	685.2	3,424.9	1,516.6	843.1	98.3	2,458.0	85	
11 Debt Service	115.2	13.1	245.9	374.1	115.2	13.1	245.9	374.1	(9.6)	
12 Fund Capitalization	32.4	27.5	28.0	87.9	32.4	27.5	28.0	87.9	4.0	
13 Direct Appropriations to Retirement	408.4	0.0	0.0	408.4	408.4	0.0	0.0	408.4	(46.6)	
14 New Legislation (6)	155.3	0.0	0.4	155.7	155.3	0.0	0.4	155.7	155.3	
15 RPLs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Revenue Sharing	75.0	0.0	0.0	75.0	75.0	0.0	0.0	75.0	26.3	
17 Oil & Gas Tax Refunds	200.0	0.0	0.0	200.0	200.0	0.0	0.0	200.0	175.0	
18 Governor's Unspecified Amendments	41.0	5.0	16.0	62.0	41.0	5.0	16.0	62.0	41.0	
19 Duplicated Authorization (7)	0.0	0.0	(843.9)	(843.9)	0.0	0.0	(843.9)	(843.9)		
21 Capital	318.8	790.1	178.6	1,277.5	317.8	791.7	233.5	1,343.0	(41.0)	-11%
22 Project Appropriations & RPLs (Revised Programs)	292.8	791.6	322.6	1,407.0	292.8	791.6	322.6	1,407.0		
23 Mental Health Project	4.6	0.0	13.0	17.6	4.6	0.0	13.0	17.6		
24 Projects Funded with Debt Proceeds (4)	0.0	0.0	326.6	326.6	0.0	0.0	326.6	326.6		
25 Fund Capitalization	10.0	0.1	127.8	137.9	10.0	0.1	127.8	137.9		
26 Governor's Unspecified Amendments	10.5	0.0	0.0	10.5	10.5	0.0	0.0	10.5		
27 Duplicated Authorization (7)	0.0	0.0	(556.5)	(556.5)	0.0	0.0	(556.5)	(556.5)		
Total Authorization (unduplicated)	4,121.8	2,541.9	1,202.8	7,866.5	4,559.6	2,571.2	1,364.9	8,495.7	437.8	11%
29 Unadjusted Surplus (Draw From CBRF)	84.1				678.8					
ADJUSTMENTS TO REVENUE										
30 Fall 2007 Revenue Adjustment (1)	2,567.2			2,567.2		0.0	0.0	0.0		
Total Adjusted Revenue	6,773.1	2,545.1	1,202.8	10,521.1	5,238.4	2,571.2	1,364.9	9,174.5	(1,534.7)	-23%
33 Adjusted Surplus (Draw From CBRF)	2,651.3				678.8					
ADJUSTMENTS TO AUTHORIZATION										
34 K-12 GF Obligations paid by the PEF (3)	(614.7)	0.0	0.0	(614.7)	(1,026.5)	0.0	0.0	(1,026.5)		
35 Public Education Fund for Future Fiscal Years (3)	0.0	0.0	0.0	0.0	1,000.0	0.0	0.0	1,000.0		
37 Governor's Proposed Supplemental Authorization										
38 Operating Placeholder	108.3	0.0	(0.0)	108.3	50.0	0.0	0.0	50.0		
39 Capital Projects (net of Duplication)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
40 Deposits to Retirement Accounts (8)	450.0	0.0	0.0	450.0	0.0	0.0	0.0	0.0		
41 Energy Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
42 Oil & Gas Tax Refunds	125.0	0.0	0.0	125.0	0.0	0.0	0.0	0.0		
Pre-Savings Authorization (unduplicated)	4,474.4	2,544.5	1,202.9	8,836.5	4,583.1	2,571.2	1,364.9	8,545.7		
44 Pre-Savings Surplus (Draw From CBRF)	2,298.7				655.3					
45 Governor's Proposed Savings	2,298.7	0.0	0.0	2,298.7	655.3	0.0	0.0	655.3		
46 Public Education Fund for Future Fiscal Years (3)	1,575.0	0.0	0.0	1,575.0	0.0	0.0	0.0	0.0		
47 Transportation Fund	500.0	0.0	0.0	500.0	500.0	0.0	0.0	500.0		
48 Deposit to Constitutional Budget Reserve Fund (8)	223.7	0.0	0.0	223.7	145.3	0.0	0.0	145.3		
49 Other Savings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Final Anticipated Authorization (unduplicated)	6,773.1	2,544.5	1,202.9	11,135.2	5,238.4	2,571.2	1,364.9	9,201.0		
51 Final Anticipated Surplus (Draw From CBRF)	0.0				0.0					
52 Permanent Fund Dividends	0.0	0.0	1,251.0	1,251.0	0.0	0.0	1,357.0	1,357.0		
53 Permanent Fund Inflation Proofing & Other Deposits (10)	0.0	0.6	3,217.0	3,217.6	0.0	0.0	803.0	803.0		
TOTAL BUDGET WITH PERMANENT FUND	6,773.1	2,545.1	5,670.9	15,603.7	5,238.4	2,571.2	3,524.9	11,361.0	(1,534.8)	-23%

Notes:

- (1) The FY08 revenue forecast published in the Spring 2007 Sources Book (line 1) is revised upward by \$3.2 billion on line 31. The \$614.7 million balance of the Public Education Fund is removed from revenue on line 31. The Fall 2007 revenue forecast for FY08 is 0.731 million barrels per day at \$72.64 per barrel, the FY09 forecast is 0.701 mbd at \$66.32/bbl.
- (2) Carryforward is money that was appropriated in a prior year (but posted to FY08 authorization after June 30, 2006) that is made available for spending in FY08 via multiyear appropriations or reappropriations.
- (3) In recent years, the amount of the Public Education Fund (PEF) used for current-year K-12 costs was shown as revenue in order to display how much K-12 funding came from prior fiscal years versus the current year. That presentation obscured the comparison of current-year revenue versus spending by overstating current-year revenue. The FY09 presentation improves clarity with the same net effect, instead of increasing revenue (line 3). FY09 general fund authorization is reduced by the amount of K-12 costs that are included as general funds on lines 11 and 15, but that will actually be paid from the PEF (\$885 million under current law plus \$141.5 million for K-12 increases associated with new legislation = \$1,026.5 million, line 35). The FY08 reduction in authorization for PEF payments is \$614.7 million (line 35). FY09 deposits to the PEF are shown on line 36.
- (4) The FY09 budget includes \$60 million in projects funded with proceeds of bonds to be sold by the Alaska Student Loan Corporation. This amount appears as revenue because the state is not responsible for debt service on these bonds. The Governor proposed \$240 million in projects financed with general obligation bonds. GO bonds proceeds do not appear as revenue because the state is responsible for future debt service payments. The GO bond proceeds are included on line 24 and are deducted on line 27.
- (5) Corporate dividends include funds made available to the State by the boards of AHFC, AIDEA, and ASLC. Dividends retained by AHFC for debt service on state capital project bonds are excluded from the stated amount. Net dividends for FY08 and FY09, respectively, are AHFC \$73.5 million and \$59.7, AIDEA \$10 million and \$23.8 million, and ASLC \$1.2 million and \$4.1 million.
- (6) The amount for new legislation includes \$141.5 million to implement proposed changes to the K-12 formula and pupil transportation. An additional \$13.9 million is associated with unspecified legislation.
- (7) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
- (8) The Governor proposes to deposit \$450 million to the Teachers Retirement System, (TRS) account to pay a portion of the systemwide unfunded liability.
- (9) The Governor proposes to deposit specified amounts to the Constitutional Budget Reserve Fund (CBRF) - FY08 and FY09, in addition to available general funds that might be swept to the CBRF at year end.
- (10) Anticipated FY08 Deposits to the Permanent Fund include \$769 million for inflation proofing plus the Governor's proposed \$2.448 billion transfer from the Earnings Reserve Account.

State of Alaska Fiscal Summary

(\$ millions)

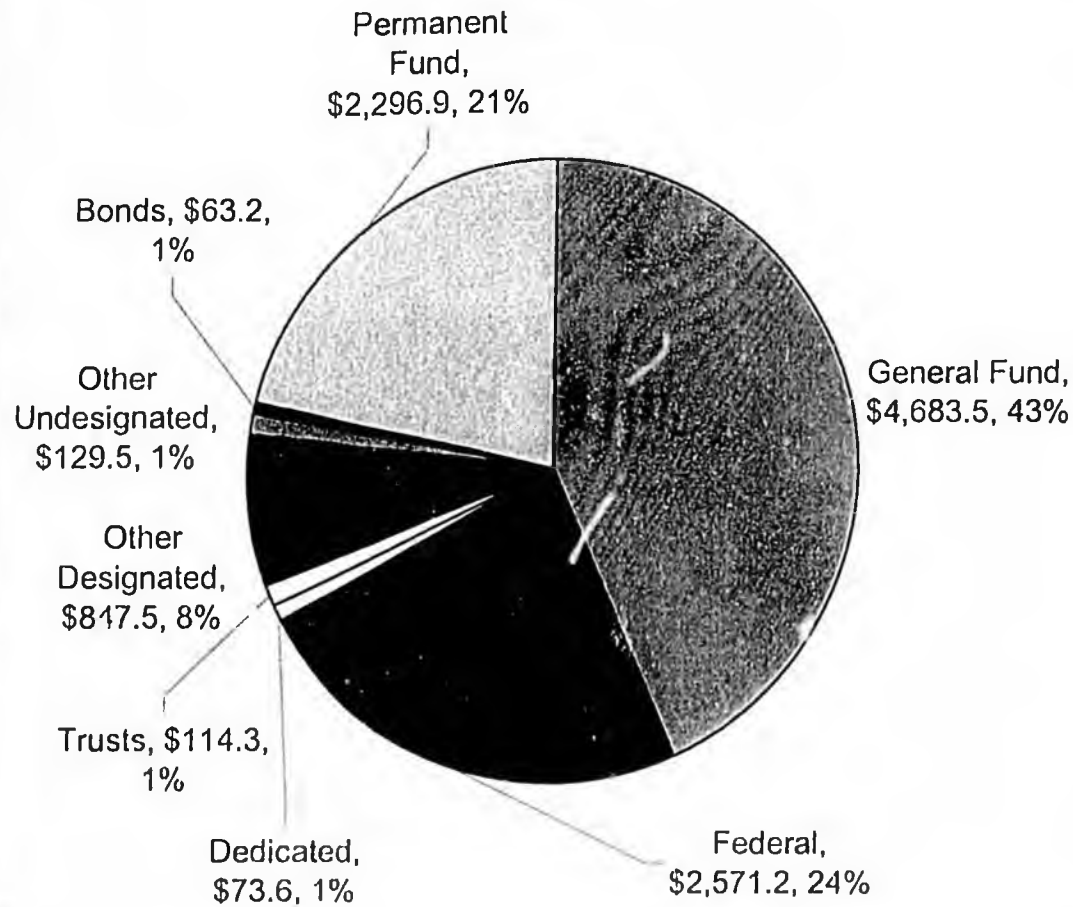
Constitutional Budget Reserve and Permanent Fund Account Balances

	Constitutional Budget Reserve Fund	Permanent Fund			
		Permanent Fund Total	Principal	Earnings Reserve	Unrealized Gains
FY08 Beginning Balance	2,549.1	37,827.0	27,497.0	4,132.0	6,198.0
Settlements	399.0	-	-	-	-
Net Earnings/Dedicated Revenues	167.7	3,403.0	472.0	2,566.0	365.0
Permanent Fund Inflation Proofing	-	-	769.0	(769.0)	-
Transfer to Capital Income Fund	-	(29.0)	-	(29.0)	-
Permanent Fund Dividend Payout	-	(1,251.0)	-	(1,251.0)	-
Transfer (to)/from General Fund	223.7	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY08 Projected Ending Balance	<u>3,339.5</u>	<u>39,950.0</u>	<u>28,738.0</u>	<u>4,649.0</u>	<u>6,563.0</u>
Net Additions to Account Balance	<u>790.4</u>	<u>2,123.0</u>	<u>1,241.0</u>	<u>517.0</u>	<u>365.0</u>
FY09 Projected Beginning Balance	3,339.5	39,950.0	28,738.0	4,649.0	6,563.0
Settlements	20.0	2,546.0	-	2,546.0	-
Net Earnings/Dedicated Revenues	160.5	1,010.0	460.0	-	550.0
Permanent Fund Inflation Proofing	-	-	802.0	(802.0)	-
Transfer to Capital Income Fund	-	(28.0)	-	(28.0)	-
Permanent Fund Dividend Payout	-	(1,357.0)	-	(1,357.0)	-
Transfer (to)/from General Fund	155.3	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY09 Projected Ending Balance	<u>3,675.3</u>	<u>42,121.0</u>	<u>30,000.0</u>	<u>5,008.0</u>	<u>7,113.0</u>
Net Additions to Account Balance	<u>335.8</u>	<u>2,171.0</u>	<u>1,262.0</u>	<u>359.0</u>	<u>550.0</u>

CBR information is from the Fall 2007 Revenue Sources Book

Permanent Fund information is from the APFC November 2007 financial projections

**FY09 Operating & Capital Budgets
Unduplicated Appropriations by Category**
(\$ millions)



Definitions of Funds

General Fund expenditures include general fund match, general fund program receipts, general fund mental health, and "pure" general fund expenditures.

Permanent Fund expenditures include inflation proofing deposits into the fund, dividends and administrative costs. They also include use of earnings as appropriated by the legislature.

Federal expenditures include all federal funds received and spent by the state. Federal funds typically can be used only for the specific purposes for which they are received.

Dedicated expenditures as provided for in the Constitution include expenditures by the School Fund (cigarette tax), Public School Fund, Second Injury Fund, Fisherman's Fund and the Fish and Game Fund.

Trusts include the Alaska Advance College Tuition Savings Fund, the Alyeska Settlement Fund, the Mental Health Trust, the Exxon Valdez Oil Spill Restoration Fund and several funds associated with public employee retirement systems.

Other Undesignated includes all non-federal, non-general fund codes that are not designated for a specific purpose by statute.

Other Designated includes all non-federal, non-general fund codes that are designated for a specific purpose by statute.

Bonds includes proceeds of bonds for which debt service payments will not appear in future budgets.

The FY08-FY09 Fiscal Summary

Interpreting the Summary and Reconciling it to the Governor's Version

The fiscal summary is Alaska's budget-on-a-page; it provides a concise statement of revenue, appropriations and the size of the anticipated surplus or deficit. The Legislative Finance Division produces a summary at the beginning and end of each legislative session.

The January summary serves two purposes:

1. It lets the legislature know how much revenue from the current fiscal year is available to spend; and
2. It provides an overview of the Governor's proposed budget for the upcoming fiscal year.

As a means of providing perspective, the prior year budget is typically presented along with the Governor's proposed budget. Each year is broken into general, federal and other funds, with a comparison of general funds between the two years.

The FY09 January summary goes a step beyond the normal overview of the Governor's budget. This year, the Governor submitted not merely a budget for FY09, but a package that includes proposals to use the expected FY08 surplus.

The FY08 surplus is expected to be \$2.65 billion, which, at 65% of the FY08 budget, is the largest surplus experienced by the State. The Governor proposes appropriating all available general fund revenue from FY08 as well as all available revenue from FY09.

Although the two versions of the fiscal summary show no differences on the bottom line, the Governor's fiscal summary differs substantially from the Legislative Finance presentation (see the Governor's version following this discussion). These differences are highlighted in the following walk-through of the fiscal summary.

The Starting Point

The upper left corner of the summary—FY08 column as down to line 29—shows the FY08 budget as adopted by the legislature (adjusted for vetoes). The only significant change from the July 2007 fiscal summary is the inclusion of amounts carried forward into FY08. These amounts appear as revenue on line 2 and are included in the operating budget on lines 10 through 20, so the \$84.1 million general fund surplus shown on line 29 is the same amount shown in the last fiscal summary prepared in July 2007.

FY08 Revenue Adjustments

The projected surplus has grown substantially since July. The Fall 2007 revenue forecast increased the projected FY08 price of oil from \$54.72/bbl to \$72.64/bbl. The combination of price increase and changes to the petroleum tax system adopted in November is expected to add nearly \$3.2 billion (included in line 31) to the FY08 surplus.

The revenue adjustment on line 31 also includes removing the \$614.7 million balance of the Public Education Fund from revenue. The net revenue increase of \$2.57 billion is shown on line 31.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

FY08 Money on the Table

As shown on line 33, the legislature will face decisions about the disposition of \$2.65 billion of FY08 revenue when the session begins. Although the Governor's FY08 proposals go beyond statutory requirements for submittal of an FY09 budget request, they provide a useful framework for analyzing the potential disposition of the FY08 surplus.

The Governor's Plan for the FY08 Surplus

Supplemental Spending Proposals

1. The Governor anticipates supplemental needs of \$108.3 million for **operating expenses** (line 38). Details are expected when the Governor submits a supplemental appropriations bill on the 15th legislative day.
2. Supplemental **capital requests** for \$34 million general funds (line 39) are for technology improvements in state agencies. An early effective date on capital projects of this type is a little unusual; supplemental capital projects typically include construction projects that might be delayed for a year if funding is not made available early in the construction season.
3. The Governor proposes a deposit of \$450 million to the **Teachers Retirement System (TRS)** account to pay down a portion of the system's unfunded liability (line 40). The Governor categorizes the deposit as savings based on the logic that the deposit will reduce the state's required annual contributions to TRS by approximately \$44 million per year, thus saving the state money in the future.

While having little quarrel with the long-term impact of such a deposit on retirement contributions, Legislative Finance applies a simple test to determine whether to classify an appropriation as savings: *Are the funds intended for future appropriation?* This deposit fails that test because a deposit made to the TRS Trust account cannot be removed. The deposit is not savings; it is simply partial prepayment of a debt for which the state has accepted responsibility.

In addition to a loss of flexibility with regard to future availability of the deposit, the Governor's proposal produces little, or no, real net savings. Similar "savings" would be achieved if earnings on a \$450 million "retirement savings" subaccount in the general fund were designated for payment of the state's future TRS contributions.

There are a few additional complications. The Alaska Retirement Management Board (ARMB) set FY09 TRS contribution rates in September 2007 (based on data for the year ending June 2006) as recommended in the 2007 actuarial valuation report. A deposit made in FY08 will not affect contribution rates until FY11 under current actuarial methods.

The Governor requested \$162 million as an FY09 direct appropriation to the TRS account, which is \$44 million less than the \$206 million requirement calculated by the state's actuarial consultants. The Governor's claim of reduced state contributions is premature unless the ARMB takes special action granting early recognition of the proposed \$450 million contribution. Without such action, the normal three-year delay between action and effect means that her FY09 request for direct State appropriation to TRS is \$44 million short of the amount required.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

The complications prompt an alternative description of the deposit: \$44 million of the deposit can be viewed as the state's required FY09 contribution, leaving approximately \$400 million as prepayment of unfunded liability.

To avoid the loss of flexibility associated with a deposit to the TRS account, the legislature may wish to consider establishing a TRS Endowment similar to the Governors' proposed Transportation Endowment.

To make the budget clearer, the legislature may wish to pay the required FY09 TRS contributions with FY09 general funds. The legislature may also wish to review actuarial methods and alternative means of reducing retirement costs before making an irrevocable deposit. Further discussion of this topic calls for a separate issue paper.

4. Details of the Governor's proposal to establish an **Energy Fund** (\$250 million, line 41) are unknown at this point. If the Fund is expected to operate as an endowment, it is appropriately categorized as savings. If the fund is primarily for grants that can flow with no further appropriation, it should be categorized as spending. The Governor categorized the deposit to the fund as savings. Based on hints that the fund will provide grants, Legislative Finance categorizes the deposit as spending, at least until further details are known.
5. The Governor requests supplemental funding (\$125 million on line 42) to pay refunds of **oil & gas development credits**. The Governor requested an open-ended appropriation for this purpose last year, with an estimated value of \$25 million. The legislature believed the estimate was understated, but received no revised estimate from the administration so limited the appropriation to the \$25 million estimate. Legislative Finance agrees with the Governor's reasons for moving the appropriation out of the Department of Revenue's budget and shows the program on a separate line (line 18) in the fiscal summary. (The same reasoning applies to retirement contributions and the revenue sharing program, which similarly distort agency operating budgets, and those programs are separated on lines 14 and 17.)

If the legislature follows the Governor's lead on the above supplemental items, the remaining surplus will be \$2.3 billion (line 44). The Governor proposed several ways to save this surplus.

Supplemental Savings Proposals

1. The \$1.575 billion deposit to the **Public Education Fund** (line 46) is perhaps the most puzzling of the Governor's savings proposals. The legislature began making deposits to the PEF in FY06, with the expectation of making continued deposits until reaching the goal of a balance sufficient to fund K-12 education one year in advance. With the deposit of \$1 billion last session, the goal was reached. Legislative intent was to simplify the budget upon reaching the goal, implying that no FY08 supplemental deposit would be made and that the FY09 deposit to the PEF would equal anticipated FY2010 K-12 needs.

The Governor's vision of K-12 funding mechanics clearly differs from where the legislature was headed. Under her plan for FY08 and FY09, the PEF would end FY09 with a balance of \$2.5 billion—enough to fund K-12 education through FY2011. Whether the Governor intends to maintain a \$2.5 billion balance by making annual deposits equal to anticipated costs, or to restrain growth in FY2010 and FY2011 operating budgets by depleting the PEF is unknown. If the Governor's FY09 appropriation to the Public Education Fund—which is \$108.6 million short of anticipated FY2010 K-12 needs—indicates the Governor's intentions, the PEF will be depleted during the next three years. The topic will undoubtedly make interesting discussion when the Governor's education plan is presented to the legislature.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

2. The Governor proposes creating a **Transportation Endowment** with an FY08 deposit of \$500 million (line 47). Earnings from the endowment would (partially) offset an anticipated loss of federal funding. There is no question the endowment is correctly categorized as savings and there is no issue of dedicated revenue here—the endowment and its earnings would be subject to annual appropriation for any purpose. Details of the endowment plan are not available, but the legislature will undoubtedly have questions regarding determination of spending priorities, classification—either general fund or “other funds”—of the endowment earnings, and the logic of simultaneously saving for transportation needs and borrowing for transportation needs (via a \$140 million bond issue).
3. The Governor's proposed deposit to the **Constitutional Budget Reserve Fund (CBRF)** (\$224 million, line 48) is also puzzling. A specific appropriation to the CBRF is unusual, not merely because the state has only recently been in the position of having a budget surplus, but because the Constitution requires that available GF balances be swept to the CBRF at year end without appropriation. That is, the surplus will go to the CBRF by default if the money is not appropriated elsewhere. That said, a specific appropriation to the CBRF (leaving some cushion) may make sense given
 - a. recent year-end sweeps to alternative savings accounts, thus preempting the sweep to the CBRF that was envisioned in the Constitution, and
 - b. the common perception of the CBRF as *the* savings account.

The issue of perception may be significant. The public cannot be expected to show much interest in alternative sweep accounts, funds classified as “not subject to further appropriation,” endowments or other arcane budget jargon. Attempts to set aside surplus funds may be maligned as “smoke and mirrors” instead of applauded as prudent planning. The public tends to see savings accounts as slush funds that circumvent the intent of the Constitution.

Perhaps the Statutory Budget Reserve Fund (AS 37.05.540) is a viable option to store surplus revenue. The account has been inactive since the Constitutional Budget Reserve Fund was created in 1991. It offers a place to save money without designating a purpose and without the requirement for a supermajority vote to use the savings in the future.

The Governor's proposed deposit is also puzzling because it is equal to the surplus anticipated by the Governor. Under this condition, any shortfall in revenue would force a draw from the CBRF. The legislature typically leaves a cushion of several million dollars in case revenue is lower than anticipated.

The Governor requests a \$2.448 billion deposit to the **Permanent Fund** (line 53, which also includes a \$769 million inflation proofing deposit). The deposit would come from the Earnings Reserve Account (which holds the earnings of the Permanent Fund and from which dividends are paid and inflation proofing deposits to principal are made). Note that a proposed deposit from the Earnings Reserve Account does not directly affect the general fund surplus.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Deposits to the Permanent Fund raise a number of interesting points, including reasons legislators have cited for avoiding such transfers in recent years:

- A transfer of reserves is simply a transfer from one savings account to another;
- Permanent Fund principal cannot be accessed without a Constitutional amendment, so the action locks up money that might be needed for other purposes;
- Transfers may endanger future dividend payments; and
- Money in the ERA needs no protection beyond the historical reluctance to spend it.

The FY08 Bottom Line

As shown on line 51, proposed FY08 general fund appropriations (\$6.77 billion, line 50) equal FY08 general fund revenue (\$6.77 billion, line 32). As noted above, a revenue shortfall will require simultaneous deposits and draws from the CBRF unless proposed appropriations are reduced.

The FY09 Fiscal Summary

FY09 Revenue

In recent years, the fiscal summary has included a revenue adjustment for the amount of K-12 funding that came from prior fiscal years (see line 3 in FY08) in order to display how much K-12 funding came from prior fiscal years versus the current year.

With the appropriation of \$1 billion to the Public Education Fund (PEF) last session, the legislature reached its goal of having a PEF balance sufficient to pay K-12 costs a year in advance. In preparing the FY09 fiscal summary, it became obvious that the PEF can (and should) be treated just as other savings balances are treated. That is, the balance should not be shown as revenue because the balance is not intended to be spent in the current year.

Adjusting revenue upward obscures the comparison of current-year revenue versus current-year spending (line 29 shows the surplus or deficit) by overstating the amount of money available to spend. The revised presentation improves clarity with the same net effect: instead of increasing revenue (line 3), FY09 general fund authorization is reduced by the amount of K-12 costs that are included as general funds on lines 11 and 15, but that will actually be paid from the PEF (\$885 million under the current formula plus \$141.5 million for K-12 increases associated with new legislation = \$1.0265 billion, line 35).

Although projected FY09 general fund revenue (\$5.24 billion, line 32) is \$1.5 billion below FY08 general fund revenue, the Governor's operating and capital requests leave a surplus of \$679 million (line 33). The general fund operating request is \$479 million (13%) above the FY08 budget (before supplemental appropriations) and the general fund capital budget is \$41 million (11%) below the FY08 budget (before supplemental appropriations).

FY09 Operating Budget

Agency budgets are addressed individually in this publication and are not discussed here, but there are several operating issues worthy of mention.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Although the Legislative Finance and Governor's fiscal summaries can be reconciled at the bottom line, the presentation differs substantially. The Governor's summary shows a general fund operating increase of \$39 million. This figure excludes several items that Legislative Finance categorizes as operating items, including:

1. \$155.3 million in costs associated with new legislation (line 15). The Governor shows the same amount, but does not roll it into the operating budget.
2. \$75 million for the revenue sharing program (line 17). This item has traditionally been included in the operating budget; the Governor shows it as a capital budget item in FY09.
3. \$200 million for refunds of oil & gas development credits (line 18). The Governor shows the same amount, but does not roll it into the operating budget.
4. \$41 million for anticipated amendments (line 19). The Governor shows the same amount, but does not roll it into the operating budget.

FY09 contributions to the TRS account (line 14) are \$40 million below the actuarially required amount. The Governor makes up this shortage with an FY08 deposit to the TRS account. As noted earlier, the distortion caused by crossing fiscal years could be avoided if desired.

FY09 Capital Budget

There are three minor differences in presentation:

1. movement of \$75 million for revenue sharing from the capital to the operating budget;
2. movement of \$10 million for fund capitalization from the operating to the capital budget (Legislative Finance prefers to link capitalization of funds to the type of expenditure—thus funds used in the capital budget are also capitalized in the capital budget—in order to minimize over- or under-capitalizing the funds); and
3. inclusion of \$10.5 million in anticipated amendments. The Governor shows the same amount, but does not roll it into the capital budget.

FY09 Adjustments to Authorization

As shown on line 33, the surplus—current year revenue less operating and capital appropriations—is \$679 million. This figure, however, does not reflect the fact that K-12 costs are paid from the Public Education Fund rather than from the general fund. K-12 costs shown in the operating budget as general funds include \$885 million for the foundation formula and pupil transportation (line 11) and \$141.5 million for the cost of implementing changes to the base student allocation, district cost factors, special needs funding and pupil transportation (line 15). A total of \$1.0265 billion paid by the PEF is removed from FY09 authorization on line 35.

Line 35 shows the Governor's proposed deposit of \$1 billion to the PEF in FY09. If the legislative vision of education funding mechanics were followed, this deposit would equal the \$1.1 billion projected cost of K-12 education in FY10. Under the Governor's plan, the \$100 million "shortage" is more than offset by a proposed FY08 supplemental deposit of \$1.575 billion.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

FY09 Savings

After deducting \$50 million as a placeholder for FY09 supplemental appropriations (line 38, the anticipated surplus is \$655.3 million (line 44).

1. The Governor requests an additional \$500 million for the **Transportation Endowment** (line 47), which is appropriately categorized as savings.
2. The Governor requests a \$155 million deposit to the **Constitutional Budget Reserve Fund (CBRF)** (line 48). That deposit is equal to the surplus anticipated by the Governor. There are two associated issues the legislature may wish to consider:
 - A cushion—in case revenue is lower than anticipated—becomes more important as the time horizon of the forecast period extends—the FY08 revenue forecast involves only the six months left in the fiscal year; the FY09 forecast extends to 13 months.
 - The revenue forecast may overestimate general fund revenue. Under a net profits tax, there is a far greater need for audits of petroleum producers than under a gross tax. Every time an audit letter goes out, tax collections become settlements rather than tax receipts. Per Article IX, Section 17 of the Alaska Constitution, all petroleum revenue resulting from settlements goes to the CBRF, not to the general fund. The CBRF is likely to have high cash inflow without the need for appropriation. Money received through settlements does not count as general fund revenue or as repayment of money borrowed from the CBRF.

The FY09 Bottom Line

The fiscal summary shows a balanced budget; both revenue and appropriations total \$5.24 billion.

FY09 Additional Notes

Federal and other funds match the Governor's bottom line exactly. Nevertheless, there are a few points worthy of discussion.

1. The Governor's capital budget spends about \$170 million from savings for projects that would normally require general funds. About \$250 million of surplus revenue—including \$95 million attributable to vetoed capital projects—was swept into the capital income fund (a savings account established by the legislature) at the end of FY07. The appropriations now show as "other fund" expenditures rather than as general funds. While the Governor's right to request use of the savings account is undisputed, the process of converting one year's general funds to another year's "other funds" is far from transparent and will result in larger future general fund budgets in order to maintain the same apparent level of spending. To further complicate matters, the Governor uses the Capital Income Fund to capitalize other funds as well as spending some directly on projects. It will be interesting to discover why the Governor proposes spending from one savings account while simultaneously depositing general funds in other savings accounts.
2. The Governor's capital budget contains \$240 million of projects funded with proceeds of general obligation bonds. In addition to obvious questions about reasons for simultaneously prepaying retirement debt while borrowing for capital projects, the legislature may wish to discuss the impact that debt service will have on future operating budgets as well as the future general fund cost of maintaining the apparent level of spending in FY09.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

3. The Governor uses \$40 million of corporate dividends in the operating budget. The legislature has customarily "reserved" these fund sources for capital projects. The Governor's requests understate the operating budget by \$40 million in an "apples-to-apples" comparison with FY08 (and overstate the general fund capital budget by \$40 million).
4. The hidden \$40 million of general fund growth in the capital budget (due to treatment of corporate dividends) is more than offset by \$60 million in proceeds from Student Loan bonds. These bonds represent the final installment of the Student Loan Corporation's return of capital to the State. Expect a FY2010 general fund increase of \$60 million in order to maintain the same apparent level of spending as in FY09.

State of Alaska

Fig. 1 2009 Governor's Budget Fiscal Summary
(dollars shown in millions)

	FY2008 Authorized				FY2009 Governor				FY2009 to FY2008	
	General Fund	Federal Funds	Other Funds	Total Funds	General Fund	Federal Funds	Other Funds	Total Funds	General Fund	%
1 Revenues										
2 Unrestricted General Fund Revenues (Fall 2007 Forecast) (A)	6,604.5			6,604.5	5,038.4			5,038.4		
3 Department of Revenue O&G Tax Credits (expensed below)	150.0			150.0	200.0			200.0		
4 Reappropriations and Carry Forward (B)	633.5	6.2	1.5	641.1	1,026.5			1,026.5		
5 Corporate Dividends and Bonds(C)			86.5	86.5			147.6	147.6		
6 Federal and Other State Funds		2,538.4	1,114.1	3,652.5		2,571.2	1,217.3	3,788.5		
7 Total Revenues	7,388.0	2,544.5	1,202.1	11,134.6	6,264.9	2,571.2	1,364.9	10,201.0	(1,123.1)	-15.2%
8 Authorization to Spend										
9 Operating, Debt and Fund Capitalization	3,741.0	1,751.9	1,100.8	6,593.7	3,780.4	1,774.6	1,143.0	6,698.1	39.4	1.1%
10 Agency Operations (Non-formula)	1,596.9	861.2	1,499.2	3,957.3	1,673.4	865.4	1,584.3	4,123.1		
11 Formula Programs and Potential Rate Adjustments	559.2	855.8	92.5	1,507.5	655.9	868.5	98.3	1,622.8		
12 Public Education Fund and K-12 School Grants (D)	973.9			973.9	885.1			885.1		
13 Direct Deposit to PERS and TRS	455.0			455.0	408.4			408.4		
14 Debt Service (H)	22.5	0.0	210.9	233.4	43.8	0.0	209.6	253.4		
15 Debt Retirement Fund Capitalization (H)	102.3	11.8	7.0	121.1	71.4	13.1	36.2	120.7		
16 Other Fund Capitalization (I)	31.3	23.1	23.0	77.4	42.4	27.6	130.3	200.3		
17 AK Capital Income Fund Capitalization (Am Hess) (J)			78.4	78.4			28.0	28.0		
18 Duplicated Authorizations (E)			(810.2)	(810.2)			(943.7)	(943.7)		
19 Supplementals	142.3	2.7	0.8	145.8	50.0	0.0	0.0	50.0	(92.3)	-64.0%
20 Capital Projects Funded from FY2008 Surplus	34.0	2.7	6.0	42.7				0.0		
21 Statewide Supplementals (placeholder)	108.3		(41.0)	67.3	50.0			50.0		
22 Duplicated Authorizations (E)			35.8	35.8				0.0		
23 Capital	355.9	790.0	100.5	1,246.4	372.3	791.6	205.5	1,369.4	16.4	4.6%
24 Project Appropriations and Revised Programs	266.2	790.0	310.5	1,366.7	297.3	791.6	322.4	1,411.3		
25 Revenue Sharing				0.0	75.0			75.0		
26 DEED Major Maintenance Grants Fund Capital Projects (F)				0.0			80.7	80.7		
27 DEED School Construction Grant Fund (G)	89.7			89.7			19.1	19.1		
28 Duplicated Authorizations (E)			(210.0)	(210.0)			(216.7)	(216.7)		
29 New Legislation				0.0	155.3	0.0	0.4	155.7		
30 Public Education Fund				0.0	141.4			141.4		
31 Other New Legislation Items				0.0	13.9		0.4	14.3		
32 FY2009 Potential Amendments				0.0	51.5	5.0	16.0	72.5		
33 Operating				0.0	41.0	5.0	16.0	62.0		
34 Capital				0.0	10.5			10.5		
35 Total Authorization to Spend	4,239.3	2,544.5	1,202.1	7,985.9	4,409.6	2,571.2	1,364.9	8,345.7	170.3	4.0%
36 PF Dividends / PFD Division Operations (K)			1,251.0	1,251.0			1,357.0	1,357.0		
37 PF Inflation Proofing		0.6	769.0	769.6			803.0	803.0		
38 Total AK Permanent Fund		0.6	2,020.0	2,020.6			2,160.0	2,160.0		
39 Totals with Permanent Fund	4,239.3	2,545.1	3,222.1	10,006.5	4,409.6	2,571.2	3,524.9	10,505.7		
40 Additional Legislation	750.0			750.0	500.0			500.0		
41 Transportation Endowment	500.0			500.0	500.0			500.0		
42 Energy Fund	250.0			250.0						
43 Additional Savings / Investments	2,175.0			2,175.0	1,200.0			1,200.0		
44 Oil and Gas Tax Credits (appropriated)	25.0			25.0	200.0			200.0		
45 Oil and Gas Tax Credits (Supplemental placeholder)	125.0			125.0						
46 Teachers Retirement System - reduce unfunded liability	450.0			450.0						
47 Public Education Fund	1,575.0			1,575.0	1,000.0			1,000.0		
48 Balance to Constitutional Budget Reserve	223.7			223.7	155.3			155.3		

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Notes

A Unrestricted General Fund Revenues: FY2008 Unrestricted Revenues are based on an ANS West Coast oil price of \$72.64 per barrel and estimated production of .731 million barrels per day. FY2009 is projected at \$66.32 per barrel and .701 million barrels per day.

B Reappropriations and Carry Forward: Includes fund sources for reappropriations and other appropriations (typically roll-forwards of prior year authorizations) that were posted to FY2008 subsequent to the FY2008 Conference Committee, and that do not require additional FY2008 revenue. The amount for FY2009 Governor is the carry forward amount of the Public Education Fund being spent in FY2009.

C Corporate Dividends and Bonds: Include funds made available to the State by the boards of the Alaska Industrial Development and Export Authority (AIDEA), Alaska Housing Finance Corporation (AHFC) and Alaska Student Loan Corporation (ASLC). The AIDEA dividend is \$19 million for FY2008 and \$23.8 million for FY2009. The total AHFC transfer for dividend, capital projects, loan programs and debt service is \$84.4 million for FY2008 and \$55.9 million for FY2009. Since AHFC's debt payments for general government purpose bonds do not require appropriation, the net transfers appropriated here are \$75.3 million for FY2008 and \$59.7 million for FY2009. The ASLC Dividend is \$1.2 million for FY2008 and \$4.1 million for FY2009.

D Public Education Fund: Legislation in 2005 established the Public Education Fund (PEF). One of the effects of this legislation was to remove expenditures for K-12 Foundation Program and Pupil Transportation from operating formula programs (line 11), since expenditures from the fund do not require appropriation.

The FY2008 and FY2009 proposed Education K-12 Foundation Program and Pupil Transportation expenditures are shown as funds expended from the Public Education Fund on lines 12 and 30. The Public Education Fund for FY2008 is capitalized with a combination of FY2006 and FY2007 investment surplus of \$613.5 million GF. The FY2008 Authorized amount includes \$69.1 million GF appropriation for K-12 district cost factors (\$48 million) and school improvement grants (\$21.1 million) and \$282.3 for school districts' increased retirement costs. The amounts for FY2009 Governor include roll-forward of FY2008 PEF capitalization of \$1,026.5 million. This amount will cover the proposed FY2009 Foundation Program and Pupil Transportation increases of \$141.4 million.

E Duplicated Authorizations: These appropriations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. The most significant examples of these type of expenditures include operating payments from Interagency Receipts, and debt payments from the Debt Retirement Fund.

F DEED Major Maintenance Grants Fund Capital Projects: The FY2009 Governor amount on line 26 is funded from the Alaska Capital Income Fund. Twenty major maintenance projects are funded.

G DEED School Construction Grants Fund Capital Projects: The FY2008 amount shown on line 27 for the DEED School Construction Grants Fund Capital Projects is appropriated in SLA 2006, Chapter 82, Section 13. The FY2009 amount is for replacement of the Susitna Valley High School.

H Debt Service / Debt Retirement Fund Capitalization: The Debt Service line (line 14) includes actual payment of debt obligations, primarily general obligation bonds, certificates of participation (lease-financing), and International Airports revenue bonds. Some of these debt payments are made from the Debt Retirement Fund, which is capitalized from a variety of fund sources. The Debt Retirement Fund Capitalization line (line 15) identifies various funding sources used to pay debt from the Debt Retirement Fund.

I Other Fund Capitalization: Other Fund Capitalization includes capitalization of various State operating funds, such as the Fish and Game Fund, Power Cost Equalization and Rural Electric Capitalization Fund, and several others.

J Alaska Capital Income Fund Capitalization: The Alaska Capital Income Fund is authorized by AS 37.05.565. The fund consists of income earned on money awarded as a result of the State vs. Amerada Hess royalty case, estimated to be \$28 million per year, plus other appropriations. In FY2008 the other appropriations are \$38.9 million from AHFC dividend, \$10 million AIDEA dividend, and \$1.2 million ASLC dividend.

K PFD Dividends / PFD Division Operations: Line 36 includes both the amounts for Permanent Fund Dividend (PFD) checks and other State operating costs of the PFD. In FY2008 the State will spend \$20.2 million for Department of Revenue, Division of Permanent Fund Dividends operations (\$7.3 million) and DHSS Public Assistance PFD Hold Harmless (\$12.9 million). In FY2009 the amounts will be \$16.8 million for Department of Revenue, Division of Permanent Fund Dividends operations (\$6.9 million), and DHSS Public Assistance PFD Hold Harmless (\$12.9 million).

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Operating Budget

The fiscal summary provides a "big picture" of the budget, including revenue, debt, transfers, new legislation and capital projects. This introduction to the operating budget focuses on how to put the Governor's operating request in perspective.

