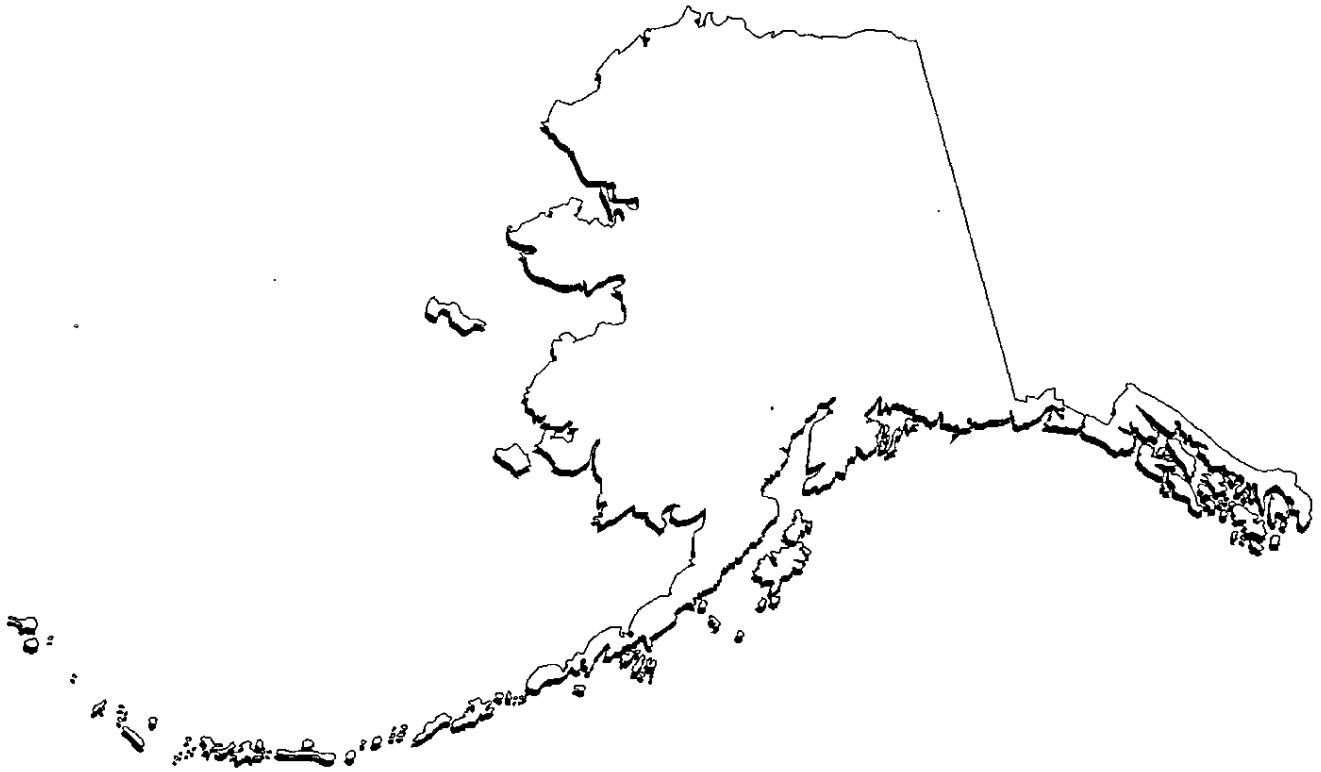


**1/22/10
OVERVIEWS :
OFFICE OF
MANAGEMENT &
BUDGET ,
LEGISLATIVE
FINANCE
DIVISION**

<target><bill></bill><subject>1-22-10 OVERVIEWS OFFICE OF
MANAGEMENT & BUDGET, LEGISLATIVE FINANCE
DIVISION</subject><comm>HFIN26</comm></target>

The Fiscal Year 2011 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.

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Introduction

As required by law, the Governor released his FY11 budget proposal to the public and the legislature by December 15, 2009. 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.

Alaska's Fiscal Situation

The short and sweet version of the story is that Alaska has more cash reserves than ever before—nearly \$10 billion excluding the Permanent Fund Corpus and earnings reserves—and is projecting a seventh consecutive year of general fund surpluses. But nothing is short and sweet in the budget world, and there are concerns about long-term oil production declines, volatile oil prices, the pace of gasline development, and expenditure levels that may not be sustainable. As those who work with state budgets can attest, having money does not necessarily make the budget process easier.

Before consideration of transfers, the **anticipated surpluses for FY10 and FY11 are \$1.45 billion and \$330 million, respectively**. If the legislature approves transfers proposed by the Governor, the projected surpluses decline to \$444 million for FY10 and \$55 million for FY11.¹

As always, projections involving oil prices are somewhat speculative. For this reason, Legislative Finance prefers sensitivity charts (like those on pages 6 and 7) to a revenue estimate based on a specific oil price. As the FY10 chart shows, if oil remains at the current year-to-date price of \$73.42 per barrel through the end of the year, the FY10 surplus would grow to about \$2.2 billion before transfers, and to about \$1.1 billion after forward funding K-12 education.