Comparisons between the FY08 and FY09 operating budgets are complicated for the following reasons:

- There are differences between numbers shown in the operating budget reports and the fiscal summary. The main differences are as follows:
 - The operating budget reports *include* the Governor's proposed savings to the Constitutional Budget Reserve Fund and the Public Education Fund—the fiscal summary does not show these items as operating expenses.
 - The operating budget reports *exclude* almost \$200 million for new legislation and upcoming Governor's budget amendments because these potential appropriations remain in the planning stage.
- The Governor uses \$49.3 million of "other" funds traditionally included in the capital budget (i.e., state corporation dividends and the Alaska Capital Income Fund). These funds replace general funds, making the general fund budget appear smaller than an "apples-to-apples" comparison would show it to be. If GF had been used, the GF increases would have been 14 percent vs. the 13 percent shown in the fiscal summary.
- Direct appropriations to the Teachers' Retirement System account is understated by \$44 million because the Governor believes that a FY08 supplemental appropriation of \$450 million to pay down the liability in the TRS account will reduce the state's required annual contributions to TRS by approximately \$44 million per year. This claim of reduced state contributions is premature unless the Alaska Retirement Management Board takes special action granting early recognition of the proposed \$450 million contribution. Without such action, the normal three-year delay between action and effect means that her FY09 request for direct state appropriation to TRS is \$44 million short of the amount required.
- The Governor is requesting \$200 million in FY09 for oil and gas tax refunds (versus the \$25 million included in FY08). The amount of the refunds will be similar in both fiscal years—the Governor's budget request for an additional \$175 million is just a more realistic request.
- The FY08 Management Plan (MP) contains more than \$66 million of "one-time" general fund appropriations. Although one-time items will also be included in the FY09 budget if unspent balances are carried forward, they will not appear in reports until after the beginning of FY09. This understates the FY09 budget relative to FY08.

Comparing Budget Scenarios

Because of the comparison complications listed above, the Governor's FY09 Budget books ("Subcommittee Books") make two comparisons. The advantages and disadvantages of using each of the comparisons are discussed in the paragraphs below. The following table highlights items included throughout each stage of the budget and how they are compared to the Governor's request.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

	GF Only	Change from Gov Request	% Change
FY 08 Management Plan (GF only)	\$3,763,007.8	\$552,624.4	14.7%
One-time Items removed	(1,546,261.0)		
Transfers between Agencies (nets zero statewide)	-		
FY09 Contractual Salary and Health Increases	20,995.0		
Misc Adjustments	1,834,328.7		
FY 09 Adjusted Base Budget (GF only)	\$4,072,070.5	\$243,561.7	6.5%
FY 09 Unrealizable Salary Fund Source Changes	8,343.0		
FY 09 Governor's GF Increments/Decrements/Fund Changes	235,215.7		
FY 09 Governor's Request (GF only)	\$4,315,632.2		

FY08 Management Plan to the Governor's request: \$552.6 million (14.7%): The FY08 Management Plan is the most accurate picture of the previous year's budget. It incorporates appropriations that can be spent in FY08, appropriations from prior years (such as reappropriations and multi-year appropriations) and the latest estimates for non-specific language appropriations.

Unfortunately, because the Governor's FY09 budget does not include reappropriations, multi-year transactions, etc., comparing the FY08 Management Plan to the Governor's FY09 request tends to understate spending in FY09 relative to FY08. For example, a multi-year appropriation of \$2.3 million for gas pipeline work does not appear in the Department of Natural Resources' FY09 budget although the unspent balance from FY08 will be available to spend in FY09.

FY09 Adjusted Base to Governor's request: \$243.6 million (6.5%). The adjusted base is the first FY09 budget scenario and can be described as the "costs of doing the same functions in FY09 as in FY08." The adjusted base is the starting point for subcommittee discussion of the Governor's request. It:

- Incorporates the FY09 nondiscretionary increases that the legislature may accept or reject on a statewide basis. If the legislature rejects these nondiscretionary increases, such as contractual salary increases, the costs of these increases will have to be absorbed by the agencies.
- Removes "one-time" appropriations, reappropriations, and multi-year appropriations that were included in the FY08 Management Plan. However, to eliminate skewed budget comparisons between the adjusted base and the Governor's columns, Legislative Finance has included all of the Governor's transactions for the "pseudo agencies" (i.e., Fund Capitalization, Direct Appropriations to Retirement, etc.) in the adjusted base column.

The FY09 Adjusted Base includes increases, totaling \$51.5 million (\$21 million of GF), for the salary adjustments below:

- **Contractual Wage and Health Insurance Increases for Bargaining Units**—Negotiated agreements for covered employees for contractual salary increases (which vary by bargaining unit) and health insurance cost increases add \$51 million statewide (\$20.6 million GF/ \$30.4 million Federal Receipts and Other Funds).
- **FY09 Health Insurance Cost Increases for Non-Covered Employees**—Employer health insurance costs have increased by \$17.02 per month for many employees. The statewide total is \$.5 million (\$.4 million GF/\$.1 million Federal Receipts and Other Funds).

The Governor's column includes program increments and fund source changes that the legislature may wish to consider on an individual basis.

The following summary tables make the comparisons discussed above. Note that Agency Summary reports include duplicated fund sources, while the fiscal summary removes these items from the operating portion of the budget. Please see the agency narratives for details on significant issues in each agency's budget.

In addition to summaries of agency budgets, the Overview contains discussions of fund source changes for increased salary costs (general funds replacing federal and "other" fund sources), position changes and details of debt obligations.

Agency Summary - FY 2009 Operating Budget - Total Funds

Agency	07 Actual	08 CC	08 Auth	08 MgtPln	Adj Base	Gov	08 MgtPln to Gov	Adj Base to Gov		
Administration	241,394.5	264,851.0	265,505.7	265,505.7	266,280.6	272,408.8	6,903.1	2.6%	6,128.2	2.3%
Commerce, Community & Economic Dev	190,004.8	155,760.4	157,132.5	157,132.5	157,498.3	166,509.4	9,376.9	6.0%	9,011.1	5.7%
Corrections	225,082.7	226,653.0	227,340.6	227,340.6	231,011.4	235,320.0	18,321.4	8.2%	14,950.6	6.5%
Education & Early Development	1,218,619.6	1,234,839.2	1,268,434.0	1,268,434.0	1,179,312.4	1,186,893.9	-81,540.1	-6.4%	7,581.5	0.6%
Environmental Conservation	58,235.7	67,056.0	67,210.0	67,210.0	68,894.9	72,001.9	4,791.9	7.1%	3,107.0	4.5%
Fish and Game	143,048.7	166,900.5	167,211.2	167,211.2	170,742.8	172,835.1	5,623.9	3.4%	2,092.3	1.2%
Office of the Governor	23,892.7	18,508.3	33,591.6	33,591.6	18,795.1	47,275.6	13,634.0	40.7%	28,480.5	151.5%
Health & Social Services	1,756,910.3	1,968,144.8	1,974,619.3	1,974,619.3	1,970,242.8	2,147,187.0	172,567.7	8.7%	176,944.2	9.0%
Labor & Workforce Development	137,184.4	159,990.4	161,108.0	161,108.0	163,115.0	166,330.8	5,222.8	3.2%	3,215.8	2.0%
Law	70,968.5	65,805.3	66,234.1	66,234.1	66,807.0	77,712.9	11,478.8	17.3%	10,905.9	16.3%
Military & Veterans Affairs	42,952.0	42,283.3	42,966.4	42,966.4	43,388.1	46,676.9	3,710.5	8.6%	3,288.8	7.6%
Natural Resources	127,661.7	124,811.5	132,860.8	132,860.8	125,414.8	131,210.8	-1,650.0	-1.2%	5,796.0	4.6%
Public Safety	129,419.4	141,236.6	147,376.8	147,376.8	143,503.7	148,728.8	1,352.0	0.9%	5,225.1	3.6%
Revenue	251,296.4	261,371.1	261,951.0	261,951.0	240,301.4	263,216.7	1,265.7	0.5%	22,915.3	9.5%
Transportation & Public Facilities	491,324.1	483,763.7	498,629.3	498,629.3	498,362.8	501,646.8	3,017.5	0.6%	3,284.0	0.7%
University of Alaska	704,063.7	796,791.5	800,112.5	800,112.5	797,707.5	835,699.2	35,586.7	4.4%	37,991.7	4.8%
Alaska Court System	76,102.9	79,781.8	79,781.8	79,781.8	79,495.1	86,941.4	7,159.6	9.0%	7,446.3	9.4%
Legislature	46,514.2	54,103.1	61,620.8	61,620.8	61,741.2	61,741.2	120.4	0.2%	0.0	0.0%
Debt Service	312,254.6	352,174.7	354,476.7	354,476.7	374,128.9	374,128.9	19,652.2	5.5%	0.0	0.0%
Fund Capitalization	2,227,196.6	2,094,982.8	2,094,982.8	2,094,982.8	2,403,181.9	2,403,181.9	308,199.1	14.7%	0.0	0.0%
Public Education Fund	0.0	0.0	0.0	0.0	114,900.7	114,900.7	114,900.7		0.0	0.0%
Direct Approps to Retirement	18,581.9	449,992.3	454,992.3	454,992.3	408,392.3	408,392.3	-46,600.0	-10.2%	0.0	0.0%
Special Appropriations	0.0	0.0	48,685.6	48,685.6	277,500.0	277,500.0	228,814.4	470.0%	0.0	0.0%
Total - Operating Budget	8,492,708.4	9,209,801.3	9,366,823.8	9,366,823.8	9,860,718.7	10,209,083.0	842,259.2	9.0%	348,364.3	3.5%
General Funds	3,389,508.8	3,621,768.4	3,763,007.8	3,763,007.8	4,072,070.2	4,315,632.2	552,624.4	14.7%	243,562.0	6.0%
Federal Receipts	1,490,673.0	1,744,214.9	1,752,376.7	1,752,376.7	1,755,589.7	1,774,526.6	22,149.9	1.3%	18,936.9	1.1%
Other Funds	3,612,527.6	3,843,818.0	3,851,439.3	3,851,439.3	4,033,058.8	4,118,924.2	267,484.9	6.9%	85,865.4	2.1%

Agency Summary - FY 2009 Operating Budget - General Funds

Agency	07 Actual	08 GC	08 Auth	08 MgtPln	Adj Base	Gov	08 MgtPln to Gov	Adj Base to Gov		
Administration	60,162.0	62,804.1	63,344.1	63,344.1	62,009.3	65,014.3	1,670.2	2.6%	3,005.0	4.8%
Commerce, Community & Economic Dev	60,424.5	10,658.1	10,800.8	10,800.8	10,879.2	10,661.4	-139.4	-1.3%	-217.8	-2.0%
Corrections	199,531.5	198,147.5	198,835.1	198,835.1	202,590.6	212,816.0	13,980.9	7.0%	10,225.4	5.0%
Education & Early Development	997,070.0	986,070.0	1,019,565.4	1,019,565.4	930,441.2	933,979.0	-85,586.4	-8.4%	3,537.8	0.4%
Environmental Conservation	16,374.9	17,755.3	17,893.0	17,893.0	18,361.7	18,652.9	759.9	4.2%	291.2	1.6%
Fish and Game	38,632.6	39,773.7	40,060.8	40,060.8	40,944.4	45,341.0	5,280.2	13.2%	4,396.6	10.7%
Office of the Governor	19,652.8	16,945.8	31,516.6	31,516.6	17,230.2	45,760.6	244.0	45.2%	28,530.4	165.6%
Health & Social Services	728,288.3	791,297.5	794,605.2	794,605.2	799,608.0	938,485.2	143,880.0	18.1%	138,877.2	17.4%
Labor & Workforce Development	19,684.7	22,405.7	23,380.2	23,380.2	22,447.7	25,835.4	2,455.2	10.5%	3,387.7	15.1%
Law	41,434.8	38,828.6	39,257.4	39,257.4	39,501.0	41,826.9	2,569.5	6.5%	2,325.9	5.9%
Military & Veterans Affairs	13,579.5	11,687.5	12,324.5	12,324.5	12,018.9	12,754.8	430.3	3.5%	735.9	6.0%
Natural Resources	69,438.9	63,718.0	71,180.2	71,180.2	64,530.0	69,964.5	-1,215.7	-1.7%	5,434.5	8.4%
Public Safety	105,328.5	107,199.4	108,336.2	108,336.2	109,120.7	114,120.4	5,784.2	5.3%	4,999.7	4.6%
Revenue	71,566.9	40,034.5	40,572.8	40,572.8	15,504.3	17,580.8	-22,992.0	-56.7%	2,076.5	13.4%
Transportation & Public Facilities	222,163.1	193,102.9	205,471.4	205,471.4	197,950.6	208,379.1	2,907.7	1.4%	10,428.5	5.3%
University of Alaska	283,709.4	287,437.3	290,758.3	290,758.3	289,438.3	308,463.0	17,704.7	6.1%	19,024.7	6.6%
Alaska Court System	74,155.0	77,362.4	77,362.4	77,362.4	77,313.5	84,022.0	6,659.6	8.6%	6,708.5	8.7%
Legislature	45,859.7	53,340.2	60,857.9	60,857.9	60,978.3	60,772.6	-85.3	-0.1%	-205.7	-0.3%
Debt Service	58,820.9	124,769.1	124,769.1	124,769.1	115,194.8	115,194.8	-9,574.3	-7.7%	0.0	0.0%
Fund Capitalization	245,043.9	28,438.5	28,438.5	28,438.5	187,714.5	187,714.5	159,276.0	560.1%	0.0	0.0%
Public Education Fund	0.0	0.0	0.0	0.0	114,900.7	114,900.7	114,900.7		0.0	0.0%
Direct Approps to Retirement	18,581.9	449,992.3	454,992.3	454,992.3	408,392.3	408,392.3	-46,600.0	-10.2%	0.0	0.0%
Special Appropriations	0.0	0.0	48,685.6	48,685.6	275,000.0	275,000.0	226,314.4	464.8%	0.0	0.0%
Total - Operating Budget	3,389,508.8	3,621,768.4	3,763,007.8	3,763,007.8	4,072,070.2	4,315,632.2	552,624.4	14.7%	243,562.0	6.0%

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Position Comparison

The Governor's FY09 operating budget request increases permanent full-time (PFT) positions by 286 from the FY08 Management Plan. In addition, 937 PFTs were added during FY08 to the number authorized by the legislature, so the total increase from the FY08 authorized level is 1,223. Overall, the Governor's FY09 statewide budget contains 24,544 total positions (full-time, part-time, and temporary).

AS 39.25 (State Personnel Act) establishes the system of personnel administration within the state and describes the governor's authority to create and appoint positions within the executive branch. Positions (i.e. Position Control Numbers – PCNs) do not necessarily equate to the number of actual employees. More than one person can fill a single PCN, and many PCNs are vacant.

Permanent Full-time Positions Only				
Agency	FY08 Management Plan	FY09 Governor	Change from FY08 Mgt Plan to FY09 Gov	% Change from FY08 Mgt Plan to FY09 Gov
Administration	1,042	1,050	8	0.8%
Commerce, Community and Economic Development	509	515	6	1.2%
Corrections	1,513	1,524	11	0.7%
Education and Early Development	331	329	-2	-0.6%
Environmental Conservation	527	531	4	0.8%
Fish and Game	863	878	15	1.7%
Office of the Governor	152	155	3	2.0%
Health and Social Services	3,367	3,447	80	2.4%
Labor and Workforce Development	835	835	0	0.0%
Law	537	544	7	1.3%
Military and Veterans Affairs	284	284	0	0.0%
Natural Resources	786	806	20	2.5%
Public Safety	833	846	13	1.6%
Revenue	860	873	13	1.5%
Transportation & Public Facilities	3,174	3,191	17	0.5%
University of Alaska	4,650	4,693	43	0.9%
Alaska Court System	726	774	48	6.6%
Legislature	243	243	0	0.0%
TOTAL-- ALL Agencies	21,232	21,518	286	1.3%

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Non-Duplicated State Funding

Traditionally, comparisons of the Governor's operating budget have been made using two "Agency Summary" reports—a report comparing *total funds* (includes all federal, general, and other funds) and a report comparing only *general funds*.

This Overview includes a third report comparing differences in *non-duplicated state funding*. Over the years, several fund sources have moved from the general funds (GF) group to the "other funds" group. Although transferring funding from GF to the "other fund" group does not affect total spending, it does make it more difficult to see the true level of state spending.

The *State Funds* report shows all non-duplicated funds except federal receipts. Duplicate counting occurs when money is appropriated more than once. For example, an appropriation of general funds may be used to capitalize the Debt Retirement fund, and money in the Debt Retirement Fund may then be appropriated to pay debt service. Appropriations from the Debt Retirement Fund are classified as "duplicated." Reports using this fund group will not match the appropriations bill because the appropriations bill includes duplicated appropriations.

Agency Summary - FY 2009 Operating Budget - Non-Duplicated State Funds

Agency	07 Actual	08 CC	08 Auth	08 MgtPln	Adj Base	Gov	08 MgtPln to Gov	Adj Base to Gov
Adminlstration	102,155.0	107,836.8	108,491.5	108,491.5	107,977.1	112,395.3	3,903.8 3.6%	4,418.2 4.1%
Commerce, Community & Economic Dev	126,325.2	61,047.1	62,364.2	62,364.2	62,521.7	67,037.0	4,672.8 7.5%	4,515.3 7.2%
Corrections	206,590.9	205,948.6	206,636.2	206,636.2	210,214.0	220,657.5	14,021.3 6.8%	10,443.5 5.0%
Education & Early Development	1,025,766.3	1,012,395.8	1,045,891.2	1,045,891.2	956,309.5	963,901.8	-81,989.4 -7.8%	7,592.3 0.8%
Environmental Conservation	22,913.7	28,028.4	28,166.1	28,166.1	28,950.4	31,841.6	3,675.5 13.0%	2,891.2 10.0%
Fish and Game	77,925.5	86,324.5	86,616.2	86,616.2	88,226.5	92,006.0	5,389.8 6.2%	3,779.5 4.3%
Office of the Governor	22,830.6	17,685.5	32,295.2	32,295.2	17,970.1	46,500.5	14,205.3 44.0%	28,530.4 158.8%
Health & Social Services	786,606.3	862,690.4	866,038.9	866,038.9	863,104.7	1,016,089.3	150,050.4 17.3%	984.6 17.7%
Labor & Workforce Development	42,802.8	51,444.6	52,515.1	52,515.1	52,023.8	57,383.0	4,867.9 9.3%	5,359.2 10.3%
Law	44,991.8	42,864.3	43,293.1	43,293.1	43,572.3	45,876.8	2,583.7 6.0%	2,304.5 5.3%
Military & Veterans Affairs	13,664.6	12,134.9	12,771.9	12,771.9	12,466.3	13,202.2	430.3 3.4%	735.9 5.9%
Natural Resources	96,376.3	95,897.8	103,944.3	103,944.3	95,797.5	103,168.6	-775.7 -0.7%	7,371.1 7.7%
Public Safety	109,907.7	113,521.7	114,758.5	114,758.5	115,669.9	120,343.1	5,584.6 4.9%	4,673.2 4.0%
Revenue	197,833.9	211,090.4	211,670.3	211,670.3	188,285.0	211,864.3	194.0 0.1%	23,579.3 12.5%
Transportation & Public Facilities	343,376.0	325,341.3	338,554.7	338,554.7	332,746.7	338,247.1	-307.6 -0.1%	5,500.4 1.7%
University of Alaska	525,876.5	567,878.0	571,199.0	571,199.0	568,794.0	603,155.6	31,956.6 5.6%	34,361.6 6.0%
Alaska Court System	74,601.0	77,685.2	77,685.2	77,685.2	77,398.5	84,844.8	7,159.6 9.2%	7,446.3 9.6%
Legislature	45,859.7	53,340.2	60,857.9	60,857.9	60,978.3	60,772.7	-85.3 -0.1%	-205.7 -0.3%
Debt Service	176,392.4	205,406.7	205,406.7	205,406.7	224,880.9	224,880.9	19,474.2 9.5%	0.0 0.0%
Fund Capitalization	2,160,387.8	2,071,396.1	2,071,396.1	2,071,396.1	2,375,681.9	2,375,681.9	304,285.8 14.7%	0.0 0.0%
Public Education Fund	0.0	0.0	0.0	0.0	114,900.7	114,900.7	114,900.7	0.0 0.0%
Direct Approps to Retirement	18,581.9	449,992.3	454,992.3	454,992.3	408,392.3	408,392.3	-46,600.0 -10.2%	0.0 0.0%
Special Appropriations	0.0	0.0	48,685.6	48,685.6	277,500.0	277,500.0	228,814.4 470.0%	0.0 0.0%
Total - Operating Budget	6,221,773.9	6,659,950.6	6,804,230.2	6,804,230.2	7,284,362.1	7,590,642.9	786,412.7 11.6%	306,280.8 4.2%
General Funds	3,389,508.8	3,621,768.4	3,763,007.8	3,763,007.8	4,072,070.2	4,315,632.2	552,624.4 14.7%	243,562.0 6.0%
Other Funds	2,832,265.1	3,038,182.2	3,041,222.4	3,041,222.4	3,212,291.9	3,275,010.7	233,788.3 7.7%	62,718.8 2.0%

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Fund Source Changes for Salary Adjustments

The Governor's FY09 budget includes increases for rising insurance costs and the union negotiated salary agreements. There is a two-step process for allocating these cost increases among the various fund sources that pay the salaries and benefits of state employees.

- **Step One: allocate costs in proportion to current funding.** This allocation of costs goes in the *adjusted base* column—meaning that the costs are considered unavoidable and that there will be a single decision to incorporate the costs in the FY09 budget. If the Finance Committee chairmen decide to incorporate the cost increases at a statewide level, subcommittees will not be discussing the associated increments.
- **Step Two: replace “unavailable” fund sources with general funds.** Fund change transactions that reallocate costs among fund sources appear in the *Governor* column—meaning that subcommittees will be discussing the requested fund changes.

The Governor's request replaces \$8.3 million of federal and “other” funds with general fund. There are several reasons a fund source may be replaced. Finance Subcommittees need to examine each agency's fund source changes to determine whether the changes are justified. The following discussion highlights issues around some of the fund source changes, followed by questions subcommittees may want to consider to help them make decisions.

Fund source changes for programs supported by revenue, fund balances, or grants.

- **Revenue.** Many programs are supported by revenue generated by the programs. For instance, fees for use of the state parks are used to support the parks. If salary costs increase, should fees be increased to cover these costs? Or, due to statutory or other considerations, is a fee increase desirable?
- **Funds and accounts with “low” balances.** Some examples are the Fish and Game Fund, Commercial Fisheries Entry Commission receipts, Agricultural Revolving Loan Fund and the Oil/Hazardous Release Prevention & Response Fund. These funds are (or have been) spending at an unsustainable rate.
- **Grants that don't increase when costs increase.** Many grants are a set amount that does not increase as costs increase. Other grants have limits on overhead costs.

Fund source examples for the revenue, fund balances, and grants issues:

1002 Fed Rcpts	1027 IntAirport	1109 Test Fish	1180 A/D T&P Fd
1014 Donat Comm	1052 Oil/Haz Fd	1141 RCA Rcpts	1189 SeniorCare
1016 CSSD Fed	1053 Invst Loss	1153 State Land	1194 F&G NonDed
1005 GF/Prgm	1054 STEP	1154 Shore Fish	1201 CFEC Rcpts
1018 EVOS Trust	1055 IA/OIL HAZ	1155 Timber Rcp	
1021 Agric RLF	1076 Marine Hwy	1156 Rcpt Svcs	
1024 Fish/Game	1092 MHTAAR	1157 Wrkrs Safe	

Questions subcommittees should ask concerning the above fund sources:

- Is there a possibility of collecting more revenue for the program/project?
- If a fund balance exists, is it possible (or desirable) to draw more from the fund?
- Should the program absorb the cost of the salary adjustments?
- Should the state use GI for this program?
- Should the state subsidize a program that has been self-sustaining?

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Fund source changes for contractual services.

- **Statutorily Designated Program Receipts (SDPR) (1108)** consists of program receipts for projects initiated by a third party that are outside the scope of an agency's normal business.
 - If a third party is contracting with the state to do something outside the scope of the agency's normal business, should the contract reflect the full costs of doing the third party's work?
- **Interagency (I/A) Receipts (1007)** consists of amounts transferred between appropriations under contractual Reimbursable Services Agreements (RSAs). For example, the Department of Labor (Labor) may contract with the Department of Administration (DOA) for human resources services. Because Labor is primarily funded with federal funds, federal funds are used to pay DOA (it shows in DOA's budget as I/A Receipts). When general funds replace I/A receipts in DOA's budget, the state pays for the federal government's fair share of the cost of providing human resources to Labor.
- **Highways Equipment Working Capital Fund (1026)** are receipts from rental fees and surcharges to various departments for equipment rental, repair and supplies.

The following questions apply to SDPR, I/A, and HwyCapital:

- When the cost of doing business rises, should the agency receiving services pay for the increment with the appropriate fund source?
- Would it be preferable to appropriate GF to the recipient of services rather than the provider of services? An increment in the receiving agency makes the budget clearer.

Fund source changes for Capital Improvement Project (CIP) Receipts

- **CIP Receipts (1061)** consist of amounts transferred from capital projects to the operating budget for project operating costs. As a project's operating costs increase, are additional CIP receipts available?

Language Sections of the Governor's FY09 Operating Budget

Section Deleted; appeared in FY08 Operating Budget

LEGISLATIVE INTENT. It is the intent of the legislature that the amounts appropriated by this Act are the full amounts that will be appropriated for those purposes for the fiscal year ending June 30, 2008.

Legislative Fiscal Analyst Comment: In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The intent of this section is to emphasize that supplemental operating appropriations are designed to be limited to needs that are truly unanticipated.

Section Deleted; appeared in FY08 Operating Budget

COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services due to reclassification of job classes during the fiscal year ending June 30, 2008.

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

* **Sec. 4. ALASKA AEROSPACE DEVELOPMENT CORPORATION.** Federal receipts and other corporate receipts of the Alaska Aerospace Development Corporation received during the fiscal year ending June 30, 2009, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Development Corporation for operations during the fiscal year ending June 30, 2009.

Legislative Fiscal Analyst Comment: This section is intended to maximize the AADC's ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner.

Funding: The estimated impact of this section is zero. Historically, the appropriations to AADC in section 1 have been sufficient to avoid application of this section.

* **Sec. 5. ALASKA HOUSING FINANCE CORPORATION.** (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$65,851,153 of the net income from the second preceding fiscal year will be available in fiscal year 2009.

Subsection a specifies the amount of corporate receipts that will be made available to the state as an FY09 dividend payment, but does not appropriate the dividend.

Legislative Fiscal Analyst Comment: Ch. 76, SLA 2003 defined AHFC's annual dividend to the state as a percentage of net income of the corporation. Beginning in FY09, the statutory dividend is the lesser of \$103 million or 75% of net income in the most recently completed fiscal year (AS 18.56.089(c)).

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2009, will be retained by the Alaska Housing Finance Corporation for the following purposes in the following estimated amounts:

(1) \$1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;

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(2) \$2,592,558 for debt service on the bonds authorized under ch. 1, SSSLA 2002;

(3) \$2,547,085 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection b makes no appropriation; it informs the legislature that AHFC will retain \$6.14 million of the dividend to pay debt service on various AHFC-financed capital projects authorized by past legislatures. This leaves a net dividend of \$59.7 million (\$15.6 million less than in FY08) for the legislature to spend as it wishes.

(c) To the extent required by art. IX, sec. 13, Constitution of the State of Alaska, the estimated amounts set out in (b) of this section are appropriated to the Alaska Housing Finance Corporation for the purposes stated in (b) of this section.

NEW SUBSECTION: Subsection c states that the funds retained by AHFC for debt service are appropriated by the legislature.

Legislative Fiscal Analyst Comment: The section appears to be both undesirable and unnecessary. AS 18.56.089(c) states that the amounts in (b) are deducted from the dividend paid to the state each year. That was done specifically to avoid the appearance that AHFC's debt service is subject to appropriation (i.e., to appease the bond market). The section is unnecessary because the dividend calculation excludes the amount retained for debt service—no appropriation is necessary because the state does not receive the retained dividend. Legislative Finance has not entered transactions for this appropriation.

(d) After deduction of the amounts to be retained for the purposes set out in (b) of this section and after appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2009, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection d appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire dividend specified in subsection a.

Legislative Fiscal Analyst Comment: Corporate dividends are classified as "other" funds and customarily reserved for use in the capital budget. Replacing general funds with "other" funds complicates year-to-year comparisons of the operating budget.

(e) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during fiscal year 2009 and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) in accordance with procedures adopted by the board of directors.

Subsection e appropriates certain FY09 receipts of the AHFC to the corporation and allocates those receipts to the AHFC revolving loan fund, and the senior housing revolving fund.

Funding: The corporate receipts used for purposes other than operating costs do not appear in the bill summary or in Legislative Finance reports. Corporate operating costs are appropriated in section 1.

(f) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) under (e) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2009, for housing loan

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programs not subsidized by the corporation.

(g) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710) under (e) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2009, for housing loan programs and projects subsidized by the corporation.

(h) The sum of \$30,000,000 is appropriated from federal receipts to the Alaska Housing Finance Corporation for housing assistance payments under the Section 8 program for the fiscal year ending June 30, 2009.

Subsections f, g, and h appropriate certain FY09 corporate receipts to various housing programs. These amounts establish lending limits for the year. The limits are unchanged from FY08.

* **Sec. 6. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$23,800,000, has been declared available by the Alaska Industrial Development and Export Authority board of directors for appropriation as the fiscal year 2009 dividend from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

Subsection a informs the legislature that the anticipated annual AIDEA corporate dividend to the state will be \$23.8 million (the FY08 dividend was \$10 million). By statute (AS 44.88.088) the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. This year's dividend is near the maximum available by law.

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2009, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. Section 23(a)(3) of the Governor's proposed operating budget appropriates the entire \$23.8 million to the Debt Retirement Fund.

Legislative Fiscal Analyst Comment: Corporate dividends are classified as "other" funds and customarily reserved for use in the capital budget. Replacing general funds with "other" funds complicates year-to-year comparisons of the operating budget.

* **Sec. 7. ALASKA PERMANENT FUND CORPORATION.** (a) The amount authorized under AS 37.13.145(b) for transfer by the Alaska Permanent Fund Corporation on June 30, 2009, is appropriated from the earnings reserve account (AS 37.13.145(a)) to the dividend fund (AS 43.23.045(a)) for the payment of permanent fund dividends and administrative and associated costs for the fiscal year ending June 30, 2009.

Subsection a appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY09 (as calculated on the last day of the fiscal year) will be used to pay PFDs in FY09 and associated costs throughout FY09.

Funding: The projected amount of dividend transfer for FY09 is \$1.357 billion, including administrative and associated costs. Administrative and associated costs for FY09 are reflected in section 1 of the budget. They include the cost of operating the PFD Division, hold-harmless provisions that affect people served by the Department of Health & Social Services and "cost recovery" programs in various departments.

(b) After money is transferred to the dividend fund under (a) of this section, the amount calculated under AS 37.13.145(c) to offset the effect of inflation on the principal of the Alaska permanent fund during fiscal year 2009 is appropriated from the earnings reserve account

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(AS 37.13.145(a)) to the principal of the Alaska permanent fund.

Subsection b is an "inflation proofing" provision, which transfers money from the Earnings Reserve Account to principal.

Funding: The Governor's projected amount of inflation proofing for FY09 is \$803 million.

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during fiscal year 2009 is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

Subsection c appropriates 25% of mineral lease rentals, royalties, royalty sales, etc. to the principal of the Permanent Fund as required by constitution or statute.

Funding: These deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports because the deposits are constitutionally dedicated rather than appropriated. The Permanent Fund projects that dedicated deposits will be \$448 million during FY09.

(d) The income earned during fiscal year 2009 on revenue from the sources set out in AS 37.13.145(d) is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection d appropriates FY09 earnings associated with *State v. Amerada Hess* to the Alaska Capital Income Fund. This fund was established in FY05 and has been expended for capital projects since then.

Funding: The Permanent Fund Corporation's November 2007 estimate of FY09 earnings from *State v. Amerada Hess* is \$28 million.

Legislative Fiscal Analyst Comment: *The Governor spends \$177.5 million from the Alaska Capital Income Fund in the FY09 operating and capital budgets.*

General funds totaling \$249.4 million were swept into the Alaska Capital Income Fund at the end of FY07—reclassifying \$249.4 million general funds to "other" funds and leaving a year-end FY08 balance of \$266 million. Of this amount, the Governor proposed spending \$149 million in FY09. Without the reclassification of these funds, the Governor's FY09 budget would have been \$149 million higher than it now appears.

* **Sec. 8. ALASKA STUDENT LOAN CORPORATION DIVIDEND.** (a) The sum of \$4,100,000 has been declared available by the Alaska Student Loan Corporation board of directors for appropriation as the fiscal year 2009 dividend.

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2009, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated FY09 Student Loan Corporation dividend to the state will be \$4.1 million (versus the \$1.2 million paid in FY08).

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed operating budget appropriates the entire \$4.1 million.

Legislative Fiscal Analyst Comment: *Corporate dividends are classified as "other" funds and customarily reserved for use in the capital budget. Replacing general funds with "other" funds complicates year-to-year comparisons of the operating budget.*

* **Sec. 9. DEPARTMENT OF ADMINISTRATION.** The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses during the fiscal year ending June 30, 2009.

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Subsection a references the statute that allows up to \$5 million to be swept from lapsing general fund appropriations for the catastrophe reserve account. It appropriates funds from the catastrophe reserve account to the Department of Administration to obtain insurance, establish reserves for the self-insurance program, and to satisfy claims or judgments arising under the program.

Legislative Fiscal Analyst Comment: This subsection re-emphasizes the state's authority to expend funds from the state insurance catastrophe reserve account described in AS 37.05.289(a). The language may not be necessary, but it does no harm.

Legislative Fiscal Analyst Comment: The catastrophe reserve account sweeps lapsing general fund appropriations annually to maintain a balance not to exceed \$5 million. If these funds were not available, two opportunities would remain for meeting catastrophic situations: 1) supplemental appropriations by the legislature; and 2) judgment legislation. Delays that could occur with legislative remedies would cause difficulty in situations that require immediate action.

Funding: This provision has no FY09 fiscal impact; it allows money appropriated elsewhere to be swept into the reserve account but does not increase total appropriations.

* **Sec. 10. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT.** (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund June 30, 2009, under AS 41.15.180(j) is appropriated as follows:

(1) up to \$170,000 is appropriated to the Department of Transportation and Public Facilities, commissioner's office, for road maintenance in the unorganized borough, for the fiscal year ending June 30, 2009;

(2) the balance remaining after the appropriation made by (1) of this subsection is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2009, to be allocated among the recipients of national forest income according to their pro rata share of the total amount distributed under AS 41.15.180(c) and (d) for the fiscal year ending June 30, 2009.

Subsection 1 appropriates \$170,000 of National Forest Receipts to DOT&PF for road maintenance in the unorganized borough.

Subsection 2 appropriates any remaining balance to be paid as grants to local governments in the unorganized borough.

Legislative Fiscal Analyst Comment: National Forest receipts consist of national forest income received by DCCED for the portion of national forests located within the unorganized borough. By law 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.

Legislative Fiscal Analyst Comment: AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution of funds has not been made. Appropriating money from this fund before the end of the year conflicts with rules regarding distribution of the funds. The appropriation appears to be designed to spend federal receipts before they lapse and would be spent as general funds. However, the section also changes the potential purpose of the appropriation. Lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Section 10 takes money that would otherwise be spent in unorganized areas and appropriates it to local governments.

(b) An amount equal to the salmon enhancement tax collected under AS 43.76.010 -

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43.76.028 in calendar year 2007 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2009 to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These "pass through" amounts are excluded from Legislative Finance reports on the operating bill.

(c) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2007 and deposited in the general fund under AS 43.76.380(d) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in fiscal year 2009 to qualified regional seafood development associations.

Funding: These "pass through" amounts are excluded from Legislative Finance reports on the operating bill.

* **Sec. 11. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT.** (a) The sum of \$1,575,000,000 is appropriated from the general fund to the public education fund (AS 14.17.300).

(b) The sum of \$1,000,000,000 is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsection a appropriates \$1.575 billion of the FY08 surplus to the Public Education Fund (PEF). This appropriation is part of the Governor's plan to save \$2.3 billion of the FY08 surplus.

Subsection b appropriates \$1 billion of the FY09 surplus to the Public Education Fund.

Legislative Fiscal Analyst Comment: The legislature began making deposits to the PEF in FY06, with the expectation of making continued deposits until reaching the goal of a balance sufficient to fund K-12 education one year in advance. With the deposit of \$1 billion last session, the goal was reached. Legislative intent was to simplify the budget upon reaching the goal, implying that no FY08 supplemental deposit would be made and that the FY09 deposit to the PEF would equal anticipated FY10 K-12 needs.

The Governor's FY08 and FY09 appropriations are clearly not in line with where the legislature has been heading. Under her plan for FY08 and FY09, the PEF would end FY09 with a balance of \$2.5 billion—enough to fund K-12 education through FY11. Whether the Governor intends to maintain a \$2.5 billion balance by making annual deposits equal to anticipated costs, or to restrain growth in FY10 and FY11 operating budgets by depleting the PEF is unknown.

For more information, please see a discussion of these deposits in the "FY08-FY09 Fiscal Summary" discussion in this Overview.

(c) If the amount necessary to pay school performance incentives under AS 14.03.126 exceeds the amount appropriated in sec. 1 of this Act, the additional amount necessary to pay those school performance incentives is appropriated from the general fund to the Department of Education and Early Development, school incentive program, for the fiscal year ending June 30, 2009.

NEW SUBSECTION: Subsection c allows school performance incentive payments to exceed the amount appropriated in section 1.

Funding: The department anticipates that adoption of regulations (currently out for public comment) may add \$1.6 to \$2.7 million to the \$2.5 million appropriated for the incentive program in section 1.

Legislative Fiscal Analyst Comment: Alternatives to this open-ended appropriation include deleting it in favor of a larger appropriation in section 1. A fixed limit on total incentive payments may cause

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incentives to be less than the maximum allowed by law. The current statute is scheduled for repeal June 30, 2009.

* **Sec. 12. RETIREMENT SYSTEM FUNDING.** (a) The sum of \$162,392,300 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as partial payment of the participating teachers' retirement system employers' contribution for fiscal year 2009 under AS 14.25.070(a).

Subsection a appropriates \$162 million of FY09 general funds for FY09 TRS contributions—this is \$44 million less than the \$206.3 million requirement calculated by the state's actuarial consultants.

Legislative Fiscal Analyst Comment: The Governor is requesting less than the required level of funding in FY09 because she believes that her proposed FY08 supplemental appropriation of \$450 million (see subsection e) will reduce the state's required annual contributions to TRS by approximately \$44 million per year. The Governor's claim of reduced state contributions is premature unless the ARM Board takes special action granting early recognition of the proposed \$450 million contribution. Without such action, the normal three-year delay between action and effect means that the FY09 request for direct state appropriation to TRS is \$44 million short of the amount \$203.6 million required.

For more information, please see the "The FY08-FY09 Fiscal Summary" section in this publication.

(b) The appropriation made by (a) of this section is intended by the legislature to be the amount required to reduce the employer contribution rate of teachers' retirement system employers to 12.56 percent for fiscal year 2009.

Subsection b informs the ARM Board that the legislative intent of the \$162 million appropriation is to reduce rates for employers to 12.56 percent. This rate was the normal cost rate for FY08, and is the long-term target employer contribution rate.

(c) The sum of \$246,000,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as partial payment of the participating public employees' retirement system employers' contribution for fiscal year 2009 under AS 39.35.270.

Subsection c appropriates \$246 million of FY09 general funds for FY09 PERS retirement contributions.

Legislative Fiscal Analyst Comment: The Governor's request is \$4.4 million more than the \$241.6 million requirement calculated by the state's actuarial consultants.

(d) The appropriation made by (c) of this section is intended by the legislature to be the amount required to set the effective employer contribution rate of all public employees' retirement system employers for the fiscal year ending June 30, 2009, at the lower of the level percentage of pay rate approved by the Alaska Retirement Management Board, or 22 percent; however, it is further the intent that the effective employer contribution calculated under this subsection may not be lower than 14.48 percent.

Subsection d informs the ARM Board that the legislative intent of the \$246 million appropriation is to reduce employers' rates to a maximum of 22%.

Legislative Fiscal Analyst Comment: The lower limit on employer contribution rates (14.48 percent) reflects an actuarial method that was not used. The correct figure is 13.72 percent.

(e) The sum of \$450,000,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as partial payment of the participating teachers' retirement system employers' contribution under

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AS 14.25.070(a).

Subsection e appropriates \$450 million to the Teachers Retirement System (TRS) account to pay down a portion of the system's unfunded liability.

Legislative Fiscal Analyst Comment: Please see discussion under subsection a.

* **Sec. 13. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT.** (a) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amounts appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2009.

This section allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated in sec. 1 of this Act, the amount necessary to make those benefit payments is appropriated from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2009.

This section allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero.

(c) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2009.

This section allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero.

* **Sec. 14. DEPARTMENT OF LAW.** The sum of \$9,600,000 is appropriated from the Alaska capital income fund (AS 37.05.565) to the Department of Law, oil, gas and mining section, for work related to the gas pipeline and to bringing North Slope natural gas to market, and to other oil and gas projects, for the fiscal years ending June 30, 2009 and June 30, 2010.

This section appropriates \$9.6 million from the Alaska Capital Income Fund. It is a multi-year appropriation that makes funding available in FY09 and FY10.

Legislative Fiscal Analyst Comment: The Alaska Capital Income Fund has customarily been reserved for capital projects. Although the fund may be used in this way, Legislative Finance suggests that a general fund appropriation for a single year is the least complicated approach to this funding request. The appropriation could appear in section 1 if it were for a single year.

* **Sec. 15. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS.** Five percent of the market value of the average ending balances in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2006, June 30, 2007, and June 30, 2008, is appropriated from the Alaska veterans' memorial endowment fund to the Department of Military and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2009.

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Funding: Endowment payout is expected to be about \$12,400. Proceeds may be used for maintenance, repair and construction of monuments to the military.

* **Sec. 16. DEPARTMENT OF NATURAL RESOURCES.** Federal receipts received for fire suppression during the fiscal year ending June 30, 2009, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2009.

This section appropriates an unspecified amount of federal receipts received for fire suppression to the Department of Natural Resources.

Funding: A \$2 million federal receipts estimate for fire suppression has been used for several years.

* **Sec. 17. DEPARTMENT OF PUBLIC SAFETY.** (a) The sum of \$1,393,200 is appropriated from the general fund to the Department of Public Safety, division of Alaska state troopers, narcotics task force, for drug and alcohol enforcement efforts during the fiscal year ending June 30, 2009.

Subsection a appropriates \$1.4 million in general funds for drug and alcohol enforcement efforts.

(b) If the amount of federal receipts received by the Department of Public Safety from the justice assistance grant program during the fiscal year ending June 30, 2009, for drug and alcohol enforcement efforts exceeds \$1,289,100, the appropriation in (a) of this section is reduced by the amount by which the federal receipts exceed \$1,289,100.

Subsection b is contingency language that requires a dollar-for-dollar reduction of the previous subsection's general funds if DPS receives over \$1.3 million in federal grants for drug and alcohol enforcement efforts.

Legislative Fiscal Analyst Comment: *The FY08 operating budget included similar language and DPS received \$1,560,940 of federal funds for this purpose—resulting in a reduction of \$271,840.*

Funding: Because the amount of federal funds for FY09 is unknown, Legislative Finance is estimating the cost of the section to be the full \$1.4 million in general funds.

* **Sec. 18. DEPARTMENT OF REVENUE.** (a) The minimum amount of program receipts received during the fiscal year ending June 30, 2009, by the child support services agency that is required to secure the federal funding appropriated from those program receipts for the child support enforcement program in sec. 1 of this Act is appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2009.

Subsection a permits an unspecified amount of program receipts collected by the Child Support Services Division (CSSD) to be spent to capture the federal receipts appropriated in section 1.

Legislative Fiscal Analyst Comment: *Because CSSD has sufficient program receipt (and general fund) authority to match anticipated federal receipts, this section is unlikely to have any effect. The section could be deleted, but it does no harm.*

Funding: The estimated impact of this section is zero.

(b) Program receipts collected as cost recovery for paternity testing administered by the child support services agency, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(I), are appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2009.

Subsection b appropriates (to CSSD) receipts collected to recover the costs of paternity testing.

Funding: The department estimates that paternity testing will generate \$43,000 in program receipts.

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* **Sec. 19. DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES.** An amount equal to 50 percent of the fines for offenses committed in a traffic safety corridor imposed under AS 28.90.030 and collected during the fiscal year ending June 30, 2007, is appropriated from the general fund to the Department of Transportation and Public Facilities, program development - Alaska highway safety office, for highway safety planning and highway safety programs for the fiscal year ending June 30, 2009.

NEW SECTION: This section appropriates funding authorized under AS 19.10.075(b), which states that 50 percent of the fines collected in a traffic safety corridor may be appropriated to DOT&PF for highway safety planning.

Legislative Fiscal Analyst Comment: If the legislature chooses to appropriate half of the fines for traffic offenses committed in traffic safety corridors (construction work zones in which regular fines are doubled) to the Highway Safety Office, this section of the bill should be modified to include a reference to AS 19.10.075(b) which authorizes the appropriation of 50% of the collections imposed by AS 28.90.030. AS 19.10.075(b) was adopted in section 8, ch. 45, SLA 2006. Because the amount of the appropriation is known, it could be stated in section 19, or the appropriation could occur in section 1.

Funding: The funding appropriated in this section is \$44,300 and is equal to 50 percent of the FY07 collections.

* **Sec. 20. OFFICE OF THE GOVERNOR.** (a) If the 2009 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$35 a barrel on August 1, 2008, the amount of money corresponding to the 2009 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs.

(b) If the 2009 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$35 a barrel on November 1, 2008, the amount of money corresponding to the 2009 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs.

(c) The following table shall be used in determining the amount of appropriations in (a) and (b) of this section:

2009 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$59 or more	\$12,000,000
58	11,500,000
57	11,000,000
56	10,500,000
55	10,000,000
54	9,500,000
53	9,000,000
52	8,500,000
51	8,000,000

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50	7,500,000
49	7,000,000
48	6,500,000
47	6,000,000
46	5,500,000
45	5,000,000
44	4,500,000
43	4,000,000
42	3,500,000
41	3,000,000
40	2,500,000
39	2,000,000
38	1,500,000
37	1,000,000
36	500,000
35	0

(d) It is the intent of the legislature that a payment under (a) of this section on August 1, 2008, be used to offset the effects of higher fuel and utility costs for the first half of fiscal year 2009 and that a payment under (b) of this section on November 1, 2008, be used to offset the effects of higher fuel and utility costs for the second half of the fiscal year 2009.

(e) The governor shall allocate amounts appropriated in (a) and (b) of this section as follows:

(1) to the Department of Transportation and Public Facilities, 65 percent of the total plus or minus 10 percent;

(2) to the University of Alaska, eight percent of the total plus or minus three percent;

(3) to any other state agency, not more than four percent of the total amount appropriated;

(4) the aggregate amount allocated may not exceed 100 percent of the appropriation.

Subsections a and b appropriate up to \$12 million—depending on the year-to-date average price of crude oil—on August 1, 2008 and November 1, 2008, for a total of up to \$24 million. This funding is to be distributed to agencies to offset increased fuel and utility costs.

Subsection c indicates, based on the price of oil, how much funding is appropriated in subsections a and b.

Subsection d states legislative intent that the funding is to offset fuel and utility cost increases.

Subsection e provides guidelines for allocating the money among agencies.

Legislative Fiscal Analyst Comment: There are two issues worthy of note:

1. Although contingent appropriations have traditionally been excluded from budget reports, OMB included the appropriation in its budget transmittal. Legislative

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Finance concurs that the contingent circumstances are highly probable and also included the \$24 million appropriation in budget reports.

2. *The amount of the appropriation is insufficient to cover fuel cost increases that have occurred since FY06. Legislative Finance has not yet completed a revised schedule that more fully reflects oil price increases since FY06.*

(f) The sum of \$3,670,800 is appropriated from the general fund to the Office of the Governor, division of elections, for costs associated with conducting the statewide primary and general elections for the fiscal year ending June 30, 2009.

Subsection f appropriates general funds to cover the costs of 2008 statewide elections.

Legislative Fiscal Analyst Comment: The request is consistent with election funding for the 2006 elections and fiscal notes for bills affecting election responsibilities. A request for about \$65.0 for FY08 activity is expected. One-time funding for elections will be removed from the FY10 base.

* **Sec. 21. UNIVERSITY OF ALASKA.** The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2008, for the issuance of special request university plates, less the cost of issuing the license plates, is appropriated from the general fund to the University of Alaska for support of alumni programs at the campuses of the university for the fiscal year ending June 30, 2009.

Funding: The University expects to receive about \$2,000 under this section.

* **Sec. 22. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as described in AS 44.21.045(b), Exxon Valdez oil spill trust receipts described in AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts as described in AS 46.03.480(d) for the Ocean Ranger program, and receipts of the Alaska Fire Standards Council described in AS 37.05.146(b)(5) that are received during the fiscal year ending June 30, 2009, and that exceed the amounts appropriated by this Act, are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

(b) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2009, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

(c) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2009, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection a provides unlimited appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the Governor can increase authorization for listed fund sources without the approval of the Committee.

NEW FUND SOURCES LISTED: Receipts of the Alaska Housing Finance Corporation and receipts from the Ocean Ranger Program (the \$4/berth fee) are FY09 additions to the list of funds that can be increased upon LB&A committee review.

Legislative Fiscal Analyst Comment: The provision for AHFC receipts is intended to allow for additional federal Housing and Urban Development (HUD) receipts to be received and expended during the year. Last year, HUD funding requirements changed to a project-based or "asset management" approach under which individual public housing properties must qualify for HUD funding. As the central housing authority, AHFC charges public housing properties for asset management and oversight. Those fees are now considered corporate receipts rather than federal

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receipts. The change in accounting affected over \$6 million in FY08.

Alternatives to this open-ended appropriation include:

1. restricting the affected AHFC receipts to those received via HUD;
2. limiting the amount of HUD receipts subject to LB&A review; and
3. omitting the fund source in favor of supplemental appropriations.

Legislative Fiscal Analyst Comment: The proposed budget for the Ocean Ranger program would expend all available (projected) revenue from the berth fee.

Subsection b is standard language that permits state authorization to be reduced if unanticipated money is received for projects funded by general funds. There is no formal process for tracking potential reductions.

Subsection c is standard language that automatically limits authorization of federal and other receipts to the amount actually received.

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate. Legislative Finance reports place no dollar value on appropriations made in this section.

Sec. 23. FUND TRANSFERS. (a) The following amounts are appropriated to the debt retirement fund (AS 37.15.011):

- (1) the sum of \$11,807,600 from the Alaska Housing Finance Corporation fiscal year 2009 dividend;
- (2) the sum of \$13,055,200 from federal receipts for state-guaranteed transportation revenue anticipation bonds, series 2003B;
- (3) the sum of \$23,800,000 from the Alaska Industrial Development and Export Authority fiscal year 2009 dividend;
- (4) the sum of \$71,435,700 from the general fund;
- (5) the sum of \$171,900 from the investment loss trust fund (AS 37.14.300);
- (6) the sum of \$458,700 from investment earnings of the Alaska municipal bond bank authority reserve fund (AS 44.85.270), if the earnings are in excess of the operating expenses of the fund.

Subsection a is summarized below.

Total Capitalization of the Debt Retirement Fund			
Subsec	Fund Source	FY09 Debt Service	Details
1	AHFC Dividends	11,807.6	
2	Federal Receipts	13,055.2	Federal receipts to pay Series 2003B GO Bonds
3	AIDEA Dividends	23,800.0	
4	General Funds	71,435.7	
5	ILTF	171.9	
6	AMBB Receipts	458.7	
TOTAL DEPOSITS		120,729.1	

(b) The following amounts are appropriated to the election fund required by the federal Help America Vote Act:

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- (1) the sum of \$100,000 from federal receipts;
- (2) interest earned on amounts in the election fund required by the federal Help America Vote Act.

Subsection b (1) and (2) appropriate \$100,000 in federal receipts from the Help America Vote Act, plus interest earned, to the election fund.

Legislative Fiscal Analyst Recommendation: This fund is for capital expenditures. Legislative Finance has made an effort in recent years to capitalize and expend funds in the same bill in order to ensure agreement between capitalization and expenditure. To be consistent with that practice, this section should be moved to the capital appropriations bill.

- (c) The sum of \$25,921,360 is appropriated to the power cost equalization and rural electric capitalization fund (AS 42.45.100) from the following sources:

Power cost equalization endowment fund (AS 42.45.070)	\$16,067,560
General fund	9,853,800

Subsection c capitalizes the PCE Fund with \$9.85 million in general funds and seven percent of the PCE Endowment (\$16.1 million). This fund capitalization provides the \$28.2 million needed to fully fund the PCE appropriations made in section 1.

Legislative Fiscal Analyst Comment: An FY07 appropriation added \$182.7 million to the PCE Endowment. The endowment balance (\$395 million) is now sufficient to fund the PCE program at about \$25 million annually in the long run. However, the annual payout is based on a three-year average balance of the endowment, so general funds will be required through FY10.

The GF share of the PCE program is \$9.85 million in FY09, and should decline to \$5 million in FY10. By FY11, the impact of the \$182.7 million deposit on the three-year average balance of the endowment will be fully realized and PCE may be self-supporting at a level of about \$25 million annually.

- (d) The sum equal to 25 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 on or before August 31, 2008, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2009 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2008, and that lapses into the National Petroleum Reserve - Alaska special revenue fund is appropriated to the principal of the Alaska permanent fund from the National Petroleum Reserve - Alaska special revenue fund.

Subsection d (per AS 37.05.530(g)) appropriates 25 percent of the lapsing balance of grants to the Permanent Fund. No lapsing balance is anticipated.

Funding: The estimated fiscal impact of this section is zero.

- (e) The sum equal to 0.5 percent of the amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 on or before August 31, 2008, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2009 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2008, and that lapses into the National Petroleum Reserve - Alaska special revenue fund is appropriated to the public school trust fund (AS 37.14.110) from the National Petroleum Reserve - Alaska special revenue fund.

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Subsection e (per AS 37.05.530(g)) appropriates one-half percent of the lapsing balance of grants to the Public School Trust Fund. No lapsing balance is anticipated.

Funding: The estimated fiscal impact of this section is zero.

(f) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6506a(f) or former 42 U.S.C. 6508 on or before August 31, 2008, that is appropriated to the Department of Commerce, Community, and Economic Development for fiscal year 2009 capital project grants under the National Petroleum Reserve - Alaska impact grant program, that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2008, that lapses into the National Petroleum Reserve - Alaska special revenue fund, and that is not appropriated under (d) and (e) of this section is appropriated to the power cost equalization and rural electric capitalization fund (AS 42.45.100) from the National Petroleum Reserve - Alaska special revenue fund.

Subsection f (per AS 37.05.530(g)) appropriates the lapsing balance remaining after (e) and (f) to the PCE Fund to fund the PCE Program. No lapsing balance is anticipated.

Funding: The estimated fiscal impact of this section is zero.

(g) The following revenue collected during the fiscal year ending June 30, 2009, is appropriated to the fish and game fund (AS 16.05.100):

(i) receipts from the sale of crewmember fishing licenses (AS 16.05.480(a)) that are not deposited into the fishermen's fund under AS 23.35.060;

(2) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15));

(3) fees collected at boating and angling access sites described in AS 16.05.050(a)(6) and managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement;

(4) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)); and

(5) fees collected for sanctuary access permits (AS 16.05.050(a)(15)).

Subsection g appropriates revenue generated by the named licenses and fees into the Fish and Game Fund. Appropriations from this revenue source use the Fish and Game Nondedicated Receipts fund code (1194) to differentiate these appropriations (which are essentially GF appropriations) from the dedicated portion of the Fish and Game Fund.

Funding: The estimated fiscal impact of this subsection is \$2,315,700.

(h) The following amounts are appropriated to the oil and hazardous substance release prevention account (AS 46.08.010(a)(1)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010) from the sources indicated:

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2008, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2008, estimated to be \$9,900,000, from the surcharge levied under AS 43.55.300.

Subsection h is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY08

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collections from the 4 cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.03 to \$0.04.

Funding: Based on a five-year average, the projected balance of the oil and hazardous substance release prevention mitigation account (subsection (h)(1)) is \$1.8 million

(i) The following amounts are appropriated to the oil and hazardous substance release response account (AS 46.08.010(a)(2)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010) from the following sources:

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2008, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2008, from the surcharge levied under AS 43.55.201.

Subsection i is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY08 collections from the \$0.01 cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.02 to \$0.01.

Funding: Based on a five-year average, the projected balance of the response mitigation account that will be transferred under this section is approximately \$600,000. The surcharge collected under paragraph (2) became effective when the balance of the Response Account dropped below \$50 million. The drop in the balance is due to a Department of Law request for \$8.8 million to investigate two oil spills which occurred in 2006 from transit pipelines operated by BP in the Prudhoe Bay oil field. As of September 30, 2007, the cumulative balance of the accounts remains below \$50 million—at \$44.1 million.

Legislative Fiscal Analyst Comment: Based on the current balance and annual collections of \$2.3 million from the one cent surcharge, the surcharge may be in effect for several years.

(j) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2009, are appropriated to the Alaska children's trust (AS 37.14.200):

(1) fees collected under AS 18.50.225, less the cost of supplies, for the issuance of birth certificates;

(2) fees collected under AS 18.50.272, less the cost of supplies, for the issuance of heirloom marriage certificates;

(3) fees collected under AS 28.10.421(d) for the issuance of special request Alaska children's trust license plates, less the cost of issuing the license plates.

Subsection j appropriates (to the Alaska Children's Trust) net receipts collected during FY09 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates.

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

Funding: OMB projects \$45.4 net proceeds from the sale of certificates/plates.

(k) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2009, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

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Subsection k appropriates origination fees charged on student loans to the origination fee account within the student loan fund. The fees are intended to offset loan losses due to death, disability, bankruptcy and default.

Funding: The amount of the loan origination fee is capped by regulation at 5% and set annually by the corporation. It is currently set at 3%. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

(l) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2009, is appropriated to the disaster relief fund (AS 26.23.300).

Subsection l is standard language appropriating federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

Funding: A \$9 million estimate for federal disaster relief receipts has been used for several years.

(m) The sum of \$7,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300).

Subsection m capitalizes the Disaster Relief Fund with \$7 million of general funds.

(n) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2008, and money deposited in that account during the fiscal year ending June 30, 2009, is appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)) for the fiscal year ending June 30, 2009. The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2009, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources.

Subsection n authorizes an internal transfer of funds from the income account to the operating account; then appropriates the funds needed for the purposes from the account to DNR.

Funding: The agency estimates the amount needed for mine reclamation expenditures is about \$100,000.

(o) The sum of \$12,240,000 is appropriated to the Alaska clean water fund (AS 46.03.032) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$2,040,000
Federal receipts	10,200,000

(p) The sum of \$9,960,000 is appropriated to the Alaska drinking water fund (AS 46.03.036) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$1,110,000
Federal receipts	8,300,000
General fund match	550,000

Subsections o and p provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The state typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money.

(q) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2008, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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Subsection q appropriates earnings of the Bond Bank to its earnings reserve fund.

Funding: Earnings for FY08 were \$250,000 and a similar amount is expected in FY09.

(r) The bulk fuel revolving loan fund fees established under AS 42.45.250(j) and collected under AS 42.45.250(k) from July 1, 2007, through June 30, 2008, estimated to be \$45,000, are appropriated from the general fund to the bulk fuel revolving loan fund (AS 42.45.250).

Subsection r attempts to appropriate fee revenues to the bulk fuel revolving loan fund.

Legislative Fiscal Analyst Recommendation: *If the legislature chooses to capitalize the loan fund, the subsection should begin with "An amount equal to..." in order to clarify that this is an appropriation of FY09 general funds. The effective date of the section is July 1, 2008, which means that the specified FY08 collections will no longer be accessible. The associated budget transaction uses FY09 general funds to capitalize the loan fund.*

(s) The sum of \$2,500,000 is appropriated from the Alaska Student Loan Corporation fiscal year 2009 dividend to the education loan fund (AS 14.42.210) for AlaskAdvantage education grants under AS 14.43.400 - 14.43.420.

Subsection s appropriates ASLC dividends for the existing AlaskAdvantage grant program. This program provides financial assistance to eligible students to enable them to attend, or continue their attendance at, postsecondary educational institutions within Alaska.

Legislative Fiscal Analyst Comment: *The Alaska Student Loan Corporation considers this funding the first step in building a sustainable, level funding source for future educational grant awards. The legislature denied a \$20 million request to endow grants in both FY07 and FY08. Those requests involved an internal transfer of funds that the ASLC considered a return of capital to the state. With the issuance of \$60 million in bonds in FY09, the plan to return capital to the state is complete.*

Legislative Fiscal Analyst Comment: *Corporate dividends are classified as "other" funds and customarily reserved for use in the capital budget. Replacing general funds with "other" funds complicates year-to-year comparisons of the operating budget. If this use of dividends is to be a continuing operating appropriation, the legislature could remove the reservation for capital projects.*

(t) The sum of \$10,000,000 is appropriated from the general fund to the municipal harbor facility grant fund (AS 29.60.800).

Subsection t appropriates funding for municipal harbor facility grants. Per statute, DOT&PF may grant funding for the stated purposes without further appropriation. A minimum of 50 percent of the prior year-end fund balance must be granted each year.

Legislative Fiscal Analyst Recommendation: *This fund is for capital expenditures. Legislative Finance has made an effort in recent years to capitalize and expend funds in the same bill in order to ensure agreement between capitalization and expenditure. To be consistent with that practice, this section should be moved to the capital appropriations bill.*

(u) The sum of \$7,200,000 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770).

Subsection u transfers the amount collected under the surcharge on sport fish licenses (created by SB 147 (Ch 94, SLA 2005)) from the sport fish enterprise account, where the revenue is deposited, to the bond redemption fund. The transfer is for payment of debt service on bonds authorized for hatchery construction. As both funds are subfunds of the Fish and Game Fund, this section has no fiscal impact; it is an attempt to preempt legal issues associated the fisheries revenue bonds.

(v) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise

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account (AS 16.05.130(e)), not to exceed \$1,520,400, as reimbursement for the federally allowable portion of the principal balance payment on the sport fishing revenue bonds series 2006 is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) to the fish and game fund (AS 16.05.100).

The department may use federal operating receipts as reimbursement for a portion of debt service payments on the "Sportfish Bonds" issued in 2006 (see Section 23(u)). Subsection v clarifies that the department chooses to use \$1.52 million of current federal funding as reimbursement. No new money is involved.

Legislative Fiscal Analyst Comment: The department's action increases flexibility in the use of existing federal receipts by placing federal money in the sport fishing enterprise account. Once there, the money can be used for sport fishing facilities intended to directly benefit license purchasers.

Funding: The section simply transfers funds between accounts within the Fish and Game Fund; there is no fiscal impact.

(w) An amount calculated under AS 43.55.028(c), not to exceed \$200,000,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028(a)).

Subsection w appropriates \$200 million to the newly created Oil and Gas Tax Credit Fund to refund oil and gas tax credits. The refunds are capped at \$25 million per applicant per year. Payment of individual refunds requires no further appropriation. The Governor has indicated that she will request an FY08 appropriation of \$125 million to supplement the appropriation of \$25 million for this purpose.

(x) The sum of \$5,000,000 is appropriated from the general fund to the information services fund (AS 44.21.045(a)).

Subsection x appropriates \$5 million of general funds to the information services fund to support \$7.8 million of FY09 Information Technology capital projects.

Legislative Fiscal Analyst Recommendation: This fund is for capital expenditures. Legislative Finance has made an effort in recent years to capitalize and expend funds in the same bill in order to ensure agreement between capitalization and expenditure. To be consistent with that practice, this section should be moved to the capital appropriations bill.

(y) The sum of \$19,099,558 is appropriated from the Alaska capital income fund (AS 37.05.565) to the school construction grant fund (AS 14.11.005).

Subsection y places almost \$20 million in the School Construction Grant Fund for the Susitna Valley High School Replacement. This is the number one school construction project on the Department of Education and Early Development's school construction priority list.

Legislative Fiscal Analyst Recommendation: This fund is for capital expenditures. Legislative Finance has made an effort in recent years to capitalize and expend funds in the same bill in order to ensure agreement between capitalization and expenditure. To be consistent with that practice, this section should be moved to the capital appropriations bill.

(z) The sum of \$80,702,477 is appropriated from the Alaska capital income fund (AS 37.05.565) to the major maintenance grant fund (AS 14.11.007).

Subsection z places almost \$81 million into the School Major Maintenance Grant Fund for projects 1-20 on the initial DE&ED maintenance priority list. An expected amendment will add project #21 and revise the cost of project #1 downward due to revisions in the priority list after submittal of the Governor's budget.

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Legislative Fiscal Analyst Recommendation: *This fund is for capital expenditures. Legislative Finance has made an effort in recent years to capitalize and expend funds in the same bill in order to ensure agreement between capitalization and expenditure. To be consistent with that practice, this section should be moved to the capital appropriations bill. Recent changes to the priority list emphasize the reason for placing fund capitalization and appropriations from a fund in the same bill.*

Legislative Fiscal Analyst Recommendation: *An effort should be made to ensure that all fund transfers are included in an appropriation bill. The Tobacco Use Education and Cessation Fund (and perhaps a few other funds) have no appropriation capitalizing them. Legislative Finance and Legal Services believe that statutory language specifying that a fund is comprised of money from certain sources does not take the place of annual appropriations.*

* **Sec. 24. BOND CLAIMS.** The amounts received in settlement of claims against bonds guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of wells, are appropriated to the agency secured by the bond for the fiscal year ending June 30, 2009, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

This section is standard language that appropriates claims against bonds for land reclamation to the agencies that will direct the reclamation.

Funding: The Department of Natural Resources estimates the impact of this section to be \$100,000.

* **Sec. 25. RETAINED FEES AND BANKCARD SERVICE FEES.** (a) The amount retained to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2009, is appropriated for that purpose to the agency authorized by law to generate the revenue. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

Subsection a allows the state to compensate vendors that collect fees on behalf of the state. The provision originally addressed Fish and Game fishing, hunting and trapping license sales in which the vendor retained a portion of the sale. It also applies to several programs in the Department of Administration, Department of Natural Resources and Trial Courts.

Funding: These fees do not appear in the bill summary or in Legislative Finance reports on the grounds that the state has no effective control over the money.

(b) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2009, is appropriated for that purpose to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

Subsection b allows credit card service providers to retain fees charged for using a credit card.

Funding: These fees do not appear in the bill summary or in Legislative Finance reports on the grounds that the state has no effective control over the money.

(c) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2009, is appropriated for that purpose to the Department of Law for accepting payment of restitution in accordance with AS 12.55.051 by bankcard or credit card, from the funds and accounts in which the restitution payments received by the Department of Law are deposited.

NEW SUBSECTION: Subsection c allows credit card service providers to retain fees charged for using a credit card for payment of restitution.

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Funding: These fees do not appear in the bill summary or in Legislative Finance reports on the grounds that the state has no effective control over the money.

Legislative Fiscal Analyst Recommendation: It appears that the words "payment of restitution" can be added to the list in subsection b—implying that this subsection can be deleted.

* **Sec. 26. SALARY AND BENEFIT ADJUSTMENTS.** (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2009, of the following collective bargaining agreements:

- (1) Alaska Public Employees Association, for the confidential unit;
- (2) Alaska State Employees Association, for the general government unit;
- (3) Public Employees Local 71, for the labor, trades and crafts unit;
- (4) Alaska Correctional Officers Association, representing correctional officers;
- (5) Teachers' Education Association of Mt. Edgecumbe.

(b) The operating budget appropriations made to the University of Alaska in this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2009, for university employees who are not members of a collective bargaining unit and for implementing the monetary terms of the collective bargaining agreements including the terms of the agreement providing for the health benefit plan for university employees represented by the following entities:

- (1) Alaska Higher Education Crafts and Trades Employees;
- (2) Alaska Community Colleges' Federation of Teachers;
- (3) United Academics;
- (4) United Academics-Adjuncts.

(c) If a collective bargaining agreement listed in (a) or (b) of this section is not ratified by the membership of the respective collective bargaining unit, the appropriations made by this Act that are applicable to that collective bargaining unit's agreement are reduced proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are reduced accordingly.

Funding: This section appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

* **Sec. 27. SHARED TAXES AND FEES.** (a) The amount necessary to refund to local governments their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated to the Department of Revenue from the general fund for payment to local governments in fiscal year 2009:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Commercial passenger vessel excise tax (AS 43.52.230(a))	2008
Regional cruise ship impact fund (AS 43.52.230(c))	2008
Fisheries business tax (AS 43.75)	2008

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Fishery resource landing tax (AS 43.77)	2008
Aviation fuel tax (AS 43.40.010)	2009
Electric and telephone cooperative tax (AS 10.25.570)	2009
Liquor license fee (AS 04.11)	2009

Funding: These "pass through" amounts are excluded from Legislative Finance reports on the operating bill.

(b) It is the intent of the legislature that the payments to local governments set out in (a) of this section may be assigned by a local government to another state agency.

NEW SUBSECTION: Subsection b is included to allow a municipality to assign their payment under subsection (a) to a state agency. For example, the City of Homer might receive Fisheries Business tax payments under subsection a, but owe the Department of Administration contributions for PERS. Homer could assign the payment to DOA, thus avoiding cash flow from the state to the city and back to the state.

* **Sec. 28. STATE DEBT AND OTHER OBLIGATIONS.** (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2009, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes.

Subsection a appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year.

Legislative Fiscal Analyst Comment: No notes are expected to be issued.

(b) The amount required to be paid by the state for principal and interest on all issued and outstanding state-guaranteed bonds is appropriated from the general fund to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2009, for payment of principal and interest on those bonds.

Subsection b appropriates general funds to pay principal and interest on state-guaranteed bonds (veterans mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The only purpose of the state general obligation pledge is to gain tax-exempt status for the bonds. Because the bonds are general obligations of the state, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee.

Funding: The revenue stream from mortgage loans is expected to be sufficient to cover bond payments, so the expected fiscal impact of this subsection is zero. However, a potential general fund obligation exists.

(c) The sum of \$30,789,700 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

(d) The sum of \$13,600 is appropriated to the state bond committee from State of Alaska general obligation bonds, series 2003A bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2009, for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

Subsections c and d appropriate \$30.8 million from the debt retirement fund and \$13,600 from bond premiums and interest, respectively, to pay debt service on series 2003A general obligation bonds. The bonds were authorized by the voters in 2002 for construction of schools and university facilities.

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(e) The sum of \$12,055,600 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B.

(f) The sum of \$6,900 is appropriated to the state bond committee from state-guaranteed transportation revenue anticipation bonds, series 2003B bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2009, for payment of debt service and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B.

Subsections e and f appropriate \$13.1 million from the debt retirement fund and \$6,900 from premiums and interest, respectively, to pay debt service on series 2003B state guaranteed transportation revenue anticipation bonds. The bonds were authorized by voters in 2002 for road and harbor construction/renovation.

Legislative Fiscal Analyst Comment: Although these bonds were issued with a GO pledge by the state, they are more appropriately referred to as GARVEE bonds. The majority of the debt service is paid using eligible federal-aid highway formula funding coupled with a state matching component.

(g) The sum of \$50,027,400 is appropriated to the state bond committee for the fiscal year ending June 30, 2009, for payment of debt service and trustee fees on outstanding international airports revenue bonds from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430)	\$46,827,400
Passenger facility charge	3,200,000

Subsection g appropriates funding for payment of debt service and fees on outstanding international airport revenue bonds.

(h) The sum of \$2,050,000 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 during the fiscal year ending June 30, 2009.

(i) The sum of \$1,115,000 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 during the fiscal year ending June 30, 2009.

Subsections h and i appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts for drinking and clean water bond receipts (see sections 23(o) and (p)). The federal receipts require a state match. Federal restrictions on the loan funds, however, limit their use to making loans and paying debt service. This section takes advantage of the ability to use the funds to pay debt service. Issuing short-term bonds (secured by the assets of the loan fund) allows the "restricted" earnings of the funds to be used to pay off the bonds. Essentially, the earnings of the funds are used as match.

(j) The sum of \$8,061,300 is appropriated from the Alaska debt retirement fund (AS 37.15.011) to the state bond committee for the fiscal year ending June 30, 2009, for trustee fees and lease payments relating to certificates of participation issued for real property.

Subsection j appropriates funds from the debt retirement fund to the state bond committee for payment of trustee fees and lease payments related to state-issued certificates of participation. Certificates of participation (COPs) are sold by the state to finance construction or purchase of state

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facilities. COPs represent fractional interest in the ownership of the lease payments that are paid over time by the state. Eventually, the state owns the facility outright.

(k) The sum of \$3,467,100 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2009, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage.

Subsection k appropriates \$3.5 million for obligations associated with the Atwood Building. AHFC purchased the Robert B. Atwood Building for approximately \$39 million in cash and then issued revenue bonds secured by the building itself and lease payments from the state. The state will own the building at the end of the lease.

(l) The sum of \$22,424,525 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2009, for payment of obligations and fees for the following facilities:

FACILITY	ALLOCATION
(1) Anchorage Jail	\$5,091,125
(2) Spring Creek Correctional Center	1,755,600
(3) Yukon-Kuskokwim Correctional Center	951,800
(4) Point Mackenzie Correctional Center	14,626,000

Subsection l appropriates \$5.1 million to pay lease costs for the Anchorage Jail. Anchorage issued municipal bonds to pay for the construction of the Anchorage Jail, which the state leases.

Legislative Fiscal Analyst Comment: In common language, the contract with the Municipality of Anchorage is a lease, but terms of the contract are such that Governmental Accounting Standards Board's (GASB) rule #34 classifies it as a Capital Lease. In simple terms, this means that a default on lease payments could affect the state's credit rating. Because of the potential impact on credit rating, the obligation is categorized as debt.

Legislative Fiscal Analyst Comment: Chapter 160, SLA 2004 (SB 65) authorized lease-purchase agreements for the Spring Creek Correctional Center (SCCC) expansion, the Yukon-Kuskokwim Correctional Center (YKCC) expansion, and the Point MacKenzie jail construction. Both SCCC and YKCC are ready to go. Upon renovation, the state will pay the debt service and utilize the facilities (a capital lease arrangement). SCCC is a \$22 million project with projected FY09 debt service of \$1.76 million (25 year term @ 5.25%). YKCC is a \$12.5 million project with projected FY09 debt service of \$952,000 (25 year term @ 5.25%).

The Point MacKenzie jail project is not as far along as the other jail projects. A variety of issues are unresolved (how many beds, how the utilities will be provided, etc.) and an appropriation for debt service may be premature. The requested debt service amount of \$14.6 million is based on a 200-bed prison costing \$212 million (25 year term @ 5.25%).

(m) The sum of \$3,303,500 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2009, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building parking garage in Anchorage.

Subsection m appropriates \$3.3 million for obligations associated with the Atwood parking garage. The obligation is a lease purchase similar to the obligation for the Robert B. Atwood Building and the Anchorage jail.

(n) The sum of \$97,021,161 is appropriated to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 from the following sources:

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Alaska debt retirement fund (AS 37.15.011)	\$73,621,161
School fund (AS 43.50.140)	23,400,000

Subsection n appropriates funds for municipal school debt reimbursement. AS 14.11.100 authorizes the state to reimburse municipalities for selected bonds issued for school construction (from 60-90% of principal and interest depending on the authorization). The amount of this appropriation is the projected need for full reimbursement.

(o) The sum of \$8,035,959 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2009, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	\$1,413,330
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Nome (port facility addition and renovation)	127,750
(B) Matanuska-Susitna Borough (deep water port and road upgrade)	754,870
(C) Aleutians East Borough/False Pass (small boat harbor)	101,841
(D) Lake and Peninsula Borough/Chignik (dock project)	115,338
(E) City of Fairbanks (fire headquarters station replacement)	868,790
(F) City of Valdez (harbor renovations)	223,138
(G) Aleutians East Borough/Akutan (small boat harbor)	308,701
(H) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	337,882
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Cordova Electric Cooperative (Power Creek hydropower station)	2,245,840

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(C) Copper Valley Electric Association (cogeneration projects)	351,179
(D) Metlakatla Power and Light (utility plant and capital additions)	243,624

Subsection o appropriates \$8 million to various state agencies for reimbursement to municipalities and public entities for debt service on projects authorized in Ch. 115, SLA 2002 (HB 528). This level of reimbursement is lower than that enacted for FY08 (\$10.5 million). The level of reimbursement is discretionary.

(p) The sum of \$7,500,000 is appropriated from the Alaska fish and game revenue bond redemption fund (AS 37.15.770) to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds. It is the intent of the legislature that the sum of \$2,200,000 of the appropriation made by this subsection be used for early redemption of the bonds.

Subsection p appropriates the majority of the surcharge levied on sport fish licenses authorized under Ch 94, SLA 2005—and transferred to the bond redemption fund in Section 19(l) of this bill—for payment of debt service on bonds issued for sport fish hatchery development. The appropriation exceeds the debt service due on the bonds, allowing the bonds to be paid off ahead of schedule.

(q) The sum of \$2,000,000 is appropriated from the general fund to the state bond committee for payment to the Municipality of Kodiak for the upgrade, expansion, or replacement of the Kodiak Community Jail. It is the intent of the legislature that the Municipality of Kodiak not receive proceeds of certificates of participation authorized by sec. 7, ch. 160, SLA 2004, as provided by sec. 8(a), ch. 160, SLA 2004.

Subsection q indirectly appropriates \$2 million to Kodiak for the state's share of the Kodiak jail. The appropriation is intended to substitute for the \$2 million that Kodiak would have received from the proceeds of a certificate of participation.

Legislative Fiscal Analyst Comment: The substitution of a general fund appropriation for the proceeds of the sale of a certificate of participation (COP) is due to the prohibitive cost of issuing a (COP) of this small amount.

Legislative Fiscal Analyst Recommendation: This transaction may be addressed in the capital budget as a grant to a municipality. Doing so would categorize the appropriation as a grant rather than as debt service. Given that no COP is expected to be issued, a grant may be the more appropriate classification.

(r) The sum of \$4,527,700 is appropriated from the general fund to the Department of Administration for payment of obligations and fees for the fiscal year ending June 30, 2009, for the following projects:

- (1) State of Alaska telecommunications system/Alaska land mobile radio build out and support projects;
- (2) telephone system replacement and stabilization phase 3.

Subsection r appropriates general funds for "master lease line of credit" payments for the above two FY08 projects. Appropriations from the Master Lease Line of Credit for these two projects totaled \$27 million.

* **Sec. 29. CONSTITUTIONAL BUDGET RESERVE FUND.** (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2008 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number

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11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which they were transferred.

Subsection a is "sweep reversal language." The Constitution requires that year-end general fund balances be used to repay withdrawals from the CBRF. All general fund subaccounts are "swept" into the CBRF; this provision reverses that action.

(b) Unrestricted interest earned on investment of the general fund balances for the fiscal year ending June 30, 2009, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made by this subsection is intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for any lost earnings caused by use of the fund's balance to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2009, in anticipation of receiving unrestricted general fund revenue. The amount appropriated by this subsection may not exceed an amount equal to the earnings lost by the budget reserve fund as the result of the use of money from the budget reserve fund to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2009, in anticipation of receiving unrestricted general fund revenue.

Subsection b appropriates general fund earnings to the CBRF as compensation for earnings lost by the CBRF as a result of draws to meet the Treasury's cash flow requirements.

(c) The sum of \$245,700 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Revenue, treasury division, for operating costs related to management of the budget reserve fund for the fiscal year ending June 30, 2009.

Subsection c appropriates \$245,700 from the budget reserve fund to the Department of Revenue, Treasury Division, for investment management fees for FY09.

(d) The sum of \$155,300,000 is appropriated from the general fund to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(e) The sum of \$223,700,000 is appropriated from the general fund to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

Subsection d appropriates \$155.3 million of the FY09 surplus (the entire anticipated FY09 surplus) to the CBRF.

Subsection e appropriates \$223.7 million of the FY08 surplus (the entire anticipated FY08 surplus) to the CBRF. The section has an effective date of June 30, 2008.

Legislative Fiscal Analyst Comment: These deposits are for the exact amount of the anticipated surplus in each fiscal year. Under these conditions, any shortfall in revenue will force a draw from the CBRF. The legislature typically leaves a cushion of several million dollars in case revenue is lower than anticipated.

(f) The appropriations made by (a) and (c) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

Subsection f stipulates that appropriations made from the CBRF must be approved by at least three-quarters of the members of each house of the legislature.

Legislative Fiscal Analyst Comment: The bill contains no language appropriating funds from the CBRF to cover any shortfall in unrestricted revenue.

* **Sec. 30. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 5(d), 6(b), 7(d), 8(b), 11(a), 11(b), 23, 28(h), and 28(i) of this Act are for the capitalization of funds and do not lapse.

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* **Sec. 31. RETROACTIVITY.** Those portions of the appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2008 program receipts or the unexpended and unobligated balance on June 30, 2008, of a specified account are retroactive to June 30, 2008, solely for the purpose of carrying forward a prior fiscal year balance.

* **Sec. 32.** Sections 11(a), 12(c), and 23(x) take effect April 13, 2008.

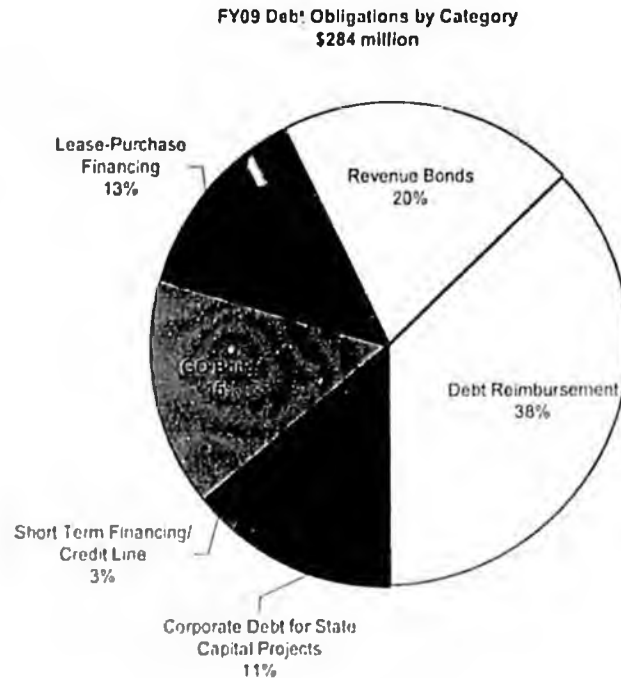
* **Sec. 33.** Sections 21, 29(e), and 31 of this Act take effect June 30, 2008.

* **Sec. 34.** Except as provided in secs. 32 and 33 of this Act, this Act takes effect July 1, 2008.

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Debt Obligations

The state's debt obligations¹ for FY09 total \$284 million. These obligations include required debt service on state capital project debt and discretionary debt reimbursement to non-state entities (i.e., school debt and capital project debt reimbursements to municipalities).



GO Bonds

Required debt service for state general obligation bonds is \$43.9 million. Series 2003A (schools/university/roads/harbors) bonds are expected to require approximately \$31 million per year until 2024. Series 2003B (roads) bonds are expected to require nearly \$13.5 million per year until 2014. Series 2003B bonds are also referred to as GARVEE transportation bonds that can be repaid with up to 90% federal highway funds. The remaining debt service to maturity for all GO bonds beginning FY09 will be approximately \$490 million.

The Governor has proposed \$240 million of additional GO bonds to be voted on in the fall of 2008. In today's market, a rate near 4.5% would be expected, and given a 20-year term, the additional debt service would be \$18.5 million per year.

Lease-Purchase Financing

Debt service on outstanding lease-purchase contracts requires \$20 million for FY09. An additional \$17.3 million for FY09 authorized obligations is also budgeted. Of the current contracts, \$8.1 million is for Certificates of Participation (COPs). Other current lease-purchase payments include the Atwood Building (\$3.5 million), the Atwood Parking Garage (\$3.3 million), and the Anchorage Jail (\$5.1 million).