In summary, Alaska is in a position to repay the remaining liability (\$400 million) to the Constitutional Budget Reserve Fund (CBRF). That liability is the net amount borrowed from the fund since its inception in 1991. Repaying the liability to the CBRF would result in a major paradigm shift. General funds not appropriated by year-end would remain in the general fund and be available for appropriation—without a supermajority vote—in the following fiscal year. Alaska has not had a positive start-of-fiscal-year general fund balance in 20 years.

State senators and representatives typically begin a legislative session facing decisions about two fiscal years—the open fiscal year (FY10) and the budget year (FY11). In an unusual turn of events, the sharp declines in both oil prices and financial markets that occurred in FY09 remain relevant to current fiscal decisions. The fiscal summary prepared at the end of the 2009 session anticipated a deficit of nearly \$800 million for FY09, after paying \$745 million as a resource rebate and depositing \$1 billion into the Constitutional Budget Reserve Fund. Actual revenue was within \$40 million of projections and the amount appropriated was as projected, yet the FY09 comprehensive financial report shows a surplus of \$200 million. Readers may wonder "So, how did a billion dollars appear from thin air, and how might that event affect the amount of money available for appropriation during the 2010 session?"

¹ The Governor proposes:

1. a \$1.1 billion transfer from the general fund to the public education fund in FY10 (which would restore the fund balance to the level required to forward fund K-12 education in FY11);
2. a \$400 million transfer from the general fund to a newly created performance scholarship fund in FY11;
3. transfers of \$179 million from savings accounts in FY11; and
4. other more routine transfers of \$40 million.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

The money is available because of a miscommunication that caused revenue projections and financial statements to become unsynchronized beginning with FY08. Revenue projections cover the period from July through June, while financial statements designate accrued June revenue as money available in the following fiscal year.² June 2008 oil prices were extremely high, so adding June 2008 oil taxes to FY09 revenue while subtracting June 2009 taxes (so they could be added to FY10 revenue) caused the financial statement to show an unexpected billion dollars of available revenue in FY09. The extra money means that the Statutory Budget Reserve Fund was not needed to balance the budget in FY09 (so the balance remains at \$1 billion) and the general fund liability to the CBRF was reduced by \$200 million (and now stands at \$400 million).

How does this impact extend to the current session? If the FY10 financial statements are synchronized with revenue forecasts, accrued revenue from June 2010 will not be designated for use in FY11. Effectively, synchronization could mean that FY10 would get a "thirteenth month" of revenue, adding \$304 million to the projected \$1.45 billion surplus. With the thirteenth month, the projected surplus is sufficient to forward fund K-12 education with \$1.1 billion, repay the \$400 million liability to the CBRF, and still have about \$250 million to spend or save. If oil prices remain at the current level (\$73.42/bbl) during the second half of FY10, revenue will be about \$750 million more than the official projection.

The effects of the 2009 financial market decline also extend beyond FY09. The most significant issues include higher contributions to retirement plans—but that will come after FY11—and dealing with investment losses realized by the Permanent Fund in FY09. The latter issue is more complex than can be addressed in this overview, but readers who wish to prepare for legislative deliberation on the topic may want to review a paper on the subject (posted on the Legislative Finance Division website).

The Governor's Budget

The following discussion is based on the fiscal summary—Alaska's "budget on a page." Parenthetical references refer to line numbers on the summary on page 5. The summary incorporates the results of a project that moved about \$750 million of "other funds" to the general fund category in order to provide clearer, more meaningful information on state spending and revenue. Please see page 9 for a discussion of the project.

The fiscal summary is broken into four sections. This review focuses on general funds, not because other funds are unimportant, but because the difference between general fund spending and general fund revenue defines the fiscal gap/surplus.

- 1. Agency Operations (line 8)** refers to money appropriated/requested to operate all public agencies. It may be the best expression of public perception of "the budget" and includes money for K-12 education (line 11) and other formula programs like Medicaid (line 12) as well as all non-formula operating costs (line 10). The Governor's request is up \$183 million (4.4%) from FY10. Roughly half of that amount is for K-12 education and Medicaid. Please see the discussion beginning on page 15 for more details on operating budget increases.

There are no obvious places here for significant budget reductions. In fact, the legislature may find it difficult to remain below the Governor's request, particularly if a reduction in the Medicaid matching rate (lowered as part of the federal stimulus package) is not

² This discussion is oversimplified. While technical details might be of interest to Finance Committee members, detail would not facilitate understanding at the *Overview* level of discussion.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

extended. Alaska's FY11 share of Medicaid payments will increase by \$50 million or more if the rate returns to normal on December 31, 2010.

- 2. Statewide Operations (line 17)** refers to appropriations that are typically not reviewed by operating budget subcommittees. The Governor's request is up \$97 million (13.7%) from FY10. Most of these items—debt service, retirement system costs and petroleum tax credits—may be considered nondiscretionary.

Although paying claims for tax credits is nondiscretionary, the estimate of required deposits to the tax credit fund (line 23) may be overstated. The appropriation for tax credits is merely an estimate that will be automatically reduced if claims for credits are lower than anticipated.

- 3. Capital Appropriations (line 26)** include capital projects and a \$150 million deposit to the Alaska Gasline Inducement Act (AGIA) reimbursement fund. The Governor's \$549 million general fund request is \$269 million (96%) more than the FY10 capital budget adopted by the legislature. Primary drivers of the increase are \$150 million to the AGIA Reimbursement Fund and \$100 million for state-wide deferred maintenance.