Chapter 160, SLA 2004 (SB 65) authorized the cities of Dillingham and Kodiak to receive \$2 million each from the proceeds of state Certificates of Participation to be used to upgrade, expand, or replace jail facilities. The City of Kodiak is ready to go with an \$8 million municipal GO bond package (to be coupled with the \$2

¹ In this context, state debt obligations refer to debt issued by the state, or on behalf of the state, for capital projects. It excludes debt issued by state corporations or the university used for programmatic functions. Although most debt service paid by the state is subject to appropriation, some is more discretionary than others.

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million from the state). They are ready to break ground this summer, however, due to the prohibitive cost of issuing a small COP (for the \$2 million state contribution), the Governor proposes a direct general fund appropriation in its place.

Chapter 160, SLA 2004 (SB 65) also authorized additional lease-purchase agreements for the Spring Creek Correctional Center (SCCC) expansion, the Yukon-Kuskokwim Correctional Center (YKCC) expansion, and the Point MacKenzie jail construction. Both SCCC and YKCC are ready to go. Upon renovation, the state will pay the debt service and utilize the facilities (a capital lease arrangement). SCCC is a \$22 million project with projected FY09 debt service of \$1.76 million (25 year term @ 5.25%). YKCC is a \$12.5 million project with projected FY09 debt service of \$952,000 (25 year term @ 5.25%).

The Point MacKenzie jail project is not as far along as the other jail projects. A variety of issues are unresolved (how many beds, how the utilities will be provided, etc.) and an appropriation for debt service may be premature. The requested debt service amount of \$14.6 million is based on a 1,120-bed prison costing \$212 million (25 year term @ 5.25%).

Revenue Bonds

Outstanding International Airport Revenue Bonds of \$616.4 million (beginning FY09) require approximately \$50 million in annual debt service. SB 153 (Chapter 28, SLA 2005) increased the maximum allowable principal to \$812.5 million (from \$534.5 million). Additional bonds totaling \$344.6 million were issued in four series in February of 2006. One of the series included a refinance of \$103.9 million in two earlier series.

Senate Bill 147 (Chapter 94, SLA 2005) authorized the issuance of \$69 million in bonds for construction and renovation of sport fishing facilities. The bonds are secured by a surcharge applied to sport fishing licenses. These bonds were issued in April of 2006 with a nominal 20-year term based on a worst case scenario for surcharge collection. Before issuance, a Memorandum of Understanding was negotiated with the Department of Fish and Game whereby not more than \$500,000 of the revenue generated by the license fee each year would be used for F&G operational costs. This negotiated amount was placed in the bond documents, thereby precluding any additional use. The projected revenue stream is expected to exceed the annual minimum debt service (including the \$500.0 for operations) thereby repaying the bonds in approximately 14 years. The amount budgeted for debt service in FY09 is \$7.5 million dollars, while the required debt service is only \$5.3 million.

Debt Reimbursement

School Debt Reimbursement is budgeted at \$97 million--\$73.6 million from the Debt Retirement Fund and \$23.4 million from the School Fund. HB 13 (Chapter 41, SLA 2006) extended the deadline (previously Oct 31, 2006, now November 30, 2008) to gain voter and Department of Education & Early Development approval in order to qualify for state reimbursement. The statewide cap of \$192 million was also removed, making the program wide open. Assuming appropriation at the 100% level, the state's portion of the total debt service to maturity is currently over \$1.3 billion.

Port, harbor and power project debt reimbursement authorized under HB 528 (Chapter 115, SLA 2002) is proposed at \$8 million. A total of \$103 million of principal reimbursement was authorized in 2002. Outstanding debt service to maturity is currently \$76.3 million.

Corporate Debt for State Capital Projects

Several times in recent years, the Alaska Housing Finance Corporation (AHFC) has issued debt on behalf of the state. The annual debt service on these bonds has been withheld from the annual dividend paid to the state by AHFC. This, in effect, makes the payment of this debt service "off budget" because the state incurs a reduction in revenue rather than making an appropriation for debt service. The amount to be retained by AHFC for debt service has dropped from \$32 million in FY07 to \$6.2 million in FY08 and FY09.

Similar diversion of revenue occurs with debt issued on behalf of the state by the Northern Tobacco Securitization Corporation (NTSC). In 2000 and 2001, the state sold 80% of the annual revenue stream from

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the Tobacco Master Settlement Agreement to NTSC. The state used the proceeds for capital projects. The debt service on the bonds issued by NTSC is paid for with tobacco settlement revenue (\$26.5 million of the \$33.1 million expected for FY09) diverted from the state. HB 381 (Chapter 35, SLA 2006) authorized leveraging an additional \$170 million of the tobacco settlement revenue stream. Both original series were refinanced and the term was extended to 30 years.

Short-term Financing/ Master Lease Line of Credit

AS 37.15.560 authorizes the Department of Revenue to issue bonds in an amount not to exceed \$15 million for the Alaska Drinking Water and Clean Water Loan funds. Approximately \$3 million of these bonds are issued annually and \$3 million is proposed again for FY09. The bond proceeds are used to provide the necessary state match for the federal receipts available to the Drinking Water and Clean Water Loan Funds. Federal restrictions limit use of the earnings of the loan programs' portfolio to additional loan program loans and to debt service. Earnings of the funds cannot be used as state match. However, because they can be used to pay down debt, the state issues short-term bonds, matches the federal funding with the bond proceeds, and then pays off the bonds with the earnings of the fund. In effect, the loan fund earnings are used as state match—a federal loophole.

The legislature authorized \$68 million of borrowing on the Master Lease Line of Credit for telecommunications/land mobile radio build-out, and administrative and telephone systems replacement. To date \$6 million has been borrowed. A total of \$27 million (\$10 million for telecommunications/ALMR build-out and \$17 million for telephone system replacement and stabilization) is expected to be borrowed in the near future, requiring debt service of \$4.5 million in FY09. The remaining \$41 million for administrative system replacement is expected to be replaced with a general fund appropriation in the Governor's supplemental bill.

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Debt Summary Table

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09 Gov	FY08 to FY09	Comments
Alaska Debt Retirement Fund (ADRF)										
Capitalization										
General Funds	33,678.4	8,000.0	2,702.4	-	45,784.1	41,491.9	102,298.0	71,435.7	(3,862.3)	
Federal Receipts	-	-	3,894.5	8,600.4	8,043.1	9,295.1	11,286.0	13,055.2	1,267.2	
Investment Loss Trust Funds	-	100.0	2,500.0	104.0	77.8	12.7	376.5	171.9	(204.6)	
Municipal Bond Bank Receipts (Earnings)	-	-	775.0	775.0	250.0	250.0	-	458.7	458.7	
AHFC Dividend	6,000.0	18,700.0	8,861.1	27,568.0	18,854.6	17,441.7	-	11,807.6	11,807.6	
AIDEA Dividend	-	-	-	13,837.4	8,812.0	16,649.5	-	23,800.0	23,800.0	
ASLC Dividend	-	793.1	-	-	3,100.0	-	-	-	-	
ASLC Bonds	-	-	-	24,815.0	22,000.0	-	-	-	-	
Statutory Designated Program Receipts	723.0	-	-	-	-	-	-	-	-	
State Land Fund	-	-	7,500.0	-	-	-	-	-	-	
Chugach Intertie Earnings (Misc. Earnings)	-	-	30,469.0	-	-	-	-	-	-	
International Trade and Business Employment	-	-	4,382.0	-	-	-	-	-	-	
Lease Payment Accounts Residual (Misc. Earnings)	-	-	-	109.8	-	-	-	-	-	
AATP Bond Proceeds (Misc. Earnings)	-	-	438.6	-	-	-	-	-	-	
GO Bond Interest - Series 2003A (Misc. Earnings)	-	-	2,473.1	-	3,720.3	8,829.8	5,173.0	-	(5,173.0)	
GO Bond Interest - Series 2003B (Misc. Earnings)	-	-	-	2,473.1	1,196.9	2,367.0	1,434.7	-	(1,434.7)	
GO Bond Interest - Series 2003C (Misc. Earnings)	-	-	-	78,727.3	111,838.8	94,337.7	121,070.2	170,729.1	(341.3)	
Total	40,401.4	27,583.1	56,084.0	78,727.3	111,838.8	94,337.7	121,070.2	170,729.1	(341.3)	
DEBT SERVICE/REIMBURSEMENT										
ADRF Debt Payments										
GO Bonds - Schools/Roads (Series 2003A)	-	-	-	19,766.2	31,772.1	31,470.9	31,148.6	30,789.7	(358.9)	
GO Bonds - GARVEES (Series 2003B)	-	-	4,191.5	9,045.0	9,241.0	11,662.0	13,227.7	13,055.6	(167.1)	
Certificate of Participation (COPs)	15,879.4	17,642.1	15,751.4	17,290.7	13,782.1	13,147.6	11,170.1	8,061.3	(3,108.8)	
School Debt Financing Replacement	27,871.4	27,372.1	37,424.1	51,670.1	59,483.5	68,935.0	70,497.0	73,621.2	3,124.2	
Administrative Systems Replacement	-	-	-	-	400.0	400.0	2,302.0	4,527.7	2,227.7	
AGIS Vessel Overhaul	-	-	-	-	764.0	-	-	-	-	
Subtotal	43,950.8	45,014.2	57,370.0	97,712.0	115,422.7	123,215.5	128,340.4	130,655.5	1,715.1	
Other Debt Payments (Including COP)										
GO Bonds - Schools/Roads (Series 2003A)	-	-	15,192.6	12,609.3	86.8	44.5	11.4	13.6	2.2	GO Bond Premium and Interest
GO Bonds - GARVEES (Series 2003B)	-	-	28,907.3	31,557.9	33,125.9	45,426.3	49,085.7	50,027.4	(49.4)	GO Bond Premium and Interest
International Airport Revenue Bonds	16,750.0	17,444.0	1,640.0	1,630.0	1,630.0	1,331.8	831.8	2,050.0	841.7	IARF and PFCs
Clean Water Fund Bonds	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0	JACWF Receipts
Drinking Water Fund Bonds	850.0	1,060.5	1,040.0	1,030.0	1,050.0	1,075.3	1,109.8	1,115.0	5.2	ADWF Receipts
School Fund - School Debt Reimbursement	29,049.1	29,006.3	28,600.0	30,200.0	27,000.0	27,000.0	24,500.0	23,400.0	(1,100.0)	School Fund
Sport Fish Hatchery Revenue Bonds	-	-	-	-	-	8,219.0	7,000.0	7,500.0	500.0	Sport Fish License Surcharge
GF - Capital Project Reimbursement (FD 52B)	-	-	2,818.7	2,736.0	3,834.1	10,209.9	10,459.0	8,030.0	(2,423.1)	GF
Atwood Building	3,519.4	3,549.4	3,549.4	3,540.4	3,549.4	3,487.1	3,487.1	3,487.1	-	GF
Atwood Parking Garage	-	-	-	-	-	-	-	-	-	GF
Anchorage Jail (Capital Lease)	-	-	-	-	-	-	-	-	-	GF
Spring Creek Correctional Center	3,555.7	5,262.8	5,264.5	5,274.1	5,275.1	5,091.8	5,102.0	5,091.1	(10.9)	GF
Yukon-Kuskokwim Correctional Center	-	-	-	-	-	-	-	-	-	GF
Poill Mackenzie Correctional Center	-	-	-	-	-	-	-	-	-	GF
Kodiak Community Jail	-	-	-	-	-	-	-	-	-	GF
AHFC State Capital Project Bonds	45,000.0	51,000.0	56,001.7	53,892.5	59,865.4	31,235.0	6,138.6	6,139.6	1.1	Diversified AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	19,900.0	20,000.0	17,100.0	16,900.0	16,000.0	18,800.0	26,300.0	20,500.0	200.0	Diversified Tobacco Settlement
Subtotal	120,314.2	129,003.0	160,114.2	164,424.8	155,855.0	152,668.3	137,504.7	153,981.6	16,478.9	
TOTAL DSI/Reimbursement	164,285.0	174,017.2	217,484.2	262,136.8	271,277.6	275,883.8	265,845.1	284,039.1	18,194.0	
Debt Payments by Type										
GO Bonds	23,084.5	28,454.3	24,565.3	26,114.2	22,606.6	21,706.5	23,182.2	37,256.4	14,074.2	COPs, Atwood Building Garage, Anchorage Jail, Correct. Centers
Lease Purchase Financing	16,750.0	17,444.0	28,607.3	31,557.9	33,125.9	53,645.3	50,055.7	57,527.4	1,441.7	International Airport, Sport Fish
Revenue Bonds	57,020.5	50,376.4	68,642.8	84,663.1	90,063.0	104,144.9	105,450.0	105,057.1	(398.9)	School Debt, Municipal Capital Debt
Debt Reimbursement	64,000.0	71,000.0	73,101.7	70,792.5	75,893.4	48,735.0	32,438.6	32,039.6	201.1	AHFC, NTSC
Corporate Debt for State Capital Projects	2,500.0	2,740.5	2,680.0	2,660.0	3,135.0	2,614.0	4,243.0	7,692.7	3,449.1	Clean and Drinking Water, Master Lease LOC

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Capital Budget

The Governor has proposed a capital budget totaling \$1.8 billion, funded with approximately 45% federal and 65% state funding sources. The budget includes \$341.4 million in general fund projects, composed of both FY08 projected surplus revenue (\$34 million) and FY09 revenue (\$307.3 million).² Compared with the budget passed last session, it is \$17.4 million lower in general funds, but \$355 million higher in *other state funds*. The budget addresses statewide facility deferred maintenance, renovation of existing infrastructure, construction of new infrastructure and information system upgrades.

State Funds

Projects funded with general funds usually draw more attention than those using other state funds. However, when the budget uses thirty-eight different state sources totaling over twice the amount of general funds, the *other* state fund sources can hardly be ignored.

Most *other* funds have limitations on their use. Some, like Alaska Student Loan Corporation bond proceeds, must be spent on capital projects. Others, such as the Alaska Capital Income Fund and dividends paid by the state's corporations, are limited only by custom. Many effectively substitute for general funds.

The federal Securities and Exchange Commission requires disclosure, and adherence to that disclosure, so that use of bond proceeds is often restricted to the items (or subject matter) identified in the bond offering. Bonds issued by the Alaska Student Loan Corporation are less restrictive. The \$60 million that will be made available from ASLC is the final payment of a "Return of Capital" initiative started several years ago. The proceeds are flexible with regard to specific appropriations, but are strictly limited to true capital project appropriations.³

Similar restrictions apply to the \$240 million of general obligation bond proceeds. This source of funding will be restricted to the list of projects identified in the voter referendum. There is, however, likely to be some flexibility in moving money between the projects identified.

The state is currently experiencing unprecedented levels of general fund revenue, with corresponding enormous surpluses. An obvious question in this situation is "Why should the state issue debt when it is flush with cash?" There are circumstances in which borrowing makes sense. For example, when borrowing is as cheap as it is now, it may pay to borrow for capital projects and retain general funds to earn money to put toward the unfunded liability of retirement systems. Such action can be more cost effective than issuing pension obligation bonds. Regardless of the circumstances, the decision to incur debt is one that deserves active debate in the legislature.

The Alaska Capital Income Fund (ACIF) is another prominently used *other* fund source. The Fund was established a few years ago to hold the investment earnings of the Amerada Hess settlement (held within the Alaska Permanent Fund), from which it receives an expected \$28 million dollars annually for capital projects.⁴ Last session, however, a provision in the capital bill swept any available FY07 general fund revenue (anticipated to be minimal) to the ACIF. The unforeseen veto of \$95 million of FY07 capital projects (Section 1, Ch. 30, SLA 2007) and a surprisingly large year-end surplus of \$155 million swelled the fund with \$250 million of general funds.

² The Fiscal Summary shows FY09 GF spending of \$317.8 million. This figure includes \$10.5 million as a placeholder for the Governor's amendments. The placeholder is excluded here because it does not appear as an appropriation in the bills transmitted to the legislature.

³ The capital budget often contains appropriations of a non-capital nature. Simply being in the capital bill is insufficient for these bond proceeds; they cannot be spent for purposes other than legitimate capital projects.

⁴ The Fund is not dedicated for capital projects. As with most designated funds, the legislature generally follows intent, but the Fund can be appropriated for any purpose.

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This \$250 million appears as an FY07 appropriation of general funds. When the money is spent, it will be classified as *other funds*. The Governor proposes spending \$178 million from the ACIF in FY09. Of this amount, approximately \$100 million would capitalize the School Construction Fund (AS 14.11.005) and School Major Maintenance Fund (AS 14.11.007); \$40 million is proposed for University of Alaska statewide facility projects; with the remaining \$38 million for various oil and gas/energy projects and DOT&PF maintenance station replacement.

Alaska Capital Income Fund (ACIF)						
(thousands)						
	FY05	FY06	FY07	FY08	FY09Gov	Total All Years
Beginning Balance	-	(30,049.4)	5,998.2	266,056.3	260,417.7	
Amerada Hess Income	26,750.6	36,747.6	42,287.3	28,000.0	28,000.0	161,785.5
Other Capitalization (AHFC, ASLC, AIDEA Dividends)	-	-	-	50,080.7	-	50,080.7
Approps from ACIF	(56,800.0)	(700.0)	(31,600.0)	(85,850.0)	(177,492.1)	(352,442.1)
School Construct Fund					(19,099.6)	
School Maint Fund					(80,702.5)	
University					(40,000.0)	
Oil and Gas/Energy					(17,910.0)	
DOTPF Maint Stations					(10,180.0)	
DOL - Operating Budget					(9,600.0)	
FY07 GF Capital Veto Sweep; FY08 ACIF Veto Sweep	-	-	95,080.0	2,130.7	-	97,210.7
Remaining GF Surplus Sweep	-	-	154,290.8	-	-	154,290.8
Yr-End Available Balance	(30,049.4)	5,998.2	266,056.3	260,417.7	110,925.6	
<i>Standard projection</i>						

Federal and Transportation Funding

The majority of federal funding in the capital budget is for transportation projects (65% in FY09). Congress has once again passed a continuing resolution which essentially provides the Department of Transportation and Public Facilities with the same level of federal funding as in FY08. The majority of federal receipts goes to the Surface Transportation Program (\$237 million, provided by the Federal Highway Administration) and the Airport Improvement Program (\$224 million, provided by the Federal Aviation Administration). The state match requirement averages 9.25% and 5%, respectively.

Reliance on federal funding for highway/road construction programs is a continuing concern for the state. Alaska is in a precarious position with regard to the solvency of the Federal Highway Trust Fund and how the Congress may modify the allocation and amount of funding.

The Governor is taking steps to alleviate this problem with a plan to place \$1 billion in a transportation endowment, with earnings designated for transportation projects. The endowment would provide a framework for future budgets by generating \$50 million (or more) annually to supplement or supplant federal funding. Further analysis of the endowment is pending release of mechanics of the proposal.

The last few years of budget surpluses has permitted significant general fund road projects in addition to those included in the federally approved plan. This year, the Governor continues that trend with \$56 million requested for 10 road projects, including the "Connect Anchorage" program. Connect Anchorage would spend \$23.5 million to provide alternative routes and decrease traffic congestion in the Anchorage bowl.

Project Categorization

On the following page are two pie charts that depict the grouping of each capital project into a major category. One set of categorization was provided by the Office of Management and Budget⁵ and the other by Legislative Finance.

A word of caution: Any categorization exercise is subjective. Projects often have multiple components where partial categorization might be prudent. However, rather than dismantle each project and apply a

⁵ Each agency provides the categorization to OMB when they submit their capital request. Project categorization is actually at the discretion of agency budget staff rather than OMB.

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weighting to the individual components (e.g., a new road project might include 20% for planning and 80% for construction), they were assigned where the majority of the funding was allocated. Also, this was a first attempt under time constraints. Further refinement would improve results.

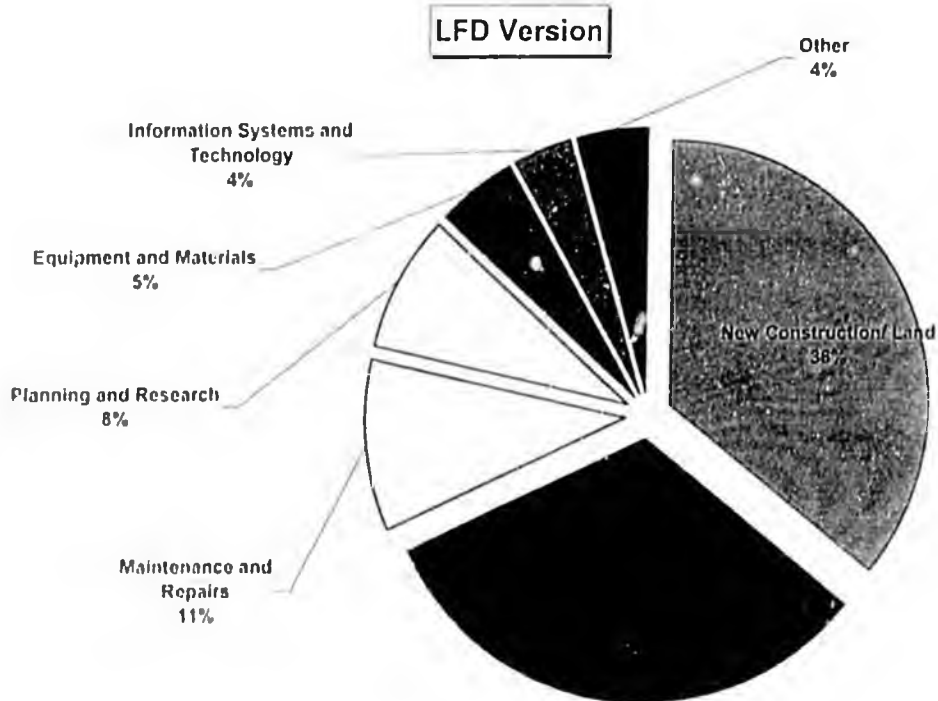
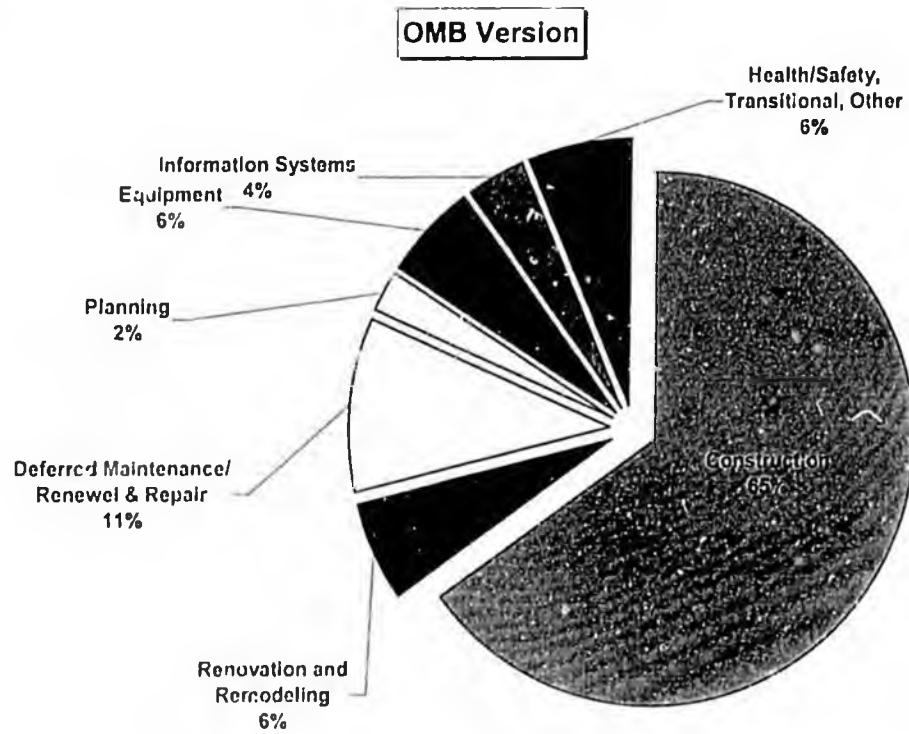
“The Difference”

The largest single difference between the categorization by the Office of Management and Budget (OMB) and Legislative Finance is attributable to OMB classifying a substantial portion of the road and airport construction projects in the “construction” category. Legislative Finance has taken the approach that unless the project is “new construction,” (as in a new road being punched into the forest versus a new lane added to an existing road) it should be categorized as “renovation and remodeling.” The intent of this approach is to differentiate new infrastructure from renovations, remodels, upgrades and repairs.

The other differences are minor. Some of OMB's “Health and Safety” projects reflect severity of need as opposed to the type of project. Legislative Finance contends that these projects are just maintenance projects, and that the health and safety aspect is more appropriately used to determine the priority of projects. Similarly, OMB categorizes many “Planning” projects (design and engineering) as “Construction.” Legislative Finance includes deferred maintenance projects with other “Maintenance and Repair” instead of placing them in a separate category.

An argument can be made that many projects are not really capital projects at all. The statutory definition, under AS 37.07.120 (4), is “an allocation or appropriation item for an asset with an anticipated life exceeding one year and cost exceeding \$25,000 and include land acquisition, construction, structural improvement, engineering and design for the project, and equipment and repair costs.” Many items in this proposed capital budget, and every capital budget in recent memory, contain numerous items not fitting this definition. They appear in the “Other” category in this exercise.

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Language Sections of the Governor's FY09 Capital Budget

* **Sec. 7. ALASKA SPORT FISH HATCHERY CONSTRUCTION.** The amount earned by the investments of the Alaska sport fishing construction account (AS 16.05.130(f)) of the fish and game fund (AS 16.05.100) from inception date of April 1, 2006, to June 30, 2008, after any payment required under 26 U.S.C. 148, not to exceed \$6,000,000, is appropriated from the Alaska sport fishing construction account (AS 16.05.130(f)) to the Department of Fish and Game for construction and renovation of sport fish hatcheries.

This section appropriates up to \$6 million of investment earnings on bond proceeds (held in the construction account) to the department for additional construction/renovation of sport fish hatcheries.

Legislative Fiscal Analyst Comment: In 2005, the legislature authorized the sale of \$68 million in bonds to be paid off by a surcharge on sport fish licenses. Proceeds from the sale of the bonds (and interest earned on the proceeds) were to be used for building a hatchery in Fairbanks for \$25 million and one in Anchorage for \$45 million (total cost of \$70 million).

Updated cost estimates for the original plans are now \$144 million for the two facilities, but a more solid construction cost estimate for the Anchorage hatchery will be available March 1. Although the bond proceeds are insufficient to construct both hatcheries, the department is proceeding with the Fairbanks hatchery (at cost of \$46 million). The department has decided to move forward with this project because the ground work has been completed at a cost of \$2.1 million and \$13.8 million has been encumbered. The 49,000 square foot hatchery should be producing fish by 2010.

The department will be working with the legislature and the Governor's Office to determine the size and the funding mechanism for the Anchorage hatchery. The \$6 million in investment earnings will be an integral part of the financing plan, expected to be submitted during the 2008 legislative session.

Legislative Fiscal Analyst Comment: The legislature denied a similar request for \$3 million in the Governor's FY08 capital budget request. The bond proceeds that have already been appropriated are sufficient to complete the Fairbanks hatchery.

* **Sec. 8. FEDERAL AND OTHER PROGRAM RECEIPTS.** (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as defined in AS 44.21.045(b), receipts of the University of Alaska as described in AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), corporate receipts of the Alaska Housing Finance Corporation, corporate receipts of the Alaska Aerospace Development Corporation, Exxon Valdez oil spill trust receipts as defined in AS 37.05.146(b)(4), and receipts of the Alaska Fire Standards Council under AS 37.05.146(b)(5), that exceed the amounts appropriated by this Act are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

Subsection a lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit & Committee. Corporate receipts of the AHFC have been added to the list since FY08.

Legislative Fiscal Analyst Comment: This standard language permits requests for additional capital authorization to be submitted to the LB&A committee for approval. Similar language in the operating budget applies only to operating authorization. Operating language excludes University receipts, test fisheries receipts and corporate receipts of the Alaska Aerospace Development Corporation. See the discussion in the operating language section on the addition of AHFC receipts to the LB&A language. The reasons for adding AHFC receipts to operating language do not appear to apply to capital projects.

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(b) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) exceed the estimates appropriated by this Act, the appropriations from state funds for the affected program may be reduced by the excess if the reductions are consistent with applicable federal statutes.

Subsection b permits state authorization to be reduced if unanticipated money is received for projects funded by general funds. There is no formal process for tracking potential reductions.

(c) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) fall short of the estimates appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

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

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate. Legislative Finance places no dollar value on appropriations in this section.

* **Sec. 9. INSURANCE CLAIMS.** The amounts to be received in settlement of insurance claims for losses and the amounts to be received as recovery for losses are appropriated from the general fund to the

- (1) state insurance catastrophe reserve account (AS 37.05.289(a)); or
- (2) appropriate state agency to mitigate the loss.

This section allows an agency to receive insurance claim settlement payments directly from a third party. Without this provision, settlements would remain in the general fund and would not be available to offset an agency's loss without a specific appropriation.

* **Sec. 10. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM.**

(a) The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 by August 31, 2008, estimated to be \$5,600,000, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

(b) That portion of the amount appropriated by (a) of this section that is not subject to a signed grant agreement between the Department of Commerce, Community, and Economic Development and an impacted municipality on or before August 31, 2008, lapses into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) on September 1, 2008.

Section a appropriates an estimated \$5.6 million of federal receipts for the National Petroleum Reserve-Alaska impact grant program.

Section b clarifies that, after all meritorious grants have been funded, the remaining NPR-A funding lapses into the NPR-A special revenue fund (AS 37.05.530).

Funding: Because the entire \$5.6 million is expected to be distributed as grants, the estimated value of section b is zero.

Legislative Fiscal Analyst Comment: Although no funding is expected to lapse, any funding that lapses into the NPR-A fund is appropriated in Section 23(d)-(f) of the Governor's operating budget bill as follows: 25% to Permanent Fund Principal, 1/2% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

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* **Sec. 11. REVENUE SHARING.** (a) It is the intent of the legislature that \$75,000,000 from the general fund be used to assist municipalities and unincorporated communities by paying grants to municipalities and unincorporated communities to be used for any public purpose, including facility maintenance and renovation, facility construction, purchase of equipment, energy costs, and insurance costs. The distribution of the appropriation made by (c) of this section is based on the certified 2007 population to be for each community as described in (b) of this section, plus a base amount of \$25,000 for each unincorporated community outside an organized borough, \$75,000 for each municipality, and \$250,000 for each borough. The maximum amount to be distributed under this section to an unincorporated community outside an organized borough is \$75,000.

Subsection a is a statement of legislative intent that a \$75 million appropriation (made in subsection c) for grants to municipalities and to unincorporated communities may be used for any public purpose. It limits the amount that can be paid to an unincorporated community outside of an organized borough to \$75,000.

Legislative Fiscal Analyst Comment: The FY08 revenue sharing grants (totaling \$48.7 million) were to "defray increased energy costs and other costs."

Because the base amounts remain the same as in FY08 (\$25,000 for each unincorporated community, \$75,000 for each municipality, and \$250,000 for each borough), the additional \$27 million will be distributed on a per capita basis. This will shift the distribution of funds toward urban centers.

Legislative Fiscal Analyst Recommendation: The distribution method (and limits on grants to a community) should not be included in a section that begins with "It is the intent...."

(b) The 2007 population used in (a) of this section is the population to be for each community that is certified by the Department of Commerce, Community, and Economic Development as of June 30, 2008. For unincorporated communities without certified populations, the department may use other reliable population data.

Subsection b states that population figures certified by the department are to be used to determine the distribution of grants.

(c) The sum of \$75,000,000 is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for grants to municipalities and unincorporated communities under the distribution formula described in (a) of this section with \$71,250,000 allocated for municipalities and \$3,750,000 allocated for unincorporated communities.

Subsection c splits the appropriation into two allocations.

Legislative Fiscal Analyst Comment: The split appears to be unnecessary. Money can be transferred between allocations as required.

(d) The revenue sharing amounts described under this section are estimated to be allocated as follows:

(1) MUNICIPALITY	ALLOCATION
Adak	\$87,361
Akhiok	78,725
Akiak	106,072
Akutan	137,737
Alakanuk	131,133
Aleknagik	95,404
Aleutians East Borough	255,419
Allakaket	82,959

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Ambler	98,452
Anaktuvuk Pass	100,315
Anchorage	24,194,468
Anderson	120,381
Angoon	115,809
Aniak	118,349
Anvik	82,451
Atka	81,181
Atkasuk	95,066
Barrow	419,165
Bethel	567,075
Bettles	77,117
Brevig Mission	102,432
Bristol Bay Borough	339,745
Buckland	113,692
Cheformak	113,946
Chevak	151,876
Chignik	82,197
Cnuathbaluk	83,382
Clark's Point	80,842
Coffman Cove	88,716
Cold Bay	82,366
Cordova	262,195
Craig	168,555
Deering	86,684
Delta Junction	162,967
Denali Borough	378,353
Dillingham	277,943
Diomedede	84,313
Eagle	84,313
Eek	99,299
Egegik	81,435
Ekwok	84,398
Elim	99,892
Emmonak	142,394
Fairbanks	2,661,696
Fairbanks North Star Borough	5,721,584
False Pass	79,572
Fort Yukon	125,461
Galena	128,847
Gambell	129,440
Golovin	88,038
Goodnews Bay	95,489
Grayling	89,732
Gustavus	112,337
Haines Borough	439,735
Holy Cross	92,272
Homer	536,765
Hoona	145,188

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Hooper Bay	172,958
Houston	205,131
Hughes	80,757
Huslia	96,928
Hydaburg	104,802
Juneau	2,844,994
Kachemak	113,777
Kake	120,381
Kaktovik	99,384
Kaltag	91,348
Kasaan	79,995
Kenai	656,143
Kenai Peninsula Borough	2,946,846
Ketchikan	723,706
Ketchikan Gateway Borough	680,947
Kiana	108,951
King Cove	143,325
Kivalina	108,104
Klawock	140,700
Kobuk	86,430
Kodiak	577,658
Kodiak Island Borough	829,026
Kotlik	126,731
Kotzebue	337,801
Koyuk	106,157
Koyukuk	82,451
Kupreanof	77,709
Kwethluk	136,044
Lake and Peninsula Borough	325,183
Larsen Bay	82,620
Lower Kalskag	97,775
Manokotak	110,813
Marshall	107,765
Matanuska-Susitna Borough	5,608,302
McGrath	102,178
Mekoryuk	93,372
Metlakatla	193,870
Mountain Village	142,394
Napakiak	106,326
Napaskiak	114,285
Nenana	121,820
New Stuyahok	114,962
Newhalen	89,139
Nightmute	95,066
Nikolai	83,297
Nome	374,715
Nondalton	91,594
Noorvik	128,847
North Pole	219,778

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North Slope Borough	270,912
Northwest Arctic Borough	312,060
Nuiqsut	110,305
Nulato	99,553
Nunam Iqua	92,018
Nunapitchuk	121,312
Old Harbor	91,256
Ouzinkie	91,340
Palmer	546,925
Pelican	83,975
Petersburg	339,918
Pilot Point	80,588
Pilot Station	123,598
Platinum	78,217
Point Hope	137,398
Port Alexander	80,419
Port Heiden	81,689
Port Lions	92,864
Quinhagak	129,863
Ruby	90,494
Russian Mission	102,855
Saint George	85,160
Saint Mary's	121,651
Saint Michael	112,761
Saint Paul	113,946
Sand Point	150,352
Savoonga	135,282
Saxman	110,729
Scammon Bay	119,026
Selawik	146,204
Seldovia	99,299
Seward	297,416
Shageluk	85,499
Shaktolik	93,118
Shishmaref	127,069
Shungnak	97,013
Sitka	997,849
Skagway	322,304
Soldotna	397,321
Stebbins	126,815
Tanana	97,098
Teller	96,844
Tenakee Springs	84,229
Thorne Bay	115,809
Togiak	141,293
Toksook Bay	125,630
Unalakleet	136,552
Unalaska	408,582
Upper Kalskag	97,944

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Valdez	443,548
Wainwright	118,772
Wales	86,768
Wasilla	648,608
White Mountain	93,965
Whittier	91,002
Wrangell	236,796
Yakutat	303,678
(2) UNINCORPORATED COMMUNITY	ALLOCATION
Akiachak	\$75,000
Alatna	29,381
Arctic Village	44,385
Atmautluak	65,363
Beaver	34,560
Birch Creek	28,850
Central	36,817
Chalkyitsik	33,630
Chenega Bay	34,161
Chistochina	38,676
Chitina	40,402
Circle	37,613
Copper Center	75,000
Crooked Creek	41,198
Deltana	75,000
Dot Lake	29,249
Dry Creek	37,481
Eagle Village	34,294
Edna Bay	30,444
Elfin Cove	28,319
Four Mile Road	30,178
Gakona	56,069
Glennallen	75,000
Goldstream	29,514
Gulkana	48,501
Healy Lake	31,108
Hollis	45,713
Hyder	37,215
Kasigluk	75,000
Kenny Lake	75,000
Kipnuk	75,000
Klukwan	39,871
Koliganek	46,907
Kongiganak	75,000
Kwigillingok	75,000
Lime Village	28,319
Manley Hot Springs	35,356
McCarthy	32,966
Mentasta	40,136
Minto	49,696

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Naukati Bay	42,128
Nelchina/Mendeltna	40,003
Newtok	67,886
Nikolski	29,116
Northway	55,139
Oscarville	33,497
Faxson	28,718
Pitka's Point	39,472
Point Baker	28,585
Port Protection	32,834
Red Devil	28,850
Silver Springs	40,003
Slana	37,481
Sleetmute	37,082
Stevens Village	33,365
Stony River	32,037
Takotna	32,037
Tanacross	44,385
Tatitlek	40,534
Tazlina	49,961
Tetlin	44,783
Tok	75,000
Tuluksak	75,000
Tuntutuliak	75,000
Tununak	69,213
Twin Hills	35,223
Venetie	49,828
Whale Pass	33,099
Whitestone	48,368
(3) MUNICIPALITY	UNINCORPORATED ALLOCATION
	COMMUNITY
Aleutians East Borough	Nelson Lagoon \$20,000
Bristol Bay Borough	King Salmon 20,000
	Naknek 20,000
	South Naknek 20,000
Denali Borough	Cantwell 20,000
	Healy 20,000
	McKinley Park 20,000
Kenai Peninsula Borough	Anchor Point 20,000
	Cooper Landing 20,000
	Hope 20,000
	Nanwalek 20,000
	Nikiski 20,000
	Nikolaevsk 20,000
	Ninilchik 20,000
	Port Graham 20,000
	Seldovia Village 20,000
	Tyonek 20,000
Kodiak Island Borough	Karluk 20,000

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Lake and Peninsula Borough	Chignik Lagoon	20,000
	Chignik Lake	20,000
	Igiugig	20,000
	Iliamna	20,000
	Kokhanok	20,000
	Levelock	20,000
	Pedro Bay	20,000
	Perryville	20,000
	Port Alsworth	20,000
	Matanuska-Susitna Borough	Chickaloon
Talkeetna		20,000
North Slope Borough	Point Lay	20,000
Northwest Arctic Borough	Noatak	20,000

Subsection d lists the estimated amounts that will be allocated by formula to each of the above communities.

Legislative Fiscal Analyst Comment: The amounts for unincorporated communities is as low as \$20,000, while the formula specifies a base of \$25,000. It appears that language in subsection a neglects to mention payments to unincorporated communities inside organized boroughs.

* **Sec. 12. RURAL ELECTRIFICATION REVOLVING LOAN FUND; ELECTRICAL EMERGENCIES PROGRAM.** (a) Notwithstanding AS 42.45.020(g), the balance of the rural electrification revolving loan fund (AS 42.45.020) on June 30, 2008, estimated to be \$80,400, is appropriated to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, for the electrical emergencies program.

This section is effectively a general fund appropriation; it makes an FY08 supplemental appropriation of the balance of the Rural Electrification Revolving Loan fund to AEA before the receipts are deposited into the general fund. The balance consists of the loan payments on the remaining loans outstanding. These loan payments totaled approximately \$330,000 annually until recently, when several loans accounting for over 70% of the outstanding balance were paid in full. The remaining loan payments will total approximately \$80,000 (\$80,400 for FY09) until 2020, when they will drop to approximately \$65,000.

(b) The sum of \$250,000 is appropriated from the general fund to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, for the electrical emergencies program.

The \$250,000 is the difference between the \$330,000 customary amount appropriated for electrical emergencies and the energy loan repayments of \$80,000 appropriated in subsection a.

* **Sec. 13. LAPSE.** (a) The appropriation made by sec. 9(1) of this Act is for the capitalization of a fund and does not lapse.

(b) The appropriations made by secs. 7, 9(2), 10(a), 11, and 12 of this Act are for capital projects and lapse under AS 37.25.020.

This section states that the projects lapse under AS 37.25.020 which provides that the appropriation is for the life of the project. The belief that capital appropriations have a five-year lapse is a common misunderstanding.

* **Sec. 14.** The appropriation made by sec. 4 of this Act, page 51, lines 16 - 17, for the oil and gas production tax system replacement project takes effect March 1, 2008.

* **Sec. 15.** Except as provided in sec. 14 of this Act, sec. 4 of this Act takes effect April 13, 2008.

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* **Sec. 16.** Section 12(a) of this Act takes effect June 30, 2008.

This effective date makes the \$80,000 appropriation for electrical emergencies in section 12 (a) an FY08 supplemental appropriation.

* **Sec. 17.** Except as provided in secs. 14 - 16 of this Act, this Act takes effect July 1, 2008.

Capital Budget Summary						
Agency	All Funds (Includes MH)			by Fund Group		
	FY08 Enacted	FY09 Governor (1)	Change 08-09	General Funds	Federal Funds	Other Funds
Administration	92,647,215	38,118,000	(54,529,215)	16,381,400	-	21,736,600
Commerce, Community & Economic Dev	192,126,060	88,363,202	(103,762,858)	8,296,401	56,436,401	23,630,400
Corrections	-	14,761,700	14,761,700	3,083,700	-	8,678,000
Education and Early Development	138,133,790	106,256,035	(31,877,755)	-	-	106,256,035
Environmental Conservation	98,914,155	121,328,992	22,414,837	42,100,481	78,728,511	500,000
Fish and Game	8,600,800	43,190,400	34,589,600	7,052,400	26,725,000	9,413,000
Office of the Governor	22,100,000	100,000	(22,000,000)	-	-	100,000
Health and Social Services	29,804,600	39,693,400	9,888,800	29,941,100	1,892,300	7,860,000
Labor and Workforce Development	4,582,000	22,446,700	17,864,700	18,960,700	2,000,000	1,486,000
Law	-	200,000	200,000	200,000	-	-
Military and Veterans Affairs	17,900,000	33,511,915	15,611,915	5,050,000	22,319,915	6,142,000
Natural Resources	37,678,200	70,139,000	32,460,800	11,726,000	18,376,500	40,036,500
Public Safety	10,150,000	121,660,000	111,510,000	14,945,000	5,000,000	101,715,000
Revenue	64,032,000	83,933,700	19,901,700	7,210,800	22,178,040	54,544,860
Transportation & Public Facilities	685,396,781	880,129,150	194,732,369	151,340,000	515,567,150	213,222,000
University of Alaska	48,815,000	114,450,000	65,635,000	550,000	45,000,000	68,900,000
Alaska Court System	-	9,776,000	9,776,000	6,500,000	-	3,276,000
Fund Capitalization (2)	5,000,000	10,000,000	5,000,000	10,000,000	-	-
Total Capital - "Money on the Street" (4)	1,455,880,601	1,780,058,194	342,177,593	336,337,982	794,223,817	667,498,395
Fund Transfers (3)	76,330,000	132,902,035	56,572,035	5,000,000	100,000	127,802,035
Total - Including Fund Transfers	1,532,210,601	1,930,960,229	398,749,628	341,337,982	794,323,817	795,298,430
General Funds	358,779,584	341,337,932	(17,441,602)			
Other State Funds	784,535,275	794,323,817	9,788,542			
Federal Receipts	307,565,742	662,396,395	354,830,653			

Notes:

- 1) For comparison purposes, projects proposed by the Governor effective in FY08, appear in the FY09 Governor column. The intent is to compare what was enacted last year for FY08 to the total of all capital projects proposed by the Governor this year, regardless of when effective. Also included are the GO Bond funded projects totaling \$240 million.
- 2) Fund Capitalization in this context refers to funding appropriated to a program not requiring further appropriation for expenditure (e.g. Harbor Facility Grant Fund)
- 3) Fund Transfers is the funding appropriated from one "fund" to another "fund," not actually adding any new capital project funding to the total.
- 4) "Money on the Street" is the total amount of funding for capital projects, net of fund transfers.

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Governor's GO Bond Bill to pay Cost of State Transportation Projects

* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

GENERAL OBLIGATION BONDS. For the purpose of paying the cost of design and construction of state transportation projects, general obligation bonds of the state in the principal amount of not more than \$140,000,000, if ratified by a majority of the qualified voters of the state who vote on the question, shall be issued and sold. The full faith, credit, and resources of the state are pledged to the payment of the principal of and interest and redemption premium, if any, on the bonds. The bonds shall be issued under the provisions of AS 37.15 as those provisions read at the time of issuance.

This section pledges the full faith, credit and resources of the State of Alaska to pay the principal and interest on \$140 million of bonds issued in compliance with the state bonding act (AS 37.15). Per the constitution (Article 9, Section 8), the "full faith, credit and resources" pledge must be ratified by a majority of voters due to the binding nature of the pledge. This is the highest pledge the state can make with regard to its debt, and general obligation bonds are very high quality investments with a relatively low cost (interest rate).

* **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to read:

2008 TRANSPORTATION PROJECT FUND. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, a special fund of the state to be known as the "2008 transportation project fund" shall be established, to which shall be credited the proceeds of the sale of the bonds described in sec. 1 of this Act except for the accrued interest and premiums.

This section places the proceeds of the bond issue into a segregated fund, which is looked upon favorably by bond investors.

* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES. The amount of \$121,100,000 is appropriated from the 2008 transportation project fund to the Department of Transportation and Public Facilities to be allocated among the following projects in the amounts listed subject to reallocation between projects in accordance with AS 37.07.080(e):

PROJECT	ALLOCATION
Anchorage: Connect Anchorage Project (Dowling Road - Old Seward Highway to Minnesota Drive)	\$22,100,000
Anchorage: Connect Anchorage Study (Northern Access to University Medical District Study)	2,000,000
Dalton Highway Improvements	14,000,000
Kenai Borough Road Projects	8,000,000
Nome: Snake River Bridge Replacement	10,000,000
Parks Highway: Weight Restriction Elimination	15,000,000

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Seward Highway: Windy Corner Safety Improvements	20,000,000
Southeast Alaska: Pavement Rehabilitation	15,000,000
Steese Highway/Johansen Expressway Area Traffic Improvements	15,000,000

This section appropriates funding for the capital projects listed above, making an accompanying appropriation bill unnecessary. Reallocation between projects is permitted with the approval of the Commissioner of the Department of Transportation & Public Facilities.

* Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to read:

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. The amount of \$10,000,000 is appropriated from the 2008 transportation project fund to the Department of Commerce, Community, and Economic Development to be awarded as a grant under AS 37.05.315 to the Municipality of Anchorage for expansion of the Port of Anchorage.

This section appropriates funding for the capital project listed above, making an accompanying appropriation bill unnecessary.

* Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

DEPARTMENT OF NATURAL RESOURCES. The amount of \$8,900,000 is appropriated from the 2008 transportation project fund to the Department of Natural Resources for the South Denali Access Road Design and Construction project.

This section appropriates funding for the capital project listed above, making an accompanying appropriation bill unnecessary.

* Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

STATE BOND COMMITTEE. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, the amount of \$700,000 or as much of that amount as is found necessary is appropriated from the general fund of the state to the state bond committee to carry out the provisions of this Act and to pay expenses incident to the sale and issuance of the bonds authorized in this Act. The amounts expended from the appropriation authorized by this section shall be reimbursed to the general fund from the proceeds of the sale of the bonds authorized by this Act.

This section appropriates the funding necessary to issue the bonds. The funding is to come from the general fund with repayment made from the debt proceeds.

Legislative Fiscal Analyst Comment: Repayment from the debt proceeds decreases the amount available for the projects. If that is the intent, the appropriation for the projects should not exceed \$110 million less the cost of issuing the debt.

* Sec. 7. The uncodified law of the State of Alaska is amended by adding a new section to read:

ADVANCE PLANNING. The amount withdrawn from the public facility planning fund (AS 35.10.135) for the purpose of advance planning for the capital improvements financed under this Act shall be reimbursed to the fund from the proceeds of the sale of bonds authorized by this Act.

This section specifies that repayment to the Public Facility Planning Fund (held within the Office of Management and Budget as a revolving public works planning fund) be made from the proceeds of the bonds.

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Legislative Fiscal Analyst Comment: Repayment from the debt proceeds decreases the amount available for the projects. If that is the intent, the appropriation for the projects should not exceed \$140 million less the cost of reimbursing the planning fund.

* Sec. 8. The uncodified law of the State of Alaska is amended by adding a new section to read:

LAPSE; REDEMPTION; REIMBURSEMENT. The unexpended and unobligated balance of the appropriations made in secs. 3 - 5 of this Act lapses under AS 37.25.020 and is appropriated to the state bond committee to redeem bonds sold under this Act. The amounts expended from the general fund to pay the principal, interest, and redemption premium on bonds issued under this Act shall be reimbursed to the general fund from the appropriation made under this section to the extent that the money is not needed to redeem the bonds.

This section specifies that the appropriation is for capital projects and effective for the life of the projects. The money will not lapse until the projects are deemed complete, at which time any remaining amount would be used to repay any outstanding principal and interest.

* Sec. 9. The uncodified law of the State of Alaska is amended by adding a new section to read:

BALLOT QUESTION. The question whether the bonds authorized in this Act are to be issued shall be submitted to the qualified voters of the state at the next general election and shall read substantially as follows:

PROPOSITION

State General Obligation Transportation Project Bonds
\$140,000,000

Shall the State of Alaska issue its general obligation bonds in the principal amount of not more than \$140,000,000 for the purpose of paying the cost of state transportation projects?

Bonds Yes []

Bonds No []

• Sec. 10. This Act takes effect immediately under AS 01.10.070(c).

This law will take effect at 12.01 a.m. the day after it is signed into law by the Governor.

Governor's GO Bond Bill for the Scientific Crime Detection Laboratory

* **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section to read:

GENERAL OBLIGATION BONDS. For the purpose of paying the cost of design and construction of a scientific crime detection laboratory, general obligation bonds of the state in the principal amount of not more than \$100,000,000, if ratified by a majority of the qualified voters of the state who vote on the question, shall be issued and sold. The full faith, credit, and resources of the state are pledged to the payment of the principal of and interest and redemption premium, if any, on the bonds. The bonds shall be issued under the provisions of AS 37.15 as those provisions read at the time of issuance.

This section pledges the full faith, credit and resources of the State of Alaska to pay the principal and interest on \$100 million of bonds issued in compliance with the state bonding act (AS 37.15). Per the constitution (Article 9, Section 6), the "full faith, credit and resources" pledge must be ratified by a majority of voters due to the binding nature of the pledge. This is the highest pledge the state can make with regard to its debt, and general obligation bonds are very high quality investments with a relatively low cost (interest rate).

* **Sec. 2.** The uncodified law of the State of Alaska is amended by adding a new section to read:

SCIENTIFIC CRIME DETECTION LABORATORY PROJECT FUND. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, a special fund of the state to be known as the "scientific crime detection laboratory project fund" shall be established, to which shall be credited the proceeds of the sale of the bonds described in sec. 1 of this Act except for the accrued interest and premiums.

This section places the proceeds of the bond issue into a segregated fund, which is looked upon favorably by bond investors.

* **Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

DEPARTMENT OF PUBLIC SAFETY. The amount of \$100,000,000 is appropriated from the scientific crime detection laboratory project fund to the Department of Public Safety to be allocated to the design and construction of a scientific crime detection laboratory in Anchorage, Alaska.

This section appropriates funding for the crime lab, making an accompanying appropriation bill unnecessary.

* **Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

STATE BOND COMMITTEE. If the issuance of the bonds is ratified by a majority of the qualified voters of the state who vote on the question, the amount of \$500,000 or as much of that amount as is found necessary is appropriated from the general fund of the state to the state bond committee to carry out the provisions of this Act and to pay expenses incident to the sale and issuance of the bonds authorized in this Act. The amounts expended from the appropriation authorized by this section shall be reimbursed to the general fund from the proceeds of the sale of the bonds authorized by this Act.

This section appropriates the funding necessary to issue the bonds. The funding is to come from the general fund with repayment made from the debt proceeds.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Legislative Fiscal Analyst Comment: *Repayment from the debt proceeds decreases the amount available for the project. If that is the intent, the appropriation for the project should not exceed \$100 million less the cost of issuing the debt.*

* **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to read:

ADVANCE PLANNING. The amount withdrawn from the public facility planning fund (AS 35 10.135) for the purpose of advance planning for the capital improvements financed under this Act shall be reimbursed to the fund from the proceeds of the sale of bonds authorized by this Act.

This section specifies that repayment to the Public Facility Planning Fund (held within the Office of Management and Budget as a revolving public works planning fund) be made from the proceeds of the bonds.

Legislative Fiscal Analyst Comment: *Repayment from the debt proceeds decreases the amount available for the project. If that is the intent, the appropriation for the project should not exceed \$100 million less the cost of issuing the debt.*

* **Sec. 6.** The uncodified law of the State of Alaska is amended by adding a new section to read:

LAPSE; REDEMPTION; REIMBURSEMENT. The unexpended and unobligated balance of the appropriation made in sec. 3 of this Act lapses under AS 37.25.020 and is appropriated to the state bond committee to redeem bonds sold under this Act. The amounts expended from the general fund to pay the principal, interest, and redemption premium on bonds issued under this Act shall be reimbursed to the general fund from the appropriation made under this section to the extent that the money is not needed to redeem the bonds.

This section specifies that the appropriation is for a capital project and effective for the life of the project. It will not lapse until the project is deemed complete, at which time any remaining amount would be used to repay any outstanding principal and interest.

* **Sec. 7.** The uncodified law of the State of Alaska is amended by adding a new section to read:

BALLOT QUESTION. The question whether the bonds authorized in this Act are to be issued shall be submitted to the qualified voters of the state at the next general election and shall read substantially as follows:

PROPOSITION

State General Obligation Scientific Crime Detection Laboratory
Bonds \$100,000,000

Shall the State of Alaska issue its general obligation bonds in the principal amount of not more than \$100,000,000 for the purpose of paying the cost of design and construction of a scientific crime detection laboratory?

Bonds Yes []

Bonds No []

* **Sec. 8.** This Act takes effect immediately under AS 01.10.070(c).

This law will take effect at 12.01 a.m. the day after it is signed into law by the Governor.

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Comprehensive Integrated Mental Health Program

The Alaska Mental Health Trust Authority (Authority) administers the Mental Health Trust established in perpetuity. The Authority has a fiduciary responsibility to enhance and protect the Trust and to provide leadership in advocacy, planning, implementation, and funding of a comprehensive integrated mental health program (CIMHP) to improve the lives and circumstances of its beneficiaries. **The Trust's beneficiaries include:**

- People with mental illness;
- People with developmental disabilities;
- People with chronic alcoholism;
- People with Alzheimer's disease and related disorders.

The Trust

The Mental Health Lands Trust Settlement reconstituted the trust established by the Alaska Mental Health Enabling Act of 1956 with trust land totaling approximately 930,000 acres. **The settlement required the state to:**

- provide a cash payment of \$200 million into a newly created mental health trust fund;
- establish a Trust Authority;
- return the principal of the trust fund to the Authority; and
- perpetually use the income of the trust to pay for trust administration costs and ensure improvements and continuation of the integrated, comprehensive mental health program.

Chapter 6, SLA 1994 appropriated \$200 million to the mental health trust fund from the following sources:

Mental health trust income account	\$33,000.0
DNR mental health trust income in the general fund	\$11,700.0
Proceeds from sale of DNR land sale contract portfolio	\$25,000.0
Budget reserve fund	\$130,300.0

This appropriation was finalized after the superior court of the State of Alaska made its final determination that the state had satisfied its obligation to reconstitute the Mental Health Trust.

Management of the Trust: The Permanent Fund Corporation manages the trust principal, the Mental Health Trust Lands Office (Dept. of Natural Resources) manages the land, and the Mental Health Trust Authority (Dept. of Revenue) and its Board make recommendations for program funding.

Mental Health Funding: The Trust Authority sources of income for annual spending include:

- a percentage of net asset value of the Trust Fund Corpus (Principal);
- lapsed funds from the prior year;
- income from the Trust's account in the treasury; and
- income from rents, fees, purchase contract interest, and 15% of timber sales from the Trust Land Management.

The Mental Health Budget Process

Separate Appropriation Bill: AS 37.14.001 establishes the responsibilities and authority for management of the Mental Health Trust. The statute requires the Governor to submit a separate appropriation bill limited to

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appropriations for the state's integrated comprehensive mental health program. If appropriations in the bill submitted by the Governor or the bill approved by the legislature differ from those proposed by the Authority, the bills must be accompanied by a report explaining the reasons for the differences from the Trust's recommendations.

Mental Health Trust Authority Authorized Receipts: The Mental Health Trust generates revenue from the investment earnings on the \$200 million trust, land sale/lease proceeds, and land use royalties. Mental Health Trust income, identified in the appropriation bill as MHTAAR or Mental Health Trust Authority Authorized Receipts, provides approximately \$10 million per year for CIMHP funded programs and mental health trust administrative costs.

A unique provision of the settlement grants the Authority the power to spend mental health trust income without legislative approval. This provision does not, however, remove the legislature from spending decisions. The Trust's spending plans typically allocate substantial money to state agencies, which cannot spend the money without legislative authorization.

This approach to budgeting requires extensive cooperation between the Authority and the agencies that receive MHTAAR. The Authority considers requests from relevant agencies and beneficiary boards, and then submits a list of approved projects and funding proposals to the Governor. Because the budget is developed cooperatively, the Governor's request typically makes few changes in MHTAAR funding without the approval of the Authority. Similarly, the legislature typically works with the Authority on any revisions to the Authority's plan.

Zero Base Budgeting: FY09 is the first year for zero-base budgeting of MHTAAR - meaning that all MHTAAR in state agencies was removed from the FY09 adjusted base budget. This approach emphasizes that MHTAAR funding is not based on prior year appropriations, but is an independent decision made by the Authority each year. The approach has the advantage (from the Authority's perspective) of specifying the purpose of all MHTAAR that appears in the budget. In prior years, the purpose of continuing funding was not stated in budget transactions.

Other Funds Appropriated in the Mental Health Budget: Other state funds and federal funding are typically included in the CIMHP. These might include general funds, AHFC Dividend funds, and Alcohol and Other Drug Abuse Treatment & Prevention Funds. The Authority does not exercise as much control over this portion of the Mental Health budget. Although the Authority is typically consulted about expenditure of non-MHTAAR for mental health purposes, the Authority cannot dictate where other funds may or may not be used. Allocation of state and federal funding for mental health purposes is similar to the process that applies to the regular operating and capital budgets; state agency operating requests show changes to appropriations made the previous fiscal year. Capital requests are typically independent of prior year appropriations.

The FY09 Mental Health Budget

The Trustees approved five focus areas for the FY09 budget cycle, with the goals affecting significant system changes in the areas of:

- Affordable, Appropriate Housing for Trust Beneficiaries;
- Bring the Kids Home;
- Justice for Persons with Disabilities;
- Trust Beneficiary Group Initiatives; and
- Workforce Development

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OPERATING

The net increase in state-controlled funding from FY08 to FY09 is approximately \$25.3 million, primarily due to GF/MH funded projects contained in the Governor's budget proposal but not yet included as part of the Mental Health Trust recommendations for FY09. The Authority and OMB are discussing the differences and it's possible that the budget and the Authority's plan will become more closely aligned. Major differences at this point involve general fund increases due to:

- the discontinuation of the ProShare program;
- the reduction in the Federal Medical Assistance Percentage (FMAP) rate;
- projected cost increases for Medicaid program growth; and
- inclusion of approximately \$8 million for various programs in the Governor's operating budget.

Significant changes occurred in the following allocations:

Department of Health and Social Services		
Behavioral Health Medicaid Services		\$8,420.5
Behavioral Health Grants		\$9,223.2
Behavioral Health Administration		\$2,801.8
Services to the Seriously Mentally Ill		\$3,524.9

Statewide Total Appropriations for Mental Health Programs

	FY05	FY06	FY07	FY08	AMHTA FY09 Request	FY09 Gov
State-Controlled	111,554.1	114,437.6	127,712.4	137,834.5	14,127.4	163,120.0
MH Trust	10,056.5	11,566.1	13,184.5	14,130.8	14,497.8	15,229.5
Total Operating	\$121,610.6	\$126,003.7	\$140,896.9	\$151,965.3	\$28,625.2	\$178,349.5
State-Controlled	3,300.0	9,049.2	12,200.0	13,600.0	9,900.0	12,550.0
MH Trust	4,080.0	3,100.0	2,650.0	2,300.0	2,500.0	5,000.0
Total Capital	\$7,380.0	\$12,149.2	\$14,850.0	\$15,900.0	\$12,400.0	\$17,550.0

CAPITAL

The Governor's FY09 Capital Budget Request for Mental Health programs is \$10.0 million above the Alaska Mental Health Trust Authority's recommendations (\$2.5 million MHTAAR, \$2.5 million GF/MH, \$2.5 million SDPR, and \$2.5 million AHFC Div).

The purpose of the AHFC Housing Trust capital project is to create a trust that would assist programs that provide housing for the homeless, prevent homelessness, and create long-term affordable housing.

The Governor's mental health capital expenditures total \$17.6 million. This is an increase of nearly \$1.7 million from FY08. Below are some of the significant single projects:

AHFC Housing Trust (ED 99)	\$10.0 million
AHFC Homeless Assistance Program (ED 99)	\$2.0 million
AHFC Beneficiary and Special Needs Housing (ED 99)	\$1.8 million
MH Coordinated Transportation and Vehicles (ED 99)	\$1.1 million

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Agency Narratives and Funding Summaries

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Department of Administration				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$62,804.1			
FY08 Fiscal Notes	250.0			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)	1,447.9			
Agency Transfers	(1,866.1)			
08 Contractual Salary Adjustments	138.9			
08 Salary Fund Changes	569.3			
Misc Adjustments				
FY 08 Management Plan (GF only)	\$63,344.1	\$540.0	0.9%	
One-time Items removed	(1,640.1)			
Transfers between Agencies (nets zero statewide)	(406.2)			
FY09 Contractual Salary and Health Increases	711.5			
FY 09 Adjusted Base Budget (GF only)	\$62,009.3	(\$1,334.8)	-2.1%	
FY 09 Unrealizable Salary Fund Source Changes	1,196.1			4
FY 09 Governor's GF Increments/Decrements/Fund Changes	1,808.9			
FY 09 Governor's Request (GF only)	\$65,014.3	\$3,005.0	4.8%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$1,808.9	
DOA Leases	1,529.8	1,779.8	250.0	2
Finance	5,174.0	5,954.7	780.7	1
Central Mail	31.1	29.0	(2.1)	
Facilities	97.4	1,059.4	962.0	3
Violent Crimes Compensation Board	181.7	0.0	(181.7)	
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	2,825.4	2,775.4	(50.0)	
Other funds (all allocations)	200,249.8	204,619.1	4,369.3	
Total Non-General Funds (all allocations)	\$203,075.2	\$207,394.5	\$4,319.3	
Position Changes (From FY08 Management Plan to Gov)	1,697	1,105	8	
PFT	1,042	1,050	8	
PPT	23	23	0	
Temp	32	32	0	
Governor's Capital Request	GF	Fed Rpts	Other	See Note:
Information Systems and Technology	6.4		10,118.6	
Maintenance and Repairs	250		10,118.0	
New Construction and Land Acquisition	15,725.0			5
Planning and Research	400.0		1,500.0	5
Capital Projects Subtotal by Fund Source	\$16,381.4	\$0.0	\$21,736.6	
TOTAL CAPITAL BUDGET		\$38,118.0		

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Department of Administration

The mission of the Department of Administration (DOA) is to provide consistent and efficient support services to state agencies so that they may better serve all Alaskans. As a liaison between the Governor's Office and the Legislature, DOA steps in to establish policies and coordinate services among divisions. DOA provides statewide leadership and policy direction in the following areas:

- finance and accounting;
- payroll;
- information technology;
- human resources;
- labor relations;
- procurement, including final administrative decisions and statewide procurement appeals;
- facility leasing and management;
- risk management; and
- employee and retiree benefits programs for state and local governments.

Direct public services are provided through the Division of Motor Vehicles, Public Defender Agency, Office of Public Advocacy, and the Office of Administrative Hearings. The department also oversees administrative functions of four independent boards and commissions (the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, the Alaska Oil and Gas Conservation Commission, and the Violent Crimes Compensation Board).

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Finance operations: \$780.7 GF.** Aging technology used in statewide accounting, payroll, and human resources systems will soon become obsolete. An increment (\$530.7 General Fund) is requested to move the ALDER (Alaska Data Enterprise Reporting) financial and human resource/payroll system from the development stage into full operation and production. The increment will fund two analyst/programmer positions and cover system support and software costs.

In 2004, HB 494 required the state to move payments to electronic methods. The division is implementing new infrastructure to allow vendors to research their payment information over the web by June 2008. An increment (\$250.0 General Fund Program Receipts) is proposed to offset increases in the cost of supporting centralized electronic payments and to enable the Division of Finance to continue renovation of systems.
2. **DOA Leases: \$250.0 GF.** Additional funding is requested for increased lease costs for the Department of Administration. Factors contributing to lease cost increases include consumer price index (CPI) provisions of many lease contracts and expiring leases being replaced at higher costs. Increments in other agencies reflect the increased need for funds to match FY09 projected lease increases. The statewide total requested for lease cost increases is estimated to be \$1 million.
3. **State Owned Facilities occupied space: \$962.0 GF.** Additional facility costs related to the newly acquired Palmer State Office Building and the Atwood Parking Garage have prompted a \$962.0 General Fund increment request in the Facilities allocation. This funding would cover increased costs for janitorial, security, snow removal and other facility maintenance costs. Both facilities are new to the state-owned facilities cost pool.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

4. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

5. In addition to operating increases, the department's capital request is \$38.1 million, including \$16.4 million GF, attributable to four projects. The most significant of those GF projects is the construction of the Palmer State Office Building from a facility previously known as the old Valley Hospital. When the re-building is complete, it is anticipated that all judicial-related agencies will be located in the same facility (which is within one block of the Palmer Courthouse Building). Prior to the FY09 request, \$10.0 million was appropriated in FY07 to purchase the facility and to begin renovations

Legislative Fiscal Analyst Comment: Two planning projects are included in the Governor's request that may be more appropriately placed in the operating budget—(1) the AOGCC Reservoir Depletion Studies project funded by the AK Capital Income Fund, and (2) the Statewide Cost of Living Survey contract costs.

Legislative Fiscal Analyst Comment: As in FY08, direct appropriations for costs associated with public employees' retirement systems are segregated from the department's budget in order to avoid overstating the Department of Administration's budget. Direct appropriations for retirement include:

- (a) *\$162,392.3 GF for the teachers' retirement system defined benefit plan account;*
- (b) *\$246,000.0 GF for the public employees' retirement system as partial payment of the FY09 participating public employees' retirement system employers' contribution;*

In addition, the Governor requested a \$450,000.0 GF deposit into the defined benefit plan account in the teachers' retirement system. Funds for this deposit come from the FY08 revenue surplus and are intended to reduce the unfunded TRS liability.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Commerce, Community, and Economic Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$10,658.1			
<i>FY08 Fiscal Notes</i>	-			
<i>Reappropriations</i>	-			
<i>Special Appropriations</i>	-			
<i>Multi-Years (from prior fiscal years)</i>	-			
<i>Agency Transfers</i>	142.7			
<i>08 Contractual Salary Adjustments</i>	-			
<i>08 Salary Fund Changes</i>	-			
<i>Misc Adjustments</i>	-			
FY 08 Management Plan (GF only)	\$10,800.8	\$142.7	1.3%	
<i>One-time Items removed</i>	-			
<i>Transfers between Agencies (nets zero statewide)</i>	(27.7)			
<i>FY09 Contractual Salary and Health Increases</i>	106.1			
FY 09 Adjusted Base Budget (GF only)	\$10,879.2	\$78.4	0.7%	
<i>FY 09 Unrealizable Salary Fund Source Changes</i>	101.2			4
<i>FY 09 Governor's GF Increments/Decrements/Fund Changes</i>	(319.0)			
FY 09 Governor's Request (GF only)	\$10,661.4	(\$217.8)	-2.0%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 /Adj Base to FY09 Governor's Request	See Note:
Allocation			(\$319.0)	
Administrative Services	1,205.0	1,280.0	75.0	
Community & Regional Affairs	2,004.6	2,081.1	76.5	
Office of Economic Development	355.4	434.9	79.5	
Qualified Trade Association Contract	5,005.1	4,205.1	(800.0)	1
Alaska Seafood Marketing Institute	500.0	750.0	250.0	2
Non-General Fund Agency Summary	FY09 Adjusted Base + PERS/HEALTH & FUEL	FY09 Governor's Request	Change from FY09 Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	50,502.7	53,682.0	3,179.3	
Other funds (all allocations)	96,015.2	102,166.0	6,150.8	3
Total Non-General Funds (all allocations)	\$146,517.9	\$155,848.0	\$9,330.1	
Position Changes	516	532	16	
PFT	509	515	6	
PPT	3	1	(2)	
Temp	4	16	12	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Information Systems and Technology			2,550.0	
Maintenance and Repairs	250.0		80.4	
New Construction and Land Acquisition	3,500.0	49,600.0	21,000.0	
Planning and Research	3,670.0			6
Other	876.4	6,836.4		5
Capital Projects Subtotal by Fund Source	\$8,296.4	\$56,436.4	\$23,630.4	
TOTAL CAPITAL BUDGET		\$88,363.2		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Commerce, Community, and Economic Development

The Department of Commerce, Community, and Economic Development (DCCED) provides a wide range of development services to private businesses, aids in protecting the public by regulating certain industries, and provides services to communities. The department

- provides general assistance and access to capital markets for businesses;
- coordinates numerous state loan programs;
- manages programs aimed at key economic sectors such as electric power generation, tourism, aerospace, mining, and fishing;
- participates in the domestic and international marketing of Alaskan products and visitor attractions;
- regulates banking, securities and corporations, insurance, occupations and public utilities;
- provides services to local governments and unincorporated communities in the form of grants and direct technical assistance; and
- administers programs offering assistance in the areas of government and financial management, utility management and power cost equalization, energy development, public planning processes, land use planning, and capital project planning.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Qualified Trade Association (QTA) Contract: \$800.0 decrement of Vehicle Rental Tax Receipts.** The QTA contract is awarded annually to the Alaska Travel Industry Association (ATIA) for travel marketing campaigns. According to the agency, the decrement is prompted by the inability of ATIA to meet the 50 percent match requirement of the grant. The Governor's FY09 capital budget contains a \$3 million grant to ATIA—with no match requirement—for travel marketing campaigns. That capital project includes up to \$1.5 million of unspent and unobligated vehicle rental tax receipts.

Legislative Fiscal Analyst Clarification: There is a common misconception that the Vehicle Rental Taxes (VRT) account has a large unspent balance. That misconception appears to be prompted by the cash flow mechanics of the account. Rather than base appropriations on an estimate of current-year revenue (and thereby overspend if revenue is less than anticipated), appropriations from the account are limited to the amount of tax actually collected in the most recently closed fiscal year. This two-year lag is simply a means to prevent overspending; the money expended in each year actually comes from current-year revenue. The belief that revenue from prior closed fiscal years is available is false; there is not a carryforward balance of vehicle rental taxes accumulating in the general fund.

Legislative Fiscal Analyst Comment: The \$3 million grant to the ATIA in the capital budget is overstated by approximately \$1 million if the Governor's proposed operating budget is adopted. The \$3 million includes:

- \$800.0 that will be made available through an anticipated reduction of the FY08 appropriation to the QTA Contract;
- \$800.0 from the FY09 reduction to the QTA Contract;
- approximately \$1,200.0 of available FY09 revenue; and
- approximately \$1 million of nonexistent prior balances.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

The funding and the match requirements for tourism marketing have changed during the past few years, as follows:

- In FY06, match requirements for the QTA contract dropped from 60 percent to 50 percent. [Chapter 180, SLA 04 (SB 254)].
- Since FY07, grant funding (with no match requirement) has been included in the operating budget as QTA Independent Traveler Grants (\$893.2 in the FY09 request).

Legislative Fiscal Analyst Comment: ATIA successfully matched the entire \$5 million QTA contract in FY07. The legislature may want to explore why the ATIA is unable to match the \$5 million appropriation made in FY08 and why ATIA now requests a shift to appropriations that require no match.

2. **Alaska Seafood Marketing Institute: \$2,641.6 of RSS, Fed, GF, & SDPR.** ASMI has requested three increments, two of which are highlighted below:

- \$1,641.6 (\$500.0 SDPR & \$1,141.6 RSS) is being requested for the expansion of the **Domestic Seafood Marketing campaign**. The SDPR funding is actually federal funds that ASMI receives through the Alaska Fisheries Marketing Board.

Legislative Fiscal Analyst Comment: ASMI received a \$2 million supplemental (\$1.4 million of GF) in FY07 for a similar purpose.

- \$1,000.0 is being requested to **expand the Overseas Seafood Marketing campaigns** currently occurring in 20 foreign countries. The request includes \$500.0 in federal funds and \$500.0 in State match (\$250.0 GF and \$250.0 RSS).

Legislative Fiscal Analyst Comment: Due to a decline in federal (and other) funds, ASMI received general funds in FY07 for the first time in many years. The legislature cut \$500.0 GF from the FY08 budget (commensurate with their increased revenue estimate). RSS is expected to increase by \$800.0 in FY09.

3. **Power Cost Equalization: \$1.4 million PCE Funds.** This increment fully funds the PCE formula program at \$28.160.0. Although it may appear that increases in PCE program expenditures do not affect general funds, \$9.8 million of the FY09 PCE Fund capitalization comes from general funds.

Legislative Fiscal Analyst Comment: An FY07 appropriation of \$183 million to the PCE Endowment was expected to fully fund the PCE program—at \$25 million annually—beginning in FY11, when the impact of the deposit on the three-year average balance of the endowment will be fully realized. However, program costs continue to increase with the price of fuel, and general funds may be required if fuel prices remain high.

For more information on the Power Cost Equalization program, please see the discussion on Sections 23(c)-(f) in the "Language Sections of the Governor's FY09 Operating Budget" in this publication.

4. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.

ORGANIZATIONAL CHANGES

- The "Community Advocacy" allocation's name has been changed to "Community and Regional Affairs" to more accurately reflect the functions of this division.
- In response to a recommendation in DCCED's Transition Report, a new allocation called the Office of Consumer Affairs & Investigations has been created under the Corporations, Business and Professional Licensing appropriation (CB&PL). The purpose of this office is two-fold: to provide

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

more efficient investigative services to the boards and commissions, and to emphasize consumer protection and other consumer issues.

- To eliminate volatility in budget comparisons between fiscal years, Legislative Finance moved the **Local Government Support** allocation outside of DCCED. Because revenue sharing has traditionally been counted in the operating budget, LFD did not follow the Governor's lead in placing the program in the capital budget.
- A new allocation called **Statewide Project Development, Alternative Energy and Efficiency** has been created under Alaska Energy Authority to accurately reflect and emphasize statewide energy work. The funding for this allocation comes from a transfer of \$557.1 from AEA Rural Energy Operations.

CAPITAL BUDGET

The Governor's **\$88.3 million (\$8.3 million GF) capital budget for DCCED** includes \$17.5 million to expand the Kodiak Launch Complex Infrastructure, \$10 million of G/O Bonds for the Port of Anchorage Intermodal Expansion Project, and the following:

5. **\$1.6 million (1/2 general funds and 1/2 federal funding) for the Manufacturing Extension Program.** The Manufacturing Extension Program (MEP) is a nationwide network of not-for-profit centers in nearly 350 locations nationwide, whose sole purpose is to provide help to small and medium sized manufacturers.

Legislative Fiscal Analyst Comment: If approved, almost \$3.7 million of state funds (\$5.9 million total funds) will have been appropriated for this program over a four-year period—yet, as of 1/3/08, only \$2,140,806 of the state funds had been spent or obligated (leaving \$1.6 million still available).

Legislative Fiscal Analyst Comment: Because this appears to be an ongoing program, an operating budget appropriation may be more appropriate.

6. **Grant to the Alaska Travel Industry Association: \$3 million of Vehicle Rental taxes.** This appropriation includes \$1 million of Vehicle Rental tax receipts that may not be available. Please see comment #1 for more information on grants to ATIA and vehicle rental taxes

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Corrections				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$198,147.5			
FY08 Fiscal Notes	3.0			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers	322.3			
08 Contractual Salary Adjustments	362.3			
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$198,835.1	\$687.6	0.3%	
Ono-time Items removed	(701.7)			
Transfers between Agencies (nots zero statewide)	63.9			
FY09 Contractual Salary and Health Increases	4,393.3			
FY 09 Adjusted Base Budget (GF only)	\$202,590.6	\$3,755.5	1.9%	
FY 09 Unrealizable Salary Fund Source Changes	76.5			7
FY 09 Governor's GF Increments/Decrements/Fund Changes	10,148.9			
FY 09 Governor's Request (GF only)	\$212,816.0	\$10,225.4	5.0%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$10,148.9	
Office of the Commissioner	1,202.6	1,302.9	100.3	
Administrative Services	2,409.4	2,498.5	89.1	
Information Technology MIS	1,606.9	1,782.7	175.8	
Research and Records	278.7	458.7	180.0	
DOC State Facilities Rent	259.0	289.9	30.9	
Prison System Expansion	502.7	682.7	180.0	1
Offender Habilitation Programs	3,650.4	5,040.5	1,390.1	5,6
Out-of-State Contractual	21,121.7	21,614.7	493.0	1,5
Institution Director's Office	617.1	714.9	97.8	
Anchorage Correctional Complex	17,141.3	18,616.8	1,475.5	3,4
Anvil Mountain Correctional Center	5,075.0	5,139.1	64.1	3
Combined Hilland Mountain Correctional Center	9,842.4	9,860.5	18.1	3
Fairbanks Correctional Center	10,240.1	10,344.5	104.4	3
Ketchikan Correctional Center	3,711.3	3,752.0	40.7	3
Lemon Creek Correctional Center	7,769.0	7,904.7	135.7	3
Mat-Su Correctional Center	3,791.9	3,821.2	29.3	3
Palmer Correctional Center	11,599.5	12,642.2	1,042.7	1,3
Spring Creek Correctional Center	18,658.3	19,856.2	1,197.9	1,3
Wildwood Correctional Center	10,901.1	12,378.5	1,477.4	1,3
Yukon-Kuskokwim Correctional Center	5,328.3	5,420.4	92.1	3
Point MacKenzie Correctional Farm	3,082.8	3,197.5	114.7	3
Community Residential Centers	15,827.6	16,827.6	1,000.0	1
Probation and Parole Director's Office	722.7	633.6	(89.1)	
Statewide Probation and Parole	12,725.9	12,937.3	211.4	6
Inmate Health Care	21,577.2	22,073.2	496.0	2
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	3,918.2	2,918.2	(1,000.0)	
Other funds (all allocations)	24,426.1	30,227.8	5,801.7	
Total Non-General Funds (all allocations)	\$28,344.3	\$33,146.0	\$4,801.7	
Position Changes (from FY08 Management Plan to Gov)	1,517	1,529	12	
PFT	1,513	1,524	11	
PPT	4	5	1	
Temp	0	0	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	1,133.7			
Information Systems and Technology	1,750.0			
Maintenance and Repairs	3,000.0		8,678.0	
Renovation	200.0			
Capital Projects Subtotal by Fund Source	\$6,083.7	\$0.0	\$8,678.0	
TOTAL CAPITAL BUDGET	\$14,761.7			

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Corrections

The mission of the Department of Corrections (DOC) is to protect the public by incarcerating and supervising offenders. The department is responsible for public safety through the administration of correctional services including:

- twelve prisons and jails that provide secure incarceration, electronic monitoring and rehabilitation programs for felons and misdemeanants;
- community residential center beds and offender supervision program;
- supervision and case management of probationers and parolees in the community; and
- oversight of 15 small community jails.

Also included in the department is the Alaska Board of Parole, a quasi-judicial Board that makes all parole related decisions.

SIGNIFICANT ISSUES

The following paragraphs correspond to numbered notes on the preceding spreadsheet.

1. **Prison population** increases continue to drive departmental costs upward. The state prisoner population typically exceeds 100% of approved institutional emergency capacity. With increased law enforcement by local and state agencies, the department has no expectation of a decline in the offender population. The department addresses the prison population issue with several increments.
 - **Inmate Housing and Added Funding for Positions: \$2,068.9 GF and \$878.9 in one-time (OTI) GF increments.** To assist with in-state offender population management, the Department is requesting funding for additional beds, temporary housing units, and positions for the Palmer, Spring Creek and Wildwood Correctional Centers. The OTI's in each of the facilities represent set up costs that will not be needed in future years.
 - An increment for Palmer totaling \$1,041.1 GF (\$35.1 OTI) adds two units (40 beds) and nine positions. Three temporary units were added in FY08.
 - An increment for Spring Creek totaling \$489.5 GF (\$225.6 OTI) adds one temporary housing unit (20 beds) and three positions.
 - Wildwood is requesting \$1,417.2 (\$302.2 OTI) to convert two existing buildings into housing for 80 offenders and to add 13 positions.
 - **Community Residential Centers (CRC): \$1,000.0 GF.** Additional funding is requested to pay the six CRC providers the contractually negotiated annual rate increase, based on increases in the Anchorage CPI. According to the agency, contracts guarantee payment for 602 beds in FY07 and 614 in FY08. The average number of beds filled was 516 and 567 (first quarter only) for FY07 and FY08 respectively.
 - **Increased contractual costs for Arizona: \$343.0 GF.** The department is requesting funding for a \$1.21/bed/day contract rate increase at the Red Rock Arizona facility that houses Alaska's overflow prisoners. DOC is budgeted for 900 beds; there are currently 854 offenders being housed at the facility.
 - **Prison System Expansion: \$180.0 GF.** This request is for annual operating support for successful planning and coordination of prison system expansion (statewide). According to DOC, current authorization on the non-personal service lines is insufficient to meet the contractual and travel obligations associated with prison expansion planning and coordination.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Legislative Fiscal Analyst Comment: *The department renamed the Mega Prison Project (established by the legislature in FY08) to Prison System Expansion to address expansion needs of all institutional facilities.*

Legislative Fiscal Analyst Comment: *As a result of Chapter 160, SLA 04 (SB 65), the department is going through extensive prison expansion including: Spring Creek Correctional Center \$1,755.6, Yukon-Kuskokwim Correctional Center \$951.8, and Point MacKenzie Correctional Center \$14,626.0. The projects appear as reimbursement of debt issued by respective city/boroughs at each of the facility locations. Subcommittees may wish to discuss the impact expansion plans—and alternative means of addressing prison crowding—may have on future operating costs.*

2. **Inmate Health Care** cost increases are primarily due to increasing inmate population. The department is requesting several increments to address various aspects of inmate health care.
 - **Increased Inmate Health Care Costs: \$2,126.9 PFD Criminal.** Funding is requested to address rising costs due to the aging inmate population. According to the agency, there has been a sharp increase in the number of offenders requiring dialysis, cancer treatment and other expensive medical procedures.
 - **Mental Health Services: \$446.0 GF.** DOC is requesting funding to provide staffing to deal with the increased numbers of inmates with mental health issues. DOC processes approximately 33,000 bookings annually; nearly 14,000 of these have a mental health diagnosis.
 - **Mental Health Transition Assistance: \$50.0 GF/MH.** The department is asking for additional mental health funding to expand the Assess, Plan, Identify, Coordinate (APIC) model. APIC was initially funded in FY06 with \$35.0 GF/MH and reached \$224.0 in FY08. The model connects offenders re-entering the community with treatment providers to develop and secure treatment transition plans for newly released offenders.
 - **Health Program Manager: \$106.7 PFD Criminal.** DOC is requesting funding for a Health Program Manager to provide administrative and financial support to the Inmate Health Care Component. This will free up the Medical Officers, allowing them to provide more hands-on medical oversight and care.
3. **Reduce Institution Vacancy Rate: \$1,853.5 GF.** DOC is requesting funding to reduce vacancy rates in the 24-hour correctional facilities. The department's approach to meeting staffing requirements has been to hold positions vacant and use the vacancy savings to pay overtime. The department now hopes to meet staffing requirements by filling all vacant positions to reduce excessive overtime and improve staffing structure at the facilities. According to the agency, paying the current level of overtime is expensive, causes employee burnout, and is inefficient.