The legislature typically adds a substantial amount to the Governor's capital request. After what some legislators consider as two lean years of capital spending, a larger capital spending plan by the legislature would be no surprise. Capital spending is also highly dependent on the fiscal situation—spending goes up when revenue is high. As the FY10 sensitivity chart on page 6 shows, if oil prices remain at the current level (\$73.42/bbl) during the second half of FY10, revenue will exceed current appropriations by \$2.2 billion. After forward funding K-12 education and repaying the \$400 million liability to the CBRF, the remaining \$1 billion surplus would be available for spending in FY11.

An additional reason the final capital budget might be larger than the Governor's proposal becomes apparent when one compares the Governor's FY11 request to the FY10 final budget and to the FY10 Governor's request. Governor Palin's FY10 request contained several agency projects—the largest was a \$76 million request for funds to replace payroll and accounting software—that were not approved and do not appear in the Governor's FY11 request. Many of the agency projects are still needed. For more details on the capital budget, please see the discussion beginning on page 55.

- 4. Transfers (line 37)** is the portion of the fiscal summary that requires the most explanation. The transfers section records money that passes from one fund to another without leaving the treasury. Please see the budget clarity progress report reproduced on page 9 for a more detailed discussion.

A negative number (such as the \$1.057 billion in the FY10 GF column on line 39) indicates a transfer to the general fund. In this case, \$1.057 billion is the estimated cost of K-12 education in FY10. That amount was removed from the Public Education Fund (PEF) and distributed to school districts, but the legislature did not approve an FY10 appropriation to the PEF, so there was a balance reduction of \$1.057 billion.

Similarly, the negative \$2.1 million and negative \$177 million shown in the FY11 GF column (lines 41 and 42) indicate the Governor's proposed withdrawals of \$177 million from the Alaska Housing Capital Corporation account—a savings account the legislature created with a \$300 million general fund deposit in FY07—and \$2 million from the CBRF for management fees. The \$179 million withdrawn from savings accounts also

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

appears on the lines where the money is spent (\$150 million deposited in the AGIA Reimbursement Fund on line 29, \$10 million for capital projects incorporated in line 28, and \$19 million for agency operations incorporated in line 10).

A positive number indicates a net deposit to a fund. The Governor's proposals to deposit \$14 million to the Public Education Fund and \$400 million to a scholarship fund are shown on lines 39 and 40.³ Transfers to (and from) accounts that are not considered savings accounts are shown on line 43.

As shown in the fiscal summary (line 36), the Governor's proposed budget spends \$330 million less than the projected amount of revenue. Although transfers are not considered spending—because money is transferred *within* the treasury—they do require an appropriation and they “take money off the table.” The Governor proposes both deposits to and withdrawals from savings accounts. The net deposit of \$275 million (line 37) reduces the projected FY11 surplus to \$55 million (line 45). Without the proposed withdrawals from savings (lines 41 and 42), the Governor's budget would show a deficit of \$124 million.

Further Analysis

Although the fiscal summary provides a concise statement (and comparison) of projected revenue, appropriations and the size of the anticipated surplus or deficit, it has the limitation of being Alaska's budget-on-a-page. This *Overview* contains more detailed discussions of the proposed FY11 budget:

- Agency summaries (operating budget on pages 17 & 18 and capital budget beginning on page 55) provide a quick comparison of the Governor's proposed budget with FY10 spending.
- Greater detail is available in the discussions of the operating budget (and subtopics) and the agency write-ups beginning on page 73.

Subcommittee members will want to review the detailed agency books available in the Finance Committee rooms.

³ Section 21(t) of the Governor's operating budget bill appropriates \$1.131 billion from the general fund to the Public Education Fund (PEF) in FY11 for FY12 K-12 education costs. This amount is \$14 million more than required to fund K-12 education in FY11, so the fiscal summary shows a \$14 million deposit to savings.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

State of Alaska Fiscal Summary – FY10 and FY11 (in millions)

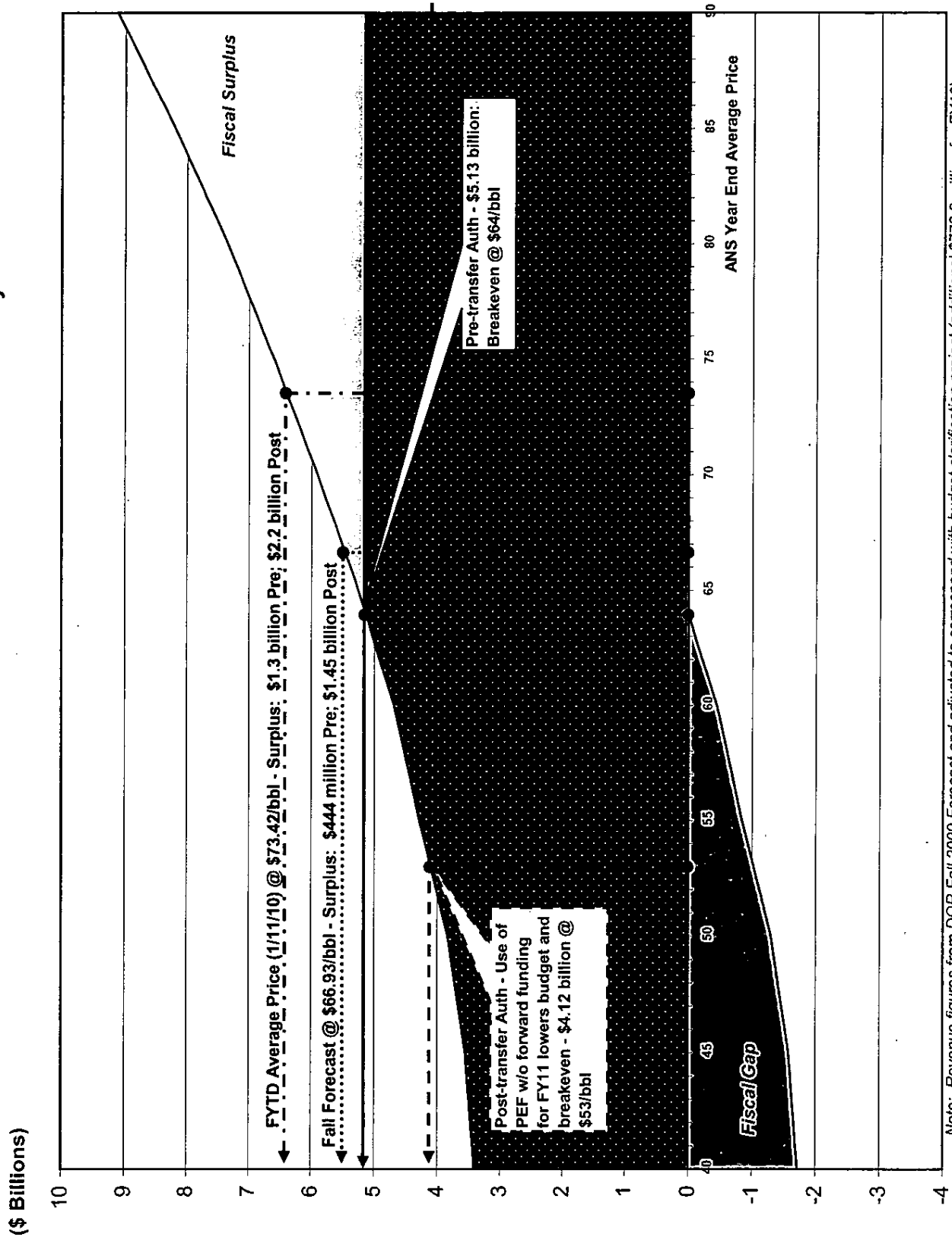
	FY10 Authorized Budget				FY11 Governor's Proposed Budget				Change in GF	
	Total General Funds	Other State Funds	Federal Receipts	All Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
1 REVENUE (Excludes Permanent Fund Earnings) (1)	5,573.2	500.8	3,091.3	9,165.3	6,008.0	501.3	2,780.6	9,289.9	434.8	7.8%
2 Unrestricted General Fund Revenue (Fall 2009) (2)	4,777.9	-	-	4,777.9	5,236.6	-	-	5,236.6	-	-
3 Carryforward (3)	22.1	1.3	146.4	169.8	-	-	-	-	-	-
4 Other Revenue Reclassified as General Fund Revenue (4)	773.2	-	-	773.2	771.4	-	-	771.4	-	-
5 Federal and Other Funds	-	499.5	2,944.9	3,444.4	-	501.3	2,780.6	3,281.9	-	-
6 APPROPRIATIONS										
7 TOTAL OPERATING APPROPRIATIONS	4,849.7	351.2	1,939.2	7,140.0	5,129.1	352.3	1,912.6	7,394.0	279.4	5.8%
8 Agency Operations	4,144.4	295.3	1,915.5	6,355.3	4,327.0	299.9	1,885.6	6,512.5	182.6	4.4%
9 Current Fiscal Year Appropriations (includes bills)	4,094.4	295.3	1,915.5	6,305.3	4,277.0	299.9	1,885.6	6,462.5	182.6	4.5%
10 Agency Operations (Non-Formula)	2,438.7	292.4	981.2	3,722.2	2,528.4	290.1	941.3	3,759.8	89.7	3.7%
11 K-12 Education	1,073.7	-	20.8	1,094.5	1,129.7	-	20.8	1,150.5	56.0	5.2%
12 Other Formula Programs	582.1	2.8	890.5	1,475.3	618.9	2.8	923.5	1,543.2	34.8	6.0%
13 RPLs (No FY2011 RPLs are Included)	-	0.2	13.1	13.2	-	-	-	-	-	-
14 Fiscal Notes	-	-	-	-	2.0	7.0	-	9.0	-	-
15 Duplicated Authorization (non-additive) (5)	-	625.2	-	625.2	-	621.1	-	621.1	-	-
16 Supplemental Appropriations	50.0	0.0	0.0	50.0	50.0	0.0	0.0	50.0	-	-
17 Statewide Operations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
18 Current Fiscal Year Appropriations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
19 Debt Service	167.7	55.8	14.7	238.2	197.0	52.4	18.0	267.4	29.4	17.5%
20 Fund Capitalization	7.5	-	9.0	16.5	7.5	-	9.0	16.5	-	0.0%
21 Direct Appropriations to Retirement	284.7	-	-	284.7	357.6	-	-	357.6	72.9	25.6%
22 Local Government Support	60.0	-	-	60.0	60.0	-	-	60.0	-	0.0%
23 Oil & Gas Investment Tax Credits	180.0	-	-	180.0	180.0	-	-	180.0	-	0.0%
24 Resource Rebate	5.4	-	-	5.4	-	-	-	-	(5.4)	-100.0%
25 Duplicated Authorization (non-additive) (5)	-	137.1	-	137.1	-	8.5	-	8.5	-	-
26 TOTAL CAPITAL APPROPRIATIONS	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
27 Current Fiscal Year Appropriations	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
28 Project Appropriations & RPLs (Revised Programs)	263.2	40.0	1,138.4	1,441.6	398.5	54.7	838.2	1,291.4	135.3	51.4%
29 Fund Capitalization	16.8	-	-	16.8	150.1	-	1.1	151.1	133.2	792.1%