Legislative Fiscal Analyst Comment: *The department will be requesting a supplemental in FY08 to cover high overtime costs. The amount of the supplemental is unknown at this time, but should be less than the increment requested here. Subcommittees may wish to discuss the overtime/vacancy/recruitment/retention issue in detail.*
4. **Replace Lost Federal Revenue: \$1,000.0 GF.** DOC is requesting GF to replace federal receipts lost due to a decline in the number of federal prisoners housed in state correctional facilities. Last session, the legislature appropriated \$1 million GF in the FY07 supplemental for a similar purpose.
5. **Offender Habilitation Programs:** Due to the new management strategy of the Palin Administration, the following offender rehabilitation programs are being expanded or restored.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

- **Substance Abuse Program: \$451.80 GF/\$349.2 PFD Criminal Funds.** The department is requesting an increase in funding to provide treatment to incarcerated offenders and those on electronic monitoring.
 - **Sex Offender Treatment: \$460.0 GF.** Funding is requested to re-establish a basic sex offender treatment program. Inmates entering the program will receive an offense-specific assessment and psycho-educational programming on basic sexual offender issues.
 - **Education Program: \$30.0 GF.** This request is to provide additional educational and apprenticeship materials to offenders.
 - **Chaplaincy Program: \$128.0 GF.** This increment funds two Chaplain positions to enhance prisoner rehabilitation by encouraging responsible behavior and promoting spiritual growth and moral development. The positions will be located in Anchorage and Seward.
 - **Residential Substance Abuse Treatment (RSAT): \$331.8 PFD Criminal Funds.** The department is requesting increased funds due to the high cost of maintaining the current level of service for the RSAT program at the Combined Hiland Mountain and Wildwood Correctional Centers. The RSAT program addresses criminal thinking and behavior as an integral part of addiction treatment for offenders. The women's RSAT program at Hiland Mountain is a 32-bed therapeutic community that opened in 1998. The men's RSAT at Wildwood has 42 beds and opened in 2000.
6. **Current Sex Offender and other legislation.** In response to the passage of legislation relating to periodic polygraph testing of all sex offenders on probation or parole [Ch 14 SLA06 (SB 218)], the agency is requesting the following:
- Two Anchorage probation/parole officers to manage the increasing sex offender caseloads (\$282.2 GF); and
 - Polygraph examination costs of sex offender parolees (\$470.3 GF).
7. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 2^a for further discussion of this issue.

ORGANIZATIONAL CHANGES

DOC is requesting a separate allocation for the Electronic Monitoring program in FY09. The Electronic Monitoring (EM) program provides a secure detention alternative in a residential environment for adult offenders. Currently, the program operates out of four institutions and DOC would like to consolidate the program into one EM unit to better manage and expand the program throughout all institutions as well as incorporate probation violators into the program. Funding for the EM program is currently under the Classification and Furlough allocation.

To reflect the statewide institutional expansion, the Mega Prison Project allocation established in the FY08 budget was renamed the Prison System Expansion allocation in FY09.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Education & Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$986,070.0			
FY08 Fiscal Notes	3.0			
Reappropriations				
Special Appropriations	34,550.4			
Multi-Years (from prior fiscal years)				
Agency Transfers	114.1			
08 Contractual Salary Adjustments	62.3			
08 Salary Fund Changes				
Misc Adjustments	(1,234.4)			
FY 08 Management Plan (GF only)	\$1,019,565.4	\$33,495.4	3.4%	
One-time Items removed	(975,803.0)			1
Misc Adjustments	886,333.7			1
Transfers between Agencies (nets zero statewide)				
FY09 Contractual Salary and Health Increases	345.1			
FY 09 Adjusted Base Budget (GF only)	\$930,441.2	(\$89,124.2)	-8.7%	
FY 09 Unrealizable Salary Fund Source Changes	344.9			8
FY 09 Governor's GF Increments/Decrements/Fund Changes	3,192.9			
FY 09 Governor's Request (GF only)	\$933,979.0	\$3,537.8	0.4%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$3,192.9	
Alaska Challenge Youth Academy	5,709.0	6,082.1	373.1	5
Student and School Achievement	5,395.3	6,609.3	1,214.0	2
Early Learning Programs	7.1	307.1	300.0	6
Mt. Edgecumbe Boarding School	2,976.4	3,452.4	476.0	3
EED State Facilities Rent	1,635.2	1,885.2	250.0	
Library Operations	4,262.3	4,327.3	65.0	
Archives	845.1	927.8	82.7	
WWAMI Medical Education	1,698.0	2,130.1	432.1	4
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	214,786.9	215,116.9	330.0	
Other funds (all allocations)	33,739.4	37,798.0	4,058.6	7
Total Non-General Funds (all allocations)	\$248,526.3	\$252,914.9	\$4,388.6	
Position Changes (From FY08 Management Plan to Gov)	346	343	(3)	
PFT	331	329	(2)	
PPT	15	14	(1)	
Temp	0	0	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Information Systems and Technology			40.0	
Maintenance and Repairs			14,112.3	
New Construction and Land Acquisition			19,099.6	
Planning and Research			4,500.0	9
Renovation			68,504.1	
Capital Projects Subtotal by Fund Source	\$0.0	\$0.0	\$106,256.0	
TOTAL CAPITAL BUDGET		\$106,256.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Education & Early Development

The Department of Education & Early Development (DE&ED) is committed to ensuring quality standards-based instruction to improve academic achievement for all students. The department is responsible for funding and regulating the state's K-12 schools as well as administering school debt reimbursement and grants for school construction/major maintenance. Core services include the following:

- Provide and evaluate a Comprehensive Student and School Assessment and Accountability System for all students and schools in Alaska that is based on student, school, educator, and culturally responsive standards and state and federal requirements;
- Develop and administer a standards and performance-based educator licensure system to ensure high quality and student achievement;
- Provide and support standards-based professional development and mentoring for Alaska's educators to ensure high quality and student achievement;
- Provide a statewide program to ensure all students have the foundational skills required for a successful transition to college and/or the workforce after high school;
- Secure and award state, federal, and private educational funding to school districts and other educational organizations to result in higher student achievement; and
- Provide high quality data to school districts and stakeholders through the use of the Alaska Statewide Longitudinal Data System.

The department also houses Commissions and Boards (including the Professional Teaching Practices Commission, the Alaska State Council on the Arts and the Alaska Postsecondary Education Commission) and is responsible for Mt. Edgecumbe Boarding School, E&ED State Facilities Maintenance, and Alaska Library and Museums.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **K-12 Education Formula Funding.** Because education funding changes are likely to come through legislation rather than subcommittee action, the discussion here is brief and general. The Governor's general fund request of \$832 million for the foundation program is \$88.3 million less than the FY08 Management Plan. However, the Management Plan included \$69.1 million for one-time costs (for school improvement grants and revised geographic differentials) that are excluded from the Governor's request.

An Education Task Force charged with reviewing K-12 funding will provide its recommendations to the legislature in January. The Governor presented a three-year education plan that closely follows the Task Force recommendations. Money to implement statutory changes will be appropriated through a fiscal note, which the Governor claims will be \$135 million. That amount would bring FY09 general funds for the foundation formula to \$967 million, which is \$47 million more than in FY08.

Section 11(a) of the Governor's operating budget bill appropriates \$1.575 billion of the anticipated FY08 general fund surplus to the Public Education Fund. In addition, the Governor requests \$1 billion GF for the Public Education Fund in FY09, bringing the projected year-end balance of the fund to \$2.5 billion, which is \$1.4 billion more than is required to meet the legislative goal of funding K-12 education one year in advance.

Legislative Fiscal Analyst Comment: Appropriations directly to retirement accounts as partial payment of school district retirement costs are not reflected in the DE&ED budget. However, Legislative Finance includes these costs in agency summary reports to ensure that national and

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

other budget comparisons do not understate Alaska's spending on K-12 education by the amount of the direct retirement payments. The actuarially required contribution for school district employees in FY09 is \$206 million more than the amount built into the DE&ED budget.

2. **Student and School Achievement: \$1,214.0 GF.** General Fund increments in this area are divided into three requests:

(a) \$750.0 for the Standards Based Assessment and High School Graduation Qualifying Exam Contractual Increases;

(b) \$414.0 for the WorkReady/CollegeReady Initiative—a statewide program designed to ensure that Alaska students have the skills required for successful post-secondary education and/or the workforce after high school—administered in partnership with the Alaska Department of Labor & Workforce Development; and

(c) \$50.0 GF/MH plus an additional \$50.0 MHTAAR funds for the Governor's Council for Rural Secondary Transition—a project which identifies the skills of rural residents and seeks to team those residents with youth and communities in transition planning and service delivery.

Legislative Fiscal Analyst Comment: In addition to the General Fund increments requested, the Governor requests a total of \$845.0 in ASLC Dividend funds for Student and School Achievement, in two areas:

- *\$610.0 for the Alaska Longitudinal Data System—the Governor's request would replace federal funds in order to provide continued support for this program. The intent is to improve student performance through enhanced reporting of data for decision makers.*
- *\$235.0 for School District Improvement Plan Implementation—funding will be used to provide school districts with technical assistance and coordination of district improvement activities in order to meet Adequate Yearly Progress (AYP), a statewide accountability system mandated by the No Child Left Behind Act of 2001.*

Legislative Fiscal Analyst Comment: State corporation dividends are typically used for capital projects because they are considered a one-time funding source when used in the operating budget. If the requested funds are for a continuing need, the legislature may want to use general funds in order to avoid revisiting the issue in FY2010.

3. **Mt. Edgecumbe Boarding School: \$476.0 GF.** Both food services and dormitory management services are up for new contracts in FY09. Based on the steady, annual increase under the current contracts, Mt. Edgecumbe anticipates that new contracts will cost \$450.0 more than in FY08. The balance of the increment (\$26.0 GF) is for residency program support.

4. **WWAMI Medical Education: \$432.1 GF.** In the spring of 2007, the Alaska WWAMI program expanded class size to 20 incoming students per year. This increment is required under Alaska's contract with the University of Washington School of Medicine (UWSM). The basis for the funding structure is determined by the partnership contract between the UWSM, the University of Alaska, and the State of Alaska. Students attend the first year of training at the University of Alaska, Anchorage campus, before continuing training at the UWSM in Seattle, Washington. The Postsecondary Education Commission acts as the state's fiscal agent and administers WWAMI participants' services agreements/loans. Funds are used for education and administrative costs for second, third and fourth year students, which average over \$40,000 per student per year. In addition, the program provides support for clinical sites in Alaska. WWAMI program administration and community clinical unit costs run about \$300,000 per year. Since the inception of the program in 1971, 345 students have been enrolled in this program which to date has a 95% graduation rate.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

5. **Alaska Challenge Youth Academy (ACYA): \$373.1 GF.** The academy is operated by the Department of Military and Veterans Affairs and is funded through a Reimbursable Services Agreement with DE&ED in accordance with AS 14.30 740. With this increment, the total general fund budget for the ACYA will be \$6,082.1.

Legislative Fiscal Analyst Comment: The legislature may wish to revisit this formula program in conjunction with the Joint Legislative Education Funding Task Force bill that will be presented in January. The current statutory program support formula provides seven times the base student allocation for ACYA residential students plus a smaller non-resident formula. As the base student allocation has increased, this formula appears to provide more money than is required by the program.

6. **Early Learning Programs: \$300.0 GF.** In FY08, the Legislature appropriated \$400.0 GF for these new programs that were developed and endorsed by statewide stakeholders as well as by the State School Board as one-time items. Funding was divided into three areas:

- (a) \$150.0 for Early Learning Guidelines Funding;
- (b) \$150.0 for the Development of a Statewide Plan for Voluntary Early Childhood Education; and
- (c) \$100.0 for Ready to Read, Ready to Learn Administrative and Council Support.

The Governor requests a \$300.0 GF increment for continuing development and administration of the early learning guidelines.

7. **Statewide Mentoring Program: \$500.0 non-GF.** The Governor's FY09 budget includes an increment of \$500.0 ASLC Dividends to increase capacity for the Statewide Mentoring Program and bring the overall budget to \$5 million. Funded in FY07 with \$4.5 million (primarily one-time, non-GF funding), the program evolved in FY08 when that funding was replaced with \$3.9 million GF (the \$600.0 I/A Receipts was retained). Initially the program included 22 mentors working with 339 teachers in 31 school districts. Now the program will include 28 mentors who will work with 367 beginning teachers in 177 schools within 40 school districts; plus 11 coaches who will provide services to 80 principals within 30 school districts and provide services to 12 new superintendents as well.

Legislative Fiscal Analyst Comment: Due to the one-time nature of the ASLC Dividends, the Legislature may want to replace these funds with GF to provide program continuity.

8. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wages and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

CAPITAL BUDGET

9. In addition to school construction grants and school district major maintenance grants totaling over \$100 million, the Department of Education & Early Development's FY09 capital budget includes \$4.5 million Misc. Earnings for planning and design of a new facility to house the Alaska State Library, Archives and State Museum. The plan is to consolidate the collections into one building by expanding the existing Alaska State Museum located in Juneau. This project is a continuation of a FY06 appropriation of \$1.4 million that was used to develop a needs assessment and pursue preliminary design work. The current estimate for project completion is \$75 million.

Legislative Fiscal Analyst Comment: The school debt reimbursement program is discussed in a separate section of this overview that addresses debt obligations (see page54)).

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Environmental Conservation				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$17,755.3			
FY08 Fiscal Notes				
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers	127.5			
08 Contractual Salary Adjustments	10.2			
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$17,893.0	\$137.7	0.8%	
One-time Items removed	(134.4)			
Transfers between Agencies (nets zero statewide)	45.2			
FY09 Contractual Salary and Health Increases	557.9			
FY 09 Adjusted Base Budget (GF only)	\$18,361.7	\$468.7	2.6%	
FY 09 Unrealizable Salary Fund Source Changes	29.4			
FY 09 Governor's GF Increments/Decrements/Fund Changes	261.8			
FY 09 Governor's Request (GF only)	\$18,652.9	\$291.2	1.6%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$261.8	
Drinking Water	1,505.2	1,767.0	261.8	1
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	20,744.7	21,006.6	261.9	
Other funds (all allocations)	29,759.1	32,342.4	2,583.3	2
Total Non-General Funds (all allocations)	\$50,503.8	\$53,349.0	\$2,845.2	
Position Changes (From FY08 Management Plan to Gov)	532	536	4	
PFT	527	531	4	
PPT	1	1	0	
Temp	4	4	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
New Construction and Land Acquisition	36,062.1	78,728.5	500.0	
Planning and Research	372.9			
Renovation	5,665.5			
Capital Projects Subtotal by Fund Source	\$42,100.5	\$78,728.5	\$500.0	
TOTAL CAPITAL BUDGET		\$121,329.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Environmental Conservation

The Department of Environmental Conservation (DEC) is responsible for protecting human health and the environment. This agency provides the following core services:

- develop and enforce standards for protection of the environment that allow for sustainable economic growth;
- provide controls and enforcement for the prevention and abatement of pollution to the environment; and
- provide controls and enforcement to protect citizens from unsafe sanitary practices.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Primacy for the public drinking water system: \$261.8 GFM, \$261.9 Fed.** For the past several years, federal grant funding has been insufficient to fully implement Alaska's drinking water program. In FY08, additional staff (five permanent, full-time positions) and resources were added to obtain and maintain full primacy. The department believes that state regulation of public drinking water systems will enhance their performance in protecting the public from unsafe drinking water. The 2007 legislature proposed a three-year plan for obtaining and implementing primacy and funded the first year (\$564.8 total funds split between GF and Fed) to ensure that Alaska's public water systems will be regulated by the state Drinking Water Program and not the EPA. In FY08, second year funding was approved (\$605.9 total funds split between GF and Fed). The FY09 request seeks funding for the third and final year of the three-year plan. Four new permanent, full-time positions are also requested.

In addition to providing technical support, state primacy allows:

- Issuance of monitoring waivers to reduce the cost of routine monitoring;
- Issuance of variances or exemptions that allow public drinking water systems to achieve compliance over time, while still providing public health protection; and
- Issuance of construction and operation approvals that reflect local knowledge, experience and an understanding of arctic engineering principles.

2. **Ocean Ranger Program Implementation: \$2.6 million Vessel Compliance Funds.** In August 2006, Alaska voters passed a ballot initiative that imposed a tax on large cruise ships in order to pay for vessel services. In addition, a \$4 per passenger tax was imposed to provide funds for state-employed marine engineers (Ocean Rangers) licensed by the Coast Guard to observe health, safety and wastewater treatment and discharge operations.

During the 2007 cruise ship season, the department implemented a transitional program that included

- development of initial inspection protocols and checklists;
- analysis of training needs and initial development of an Ocean Ranger training program; and
- an on-board presence by environmental professionals and marine engineers on portions of 114 voyages.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

All 27 cruise ships regularly operating in Alaska waters were boarded at least once.

Department plans for the 2008 cruise ship season include vessel oversight by Ocean Rangers to the fullest extent funded by the ballot initiative. In FY08 the legislature provided \$1.2 million in Commercial Passenger Vessel Environmental Compliance Funds (CPVECF) for program startup. For FY09 the Governor's budget includes the base amount of \$1.2 million plus \$2.6 million in CPVECF for implementation of the Ocean Ranger program. The \$3.8 million annual cost of the program equals the department's estimate of fees that will be collected.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Fish and Game				
All Dollars in Thousands				
	(GF On'y)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$39,773.7			
FY08 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	277.0			
08 Contractual Salary Adjustments	7.4			
08 Salary Fund Changes	2.7			
Misc Adjustments	-			
FY 08 Management Plan (GF only)	\$40,060.8	\$287.1	0.7%	
One-time Items removed	(111.6)			
Transfers between Agencies (nets zero statewide)	77.2			
FY09 Contractual Salary and Health Increases	918.0			
FY 09 Adjusted Base Budget (GF only)	\$40,944.4	\$883.6	2.2%	
FY 09 Unrealizable Salary Fund Source Changes	2,154.3			1
FY 09 Governor's GF Increments/Decrements/Fund Changes	2,242.3			
FY 09 Governor's Request (GF only)	\$45,341.0	\$4,396.6	10.7%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$2,242.3	
Southeast Region Fisheries Management	4,322.5	4,412.5	90.0	
Headquarters Fisheries Management	7,028.0	7,440.5	412.5	5
Wildlife Conservation	3,131.7	4,698.3	1,566.6	2,3,4
Hunter Education Public Shooting Ranges	125.6	0.0	(125.6)	2
State Subsistence	1,627.3	1,926.1	298.8	6,7
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	62,546.5	61,919.1	(627.4)	
Other funds (all allocations)	65,097.6	65,575.0	477.4	2
Total Non-General Funds (all allocations)	\$127,644.1	\$127,494.1	(\$150.0)	
Position Changes (From FY08 Management Plan to Gov)	1,703	1,702	(1)	
PFT	863	878	15	
PPT	782	766	(16)	
Temp	58	58	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	100.0			
Information Systems and Technology	127.4		350.0	
Maintenance and Repairs	1,000.0		400.0	
New Construction and Land Acquisition	5,450.0	4,725.0	7,375.0	8
Planning and Research	150.0	22,000.0		
Renovation	225.0		1,288.0	
Capital Projects Subtotal by Fund Source	\$7,052.4	\$26,725.0	\$9,413.0	
TOTAL CAPITAL BUDGET		\$43,190.4		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Fish and Game

The Department of Fish and Game (DFG) has a mandate to manage, protect, maintain, improve and extend the fish, game, and aquatic plant resources of Alaska in the interest of the economy and for the general well-being of the State. The Boards of Fisheries and Game adopt regulations to conserve and develop these resources. The commissioner and the department conduct management and research functions necessary to support these goals. The department includes the Commercial Fisheries Entry Commission, a quasi-judicial agency which promotes resource conservation and sustained yield management by regulating entry into Alaska's commercial fisheries. The department also includes the Exxon Valdez Oil Spill Trustee Council, which oversees restoration of the injured ecosystem through the use of the \$900 million civil settlement.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.
2. **Declining Fish and Game Fund Balances.** For many years the Sport Fisheries and Wildlife Conservation appropriations had virtually no general funds in their budgets. Activities were supported primarily by the Fish and Game Fund and federal funds. There was a long-term trend of annual appropriations exceeding annual revenue, which slowly drained surpluses that had accumulated in the Fish and Game Fund.

In recent years, the agency has addressed this decline by:

- spending less than the amounts authorized. For instance, in FY07, Wildlife Conservation spent only \$7.4 million of the \$10.2 million authorized;
- postponing approved capital projects; and
- requesting general funds for operating costs. In FY06, the legislature recognized that Wildlife's portion of the Fish and Game Fund balance was insufficient to cover increased retirement costs while maintaining services. Rather than cut programs, the legislature decided to appropriate general funds for these increases. For similar reasons, in FY07 and FY08 the legislature appropriated general funds for both Sport Fisheries and Wildlife Conservation.

The FY08 operating authorization exceeded FY08 revenue by about \$1 million for the Wildlife portion of the Fund, while the Sportfish portion of the Fund's FY08 revenues are about equal to the FY08 operating authorization.

The FY09 budget attempts to preserve Fish & Game Fund balances in the following ways:

- **The Sport Fish Division's** goal is to maintain a balance of \$3.5 million in the Fish and Game Fund by the end of FY10. According to the agency, this balance will provide sufficient funding to cover the July through November timeframe (the division receives its annual preliminary Sport Fish Restoration apportionment in November). To achieve this goal, the Sport Fisheries FY09 operating budget request supplants \$264.4 of Fish and Game Funds with general funds to pay for contractual salary and health benefits increases.
- **The Wildlife Division's** goal is to maintain a balance in the Fish and Game Fund that is 20 to 25 percent of the annual revenue (or \$2.2 million). The agency contends that this balance is necessary as a cushion against a downward revenue trend (revenue has fallen by 6.2% between FY01 and FY07). The FY09 budget request addresses the problem by:

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

- supplanting \$213.4 of Fish and Game Funds with general funds (primarily to pay for contractual salary and health benefits increases); and
- reducing authorization to spend Fish and Game Funds by \$150.0.

Legislative Fiscal Analyst Comment: The measures the department has taken to address the revenue/appropriation imbalance in the Wildlife portion of the Fund are having an impact. The FY08 estimated year-end balance is \$1.7 million, up from \$1.1 million in FY05.

3. **Wildlife's Game Management Activities: \$1,068.0 GF.** Wildlife Conservation is requesting an increment of \$1,068.0 to sustain its game and predator management activities. The request replaces capital funding that the legislature provided for this purpose during recent years (\$1.6 million in FY07 and \$2 million in FY08). The department internally allocated these funds over a three-year time frame; however, much of the funding has been spent to implement the program. No FY09 capital request is included in the Governor's request.

Under Act 05.255, the department is charged with carrying out intensive game management programs adopted into regulation by the Board of Game. Under these regulations, five such programs are currently underway to boost the harvestable surpluses of moose and caribou populations.

4. **Increase Wildlife Conservation's Endangered Species Act (ESA) response capabilities: \$373.0 GF.** The department received \$473.3 of GF in the FY08 capital budget for this purpose and, according to the capital backup, was anticipating capital requests of \$463.3 in FY09 and FY10. Given the fact that the Endangered Species Act is not likely to be repealed, it seems reasonable to place this in the operating budget as an ongoing item. No FY09 capital request is included in the Governor's FY09 budget.

5. **Restructuring Private Nonprofit (PNP) and Mariculture Planning and Permitting functions in Commercial Fisheries/Headquarters: \$261.5 GF.** The PNP/Mariculture Section currently has a total of five employees, and a budget of \$467.3. The agency contends that the growing nonprofit hatchery and mariculture industries place increasing demands on staff.

This increment adds funding for three employees (one is a range 22 supervisor/senior policy leader) to the existing PNP/Mariculture Section and restructures the existing section so that the Fish Pathology Laboratory and the Mark and Tag Laboratory are combined with the PNP/Mariculture Section under the supervision of the new Senior Policy Leader. The agency claims that this will provide a unified information source—and better and faster service—for permits and other issues associated with fish and shellfish marking and tagging, fish and shellfish health, salmon hatcheries, and aquatic farming.

6. **State Subsistence Data Assessment and Database Accessibility projects: \$156.0 GF.** This increment request is for two purposes:

- \$63.0 GF is requested to make the existing subsistence salmon harvest database accessible in an integrated web-based interface so information is readily accessible to managers, the Board of Fisheries, and the public.

Legislative Fiscal Analyst Comment: The agency agrees that this request can be considered start-up costs and should be removed from the base FY10 budget.

- \$93.0 GF is requested to support a state function previously funded in part by federal dollars, to produce the *Alaska Subsistence Salmon Fisheries Annual Report* and annually update and maintain the web-accessible database. This report is the sole compilation of all subsistence harvest data for each fisheries management area and is the Division's most requested report.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

7. **State Subsistence Assessment and Evaluation of Fish Harvest and Trends: \$142.8 GF.**

- \$70.0 GF is being requested to support a state monitoring function previously funded in part by federal dollars. This will enable the agency to continue the Division's ongoing harvest monitoring. In the past, a federal program was willing to fund a portion of state harvest monitoring projects because these projects occurred adjacent to federal lands. However, with cutbacks in federal funds, this is no longer the case.
- \$72.8 GF is being requested to annually assess and evaluate fish harvests and trends to improve management and harvest opportunities in the Bristol Bay, Kuskokwim, Yukon, and Southeastern areas (the areas where 60% of the State's subsistence salmon harvest occurs). It appears that subsistence harvesting may be declining in these areas. Without the ability to monitor and analyze harvest trends, the fish allocated for subsistence cannot be reallocated for other purposes.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL BUDGET

The Governor's \$43.2 million capital budget for the Department of Fish and Game includes the following:

8. **Sport Fisheries Hatchery Construction: \$6 million in investment earnings** from the Alaska Sport Fishing Construction Account. In 2005, the legislature authorized the sale of \$68 million in bonds to be paid off by a surcharge on sport fish licenses. Proceeds from the sale of the bonds (and interest earned on the proceeds) were to be used for building a hatchery in Fairbanks for \$25 million and one in Anchorage for \$45 million (total cost of \$70 million).

Updated cost estimates for the original plans are now \$144 million for the two facilities, but a more solid construction cost estimate for the Anchorage hatchery will be available March 1. Although the funding is now insufficient to construct both hatcheries, the department is proceeding with the Fairbanks hatchery (at cost of \$46 million). The department has decided to move forward with this project because the ground work has been completed at a cost of \$2.1 million and \$13.8 million has been encumbered. That 49,000 square foot hatchery should be producing fish by 2010.

The department will be working with the legislature and the Governor's Office to determine the size and the funding mechanism for the Anchorage hatchery. The \$6 million in investment earnings will be an integral part of the financing plan, expected to be submitted during the 2008 legislative session.

Legislative Fiscal Analyst Comment: The Legislature denied a similar request in the Governor's FY08 capital budget request. The bond proceeds are sufficient to complete the Fairbanks hatchery.

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Office of the Governor				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$16,945.8			
FY08 Fiscal Notes	132.8			
Reappropriations	2,355.1			
Special Appropriations	24,000.0			2
Multi-Years (from prior fiscal years)	23.4			
Agency Transfers	(11,940.5)			2
08 Contractual Salary Adjustments				
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$31,516.6	\$14,570.8	86.0%	
One-time Items removed	(14,398.5)			2
Transfers between Agencies (net zero statewide)	85.0			
FY09 Contractual Salary and Health Increases	27.1			
FY 09 Adjusted Base Budget (GF only)	\$17,230.2	(\$14,286.4)	-45.3%	
FY 09 Unrealizable Salary Fund Source Changes				
FY 09 Governor's GF Increments/Decrements/Fund Changes	28,530.4			
FY 09 Governor's Request (GF only)	\$45,760.6	\$28,530.4	165.6%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$16,530.4	
Executive Office	8,259.5	8,611.7	352.2	3
Governor's House	397.6	356.5	(41.1)	3
Lieutenant Governor	916.8	943.4	26.6	3
Unallocated (Fuel Costs)		12,000.0	12,000.0	2
Elections	2,438.7	6,631.4	4,192.7	1
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	179.0	179.0	0.0	
Other funds (all allocations)	1,385.9	1,336.0	(49.9)	4
Total Non-General Funds (all allocations)	\$1,564.9	\$1,515.0	(\$49.9)	
Position Changes (From FY08 Management Plan to Gov)	0	0	31	
PFT			3	
PPT			(1)	
Temp			29	1
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Renovations			100.0	
Capital Projects Subtotal by Fund Source	\$0.0	\$0.0	\$100.0	
TOTAL CAPITAL BUDGET		\$100.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Office of the Governor

The Governor's Office is responsible for the operation of the executive branch of Alaska State government, with fiscal and policy duties conferred by the Alaska Constitution and statutes.

SIGNIFICANT ISSUES

The Governor's request reveals no significant changes in policy.

The following notes correspond to numbers on the preceding spreadsheet.

1. **Elections: \$4,192.7 GF.** The Division of Elections is requesting funds for the 2008 statewide primary and general elections (\$2,736.5) and for presidential year election activity (\$160.6). The increment includes funds for 29 temporary employees.

With the passage of Senate Bill 172 in 2006 (Ch. 38, SLA06), additional requirements were placed on processing ballot initiatives. Election-year budgets vary based on initiatives qualifying for primary or general ballot placement. The Division of Elections estimated a need for \$720.0 for this purpose.

Increased postage rates (\$37.2), polling place rental costs (\$16.5), and overall increased division workload to handle federal and state mandates (\$521.9 plus three new PFT positions) comprise the balance of this request.

Legislative Fiscal Analyst Comment: Elections is expected to request supplemental general funds (about \$65.0) for election activity that requires an early start. Except for the \$521.9 work-load increment, the entire amount of the FY09 request will be backed out of the FY10 budget.

2. **Special Fuel/Utility Cost Adjustment: \$24 million GF contingency funding.** The Governor's FY09 budget includes an appropriation (Section 20 of the Governor's Operating Budget bill) of up to \$24 million (depending on the year-to-date average price of crude oil) to be distributed to agencies to cover increased fuel costs.

A \$24 million appropriation for increased FY08 fuel costs has been distributed to agencies in two payouts of \$12 million each. The first payout occurred on August 1, 2007. These funds were transferred to state agencies and included in their respective FY08 Management Plans. The transfers were considered one-time items and were removed from agencies' FY09 base budgets. A second \$12 million disbursement was made on December 1, 2007. Because this distribution occurred after the FY08 Management Plan was set, the funds appear in the Governor's Office rather than in individual agencies. The \$12 million distributed in December was removed from the FY09 base budget of the Governor's Office.

Legislative Fiscal Analyst Comment: There are three issues worthy of note (also see discussion under Section 20 of the Language portion of the Governor's bill):

- a. *Although contingent appropriations have traditionally been excluded from budget reports, OMB included the appropriation in its budget transmittal. Legislative Finance concurs that the contingent circumstances are highly probable and that the \$24 million appropriation should be included in budget reports.*
- b. *Because the second round distribution occurred after determination of agency Management Plans, \$12 million of the increase in the Governor's Office budget is misleading. (Similarly, a \$2.3 million reduction due to the inclusion of reappropriations in Management Plan is misleading.)*
- c. *The amount of the appropriation is insufficient to cover fuel cost increases that have occurred since FY06.*

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3. **Executive Office: \$337.7 GF.** Changes reflected in Executive Office functions include
 - a. An increment of \$352.2 for full-year activities related to the Alaska Gas Inducement Act (AGIA) (HB177), Chapter 22, SLA07. Funding is required to support a state gas pipeline coordinator, an inter-governmental coordinator, and an executive secretary as well as related travel, services, and commodities.
 - b. An increment of \$26.6 to increase funding to offset anticipated expenditures in the Lieutenant Governor's office (\$16.6 personal services and \$10.0 contractual services).
 - c. A decrement of \$41.1 in the Governor's House for the elimination of a part-time position (personal services only).
4. **CIP Receipts Reduction: (\$49.9) CIP.** Two budgets within the Office of the Governor reflect a decrease in CIP Receipt Authority.
 - a. Statehood Celebration Commission eliminates \$8.4 excess CIP authorization in Travel.
 - b. Elections also deletes \$41.5 of excess authority split between personal services (\$12.4) and Travel (\$29.1).

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Health and Social Services				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$791,297.5			
FY08 Fiscal Notes	863.5			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)	1,132.5			
Agency Transfers	879.8			
08 Contractual Salary Adjustments	404.0			
08 Salary Fund Changes	27.9			
Misc Adjustments				
FY 08 Management Plan (GF only)	\$794,605.2	\$3,307.7	0.4%	
One-time Items removed	(3,182.5)			
Transfers between Agencies (nets zero statewide)	190.5			
FY09 Contractual Salary and Health Increases	7,994.8			
FY 09 Adjusted Base Budget (GF only)	\$799,608.0	\$5,002.8	0.6%	
FY 09 Unrealizable Salary Fund Source Changes	363.8			
FY 09 Governor's GF Increments/Decrements/Fund Changes	138,513.4			
FY 09 Governor's Request (GF only)	\$938,485.2	\$138,877.2	17.4%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Appropriation			\$138,513.4	
Alaskan Pioneer Homes	31,985.3	32,249.7	264.4	1
Behavioral Health	105,215.7	136,871.0	31,655.3	1, 3
Children's Services	64,983.7	68,713.4	3,729.7	1, 3, 4
Adult Preventative Dental Medicaid Services	529.4	3,518.7	2,989.3	1
Health Care Services	231,931.4	258,723.0	26,791.6	1, 3
Juvenile Justice	42,025.2	45,438.6	3,413.4	1, 3
Public Assistance	111,673.5	132,262.6	20,589.1	2
Public Health	29,343.5	32,807.3	3,463.8	1, 3
Senior and Disabilities Services	158,491.0	179,590.3	21,099.3	1, 3, 5
Departmental Support Services	21,667.9	46,185.4	24,517.5	1
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	1,020,528.5	1,040,289.4	19,760.9	
Other funds (all allocations)	148,742.5	168,412.4	19,669.9	
Total Non-General Funds (all allocations)	\$1,169,271.0	\$1,208,701.8	\$39,430.8	
Position Changes (From FY08 Management Plan to Gov)	3,625	3,680	55	
PFT	3,367	3,447	80	
PPT	103	98	(5)	
Temp	155	135	(20)	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	1,425.0	87.8		
Information Systems and Technology	4,912.8	1,667.0		
Maintenance and Repairs	2,650.0	89.2	7,110.0	
New Construction and Land Acquisition	797.9			
Planning and Research	151.7	48.3		
Renovation	20,003.7		750.0	
Capital Projects Subtotal by Fund Source	\$ 29,941.1	\$ 1,892.3	\$ 7,860.0	0
TOTAL CAPITAL BUDGET		\$39,693.4		

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Department of Health and Social Services

The Department of Health and Social Services (DHSS) promotes and protects the health and well being of Alaskans through the following core services:

- Providing residential assisted living in a safe environment;
- Providing an integrated behavioral health system;
- Promoting stronger families, and safer children;
- Managing health care coverage for Alaskans in need;
- Addressing juvenile crime by promoting accountability, public safety, and skill development;
- Promoting self-sufficiency and providing basic living expenses to Alaskans in need;
- Promoting independence of Alaska seniors and people with physical and developmental disabilities; and
- Providing quality administrative services supporting the department's programs.

SIGNIFICANT ISSUES

The department's mission of promoting and protecting the well-being of Alaskans comes at a high cost. The majority of the department's \$138.5 million GF increase for FY09 is related to Medicaid programs. Several Alaska Medicaid studies have attempted to provide a roadmap for improving efficiencies and/or containing costs. The challenge for the department will be planning and implementing program changes that maintain the delivery of quality services while program costs and enrollments increase and federal receipts decline.

Medicaid is the nation's largest health care program, providing health and long-term services to low-income pregnant women, children, people with disabilities, and seniors. Medicaid is an "entitlement program" created by the federal government, but administered by the state, for those who meet income and asset standards and other specific eligibility criteria.

The FY09 cost increases in Alaska's Medicaid programs are due

- Reductions in the Federal Medicaid Assistance Percentage (FMAP) reimbursement rate;
- Increased utilization by program participants;
- Rising enrollment due to an increasing senior and disabled population; and
- Projected increases in the payment rates for Medicaid service providers.

Additional decreases in federal receipts are attributable to:

- Discontinuation of the Private ProShare Medicaid program (resulting in the need for general funds to replace federal funds in order to maintain service levels). The estimated FY09 cost to Alaska is \$16.0 million in GF to continue non-Medicaid grants that are not reflected in the Medicaid budget but in the individual programs providing grant funding.
- Possible reductions in the availability of federal funding allotments for State Children's Health Insurance (SCHIP). The estimated FY09 cost to Alaska is \$1.9 million in GF.

Significant increases in the Governor's budget are discussed below. Numbering corresponds to notes on the preceding spreadsheet.

1. **Medicaid increments: \$77.4 million in GF.** Medicaid increments are included in the Alaskan Pioneer Homes, Behavioral Health, Children's Services, Adult Preventative Dental Medicaid Services, Health Care Services, Juvenile Justice, Public Health, and Senior/Disabilities Medicaid appropriations.
 - **FFY09 Federal Medical Assistance Percentage (FMAP) Rate Change: \$28.7 million GF.** This request replaces federal revenues that will be unavailable due to:
 - a 5.1 percentage point reduction in the portion of program costs paid by the federal government that affects the first quarter of state FY09; and

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- o a 1.95 percentage point reduction in the portion of program costs paid by the federal government that will take effect on October 1, 2008, and will affect three-quarters of state FY09.

The latter reduction of the FMAP rate is expected to increase the state share of costs by \$4 to \$5 million in FY10, as the rate reduction will be in effect for the entire fiscal year. Because Alaska's FMAP is nearing the minimum reimbursement rate of 50%, future changes (if any) in the FMAP rate will have less impact than for previous years.

The federal fund reimbursement rate is set by the Centers for Medicare and Medicaid and is outside the control of state government. The FMAP rate is based on the state's national rank of per capita personal income but can be no less than 50%. The amount of federal funds the state receives for its Medicaid program depends on a complex array of reimbursement rates, some of which change each October 1st with the start of a new federal fiscal year.

From FFY07 to FFY09, the FMAP rate (which is the percentage of program expenses reimbursed by the federal government) has decreased by 7.05 percentage points, while health care costs continue to increase.

The FMAP rate change also affects the State Children's Health Insurance Program (SCHIP) and the Breast and Cervical Cancer program (BCC), both of which are part of Alaska's Medicaid program. Eligible claims for SCHIP and BCC are reimbursed at an enhanced FMAP rate which reduces the state share of costs by 30% over the regular FMAP.

Without the increment the state would be forced to tighten eligibility or reduce services currently provided to low-income children, pregnant women, persons with disabilities, and the elderly.

- **Medicaid Growth: \$26.4 million GF.** This increment requests fund increases in Medicaid service costs due to increases in enrollment and utilization. According to the department, this increment request is necessary to maintain the current level of health services in Medicaid.

Cost containment efforts begun in FY04 have successfully dampened the rate of growth in recent years. As an example, Behavioral Health Medicaid claims grew by 9% from FY04 to FY05, but only 4-5% annually from FY05 to FY09.

- **Comprehensive Rate Increase Across All Programs: \$20.4 million GF.** This proposed funding is to implement the recommendations of Myers and Stauffer, who have been retained to review rates for various programs, including several components of the Medicaid program. According to the department, the results will provide departmental decision makers with data to answer questions, such as:
 - How long has it been since a particular rate has been adjusted?
 - What is a reasonable rate?
 - How will the department best equalize rates across all programs?

Legislative Fiscal Analyst Comment: It does not appear that the rate review has been completed. The subcommittee may wish to review the results of the study before approving an appropriation to pay for rate increases.

The total GF increment request is \$24.4 million. An estimated \$4.0 million of the GF increase is for non-Medicaid programs, according to the department.

- **Federal reduction in State Children's Health Insurance Program (SCHIP) allotments: \$1.9 million GF.** The requested general funds replace lost federal receipts for the State Children's Health Insurance Program (SCHIP), a part of Alaska's Medicaid program operated through Denali KidCare.

The federal and state governments jointly fund SCHIP. The amount of federal funding depends on the federal SCHIP allotment, which has not kept pace with SCHIP expenditures. Although Alaska receives a higher reimbursement rate for SCHIP than for regular Medicaid, the enhanced

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reimbursement is capped at the SCHIP allotment. If costs exceed available SCHIP funds, claims are reimbursed at the lower, regular FMAP rate, resulting in reduced federal receipts (meaning more GF is needed). Alaska will have only 43% of the federal SCHIP funding needed to cover program expenditures in FY09, exhausting its SCHIP funds in the second quarter. When it reverts to regular Medicaid, the difference in federal reimbursement rates means that Behavioral Health Medicaid Services and the Health Care Services Medicaid Services components will need additional GF in FY09.