30 Projects Funded with General Obligation Bonds (non-add)	-	-	-	-	-	-	-	-	-	-
31 Projects Funded with Other Debt Proceeds (non-additive)	-	24.0	-	24.0	-	181.1	-	181.1	-	-
32 Capital Vetoes (non-additive)	-	-	-	-	-	-	-	-	-	-
33 Duplicated Authorization (non-additive) (5)	-	46.8	-	46.8	-	201.8	-	201.8	-	-
34 Money on the Street (includes all fund sources) (6)	280.0	86.8	1,138.4	1,505.2	548.5	256.5	839.3	1,644.3	-	-
35 Pre-Transfers Authorization (unduplicated)	5,129.7	391.2	3,077.6	8,598.5	5,677.6	407.0	2,751.9	8,836.5	548.0	10.7%
36 Pre-Transfers Surplus (Draw from GBRF)	449.5	6%	of Revenue		330.4	6%	of Revenue			
37 Transfers	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	1,282.1	-127.3%
38 Current Fiscal Year Appropriations	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	1,282.1	-127.3%
39 Designated Savings (Public Education Fund)	(1,057.4)	-	-	(1,057.4)	14.0	-	-	14.0	-	-
40 Designated Savings (Performance Scholarship Fund)	-	-	-	-	400.0	-	-	400.0	-	-
41 Undesignated Savings (Constitutional Budget Reserve Fund)	(1.7)	-	-	(1.7)	(2.1)	-	-	(2.1)	-	-
42 Undesignated Savings (Alaska Housing Capital Corporation)	-	-	-	-	(177.0)	-	-	(177.0)	-	-
43 Other Transfers	52.0	10.0	13.7	75.7	40.1	8.7	28.8	77.5	-	-
44 Post-Transfers Authorization (unduplicated)	4,122.6	401.2	3,091.3	7,615.1	5,952.6	415.7	2,780.6	9,148.9	1,830.0	44.4%
45 Post-Transfers Surplus (Draw From CBRF)	1,450.6	26%	of Revenue		55.3	1%	of Revenue			
46 Permanent Fund Appropriations	590.0	99.6	0.1	689.6	1,523.0	85.6	-	1,608.6		
47 Permanent Fund Dividends	590.0	-	-	590.0	637.0	-	-	637.0	-	-
48 Deposits to Principal	-	-	0.1	0.1	886.0	-	-	886.0	-	-
49 Other Uses of Earnings	-	99.6	-	99.6	-	85.6	-	85.6	-	-
50 Total Authorization (unduplicated)	4,712.6	500.8	3,091.3	8,304.7	7,475.6	501.3	2,780.6	10,757.5	2,763.0	58.6%
51 FISCAL YEAR SUMMARY (Excludes PermF)	4,122.6	401.2	3,091.3	10,678.6	5,952.6	415.7	2,780.6	14,890.5	1,830.0	44.4%
52 Agency Operations	4,144.4	295.3	1,915.5	6,355.3	4,327.0	299.9	1,885.6	6,512.5	182.6	4.4%
53 Statewide Operations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
54 Total Operating	4,849.7	351.2	1,939.2	7,140.0	5,129.1	352.3	1,912.6	7,394.0	279.4	5.8%
55 Capital	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
56 Total Authorization	5,129.7	391.2	3,077.6	8,598.5	5,677.6	407.0	2,751.9	8,836.5	548.0	10.7%
57 Transfers	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	1,282.1	-127.3%
58 Federal Stimulus Funding (ARRA of 2009)	-	-	297.1		-	-	176.1			

Notes:

- (1) Permanent Fund earnings are excluded from reported revenue because the entire balance of the earnings reserve account is available for appropriation. Permanent Fund earnings and balance information is reported on page 2 of the fiscal summary.
- (2) The Fall 2009 oil forecast for FY10 is 0.668 mbd at \$66.93 per barrel; the FY11 forecast is 0.631 mbd at \$76.35/bbl. Source: Revenue Sources Book, Fall 2009.
- (3) Carryforward is money that was appropriated in a prior year that is made available for spending in FY10 via multiyear appropriations or reappropriations. FY11 carryforward will be unknown until the close of FY10.
- (4) In an effort to present the budget in a more meaningful and accurate way, many sources of funds were reorganized from "other" funds to general funds beginning in FY11. This summary presents both FY10 and FY11 budgets in the revised fund categories in order to make comparisons across years valid.
- (5) 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.
- (6) From an accounting perspective, unduplicated authorization (line 26) is the best measure of capital spending. However, adding duplicated fund sources provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

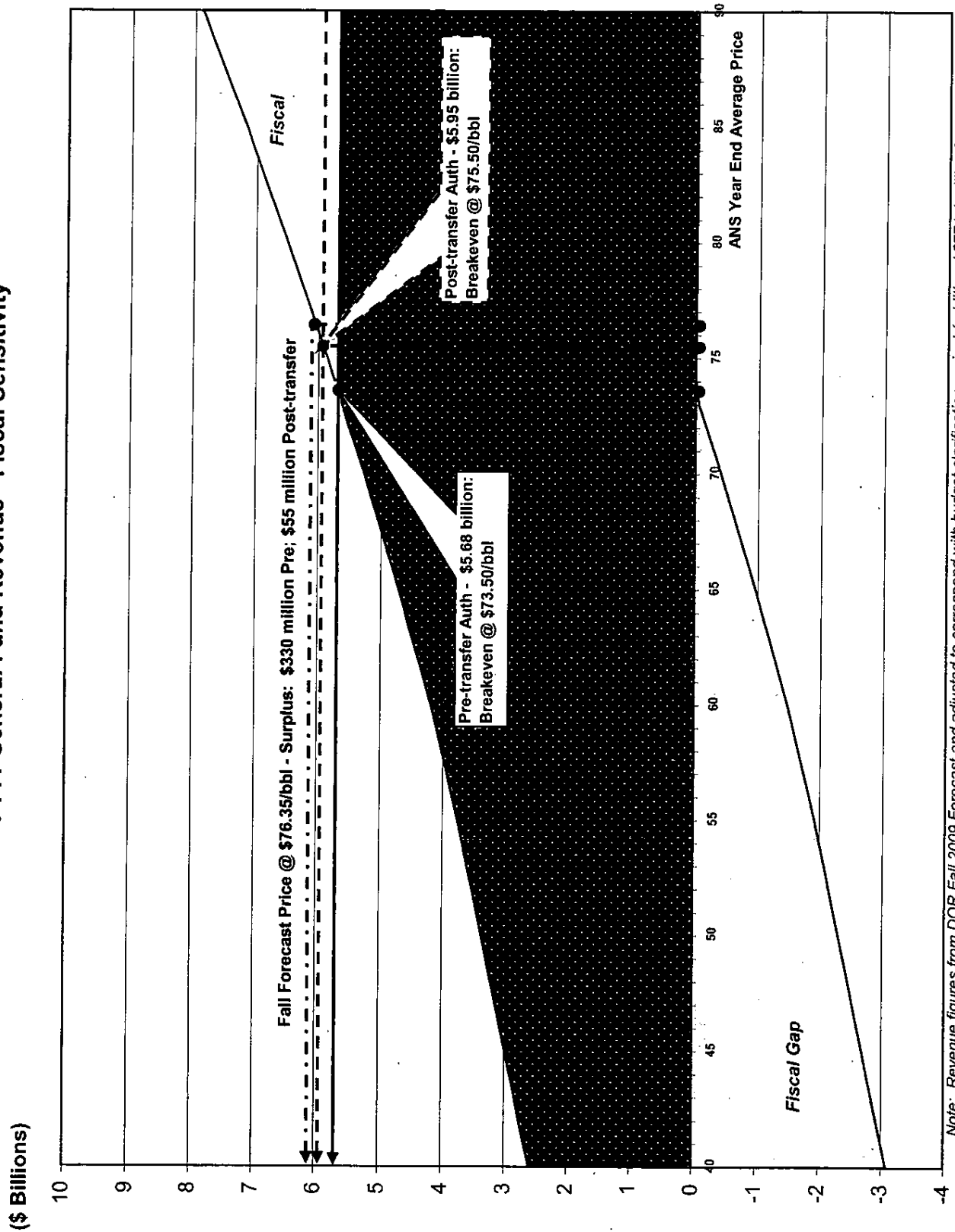
January 15, 2010

FY10 General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures from DOR Fall 2009 Forecast and adjusted to correspond with budget clarification project (additional \$773.2 million for FY10). Figures include sources not directly affected by oil prices. Lease expenditures estimated at \$16/bbl (\$4.5 billion total).

FY11 General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures from DOR Fall 2009 Forecast and adjusted to correspond with budget clarification project (additional \$771.4 million for FY11). Figures include sources not directly affected by oil prices. Lease expenditures estimated at \$19/bbl (\$5 billion total).