Legislative Fiscal Analyst Comment: Because legislation before congress could fully fund the current program and negate the need for this increment, a contingent or supplemental appropriation for FY09 may be appropriate.

2. **Senior Benefits Program: \$20.3 million GF.** This increment will provide funding for the new Senior Benefits Payment Program. In FY09, an estimated 11,000 seniors will qualify for cash assistance under the Senior Benefits Payment Program. This request includes \$19,662.3 for cash payments to seniors and \$683.1 for the administrative costs of operating the program, which includes six positions (added in Management Plan) needed to support the initial and ongoing determination of eligibility.

As adopted by the legislature (SB 4) in the June 2007 special session, and signed into law by the Governor, aid to seniors increases to a range of \$125 to \$250 a month from the previous \$120 a month maximum. The maximum qualifying income levels were also raised to \$22,347 for individuals and \$29,960 for couples.

Following legislative intent contained in SB 4, the department temporarily transferred funding from the Adult Public Assistance program to the General Relief Assistance program in FY08. The funding will cover benefits and administrative costs until the legislature passes a supplemental appropriation bill to provide funding for a new allocation under the Public Assistance appropriation.

3. **Private Proshare Discontinuation of Federal Receipts: \$16.2 million GF.** To maintain services at the current level, this general fund request is needed to replace federal funding lost due to the federally mandated discontinuation of the Private ProShare Medicaid program.

ProShare began in FY04 when the Division of Medical Assistance (now Health Care Services) made payments (of general and federal funds) for certain medical assistance services to qualified private hospitals. The hospitals, in turn, granted funds to qualified community service providers to secure medical services in remote areas and to provide medical care for children in juvenile justice facilities. The general funds saved through refinancing these grants/services were removed from the agency's budgets and replaced with federal funds. Since 2004, the state has saved approximately \$34 million in GF through ProShare refinancing. With the termination of ProShare, the services will again have to be funded through GF grant programs.

4. **Continued Support for Child Advocacy Centers (CAC): \$1.3 million GF.** This request asks for \$1.3 million in general funds to maintain the current level of CAC support in FY09.

Child Advocacy Centers provide services for child sexual abuse and severe physical abuse victims, ages 0 through 18, and their non-offending parents. This includes a safe, child-friendly place to interview, receive forensic medical examinations, and mental health services or referrals. Each victim is assigned a specialized family advocate who will remain with the child and family throughout the investigative process. CAC interviews are legally sound and neutral; and they coordinate fact-finding to avoid duplicative interviews.

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Legislative Fiscal Analyst Comment: It appears a five-year federal grant has ended. The subcommittee may wish to explore further why GF is being requested. A supplemental appropriation for FY09 may be more appropriate.

5. **Personal Care Attendant Cost Containment: \$3.0 million Reduction in GF.** Medicaid spending for personal care attendant (PCA) services grew by 42.2% per year between 1998 and 2004. The personal care cost containment initiatives for the program have been some of the most successfully implemented cost containment measures to date. Between FY00 and FY05, the PCA program grew from \$8 million to \$80 million. Since implementing regulation changes in FY06, the department has cut costs by \$5.0 million in FY07 and \$7.0 million in FY08. This request removes another \$3.0 million for FY09.

ORGANIZATIONAL CHANGES

Public Health Appropriation:

- **Injury Prevention/Emergency Medical Services:** This newly named allocation encompasses the budget and positions that were previously in the Community Health/Emergency Medical Services allocation. The title change more accurately describes the program responsibilities for this allocation.

Senior and Disabilities Services Appropriation:

- **General Relief/Temporary Assisted Living:** This newly named allocation derived its funding from the previously called Protection and Community Services allocation to more accurately reflect the program that is administered from this allocation.

Departmental Support Services Appropriation:

- **Public Affairs:** This newly created allocation was previously functioning as a team within the department's Information Technology allocation. The Public Affairs allocation responsibilities include public information releases, publications, web-based communications, legislative management, and regulatory development.
- **Health Strategies Planning Council:** The Governor's Administrative Order Number 232 established a new created allocation responsible for developing strategies, including performance measures, to provide health care access for all Alaskans by 2014, with the goal of making Alaskans the healthiest population in the nation.
- **Quality Assurance and Audit:** The third newly created allocation in this year's budget will focus on meeting and exceeding department and federal standards and requirements related to protecting program assets and assuring quality services. Funding of \$1.1 million and 8 PFT positions were transferred from the Office of Program Review.

CAPITAL BUDGET

The Agency's \$39.7 million capital budget includes the following:

6. \$19.5 million of GF is requested for Phase 1 of 4 for renovation of the McLaughlin Youth Center. This phase includes construction of a new outdoor recreation area, a new detention unit, the relocation of the parking area, and a remodel of the intensive treatment unit. Phases 2 through 4 would occur in FY12 – FY14 and are expected to cost \$52.9 million.

The McLaughlin Youth Center is located in Anchorage and is the State's oldest and largest place of juvenile incarceration. The structures are 40 years old and, according to the department, are simply worn out and need significant upgrades. In some cases, security components do not consistently lock cell doors, and staff are unable to view isolated corners or release emergency exit doors. Pipes and light fixtures are accessible to residents who could tie off clothing or bed sheets with the intent of committing suicide.

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Department of Labor and Workforce Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$22,405.7			
FY08 Fiscal Notes	850.0			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers	85.6			
08 Contractual Salary Adjustments	24.0			
08 Salary Fund Changes	14.9			
Misc Adjustments				
FY 08 Management Plan (GF only)	\$23,380.2	\$974.5	4.3%	
One-time Items removed	(1,005.3)			
Transfers between Agencies (nets zero statewide)	(216.5)			
FY09 Contractual Salary and Health Increases	289.3			
FY 09 Adjusted Base Budget (GF only)	\$22,447.7	(\$932.5)	-4.0%	
FY 09 Unrealizable Salary Fund Source Changes	2,117.2			
FY 09 Governor's GF Increments/Decrements/Fund Changes	1,270.5			
FY 09 Governor's Request (GF only)	\$25,835.4	\$3,387.7	15.1%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$1,270.5	
Business Services	2,315.3	3,150.3	835.0	1
Alaska Vocational Technical Center	4,665.2	4,800.2	135.0	1
Labor Market Information	1,150.1	1,260.1	110.0	1
Office of Citizenship	65.6	159.5	93.9	2
All Other Increments	2,508.5	2,605.1	96.6	
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	86,476.2	85,676.2	(800.0)	
Other funds (all allocations)	52,073.9	54,819.2	2,745.3	
Total Non-General Funds (all allocations)	\$138,550.1	\$140,495.4	\$1,945.3	
Position Changes (From FY08 Management Plan to Gov)	987	984	(3)	
PFT	835	835	0	
PPT	106	105	(1)	
Temp	46	44	(2)	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Information Systems and Technology	5,210.7			
Maintenance and Repairs	3,900.0		1,486.0	
New Construction and Land Acquisition	6,350.0	2,000.0		3,4
Other	3,500.0			5
Capital Projects Subtotal by Fund Source	\$18,960.7	\$2,000.0	\$1,486.0	
TOTAL CAPITAL BUDGET		\$22,446.7		

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Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DOLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities through the following core services:

- Resolving disputes between organized labor and public employers;
- Administering programs and funds for workers' compensation, second injury, fishermen's fund, and unemployment insurance;
- Providing labor standards and safety programs;
- Providing employment services including job centers, job referral and training, vocational rehabilitation, and technical education; and
- Providing information on the current condition of the state's labor market and economy.

SIGNIFICANT ISSUES

The following notes correspond to the numbers on the preceding spreadsheet.

1. AGIA Training Program Implementation: \$1.1 million GF.

With the passage of HB 177, the Alaska Gasline Inducement Act (AGIA), the Commissioner of DOLWD was charged with developing a statewide training program for an Alaskan workforce capable of managing, constructing, operating, and maintaining a gasline.

Business Services Allocation, \$835.0 GF:

- \$593.0 of this increment will finance
 - training and related instruction of at least 70 apprentices at regional centers; and
 - the development of cooperative training agreements with businesses and industry for registered apprentices and on-the-job training for 125 workers.
- \$192.0 of the increment is to assist two or more of Alaska's regional training centers in obtaining national accreditation, and to provide technical assistance to all regional training centers to meet skill standards and to be recognized as Centers of Excellence.
- \$50.0 will fund the development of a web and print based Alaska Training Program guide. The guide will identify training programs (i.e. Regional Training Centers, State Training Centers, University of Alaska, Registered Apprenticeships, the Pipeliner Training facility, etc) throughout the state and will be available to all schools and job centers.

Alaska Vocational Technical Center, \$135.0 GF:

Quality training programs are now available in Alaska and, according to the agency, employers are demanding highly trained workers. In order to achieve full capacity of current training programs, the Agency contends that an extensive recruitment effort is needed. A full time professional staff person is requested to recruit, intake, orient prospective students, and perform eligibility screening and assessments to increase rural and Native Alaskan enrollment in state training programs by 150 students. The Department requests \$110.0 for this purpose.

The agency contends that there is a lack of qualified and experienced vocational instructors in the State of Alaska. In order to help meet the current need and to lay the ground work for meeting future needs relating to AGIA, the agency believes that more instructors need to be trained. Alaskans with trade and craft experience will be recruited and enrolled in the distance-delivered Career & Technical Education Associates Degree program, currently offered by the partnership of AVTEC and Alaska Pacific University. Incentives and grants will be offered to qualified Alaskans. AVTEC will offer professional development for at least 10 instructors at regional training centers in order to meet this demand. The Department requests \$25.0 for this purpose.

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Labor Market Information (LMI), \$110.0 GF:

This increment is requested to develop and disseminate regional employment data products that were recommended by the department's AGIA steering committee. Using existing data, the research section will:

- analyze regional industry and occupation employment trends;
- develop regional economic reports;
- produce Geographic Information System representations of occupational skill sets by locality; and
- improve existing data quality as needed.

2. Office of Citizenship Assistance, \$93.9 GF.

This funding request would continue the level of funding appropriated by the legislature as one-time funding for FY08. The funding would maintain services at the current level within two Job Centers located in Juneau and Kodiak.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL PROJECTS

The Governor's \$22.4 million capital budget for DOLWD includes \$5.4 million for AVTEC deferred maintenance and \$5.2 million in information technology projects and the following:

3. A \$5.0 million GF request to construct and equip a replacement facility for AVTEC's Alaska Culinary Academy (ACA). After several architectural and engineering inspections, the building was found to be unsound and it was recommended that it be demolished, as the cost of upgrades is greater than the cost of replacement.
4. \$3.4 million (\$2.0 million Fed Repts and \$1.4 million in G/F Match) in funding for AVTEC to construct a Maritime Safety Training Facility in Seward. Most maritime workers employed in the state are non-residents. This program seeks to train Alaskans for maritime professions.
5. \$3.5 million GF to continue the Alaska Construction Academies to train 1,000 high school students and 300 adults for employment in the construction industry and as preparation for gas pipeline employment opportunities.

Legislative Fiscal Analyst Comment: Subcommittee members may want to explore moving this request from capital to operating. The \$3.5 million is for continuation of a training program. If the training program is expected to be on-going, which it appears to be, the program does not fit the traditional definition of a capital project.

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Department of Law				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$38,828.6			
<i>FY08 Fiscal Notes</i>				
Reappropriations	350.0			
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers	78.8			
08 Contractual Salary Adjustments				
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$39,257.4	\$428.8	1.1%	
One-time Items removed	(350.0)			
Transfers between Agencies (nets zero statewide)	48.7			
FY09 Contractual Salary and Health Increases	544.9			
FY 09 Adjusted Base Budget (GF only)	\$39,501.0	\$243.6	0.6%	
FY 09 Unrealizable Salary Fund Source Changes	3.0			5
FY 09 Governor's GF Increments/Decrements/Fund Changes	2,322.9			
FY 09 Governor's Request (GF only)	\$41,826.9	\$2,325.9	5.9%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$2,322.9	
Second Judicial District	1,301.3	1,407.5	106.2	2
Third Judicial District: Anchorage	5,442.2	6,072.4	630.2	1,3,4
Third Judicial District: Outside Anchorage	3,726.1	3,886.1	160.0	1
Fourth Judicial District	4,521.4	4,761.4	240.0	1
Criminal Appeals/Special Litigation	2,458.7	2,896.7	438.0	1,2
Collections and Support	790.3	1,001.8	211.5	1,2
Human Services Child Protection	4,658.2	4,758.2	100.0	1
Labor and State Affairs	2,159.8	2,331.6	171.8	2
Timekeeping and Litigation Support	86.1	351.3	265.2	2,4
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	3,176.2	3,054.6	(121.6)	
Other funds (all allocations)	24,126.8	32,831.4	8,704.6	
Total Non-General Funds (all allocations)	\$27,303.0	\$35,886.0	\$8,583.0	
Position Changes (From FY08 Management Plan to Gov)	546	553	7	
PFT	537	544	7	
PPT	9	9	0	
Temp	0	0	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Information Systems and Technology	200.0			
Capital Projects Subtotal by Fund Source	\$200.0	\$0.0	\$0.0	
TOTAL CAPITAL BUDGET		\$200.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Law

The mission of the Department of Law is to provide legal services to state government and to prosecute crime. The department represents the state in:

- prosecuting violators of state criminal laws;
- representing the state in legal actions;
- providing legal services in the resolution of tax and royalty disputes;
- providing consumer protection;
- providing legal services for extraordinary proceedings such as oil and gas litigation; and
- advising state agencies in areas of legal concern, including promulgating regulations and drafting legislation.

The Criminal Division protects the public by prosecuting all violations of state criminal law committed by adults and juveniles, and by placing them under appropriate controls. The Civil Division serves the interest of Alaska's citizens by providing legal counsel to the executive branch in all civil actions. The Administrative Services Division provides the core administrative services that are essential to the day-to-day operation of the department and to managing the resources of the department.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Replace I/A with GF: \$874.0.** The department is requesting general funds in several allocations to replace funding that will no longer be provided by other agencies because of reduced federal funding in those agencies.
 - \$114.0 is for the Federal Alcohol and Drug Use Offender program run by the Department of Public Safety. Federal funding for the program ends in FY08.
 - \$400.0 is for the Federal Rural Alcohol Interdiction Program run by the Department of Public Safety. Federal funding for this program is expected to end in FY08.
 - \$260.0 is for the Federal Juvenile Accountability Block Grant received by DHSS. Federal funding for this program is ending in FY08.
 - \$100.0 is for the Federal Title IV E Grant (Federal Payments for Foster Care and Adoption Assistance) received by DHSS. Federal reductions in this program will reduce the fees paid to the Department of Law for CINA (Child in Need of Aid) work.

Legislative Fiscal Analyst Comment: With the exception of the Alcohol Interdiction Program, DPS and DHSS have not requested increments to replace reductions in the above federal grants. Subcommittees may wish to ask the department why they are requesting funding to continue their support of these programs when the involved agencies do not appear to be continuing the programs. If support from Law is required, subcommittees may wish to put the general funds with the agencies that operate the programs (with continued I/A to Law), so that program costs are easier to track.

2. **Expand Services: \$779.0 GF.** The department requests additional positions as a result of high case loads.
 - The Second Judicial District requests a full time Victim/Witness Paralegal in Barrow (\$106.2). Barrow is a single attorney office with a high caseload and the department must have a Victim/Witness Paralegal on staff to comply with statutory requirements regarding assisting victims and witnesses of violent crimes.
 - The Criminal Appeals/Special Litigation allocation requests an Appellate Attorney V (\$171.8)

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

and an Office Manager (\$106.2) for the Office of Special Prosecution (OSP). The number of appeals filed by the Public Defender Agency and Office of Public Advocacy creates a corresponding increase in the workload in the OSP. The office manager position is being requested to facilitate the administration of the office as a result of increased attorney staffing.

- The **Collections and Support** allocation requests an Associate Attorney (\$111.5) to assist with adult restitution cases. Currently, one associate attorney is handling 4,000 open cases and the unit frequently hires temporary staff to assist with backlogs.
- The **Labor and State Affairs** allocation requests an Indian Law and Ethics Attorney (\$171.8) to assist in handling day-to-day inquiries and opinions, train the executive branch on matters related to Indian law and ethics, and work on investigations.
- The **Timekeeping and Litigation Support** allocation requests an Associate Attorney (\$111.5) to process electronic records and discovery requests. Many discovery requests involve use of new software packages that require additional in-house expertise to make full use of the software functionality.

3. **Special Offenders Unit: \$343.6 GF.** The Criminal Division, Third Judicial District in Anchorage is requesting an increment to establish a Special Offenders Unit, including two new attorneys, to prosecute serious violent offenders. This unit will work with the Anchorage Police Department targeting offenders (primarily gang members) and recidivists with dangerous criminal records.

Legislative Fiscal Analyst Comment: The subcommittee may wish to ask the department why the special unit requires new positions instead of transfers.

4. **Space costs: \$204.7 GF.** The department requests increments to cover increased lease and maintenance costs due to contract renegotiations and inflation adjustments.
5. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Military and Veterans Affairs				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$11,687.5			
<i>FY08 Fiscal Notes</i>				
<i>Reappropriations</i>				
<i>Special Appropriations</i>				
<i>Multi-Years (from prior fiscal years)</i>				
<i>Agency Transfers</i>	492.3			
<i>08 Contractual Salary Adjustments</i>	44.9			
<i>08 Salary Fund Changes</i>	99.8			
<i>Misc Adjustments</i>				
FY 08 Management Plan (GF only)	\$12,324.5	\$637.0	5.5%	
<i>One-time Items removed</i>	(470.4)			
<i>Transfers between Agencies (nets zero statewide)</i>	13.6			
<i>FY09 Contractual Salary and Health Increases</i>	151.2			
FY 09 Adjusted Base Budget (GF only)	\$12,018.9	(\$305.6)	-2.5%	
<i>FY 09 Unrealizable Salary Fund Source Changes</i>	-			
<i>FY 09 Governor's GF Increments/Decrements/Fund Changes</i>	735.9			
FY 09 Governor's Request (GF only)	\$12,754.8	\$735.9	6.1%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$735.9	
Retirement Benefits	1,737.4	2,473.3	735.9	1
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Charges	FY09 Governor's Request	Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	20,733.1	21,173.2	440.1	3
Other funds (all allocations)	10,636.1	12,748.9	2,112.8	2
Total Non-General Funds (all allocations)	\$31,369.2	\$33,922.1	\$2,552.9	
Position Changes (From FY08 Management Plan to Gov)	287	287	0	
PFT	284	284	0	
PPT	2	2	0	
Temp	1	1	0	
Governor's Capital Request	GF	Fed Rcpts	Other	
Information Systems and Technology	800.0	3,200.0		
Maintenance and Repairs	3,750.0	9,519.9	6,142.0	4
Planning and Research	500.0			
Other		9,600.0		
Capital Projects Subtotal by Fund Source	\$5,050.0	\$22,319.9	\$6,142.0	
TOTAL CAPITAL BUDGET		\$33,511.9		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Military and Veterans Affairs

The mission of the Department of Military and Veterans Affairs (DMVA) is to provide Army and Air National Guard military forces, a State Defense Force and a Navy Militia that are fully prepared to protect Alaska from any threat, disaster or emergency. The department accomplishes this mission by providing:

- emergency management;
- homeland security;
- Alaska National Guard command;
- training/education of juveniles through the STARBASE and Challenge programs;
- veterans' assistance and rural Alaska Elder programs; and
- support to other state and federal agencies in suppressing the use of illegal drugs.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Alaska National Guard Retirement Benefits: \$735.9 GF.** Due to new actuarial estimates, the department requests an increment for \$735.9 GF for increased retirement benefit contributions. This 42.4% increase over FY08 (from \$1,737.4 in FY08 to \$2,473.3 in FY09) is due to lower-than-expected turnover among non-vested active participants.
2. **Alaska Military Youth Academy formula: \$373.1 I/A.** The Alaska Military Youth Academy (AMYA) Challenge program is a military school program for at-risk youth. The program is funded by a formula set in statute (AS 14.30.740). General funds appropriated to the Department of Education and Early Development are transferred to AMYA.

In FY09, the AMYA formula generated \$6,082.0, which is \$373.1 more than the funding received in FY08. However, the legislature reduced AMYA funding by \$2 million in FY08 because the formula generated more money than the program required for operations. That reduction prompts questions regarding the alignment of formula funding and operational requirements in FY09. The following tables provide subcommittees with information that may help them determine the proper FY09 level of funding for AMYA.

Table 1 shows that:

- (1) The number of residential students declined by 51 and the number of non-residential students increased by 91.
- (2) The change in student count reduces formula funding by \$1,626,912.
- (3) The legislature reduced AMYA funding by \$2 million in FY08.

The bottom line is that the agency is requesting \$373.1 more than was received in FY08 despite a decline in enrollment and FY08 legislative reductions that indicate operating costs could be reduced by \$1.6 million.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Table 1. AMYA Funding in FY08 and FY09				
	FY08		FY09	FY08 to FY09
# Residential Students	257		206	-51 (1)
x Base Student Allocation	\$5,380		\$5,380	
x 7 (in AMYA formula)	7		7	
Total Residential Student Amount	\$9,678,620		\$7,757,960	(\$1,920,660)
# Non-Residential Students	203		294	91 (1)
x Base Student Allocation	\$5,380		\$5,380	
x 60% (in AMYA formula)	0.6		0.6	
Total Non-Residential Student Amount	\$655,284		\$949,032	\$293,748
Less Federal Receipts Received	-2,625,000		-2,625,000	
Total Formula Funding	\$7,708,904		\$6,081,992	(\$1,626,912) (2)
Less Legislative Reduction	-2,000,000 (3)		0	
Amount Received in FY08 and Amount Requested in FY09	\$5,708,904		\$6,081,992	\$373,088

The relevance of the AMYA funding formula has been suspect for years. It produced too little revenue when the program was expanding and too much revenue when the residential student count exceeded 250 in FY08.

One way to analyze program needs is to compare funding on a dollars per student basis. Table 2 shows that providing the FY08 per student amount in FY09 would reduce FY09 funding by \$1.3 million. This comparison ignores economies of scale that may have been lost with the decline in enrollment.

Table 2—FY09 Funding if the Dollars per Student are held at the FY08 Level							
	FY08 Allocation of Funding	FY08 # of Students	FY08 Allocation Per Student	FY09 # of Students	FY09 Count times FY08 Per Student Allocation	FY09 Request	Difference
Residential	\$5,346,896	257	\$20,805	206	\$4,285,830		
Non-Residential	\$362,008	203	\$1,783	294	\$524,202		
Total	\$5,708,904	460	\$22,588	500	\$4,810,032	\$6,081,992	(\$1,271,960)

Legislative Fiscal Analyst Comment: Legislative Finance is not recommending a funding reduction for AMYA at this time. Subcommittees may wish to discuss plans for future enrollment and estimates of operating costs at various student counts. The legislature may wish to consider replacing formula funding through the Department of Education and Early Development (DE&ED) with direct appropriations to AMYA.

3. **Homeland Security and Emergency Management: \$440.1 Federal.** The agency is requesting two initiatives as a direct result of increased federal funding in the FFY 2007 Emergency Management Performance Grant Supplemental. Homeland Security will develop a Statewide Disaster Debris Management Plan that will provide the framework and guidance for Alaska's urban communities for future disasters and develop supplemental plans or annexes to the State Emergency Response Plan to address deficiencies identified as a result of lessons learned from Hurricane Katrina.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

The Governor's \$33.5 million capital budget for the Department of Military and Veterans Affairs includes the following:

4. **Military Youth Academy Deferred Maintenance: \$1,000.0 GF.** The agency is requesting funding to perform maintenance on Challenge Academy facilities including upgrading the shower, toilet and laundry rooms, updating classrooms and other interior facilities, and renovating all buildings to be ADA compliant. There have been no significant maintenance upgrades since AMYA took over the facilities in 1994.

Legislative Fiscal Analyst Comment: AMYA proposed using \$1 million of FY08 formula funding for a deferred maintenance project. The legislature eliminated the excess AMYA funding as discussed in #2 above and appropriated \$1 million GF in the capital budget for the same project.

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Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$63,718.0			
FY08 Fiscal Notes	246.2			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)	6,750.3			
Agency Transfers	362.7			
08 Contractual Salary Adjustments	90.2			
08 Salary Fund Changes	12.8			
Misc Adjustments				
FY 08 Management Plan (GF only)	\$71,180.2	\$7,462.2	11.7%	
One-time Items removed	(8,299.7)			
Transfers between Agencies (nets zero statewide)	67.3			
FY09 Contractual Salary and Health Increases	1,582.2			
FY 09 Adjusted Base Budget (GF only)	\$64,530.0	(\$6,650.2)	-9.3%	
FY 09 Unrealizable Salary Fund Source Changes	259.2			
FY 09 Governor's GF Increments/Decrements/Fund Changes	5,175.3			
FY 09 Governor's Request (GF only)	\$69,964.5	\$5,434.5	8.4%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Appropriation			\$5,175.3	
Oil & Gas Development	6,667.1	9,058.0	2,390.9	1, 5
Fire Suppression Preparedness	13,630.7	14,487.6	856.9	2
North Latitude Plant Material Center	770.0	1,270.0	500.0	3
Parks Management	4,444.7	4,944.7	500.0	4
All Other Increments	20,115.9	21,043.4	927.5	
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	16,434.9	15,659.7	(775.2)	
Other funds (all allocations)	44,190.7	45,586.6	1,395.9	
Total Non-General Funds (all allocations)	\$60,625.6	\$61,246.3	\$620.7	
Position Changes (From FY08 Management Plan to Gov)	1,114	1,128	14	
PFT	786	806	20	
PPT	252	247	(5)	
Temp	76	75	(1)	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	1,590.0			
Information Systems and Technology	4,726.0	2,000.0	380.0	
Maintenance and Repairs	1,315.0	1,500.0	6,673.0	
New Construction and Land Acquisition		600.0	23,277.0	
Planning and Research	3,725.0	8,076.5	8,706.5	6
Renovation	370.0			
Other		6,200.0	1,000.0	
Capital Projects Subtotal by Fund Source	\$11,726.0	\$18,376.5	\$40,036.5	
TOTAL CAPITAL BUDGET		\$70,139.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Natural Resources

The Department of Natural Resources (DNR) develops, conserves, and maximizes the use of Alaska's natural resources consistent with public interest by providing the following core services:

- Oil and gas development;
- Land, water, and habitat management;
- Alaska coastal and oceans management;
- Forestry and parks management and development;
- State historical preservation administration;
- Fire preparedness and suppression; and
- Agricultural development and revolving loan fund administration.

SIGNIFICANT ISSUES

The following notes correspond to the numbers on the preceding spreadsheet:

1. **Oil and Gas Initiatives: \$1.1 million GF.**

The Division of Oil and Gas Development is adding a total of five positions to support new Production Tax (PT) and Alaska Gasline Inducement Act (AGIA) initiatives, and to increase wages for Oil & Gas staff in order to assist in the recruitment and retention of qualified professionals.

- **PT, \$464.4 GF:** Two new oil and gas revenue audit master positions are requested. These senior level auditors are expected to have extensive oil and gas auditing experience and their salaries are expected to be consistent with market comparables for the industry.
- **AGIA, \$391.7 GF:** Three new staff positions are being requested to review and coordinate all state and federal permits and processes to ensure that all state and federal environmental requirements related to AGIA have been completed. These positions will also assist with title work for natural gas transportation projects in Alaska and, according to the department, the positions will sunset one year after commencement of gas pipeline commercial activities.
- **Wage Increases, \$216.7 GF:** The division is requesting a salary adjustment for their exempt service professionals in the fields of geosciences and law as well as individuals with commercial oil and gas experience. The proposal would bring the salaries in line with their counterparts in the Alaska Oil and Gas Conservation Commission.

2. **Fire Suppression Preparedness – Aviation Contracts: \$856.9 GF.**

The department's aviation contracts are expiring and, due to a major shortage of air tankers and the falling value of the dollar, contract costs have risen as much as fifty percent.

Air tankers and helicopters are typically procured through five-year, annually renewable contracts for a set period of usage, usually 90 days. Using five-year contracts allows the department to lock in lower long-term rates.

3. **North Latitude Plant Material Center – AK State Seed Lab: \$500.0 GF.**

This increment request will replace lost federal funding from Congressional earmarks and provide for the continued operation of the Official Alaska State Seed Lab.

The Plant Material Center (PMC) serves the seed growers of the state and is charged with encouraging and developing a healthy seed industry in Alaska. Seed growers provide seed to in-state construction companies, DOT/PF for roadside erosion control and re-vegetation projects, the mining industry for reclamation projects, and a multitude of other state and federal agencies. According to the department, PMC is the only source for this seed.

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4. **Parks Management – Preventative Maintenance: \$500.0 GF.** The department is using a two-pronged approach of operating and capital funding requests to focus on preventative and deferred maintenance in the State Park system.

The proposed operating increment will finance an increase in staff, with a focus on preventative and minor deferred maintenance items. Two permanent full-time positions will be added and 4 permanent part-time positions will be switched to permanent full-time positions.

DNR's proposed capital budget includes several projects (totaling \$6.5 million) that focus on a lengthy list of deferred maintenance items. The total estimated cost associated with the backlog of deferred maintenance is over \$52 million. The capital budget will be used to complete major deferred maintenance projects.

5. **Oil and Gas Allocation: Technical Adjustment for \$1.3 million GF.** Over the past few years (since FY05) the Division of Oil and Gas has received "one-time" funding to meet additional workload requirements due to anticipated increases in industry exploration and development, and to AGIA and PT. Although the legislature appropriated \$1.3 million as a "one-time" increment in FY08, the agency argues that this funding should be in the agency's base. Because the money was appropriated as one-time funding, Legislative Finance removed the item from the agency's base and put it back in as an increment. The legislature may want to explore putting this funding in DNR's base budget.

ORGANIZATIONAL CHANGES

The department changed the name of the Alaska Coastal Management Program to the Alaska Coastal and Ocean Management (DCOM) program. The new DCOM office was split apart from the Office of Project Management and Permitting due to the workload and complexities of the individual programs. The new division continues the work of the Alaska Coastal Management Program as well as a focus on ocean-related issues within the department's jurisdiction.

The Citizen's Advisory Commission on Federal Areas (CACFA) allocation was added under the State Public Domain & Public Access appropriation. This independent Commission will assist citizens with state and federal land management issues by advising and commenting on the department's draft regulations and policies and aid in avoiding public conflict of land management use.

CAPITAL PROJECTS

The Department's \$70.1 million capital budget includes the following project:

6. \$4.0 million of Alaska Capital Income Fund for consultants and contractors with expertise in construction and the use of geologic and engineering models used to evaluate oil and gas reservoirs. The study will require assimilation and processing of data and measurements from over 2,000 penetrations and thousands of surveillance measurements in the Prudhoe Oil Pool.

The total estimated cost of the project is \$10.0 million—In addition to this \$4 million, another \$4 million of GF is expected to be requested in FY10 and \$2 million in FY11.

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Department of Public Safety				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$107,199.4			
FY08 Fiscal Notes	865.5			
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers	231.5			
08 Contractual Salary Adjustments	39.8			
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$108,336.2	\$1,136.8	1.1%	
One-time Items removed	(443.6)			
Transfers between Agencies (nets zero statewide)	75.4			
FY09 Contractual Salary and Health Increases	1,152.7			
FY 09 Adjusted Base Budget (GF only)	\$109,120.7	\$784.5	0.7%	
FY 09 Unrealizable Salary Fund Source Changes	213.6			6
FY 09 Governor's GF Increments/Decrements/Fund Changes	4,786.1			
FY 09 Governor's Request (GF only)	\$114,120.4	\$4,999.7	4.6%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$4,786.1	
Fire & Life Safety Operations	1,031.3	1,360.8	329.5	1
Training and Education Bureau	625.5	885.1	259.6	1,4
Special Projects	0.0	870.0	870.0	4
AK Bureau of Judicial Services	6,898.7	7,433.5	534.8	2
Prisoner Transportation	1,656.7	2,111.7	455.0	1
Rural Trooper Housing	1,279.3	1,426.4	147.1	1
AST Detachments	42,009.4	43,929.1	1,920.7	1,2
AK Bureau of Alcohol and Drug Enforcement	2,483.1	2,519.8	36.7	1
Alaska Wildlife Troopers	14,444.9	15,272.0	827.1	1,2
Alaska Wildlife Troopers Aircraft	4,183.9	4,415.2	231.3	1
Alaska Wildlife Troopers Marine	2,766.0	2,832.0	66.0	1
Alaska Wildlife Troopers Investigation	864.4	1,081.2	216.8	2
Alaska Police Standards Council	0.8	0.0	(0.8)	
Domestic Violence/Sexual Assault	2,686.8	1,345.3	(1,341.5)	3
Training Academy	1,614.6	1,622.8	8.2	1
Administrative Services	2,711.1	2,720.3	9.2	1
Alcoholic Beverage Control Board	1,261.5	1,263.4	1.9	1
Alaska Public Safety Information Network	1,695.8	1,800.4	104.6	5
Alaska Criminal Records and ID	1,596.1	1,660.7	64.6	5
Laboratory Services	4,182.5	4,227.8	45.3	1
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	12,693.7	11,573.7	(1,120.0)	
Other funds (all allocations)	21,475.7	23,034.7	1,559.0	
Total Non-General Funds (all allocations)	\$34,169.4	\$34,608.4	\$439.0	
Position Changes (From FY08 Management Plan to Gov)	862	875	13	
PFT	833	846	13	
PPT	17	17	0	
Temp	12	12	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	1,700.0	1,000.0		
Information Systems and Technology	8,500.0	2,000.0		
Maintenance and Repairs	1,350.0		1,640.0	
New Construction and Land Acquisition	3,000.0		100,000.0	7
Planning and Research			75.0	
Renovation	395.0			
Other		2,000.0		
Capital Projects Subtotal by Fund Source	\$14,945.0	\$5,000.0	\$101,715.0	
TOTAL CAPITAL BUDGET		\$121,660.0		

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Department of Public Safety

The Department of Public Safety (DPS) is the state's primary law enforcement agency for federal, state, and local laws. The mandate of the department is to prevent loss of life and property as a result of illegal or unsafe acts. The department

- enforces criminal laws, traffic laws, and state fish and game laws,
- provides public protection programs for fire and traffic safety, and
- serves as the umbrella agency for the Council on Domestic Violence and Sexual Assault, the Alaska Police Standards Council, the Alaska Fire Standards Council and the Alcoholic Beverage Control Board.

SIGNIFICANT ISSUES

The following notes correspond to the numbers on the preceding spreadsheet.

1. **Departmental Overhead and Service Costs: \$2,555.7 GF.** The department is requesting increments to pay increased overhead and service costs throughout the agency. Overhead costs include fuel, utilities, lease, and vehicle costs. Service costs include training, transportation, and dispatch costs.

Legislative Fiscal Analyst Comment: State agencies receive fuel increments through an appropriation to the Governor's Office, which allocates money to agencies based on justification of need. Subcommittees may want to discuss why the department needs fuel increments in excess of the need they are expected to justify to the Governor's Office.

2. **Law Enforcement Activities.** The Alaska State Troopers (AST) division is charged with statewide law enforcement, prevention of crime, pursuit and apprehension of offenders, service of civil and criminal process, prisoner transportation, and search and rescue. Increments have been requested as follows:

- **Prisoner Transportation: \$656.3 GF.** As a result of a recent court settlement between the DPS and the Municipality of Anchorage, Public Safety has been assigned responsibility for prisoner transportation within Anchorage. This request provides for annualized costs for six new Court Service Officer positions. The positions were filled in mid-FY08 and the department will be requesting supplemental funding for FY08 costs.
- **Alaska State Trooper Investigator Positions: \$422.2 GF.** DPS is requesting an increment to hire two Investigators to work solely on internal personnel investigation. Current department investigators are handling both criminal and internal personnel investigations and this is causing a backlog in investigation caseloads.

Legislative Fiscal Analyst Comment: Subcommittees may want to identify capital outlay (\$93.2) and other first-year costs as a one-time increment.

- **Alaska Wildlife Troopers: \$860.0 GF.** As part of a continuing effort to add additional Wildlife Troopers, the department requests funding to add three officers in FY09 (two under Alaska Wildlife Troopers and one under Wildlife Troopers Investigation) as well as provide full funding for five positions added in FY08. The two new positions will be located in Fairbanks and Cooper Landing. In the FY08 budget, the legislature provided 50% of full year funding for the positions (\$550.0 of \$1,058.9) because the positions were not expected to be filled until mid-year.
3. **Council on Domestic Violence and Sexual Assault.** This request replaces \$1,341.5 GF with PFD Criminal Funds (PFD appropriations in lieu of dividends to

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incarcerated felons). As permanent fund dividends increase, more PFD Criminal Funds are available for program costs.

4. **Replace Federal Funds with GF: \$1,120.0 GF.** The department is requesting GF increments in the following allocations to replace federal and other funds:
 - **Training and Education Bureau: \$250.0 GF.** This request replaces unrealizable federal funds for the Alaska Office of Rural Fire Protection. Many rural communities (124 communities to date) were initially equipped and trained through "Project Code Red." The federal project does not provide funding for maintenance-level training. The goal of the office is to provide long-term oversight, logistical fire assistance and training to rural communities to maintain the viability of local fire response units.
 - **Alaska State Troopers: \$870.0 GF.** This request replaces federal funds for the Rural Alcohol Interdiction Program, Alcohol Interdiction Team. The team is comprised of five state troopers and one criminal justice technician. The focus of the team is to keep alcohol out of dry communities. The positions were funded through an annual federal earmark that is no longer available.
5. **Statewide Support: \$169.2 GF.** This division provides support to state and local law enforcement agencies throughout the state. Positions provide information on criminal history, arrest, fingerprint, and DNA information as well as forensic crime scene and laboratory services. Additional law enforcement efforts have increased the volume of support work. The department requests the following positions:
 - **Database Specialist: \$104.6 GF.** This position will be responsible for managing the departmental IT server. Currently the server holds all the department's key databases including Alaska Public Safety Information Network (APSIN), Sex Offender Registry, National Sex Offender Registry, Automated Fingerprint Identification, DPS Help Desk System, and other specialized systems.
 - **Criminal Justice Technician I: \$64.6 GF.** This position will be responsible for fingerprint card processing and in-court disposition processing. The volume of fingerprint cards received over the last ten years has increased 55 percent, and the number of requests for criminal history background checks for employment or licensing purposes has increased over 120 percent. The legislature funded a Criminal Justice Technician I in FY08 for the same purpose.
6. The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual wage and health benefits increases. Subcommittees should carefully examine each of these salary adjustment fund changes. Please see *Fund Source Changes for Salary Adjustments* on page 24 for further discussion of this issue.

ORGANIZATIONAL CHANGES

There were no significant structural changes.

CAPITAL BUDGET

7. **Crime Lab Replacement: \$100 Million G/O Bonds.** This project would fund a new crime laboratory building. The current crime lab facility was constructed in 1986 and, according to the agency, it is no longer physically capable of housing the personnel and instrumentation necessary to meet the state's forensic analysis demands.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$40,034.5			
FY08 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	419.3			
Agency Transfers	119.0			
08 Contractual Salary Adjustments	-			
08 Salary Fund Changes	-			
Misc Adjustments	-			
FY 08 Management Plan (GF only)	\$40,572.8	\$538.3	1.3%	
One-time Items removed	(25,419.3)			1a
Transfers between Agencies (nets zero statewide)	(161.3)			
FY09 Contractual Salary and Health Increases	512.1			
FY 09 Adjusted Base Budget (GF only)	\$15,504.3	(\$25,068.5)	-61.8%	
FY 09 Unrealizable Salary Fund Source Changes	16.4			
FY 09 Governor's GF Increments/Decrements/Fund Changes	2,060.1			
FY 09 Governor's Request (GF only)	\$17,580.8	\$2,076.5	13.4%	
	↓			
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$2,060.1	
Tax Division	12,331.5	14,265.6	1,934.1	1b
Treasury Division	1,415.2	1,541.2	126.0	2
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	37,012.9	37,024.3	11.4	
Other funds (all allocations)	187,767.8	208,611.6	20,843.8	3,4,5
Total Non-General Funds (all allocations)	\$224,780.7	\$245,635.9	\$20,855.2	
Position Changes (From FY08 Management Plan to Gov)	926	940	14	
PFT	860	873	13	
PPT	49	50	1	
Temp	17	17	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Information Systems and Technology	4,210.8	128.0	2,278.9	6,7
Maintenance and Repairs		9,150.0	7,035.0	
New Construction and Land Acquisition		7,000.0	25,750.0	
Planning and Research		150.0	2,030.0	
Renovation		2,000.0	6,700.0	
Other	3,000.0	3,750.0	10,750.0	
Capital Projects Subtotal by Fund Source	\$7,210.8	\$22,178.0	\$54,544.9	
TOTAL CAPITAL BUDGET		\$83,933.7		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Revenue

The Department of Revenue's responsibilities include the following:

- administration and enforcement of Alaska's tax laws;
- management of the treasury;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support;
- administrative support to the following independent boards and corporations:

Alaska Permanent Fund Corporation; Alaska Housing Finance Corporation; Alaska Municipal Bond Bank Authority; Alaska Natural Gas Development Authority; Alaska Retirement Management Board, and the Alaska Mental Health Trust Authority.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Petroleum Profits Tax (PPT) Revisions:** Several revisions to the Department's budget are a result of the passage of HB 2001 (Chapter 1, SSSLA 2007) in the recent special session.

a. **Oil and Gas Tax Credit Fund:** Section 46 of HB 2001 established the Oil and Gas Tax Credit Fund. In FY08, a \$25 million appropriation for tax credit refunds appeared in the Tax Division operating budget, thereby distorting the amount of funding necessary for division operations. Establishing a separate fund avoids that distortion. The Governor's budget removes \$25 million in general funds from the Tax Division and proposes a \$200 million appropriation to capitalize the tax credit fund in order to pay FY09 refunds. A supplemental request totaling \$125 million is expected for FY08 refunds.

b. **New Positions and Contractual Assistance: \$1,934.1 GF**

- **Audit Master Positions: \$920.9 GF.** Section 10 of HB 2001 creates the new Oil and Gas Audit Master exempt position class to be employed by the departments of Revenue and Natural Resources. Legislative intent limits the numbers of Audit Masters to six total (four in Revenue and two in Natural Resources). As outlined in the fiscal note, the Governor is requesting \$800.0 for the four audit master positions in Revenue. Additionally, an Analyst Programmer V is being added to manage the new oil and gas production tax database system (see Capital Budget below). \$120.9 GF is requested for that position.
- **Contract Audit Assistance: \$1,013.2 GF.** Also outlined in the fiscal note was over \$1 million for contractual audit assistance. Anticipated delay in auditor recruitment and the need to ensure proper and timely audits is driving this request.