State of Alaska Fiscal Summary (Page 2)

(\$ millions)

Constitutional Budget Reserve and Permanent Fund Account Balances

	Constitutional Budget Reserve Fund	Permanent Fund Total	Principal	Earnings Reserve	Unrealized Gains
FY10 Beginning Balance	7,114.4	29,916.0	30,944.0	420.0	(1,449.0)
Settlements	440.7	-	-	-	-
Net Earnings/Dedicated Revenues	968.2	2,840.0	602.0	749.0	1,489.0
Permanent Fund Inflation Proofing	-	-	-	-	-
Transfer to Capital Income Fund	-	-	-	-	-
Permanent Fund Dividend Payout	-	(590.0)	-	(590.0)	-
Transfer (to)/from General Fund	443.5	-	-	-	-
Loan to General Fund (prior year)	-	-	-	-	-
Loan to General Fund (current year)	-	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY10 Projected Ending Balance	<u>8,966.8</u>	<u>32,165.0</u>	<u>31,546.0</u>	<u>578.0</u>	<u>40.0</u>
Net Additions to Account Balance	1,852.4	2,249.0	602.0	158.0	1,489.0
Due from the General Fund	<u>401.6</u>				
FY11 Projected Beginning Balance	8,966.8	32,165.0	31,546.0	578.0	40.0
Settlements	20.0	-	-	-	-
Net Earnings/Dedicated Revenues	578.5	3,275.0	673.0	1,469.0	1,133.0
Permanent Fund Inflation Proofing	-	-	886.0	(886.0)	-
Transfer to Capital Income Fund	-	(3.0)	-	(3.0)	-
Permanent Fund Dividend Payout	-	(637.0)	-	(637.0)	-
Transfer (to)/from General Fund	52.8	-	-	-	-
Loan to General Fund (prior year)	-	-	-	-	-
Loan to General Fund (current year)	-	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY11 Projected Ending Balance	<u>9,618.2</u>	<u>34,800.0</u>	<u>33,105.0</u>	<u>522.0</u>	<u>1,174.0</u>
Net Additions to Account Balance	651.3	2,637.0	1,559.0	(56.0)	1,134.0
Due from the General Fund	<u>348.8</u>				

CBR information is from the Revenue Sources Book (Fall 2009)

Permanent Fund information is from APFC November 30, 2009 financial projections

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

The Legislative Finance Division has been working with the Finance Committee co-chairs and with OMB to implement significant budget presentation changes in the FY11 budget cycle. The following information reproduces the Legislative Finance Division's first progress report on the project. The report explains the budget presentation challenges being addressed and outlines the solutions being implemented to address these challenges. This report was provided to the Finance co-chairs and to OMB and, along with other progress reports, is posted on LFD's web site (<http://www.legfin.state.ak.us/>).

Budget Clarification Project

Progress Report 1

December 3, 2009

As part of a continuous process, Legislative Finance has been planning for and working on major improvements to the presentation of Alaska's budget for nearly a year. Because implementation of changes proposed for the FY11 budget is a complicated process, Legislative Finance intends to provide weekly progress reports to the Finance Co-Chairs and to OMB until roll-out is complete.

Background

The budget clarification project has three distinct parts, all of which are critical to presenting Alaska's budget in a simpler, clearer, more accurate and more meaningful way. The parts are:

1. Reappropriations,
2. Fund transfers and duplicated appropriations, and
3. Fund code recategorization.

Reappropriations

Unless problems arise, reappropriations will not be discussed in future progress reports. OMB does not intend to do anything contrary to the reappropriation guidelines dated October 2009. The guidelines can be summarized as follows:

1. Agencies will terminate capital projects administratively; there will be no reappropriations to new executive branch projects.⁴ The legislature will then review all of the Governor's capital requests on equal footing. Money

⁴ The Administration does not currently expect to terminate any capital projects or reappropriate any FY10 operating money to FY11. OMB says that 1) capital projects were scrubbed for potential reappropriation last year and 2) agencies have been told to request new operating money for FY11 rather than carry money forward from FY10.

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associated with terminated projects will show as revenue in the year of project termination.

2. Legislative capital reappropriations will continue as in the past. Reappropriations can be included or excluded from election district reports, depending on the purpose of the report.
3. Operating carryforward reappropriations will appear in the operating bill so subcommittees can include them in their review of the FY11 operating budget.
4. Reappropriations affecting FY10 will appear in the supplemental bill.
5. All reappropriations will include estimates of amounts to be reappropriated and will be entered into the budget database.

Fiscal Summary Impact: None. Reappropriations are, and will remain, net zero transactions. This part of the project will improve information available to the public, but it does not affect the amount, fund classification, timing or agency assignment of any appropriation.

Fund Transfers and Duplicated Appropriations

Unless problems arise, fund transfers and duplicated appropriations will not be discussed in future progress reports. Legislative Finance and OMB have reached agreement on budget structure and classification of duplicated codes. OMB intends to use the new structure and codes in budget bills submitted for FY11. OMB also intends to simplify appropriation language in the bills to reflect the new structure. An explanation of changes follows:

Traditionally, capitalization (for example, appropriating general funds to the Railbelt Energy Fund) shows in the fund capitalization line of the fiscal summary. In order to avoid double counting, appropriations *from* a capitalized fund are classified as duplicated expenditures and are netted out of the fiscal summary. This treatment affects:

1. Classification—appropriations from a capitalized fund are always classified as “other funds” rather than matching the source of the original funding (because general and federal funds cannot be classified as duplicated). This may result in less scrutiny of appropriations from various funds.
2. Location—appropriations show on the fund capitalization line of the fiscal summary rather than in the agency that money is actually spent. For example, general funds moving through the Oil and Hazardous Waste Fund to the Department of Environmental Conservation do not appear in the fiscal summary as agency expenditures; they show as a fund capitalization. This treatment understates the amount of general funds used in agency operating budgets, which is the part of the budget that many people mean when they say “the budget.”
3. Timing—appropriations to a fund are counted in the year the fund capitalization is made, while money in the fund may not be spent until years later.