Legislative Fiscal Analyst Comment: Although likely justifiable, the calculations for the contract audit assistance are not entirely clear. Further analysis by a subcommittee may be warranted. The increment could also be identified as a one-time item.

2. **"In-house Investment Management": \$360.0 (\$126.0 GF).** In June of 2006, the Alaska Retirement Management Board (ARMB) voted to terminate the contract with BlackRock Asset Management, an external fixed income manager for state retirement assets. The termination came after review showing the Treasury Division's internal fixed-asset managers performing at a comparable level for considerably less cost. A budget decrement last session reduced external management fees by \$1.26 million. The Treasury Division now requests additional funds for a new

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

fixed-income investment officer position to assist with the growing asset base under management—at considerably less cost than the external contract. The increment also includes an additional equity investment officer position. The increasing volume and complexity of investments is driving this request.

3. **Alaska Housing Finance Corporation (AHFC): \$285.7 AHFC Receipts.**

AHFC proposed several adjustments to their budget, including a \$180.0 increment for implementation of a continuous five-year computer/printer replacement schedule; a \$505.7 increment for increased IT training, data communications upgrades, corporate awareness marketing, an online training/education system and numerous other minor adjustments; and a \$400.0 *decrement* due to private tenant lease expiration in the Atwood Building.

Legislative Fiscal Analyst Comment: The increment for \$505.7 has many different components. Subcommittees may wish to break down the AHFC request into several different increment transactions to clarify the adjustments being made.

The increment for the computer replacement schedule would add funding to the AHFC base operating budget. The Permanent Fund Dividend Division has a similar technology replacement schedule. However, that funding is budgeted annually as a capital request (\$125.0 is in the FY09 request). Perhaps consistency across agencies/divisions would be prudent and the AHFC request should be moved to the capital budget. The converse is also an option.

4. **Alaska Permanent Fund Corporation (APFC): \$880.1 APFC Receipts.**

The APFC has several budget changes, with a net increase of \$880.1 and five new permanent full-time positions. Most notable is the request for \$180.9 to add an attorney position to reside within the corporation and work solely on corporate legal issues. There is an associated \$175.0 reduction in contractual services for reduced assistance from the Department of Law.

Legislative Fiscal Analyst Comment: Per the APFC, the Department of Law has been unable to successfully retain a lawyer for APFC legal counsel. Staff proposed that APFC may be more successful in hiring an attorney and the Attorney General approved the concept based on the workload expected at the APFC.

5. **APFC Management Fees: \$18,615.0 APFC Receipts.** Although this is a sizable increment, it reflects the sheer magnitude of the Alaska Permanent Fund. At nearly \$40 billion, a 5% return would generate \$2 billion dollars. \$18.6 million is less than 1% of that amount, well within the range of acceptable asset management benchmarks.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

The department's capital budget is primarily that of the Alaska Housing Finance Corporation (94% of the request). AHFC has over \$79 million in their capital budget request for their housing programs. This includes \$22 million federal receipts, almost \$48 million of the AHFC Dividend, and approximately \$14 million of general funds and Mental Health Trust funds for certain mental health housing programs. A few of the larger projects include

- the Supplemental Housing Development Program (\$8 million AHFC Dividend),
- the Senior Citizen's Housing Development Program (\$6 million AHFC Dividend);
- the Low Income Weatherization Program (\$6 million AHFC Dividend); and

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

- a new Housing Trust program within AHFC funded with four equal contributors at \$2.5 million each - the state (general funds), AHFC (AHFC Dividend), the Mental Health Trust (trust receipts), and non-state partners (Statutory Designated Program Receipts). The intent is to coordinate resources between the housing industry and the social service industry to provide affordable housing and effective solutions to homelessness.

Projects internal to the department include **\$4.2 million to the Tax Division for tax systems replacement.**

6. **Oil and Gas Production Tax System Replacement: \$2,620.8 GF.** Changes made to the oil and gas tax system have resulted in a need for a new data system. The old system based on the production tax (or ELF system) is not compatible with the requirements of a tax on profit. The intent is to build a module capable of multiple features that would enhance data collection and forecasting and allow for ready comparisons to the old ELF taxation system.
7. **Corporate, Motor Fuel and Mining Tax Systems Replacement: \$1,590.0 GF.** These systems have been deemed inadequate and in need of major revision to meet current technological standards. The existing integrated tax system will be expanded to allow for the corporate, motor fuel and mining tax elements.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Transportation & Public Facilities				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$193,102.9			
FY08 Fiscal Notes	-			
Reappropriations	-			
Special Appropriations	(125.0)			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	9,194.0			
08 Contractual Salary Adjustments	3,183.3			
08 Salary Fund Changes	116.2			
Misc Adjustments	-			
FY 08 Management Plan (GF only)	\$205,471.4	\$12,368.5	6.4%	
One-time Items removed	(9,030.0)			1
Transfers between Agencies (nets zero statewide)	117.6			
FY09 Contractual Salary and Health Increases	1,391.6			
FY 09 Adjusted Base Budget (GF only)	\$197,950.6	(\$7,520.8)	-3.7%	
FY 09 Unrealizable Salary Fund Source Changes	1,470.4			
FY 09 Governor's GF Increments/Decrements/Fund Changes	8,958.1			
FY 09 Governor's Request (GF only)	\$208,379.1	\$10,428.5	5.3%	
↓				
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$8,958.1	
Transportation Management and Security	381.9	423.9	42.0	
Statewide Information Systems	1,461.0	1,771.0	310.0	2
Leased Facilities	1,958.8	1,972.1	13.3	8
Central Support Services	621.1	665.7	44.6	
Northern Support Services	791.9	971.4	179.5	
Southeast Support Services	269.9	312.5	42.6	
Program Development	125.7	170.0	44.3	
Measurement Standards	1,967.7	2,037.7	70.0	
Statewide Public Facilities	-	100.0	100.0	9
Statewide Design and Engineering Services	818.7	1,168.7	350.0	3
Central Region Facilities	5,015.1	5,864.5	849.4	4a-e,
Northern Region Facilities	8,059.9	8,593.1	533.2	4b, 4c, 4e
Southeast Region Facilities	1,152.8	1,228.3	75.5	4a, 4b, 4e
Traffic Signal Management	1,433.8	1,633.8	200.0	
Central Highways and Aviation	37,747.6	38,328.0	580.4	5, 6
Northern Highways and Aviation	52,183.1	53,081.0	897.9	5, 6
Southeast Highways and Aviation	11,751.3	11,759.1	7.8	5, 6
Marine Vessel Operations	66,618.8	71,236.4	4,617.6	7
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	3,776.5	4,376.5	600.0	
Other funds (all allocations)	295,165.3	288,891.2	(6,274.1)	7
Total Non-General Funds (all allocations)	\$298,941.8	\$293,267.7	(\$5,674.1)	
Position Changes (From FY08 Management Plan to Gov)	3,820	3,851	31	
PFT	3,174	3,191	17	
PPT	447	446	(1)	
Temp	199	214	15	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials	5,466.0	18,855.0	16,800.0	
Information Systems and Technology	-	6,590.0	-	
Maintenance and Repairs	25,786.0	3,900.0	13,938.0	
New Construction and Land Acquisition	64,088.0	119,343.5	22,180.0	
Planning and Research	2,500.0	88,435.0	2,440.0	
Renovation	53,500.0	252,243.7	1,1864.0	
Other	-	26,200.0	6,000.0	
Capital Projects Subtotal by Fund Source	\$151,340.0	\$515,567.2	\$213,222.0	
TOTAL CAPITAL BUDGET		\$880,120.2		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Department of Transportation & Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and many public facilities. This includes approximately 258 state-owned airports and seaplane bases, 6,000 miles of state roads, 700 buildings ranging from maintenance shops to state office complexes, and 29 ports and harbors. In addition, the department owns and operates the Alaska Marine Highway System. The department also owns and operates the State Equipment Fleet, which provides full maintenance support and replacement activities for all departments and state agencies, including 7,500 light and heavy duty vehicles and attachments.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. High oil prices and other inflationary pressures continue to be a budgetary concern for the department. Maintaining the "status quo" is ever more expensive. In the last two fiscal years, the legislature has addressed a substantial portion of this cost pressure with a contingent triggered appropriation that is based on the average price of oil. The Governor retained the trigger methodology in her proposed budget and DOT&PF would receive a maximum of \$18 million in two installments at today's prices.

Legislative Fiscal Analyst Comment: This "trigger" approach to budgeting does not build the current high oil prices into the base budget. If oil prices are expected to remain high for several years, it would be reasonable to accept a new higher level of oil prices and increase the base budget.

If the legislature retains the trigger approach, an adjustment to the total amount distributed may be in order. Expanding the oil price ceiling to \$81/bbl (the FY08 average price to date) and maintaining the same growth rate (\$500.0 distributed for each dollar change in the price of oil), would increase the total appropriation to \$46 million (an increase of \$21 million). At this level and allocation (DOT&PF currently receives a maximum of 75% of the total amount distributed), DOT&PF would receive a maximum of \$34.5 million, (\$16.5 million over what they will receive in FY08).

The department expects to require a FY08 supplemental appropriation for fuel costs. The magnitude of the request—which is unknown at this time—will be a good gauge of potential changes to the trigger in FY09.

2. **IT Support and Licensing: \$310.0 GF.** The Statewide Information Systems allocation is requesting \$180.0 and two positions to provide desktop and network support to 400 DOT&PF employees in Anchorage and the surrounding area. Currently these end-users are under served, which is causing considerable inefficiencies. A \$130.0 increase is also budgeted for software licensing that was determined to be ineligible for federal funding.

Legislative Fiscal Analyst Comment: The problems that occur from information technology (IT) "hiccups" are understood first hand by most. The amount of time associated with e-mail issues, problems logging on to networks, and other IT failures is significant.

3. **Bridge Inspection Program: \$350.0 GF.** Two increments are budgeted under Statewide Design and Engineering Services to fund a bridge inspection program for structures that are ineligible for federal funding. \$150.0 will be used as start-up funding to identify structures around the state requiring inspection. This is added as an "IncOTT" (or one time increment). \$200.0 is requested to be added to the base budget to maintain the program.

4. **Facilities Adjustments: \$1,458.1 GF.** Beyond inflationary increases to cover costs of electricity, water/sewer, and heating oil (that should be covered by the trigger appropriation

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

mentioned in Note 1), the Governor proposes several budgetary adjustments to the regional facilities allocations.

- a. **New Facilities Added to Inventory: \$401.4 GF.** Eighteen new facilities (mostly snow removal equipment buildings) will come on-line in the Central and Southeast Region by FY09. Also, two bunkhouses in Paxson and a U.S. Airforce building in Galena are being added to the inventory. Additional operating costs accompany the new buildings. Funding for electricity, heating fuel, water/sewer, insurance and maintenance is requested.

Legislative Fiscal Analyst Comment: This increment request is based on cost estimates at today's inflation adjusted rates. In order to maintain consistency throughout the department, this increment might be revised downward to the unadjusted base rates used elsewhere.

- b. **New Maintenance Contracts and Contract Increases: \$375.0 GF.** The cost of maintenance contracts is indirectly tied to energy inflation. As service providers pay more to provide their services, they increase the fees for their services. Numerous contracts for semi-skilled labor (lawn maintenance, window washing etc.) have expired and been re-bid, resulting in an 11% cost increase. New contracts have also been established for facilities such as the Chena Pump Campground and the Fox Spring drinking facility (a one-time increment from last year).
- c. **New Maintenance Positions: \$358.0 GF.** Five new maintenance positions will be added to the Central and Northern regions. The new facilities added to the inventory are driving the demand for additional maintenance personnel.
- d. **FY08 Budget Cut Restoration: \$173.5 GF.** The Governor recommended a \$123.5 reduction in facility maintenance in the FY08 budget cycle. These reductions were apparently unworkable, as they are being reinstated in the FY09 budget request. This increment includes money for additional janitorial service, snow removal, lawn maintenance and window washing in the Central Region. The Governor is also restoring the \$50.0—for snow removal equipment and building heating fuel—that was removed from the FY08 budget.
- e. **Risk Management Premiums: \$150.2 GF.** Property values are driving risk management premiums higher. Funding is budgeted in the three regions to cover these increases.

5. **Equipment Operator Apprenticeship Program: \$950.0 GF (15 temporary positions).** *The department is having difficulty in recruiting experienced equipment operators. Private employers are paying significantly higher hourly wages. The workforce is aging. Over 30% of existing operators will be eligible to retire within the next five years.* That quote is from a document put out by DOT&PF. It succinctly states a pressing issue they're facing. This new program is being backed by labor unions and the Department of Labor & Workforce Development.

Legislative Fiscal Analyst Comment: A concern that may materialize is "newly trained operator" retention. What kind of assurance does the agency have that these operators will remain with the department? The incentive exists for a person to get trained as an apprentice within the agency, and then move to the private sector where the pay for skilled operators is superior. Perhaps the operator pay scale needs to be addressed. Like many positions in state government, pay is not competitive with the private sector.

6. **Rural Certificated Airport Security Cost Share: (\$470.0) GF.** The FY08 budget had an increase of \$1,216.1 GF to implement the TSA security requirement that law enforcement officers be present during screening at rural certificated airports. DOT&PF has applied for, and is expecting to receive, federal funding to supplement the cost of this federal requirement. Decrements totaling \$470.0 occur in the three regional Highways and Aviation allocations.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

7. **Alaska Marine Highway System (AMHS): \$4,617.6 GF.** AMHS is expecting a substantial revenue drop in FY09 due to rescheduling in Southwest Prince William Sound. The *Tustumena* is scheduled to go into a five-month capital improvement overhaul that will force the *Kennicott* to serve in its place. The *Kennicott* will provide two-week-on/two-week-off service. Revenues will decline as a result of this decreased service. The higher operating costs of the *Kennicott* compound the budgetary problem. AMHS has requested \$4.4 million in general funds to supplant the lost AMHS revenue and an additional \$217.6 due to operating cost increases.

Legislative Fiscal Analyst Comment: Perceived short-comings in AMHS scheduling has raised much clamor. From the standpoint of the AMHS, the unknown level of funding they will receive in a fiscal year prevents them from scheduling/operating efficiently. Consideration should be given to implementing a funding mechanism that would provide stability to both customers and operators of the system.

ORGANIZATIONAL CHANGES

8. **Leased Facilities:** The department has created this new allocation within the Administration and Support appropriation. Funding will be transferred from several allocations. It will house all the department's lease agreements and be managed by the Statewide Administrative Services staff.
9. **Statewide Public Facilities:** The department has created this new allocation within the Design, Engineering and Construction Appropriation. Funding will be transferred from the Central Region Construction allocation. The intent is to consolidate the department's public facilities function and create a more powerful voice for the Public Facilities portion of the department. Most states have a centralized public facilities component and the Governor's transition team recommended creating one in Alaska.

Legislative Fiscal Analyst Comment: Also mentioned in the transition report is the fact that facility responsibility is fragmented between agencies. This may make sense with certain facilities such as correctional institutions and armories (due to their unique nature), but fragmentation of responsibilities between the Departments of Administration and DOT&PF does not enhance efficiency or ensure that facilities get the funding required to protect the state's \$3.5 billion investment.

CAPITAL BUDGET

The DOT&PF capital budget comprises the majority of the statewide capital budget each year. Typical programs include the Surface Transportation Program (receipts from the Federal Highway Administration), and the Airport Improvement Program (receipts from the Federal Aviation Administration). Both programs require a state match component that are usually budgeted separately to allow for agency flexibility. The budget also typically has appropriations from the general fund for facility, harbor, airport, highway and Alaska Marine Highway vessel/terminal deferred maintenance, and for the stockpiling of materials for construction. The Governor's proposal contains elements of all of the aforementioned. See the capital budget summary on page 59 for further details.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$287,437.3			
<i>FY08 Fiscal Notes</i> <i>Reappropriations</i> <i>Special Appropriations</i>				
<i>Multi-Years (from prior fiscal years)</i>	2,000.0			
<i>Agency Transfers</i>	1,320.0			
<i>08 Contractual Salary Adjustments</i>				
<i>08 Salary Fund Changes</i>				
<i>Misc Adjustments/Language</i>	1.0			
FY 08 Management Plan (GF only)	\$290,758.3	\$3,321.0	1.2%	
<i>One-time Items removed</i> <i>Transfers between Agencies (nets zero statewide)</i> <i>FY09 Contractual Salary and Health Increases</i>				
FY 09 Adjusted Base Budget (GF only)	\$289,438.3	(\$1,320.0)	-0.5%	
<i>FY 09 Unrealizable Salary Fund Source Changes</i> <i>FY 09 Governor's GF Increments/Decrements/Fund Changes</i>				
FY 09 Governor's Request (GF only)	\$308,463.0	\$19,024.7	6.6%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$19,024.7	
Statewide Services	14,681.9	15,345.6	663.7	
Office of Information Technology	3,840.4	10,066.7	226.3	
Anchorage Campus	88,314.7	95,147.5	6,832.8	
Kenai Peninsula College	6,810.3	7,193.6	383.3	
Kodiak College	2,507.8	2,627.8	120.0	
Matanuska-Susitna College	3,808.5	4,107.4	298.9	
Prince William Sound Community College	2,781.4	2,943.4	162.0	
Cooperative Extension Service	3,655.6	3,806.4	150.8	
Bristol Bay Campus	1,050.0	1,238.3	188.3	
Chukchi Campus	808.3	854.7	46.4	
Fairbanks Campus	97,412.0	102,712.5	5,300.5	
Fairbanks Organized Research	18,947.1	20,930.0	1,982.9	
Interior-Aleutians Campus	1,518.4	1,624.1	105.7	
Kuskokwim Campus	2,781.5	2,967.2	185.7	
Northwest Campus	1,450.3	1,523.0	72.7	
College of Rural & Community Development	4,368.7	4,791.5	426.8	
Tanana Valley Campus	4,452.0	5,031.1	580.1	
Juneau Campus	19,355.9	20,332.9	977.0	
Ketchikan Campus	2,225.0	2,336.8	111.8	
Sitka Campus	2,666.5	2,875.5	209.0	
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	152,660.9	155,871.0	3,210.1	
Other funds (all allocations)	351,603.3	371,365.2	15,761.9	
Total Non-General Funds (all allocations)	\$504,264.2	\$527,236.2	\$18,967.0	
Position Changes (From FY08 Management Plan to Gov)	4,871	4,915	44	
PFT	4,650	4,693	43	
PPT	221	222	1	
Temp	0	0	0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Equipment and Materials		45,000.0		
Maintenance and Repair			41,000.0	
New Construction and Land Acquisition			27,900.0	
Other	550.0			
Capital Projects Subtotal by Fund Source	\$550.0	\$45,000.0	\$68,900.0	
TOTAL CAPITAL BUDGET		\$114,450.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

University of Alaska

The major goals of the University are to respond to the educational needs of all Alaskans and to enhance Alaska's economy by fostering and promoting the following:

- a high quality postsecondary educational system;
- appropriate vocational education development and training;
- advancement and extension of knowledge, learning, and culture; and
- application of new knowledge and emerging technologies to meet the needs of the State.

SIGNIFICANT ISSUES

According to the University, the program enhancements in the University's FY09 budget are critical to meeting the Board of Regents' goals in the following growth priorities:

- Preparation Alaskans for Jobs;
- University Research Investment;
- Student Success; and
- Cooperative Extension, Public Service and Outreach.

The University of Alaska Board of Regents requested a total increase of \$57,941.6 (\$26,783.6 in GF and \$31,158.0 in non-GF). The Governor's budget mirrors the Regents' request in several categories.

Legislative Fiscal Analyst Comment: The Compensation Increase request submitted by the Governor includes salary increases for union-represented groups and for non-represented faculty and staff. It is based on projections of contractual increases; none of the contracts has been ratified.

In addition, the projected amount of salary increases is understated because reduced retirement contributions (\$1.4 million) have been subtracted from anticipated contractual increases.

The Legislature may wish to consider action based on the following "traditional" budget process:

(1) Increments covering terms of bargaining agreements are usually added to the budget only after agreement has been reached. A budget amendment (or in some cases a supplemental appropriation) is the normal means of assuring that funding matches the terms of a contract; and

(2) Normally, savings associated with a particular issue are shown as identifiable decrements—not netted out against increments.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

The Governor made cuts to some areas as shown in the table below:

UNIVERSITY OF ALASKA	FY09 Board of Regents Request			Difference between Board of Regents and FY09 Governor's Request		
	GF	non-GF	TOTAL	GF	non-GF	TOTAL
FULLY FUNDED BY GOVERNOR						
Compensation Increases (All Represented & Non-Represented Faculty & Staff including Executives) (No Health Increase requested; ORP savings of <\$1,412.9> is netted out within the compensation increases)	\$9,002.7	\$5,977.1	\$14,979.8	No Differences		
Other Cost Increases Categorized as Fixed (by the University)						
Utility Cost Increases	\$1,320.0	\$1,320.0	\$2,640.0			
Library, Information Technology and Operating Costs Increases	\$1,128.9	\$4,571.8	\$5,700.7			
Risk Management/Insurance Fees	\$400.0	\$400.0	\$800.0			
Facilities Maintenance	\$1,020.0	\$1,180.0	\$2,200.0			
New Facility Operating and Maintenance Costs (Lena Point - UAF)	\$411.0	\$274.0	\$685.0			
Other Cost Increases Subtotal	\$4,279.9	\$7,745.8	\$12,025.7	No Differences		
PARTIALLY FUNDED BY GOVERNOR						
Priority Program Enhancement and Growth	GF	non-GF	TOTAL	GF	non-GF	TOTAL
Preparing Alaskans for Jobs	\$5,775.7	\$3,014.7	\$8,790.4	(\$1,000.0)	\$85.0	(\$915.0)
Health	\$2,512.8	\$1,204.7	\$3,817.5			
Engineering and Construction Management	\$2,162.9	\$810.0	\$2,972.9			
Fisheries	\$1,000.0	\$1,000.0	\$2,000.0			
University Research Investment	\$3,589.7	\$11,851.9	\$15,441.6	(\$2,623.3)	(\$10,771.1)	(\$13,394.4)
Climate Impact and Alaska's Natural Resources	\$966.4	\$1,080.8	\$2,047.2			
Engineering, Transportation and Energy	\$1,000.0	\$3,400.0	\$4,400.0			
Biomedical, Health and Competitive Research	\$1,623.3	\$7,371.1	\$8,994.4			
Student Success	\$2,330.6	\$918.5	\$3,249.1	(\$2,330.6)	(\$509.9)	(\$2,840.5)
Meeting Student Demand	\$830.6	\$388.4	\$1,219.0			
Workforce Start-Ups and Equipment (TVEP)*	\$0.0	\$408.6	\$408.6			
Student Success Initiatives	\$1,500.0	\$121.5	\$1,621.5			
Cooperative Extension, Public Service and Outreach	\$1,805.0	\$1,650.0	\$3,455.0	(\$1,805.0)	(\$995.0)	(\$2,800.0)
Priority Program Enhancement and Growth Subtotal	\$13,501.0	\$17,435.1	\$30,936.1	(\$7,758.9)	(\$12,191.0)	(\$19,949.9)
TOTAL INCREASES	\$26,783.6	\$31,158.0	\$57,941.6	(\$7,758.9)	(\$12,191.0)	(\$19,949.9)

*The University classifies TVEP funding as a "State Appropriation" which is mainly GF. Legislative Finance considers TVEP funding to be non-GF.

In addition to compensation increases, increments supported by both the Governor and the Board of Regents include the following:

- **Utility Cost Increases** – Total \$2,640.0 (\$1,320.0 GF, \$1,320.0 non-GF) This increase is intended to cover projected FY09 utility and fuel oil cost increases (estimated at a 10% increase over FY08). The increment assumes that the State will provide base funding for FY07 and FY08 utility increases;

Legislative Fiscal Analyst Comment: As in 2008, the Governor has included a contingent appropriation in the operating budget to offset increased fuel and utility costs of agencies. The University request is in addition to the contingent funding in the Governor's budget and reflects anticipated costs that exceed the University's anticipated share of the contingent appropriation. The contingency mechanism uses FY06 as a base year and covers cost increases through FY07 only. The University expects to submit a supplemental request to cover fuel costs for FY08. See additional discussion under Language Section 20.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

- **Library, Information Technology, and Other Operating Fixed Costs** – Total \$5,700.7 (\$1,128.9 GF, \$4,571.8 non-GF). Requested funds will address costs for electronic library materials, digital library licensing, and will also support instructional programs that rely on IT infrastructure. A generic 1.5% overall increase is also included in contractual services and commodities;
- **Risk Management/Insurance Fees** – Total \$800.0 (\$400.0 GF, \$400.0 non-GF) This increase includes general insurance, risk assessment, and operation increases;
- **Facilities Maintenance** – Total \$2,200.0 (\$1,020.0 GF; \$1,180.0 non-GF). The University's annual maintenance and repair budget is calculated at a minimum 1.5% of current building value. Each Major Administrative Unit (MAU) is asked annually to increase its operating budget dedicated to facilities maintenance to keep pace with its ever increasing building value. This increment covers that increase; and
- **New Facility Operating and Maintenance Costs** – Total \$685.0 (\$411.0 GF; \$274.0 non-GF). This request covers the maintenance requirement and anticipated new facility operating costs which includes UAF's Lena Point Facility in Juneau.

The Governor's request does not include the entire Board of Regents' proposal. A total of \$19,949.9 (\$7,758.9 GF and \$12,191.0 non-GF) was cut from the Board of Regents' FY09 operating budget submittal. Partial program funding is included in the Governor's budget for the following:

- **Preparing Alaskans for Jobs** – Total \$7,875.4 (\$4,775.7 GF, \$3,099.7 non-GF)
 - Funding in this category is intended to enhance programs in the health, engineering and construction, and fisheries areas. Existing programs and other high demand fields would also be accommodated and/or strengthened. Examples of specific program investments as proposed include expanding:
 - the nursing program and other health program expansions in Anchorage;
 - the paramedic program, health sciences faculty at Sitka;
 - the engineering programs in Anchorage and Fairbanks; and
 - regional mining workforce development at the Juneau Campus.
 - The Governor's funding level does not include the Fisheries portion of this request.
- **University Research Investment** – Total \$2,047.2 (\$966.4 GF, \$1,080.8 non-GF)
 - The Governor's request focuses on climate impact and Alaska's natural resources. The University presents the funding request as a means to build its climate change research base and leverage opportunities associated with the 4th International Polar Year.
 - Research funds requested by the Board of Regents for Engineering, Transportation and Energy as well as those for Biomedical, Health and Competitive Research were not included in the Governor's FY09 budget.
- **Student Success** – Total \$408.6 (all non-GF)
 - Workforce Start-Ups and Equipment—University requests for Training and Vocational Education Program (TVEP) funds were included in the Governor's FY09 budget. This funding will be dedicated to priority program start-up, short-term expansion and equipment costs in high-demand areas, which may include process technology, occupational safety, aviation training, health, and education.
 - Funding for Board of Regents' priorities in the areas entitled Meeting Student Demands and Student Success Initiatives were not included in the Governor's request.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

- **Cooperative Extension, Public Service and Outreach – Total \$655.0 (all non-GF)**
 - The Governor's budget includes the University's request for funds for the Alaska Teacher Placement (ATP) program. This program was established in 1978 as a partnership between school districts and the University of Alaska to serve as a statewide education job clearinghouse for Alaska. ATP is home to the Future Educators of Alaska program, a statewide effort to recruit college students into the teaching profession. The Governor requests Alaska Student Loan Corporation Dividends (\$255.0) to pay for the program. Spending of these receipts for continuing programs is generally avoided.
 - Also included within this area are University Receipt funds (\$400.0) for overall cooperative extension support. These funds come through the University's land grant trust fund.
 - No general funds were included in the Governor's request for Cooperative Extension, Public Service and Outreach programs.

The Governor's University of Alaska FY09 budget adds 44 new positions (43 PFT and 1 PFT).

Legislative Fiscal Analyst Comment: In addition to 44 new positions associated with increments, a total of 723 position adjustments (683 PFT and 40 PPT) were made in the FY08 Management Plan. Historically, the University of Alaska has used TERM (as in "short-TERM") positions funded through their overall labor pool instead of assigning PCNs to employees who may have an employment span of 1-3 years on grants and contracts or other specific programs where funding may not be guaranteed. The University budget now includes TERM positions.

ORGANIZATIONAL CHANGES

There are no significant changes requested. One allocation, Statewide Networks (OIT), is renamed as the Office of Information Technology.

CAPITAL BUDGET

The only General Fund project in the University's FY09 capital budget is the Alaska Small Business Development Center (ASBDC) (\$550.0), which is a statewide business assistance program. Federal Receipt Authority (\$45 million) and Other Receipt Authority (\$68.9 million) is also included for non-state funded projects including the Alaska Regional Research Vessel.

The Board of Regents' additional capital priorities including UAF's BioSciences Facility, UAA's Health Sciences Building and funding to pay down the accumulated backlog of major Renewal and Renovation projects are not included in the FY09 Governor's request.

Legislative Fiscal Analyst Comment: Although the ASBDC has received funding through the capital budget since it was transferred to the University of Alaska's budget from the Department of Commerce in the early 1990s, the legislature may wish to consider relocating this support to the operating budget.

Legislative Fiscal Analyst Comment: \$40 million of the \$68.9 million "Other Receipts" for University Renewal and Renovation priorities comes from the Alaska Capital Income Fund. The Governor's capital budget contains about \$100 million in projects that would normally require general funds, but which are funded from this source. This is possible because \$95 million of general fund projects vetoed by the Governor flowed into the capital income fund. The money now shows as "other fund" expenditures rather than as general funds.

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Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Alaska Court System				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$77,362.4			
FY08 Fiscal Notes				
Reappropriations				
Special Appropriations				
Multi-Years (from prior fiscal years)				
Agency Transfers				
08 Contractual Salary Adjustments				
08 Salary Fund Changes				
Misc Adjustments				
FY 08 Management Plan (GF only)	\$77,362.4	\$0.0	0.0%	
One-time Items removed	(273.0)			
Transfers between Agencies (nets zero statewide)				
FY09 Contractual Salary and Health Increases	224.1			
FY 09 Adjusted Base Budget (GF only)	\$77,313.5	(\$48.9)	-0.1%	
FY 09 Unrealizable Salary Fund Source Changes				
FY 09 Governor's GF Increments/Decrements/Fund Changes	6,708.5			
FY 09 Governor's Request (GF only)	\$84,022.0	\$6,708.5	8.7%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			\$6,708.5	
Appellate Courts	5,825.7	6,174.6	348.9	2,3,6
Trial Courts	62,184.3	67,839.9	5,655.6	1,2,3,4,6,7
Administration and Support	8,123.5	8,727.8	604.3	3,5
Commission on Judicial Conduct	325.6	329.3	3.7	
Judicial Council	854.4	950.4	96.0	3
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	1,675.6	1,675.6	0.0	
Other funds (all allocations)	506.0	1,243.8	737.8	
Total Non-General Funds (all allocations)	\$2,181.6	\$2,919.4	\$737.8	
Position Changes (From FY08 Management Plan to Gov)				
PFT	726	774	48	
PPT	61	56	(5)	
Temp	31	32	1	
Governor's Capital Request	GF	Fed Rcpts	Other	
Maintenance and Repairs	300.0		3,276.0	
Equipment and Materials	150.0			
Information Systems and Technology	1,500.0			
Renovation	4,550.0			8
Capital Projects Subtotal by Fund Source	\$6,500.0	\$0.0	\$3,276.0	
TOTAL CAPITAL BUDGET		\$9,776.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Alaska Court System

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and totally state-funded judicial system. The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity.

There are four levels of courts in the Alaska Court System, each with different powers, duties and responsibilities. The four levels of courts are the Supreme Court, the Court of Appeals, the Superior Court, and the District Court. The Supreme Court and the Superior Court were established in the Alaska Constitution. The District Court was established by state statute in 1959. The Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

The Alaska Court System budget is presented in three appropriation requests - the Alaska Court System, the Commission on Judicial Conduct, and the Judicial Council.

SIGNIFICANT ISSUES

The following notes correspond to numbers on the preceding spreadsheet.

1. **Improve Public Service: \$2,507.3 GF.** The Court System requests the following increments to improve services in the courts.
 - \$2,248.6 GF: Courts is experiencing difficulty in recruiting and retaining qualified in-court staff. The lack of in-court staff may result in delayed court proceedings, which add to the backlog of cases. The Court System is requesting the following positions to alleviate pressure on existing staff and to help expedite the processing of paperwork resulting from court proceedings:
 - 17 in-court clerks (range 12) to provide one clerk for each courtroom in the state. According to the agency, the clerks are responsible for all courtroom equipment and technology, work long hours, and are subject to frequent and unscheduled overtime.
 - 7 court clerk supervisors (range 14) to provide a supervisor for every seven clerks. These positions will also provide in-court training and can assist in the courtroom when necessary.
 - 9 deputy clerks (range 10) so larger courts can place an additional clerical position in court during high-volume proceedings such as arraignments, calendar calls, and changes of plea hearings.
 - \$99.2 GF: Change four part-time court clerk positions to full-time in order to improve accessibility to the courts and customer service. The current status of the positions has resulted in high turnover and reduced court hours. The positions are located in Craig, Haines, Aniak and Chevak.
 - \$76.0 GF: Fund a full-time custody investigator in Juneau. According to the agency, the current increase in domestic relations caseloads in Juneau and Sitka courts supports the need for this position. Custody investigators provide reports to the judges to determine the placement of children.
 - \$83.5 GF: Fund a full-time computer technician for the Fairbanks courts. There is presently one programmer/analyst position serving all the Fairbanks courts; this request would add another position to meet the IT demand in the area. The new position will be responsible for installation, routine repair, and maintenance of computer equipment.

Legislative Fiscal Analyst Comment: In FY07, the legislature approved 50% of Trial Court's \$773.9 request to improve services to courts; a \$664.7 request in FY08 for the same purpose was denied.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

2. **Eliminate Personal Services Vacancy Cost Factor for Judicial Positions: \$1,089.1 GF.** Courts is requesting an increment to fill judge positions as soon as they are vacated. In order to stay within their current budget, open judicial positions are being held vacant for a 30-day period—contributing to a backlog in court cases.
3. **Court System Salary Schedule Revisions: \$600.5 GF.** In accordance with AS 22.20.037(c), the Court System is required to conduct an annual salary survey to ensure that court employees receive salaries consistent with those paid to classified and partially exempt executive branch employees. Based on this survey, the Court System is requesting additional salary costs for magistrate job classes (\$304.5) and an additional salary step (commonly referred to as the "G" step) for positions above range 14 (\$296.0) to regain parity with classified employees in the executive branch. The 2007 classification study included magistrate, standing master, and committing magistrate job classes.

Legislative Fiscal Analyst Comment: The Courts requested the "G" step for all employees in FY08, however, the legislature funded the new step only for ranges 14 and below. This request is for a "G" step for ranges 15 and above.

4. **Therapeutic and Mental Health Courts: \$550.0 GF.** The therapeutic courts in Anchorage, Fairbanks, Bethel, Juneau, and Ketchikan receive significant grant funding from the Alaska Office of Highway Safety as part of that agency's mission to reduce drunk driving. Under the terms of the grant program, the Court System is expected to increase the proportion of state funding for these projects each year. In response to these terms, the Court System is seeking \$300,000 to replace the grant funding used to pay for attorney services (prosecutor and defense attorney) for the Fairbanks Wellness Court, the Juneau Therapeutic Court, and the Ketchikan Wellness Court. The Court System is also requesting \$250,000 to provide treatment services for participants in the Fairbanks Wellness Court. This funding would replace a one-time grant that the Court System received from the Alaska Mental Health Trust Authority to build treatment capacity for therapeutic justice projects.
5. **Improve Administrative Services: \$519.6 GF.** Courts is requesting funding for the following positions to improve service and streamline administrative functions:
 - Two Case Management System (CMS) analysts to develop, support and maintain ongoing conversions of CourtView (the software used for case management) and implement other CMS related initiatives;
 - A contracts and leasing manager to manage statewide leases and other service contracts for the Court System's 42 court facilities;
 - One security manager to oversee statewide security management and public relations;
 - One shop technician in Information Services to support ongoing and new projects using infrastructure technologies supported by technical staff;
 - One senior accounting clerk position to handle increased demands for management of accounting records associated with grants, reimbursable services agreements, contracts and general audit requirements.

Legislative Fiscal Analyst Comment: The legislature denied Court's \$516.7 request for similar increments in FY08.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

6. **Equipment and Court Security: \$393.5 GF.** Courts is requesting an increment for Ketchikan Court Security Screening Services (\$100.0). As part of a statewide multi-year project, screening costs have already been funded for courts in Anchorage, Fairbanks, Palmer, Kenai, Juneau and Bethel.

Courts is also requesting increments for lifecycle replacement of computer systems (\$250.0), and ergonomically correct workstations and furniture (\$43.5).

7. **Anchorage Juror Parking: \$288.0 GF.** Unlike other areas within the state, jurors in the Anchorage area must pay for parking. Previously, parking was available at a reduced rate through an agreement with the Municipality of Anchorage. With the ongoing construction of the new state parking garage, these municipal parking spaces have been committed to state employees in the Atwood Building. For statewide parity in the treatment of jurors, the Court System began providing parking for its jurors in Anchorage and is requesting this amount to continue to provide free parking to jurors. The FY09 parking rate will increase from \$8 to \$12 per day.

Legislative Fiscal Analyst Comment: The Court System received one-time payments of \$192.0 in FY07 and FY08 during building construction.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

The Governor's \$9.8 million capital budget for the Alaska Court System includes the following:

8. **Anchorage Campus Project Phase 1: \$4,550.0 GF.** Funding requested is for a major remodel to all floors of the Boney Courthouse (Anchorage) and a minor remodel in the Nesbett Courthouse (Anchorage) to accommodate additional judges, provide safe prisoner transport to additional courtrooms in the Boney Courthouse, provide spaces that are more conducive to efficient customer service for the public, and to address seismic and safety concerns. The FY10 request is estimated at \$18,957.6.

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Alaska Legislature				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY08 Conference Committee (GF Only)	\$53,340.2			
FY08 Fiscal Notes	83.5			
Reappropriations	7,374.9			
Special Appropriations	-			
Multi-Years (from prior fiscal years)	-			
Agency Transfers	59.3			
08 Contractual Salary Adjustments	-			
08 Salary Fund Changes	-			
Misc Adjustments	-			
FY 08 Management Plan (GF only)	\$60,857.9	\$7,517.7	14.1%	
One-time Items removed	-			
Transfers between Agencies (nets zero statewide)	27.3			
FY09 Contractual Salary and Health Increases	93.1			
FY 09 Adjusted Base Budget (GF only)	\$60,978.3	\$120.4	0.2%	
FY 09 Unrealizable Salary Fund Source Changes	-			
FY 09 Governor's GF Increments/Decrements/Fund Changes	(205.7)			
FY 09 Governor's Request (GF only)	\$60,772.6	(\$205.7)	-0.3%	
FY09 Governor's Increments, Decrements and Fund Changes Less Unrealizable Salary Fund Source Changes	FY09 Adjusted Base Budget + Salary Fund Changes (GF Only)	FY09 Governor's Request (GF only)	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Allocation			(\$205.7)	
Session Expenses	8,577.8	8,560.1	(17.7)	
Office of Victims Rights	365.9	177.9	(188.0)	
Non-General Fund Agency Summary	FY09 Adjusted Base Budget + Salary Fund Changes	FY09 Governor's Request	Change from Revised FY09 Adj Base to FY09 Governor's Request	See Note:
Federal Funds (all allocations)	0.0	0.0	0.0	
Other funds (all allocations)	762.9	968.6	205.7	
Total Non-General Funds (all allocations)	\$762.9	\$968.6	\$205.7	
Position Changes (From FY08 Management Plan to Gov)	0	0	0	
PFT			0	
PPT			0	
Temp			0	
Governor's Capital Request	GF	Fed Rcpts	Other	See Note:
Capital Projects Subtotal by Fund Source	\$0.0	\$0.0	\$0.0	
TOTAL CAPITAL BUDGET		\$0.0		

Legislative Fiscal Analyst's Overview of the Governor's FY09 Request

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute. In addition to the sixty members and their office staffs, the legislature includes the following appropriations and allocations:

- Legislative Budget and Audit Committee
 - Legislative Audit
 - Ombudsman
 - Legislative Finance
 - Legislature State Facilities Rent
- Legislative Council (Legislative Affairs Agency)
 - Administrative Services
 - Legal and Research Services
 - Select Committee on Ethics
 - Office of Victims Rights

Legislative Fiscal Analyst Comment: The legislative budget traditionally appears in preliminary form in the Governor's request. The request is not reviewed by legislative leadership until later in the budget process, so does not necessarily indicate what the final budget will include. Following tradition, reappropriations of FY07 money into FY08 (\$7.4 million in general funds) remain in the FY09 request.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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