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Beginning with FY11, appropriations will be counted when money leaves the treasury rather than when it is transferred from one fund to another. Fund transfers will be recorded as transactions and included in reports, but will be excluded from the roll-up of totals. The new treatment of transfers and duplicated funds will:

1. Retain the original classification of funds, and show where and when money is actually spent as well as when it is deposited into a savings account or other fund.
2. Simplify and clarify budget bills by allowing direct appropriations for items like debt service.
3. Eliminate most duplicated fund codes.

Fiscal Summary Impact: The new approach provides a clearer, more accurate and more meaningful presentation of the budget. In the long-run, unduplicated appropriations will be no more, and no less, than under the current presentation.

However, there are some transitional issues in the short-run. Because money will be counted as it flows *out* of funds, while historically money was counted on its way *into* funds, historical data must be revised (to incorporate the new treatment of transfers and duplicated fund codes) in order to avoid double counting. That task may take significant effort. Fortunately, the budget process does not involve significant historical review, so efforts to “fix history” can be deferred until interim.⁵

For FY10, the new approach—counting money as it leaves the treasury—will give the appearance of about \$33 million of additional general fund spending. This will occur because appropriations from the Railbelt Energy Fund and Capital Income Fund were formerly classified as duplicated “other” expenditures (because money was counted as it flowed into those funds in years past) and will now be counted as FY10 general fund expenditures. These expenditures will not increase the fiscal gap because the expenditures will be offset by transfers from capitalized funds to the general fund.

Fund Code Recategorization

The Governor's budget bills will *not* incorporate the new fund code categories. This does not indicate a lack of support for the proposed changes—OMB has been working jointly with Legislative Finance on this project for months—but rather a combination of technical and political issues. Those issues are:

1. OMB staff effort was focused on preparing FY11 budgets; resources available for fund recategorization were insufficient to ensure a smooth transition by December 15.
2. The power of appropriation is vested in the legislature. That power includes categorization of appropriations. OMB release of a budget in which fund

⁵ Unfortunately, the effort to produce and analyze ten-year agency operating plans becomes complicated when historical, present and future appropriations are inconsistently presented. The complications need not delay consideration of the plans during the FY11 budget cycle, but it does mean that plans may require re-benchmarking in FY12.

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sources were recategorized could be viewed as infringing on a legislative prerogative.

In summary, future progress reports will address the resolution of issues/problems associated with implementing the fund recategorization portion of the budget clarification project.

As with reappropriations and transfers/duplicated codes, the purpose of fund recategorization is to provide budget information in a more meaningful way. Of the three parts of the project, this portion is the most complex and has the largest impact on presentation of the budget.

Traditionally, appropriations have been tallied in three groups: general funds, federal funds and other funds. For years, some budget-watchers expressed concern about the proliferation of "other funds." The primary reason for concern seems to be the contradiction between statements and action—despite continued statements recognizing that "other funds" are truly state funds, the media and the legislature focus on general funds to the extent that appropriations of "other funds" are often referred to as "off-budget."

Of course, the "off-budget" label is a mischaracterization—other funds *are* included in the budget. But focusing on technicalities misses the salient points:

1. appropriations of other funds get less scrutiny than appropriations of general funds, despite the fact that many "other funds" are so indistinguishable from general funds that they have been referred to by names such as "spends like GF", "funny money" and "flexible funds" and
2. over use of "other funds" makes it more difficult to understand the budget and, perhaps more to the point, to make the best possible budget decisions.

As we worked with the Finance Committee Co-Chairs and OMB toward presenting the budget in a more meaningful way, it became obvious that traditional fund code categories—general, federal and other—were incapable of distinguishing degrees of discretion within the "other funds" category. The "other funds" category includes not only

- dedicated funds, trust funds, bonds and corporate receipts—that is, funds over which the legislature has limited discretion—but also
- numerous fund sources with an identified use—or, more accurately, a suggested use (given constitutional prohibition of dedicated revenue)—that does not limit the legislature's ability to appropriate the funds for another purpose.

Once degree of discretion was identified as the key to improving presentation of the budget, the obvious solution was to create a fourth fund category. Adding a new category for designated general funds (the existing general fund category is for *unrestricted* general funds) will signal the legislature that fund sources with designated, or suggested, uses are not outside the purview of the legislature.

Legislative Finance reviewed all fund codes, placing each in one of the four fund categories. Most, but not all, movement from one category to another was from "other" to

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designated general funds. Work is not complete; there may be some reassignment of codes and there will be additional work required in budget subcommittees. Any changes will be discussed in future progress reports.

Fiscal Summary Impact: In simple terms, recategorization will move about \$750 million from "other funds" to general funds.⁶ Although recategorization provides an opportunity for people to make statements about budget growth, such statements would be a demonstration of ignorance.

One of the tasks associated with this project will be to educate people regarding the fact that recategorization—in fact, the entire budget clarification project—does not affect the level of spending, it just rolls up spending in a different way. The intent is that the new presentation results in better spending decisions and better understanding of the budget.

Open Issues

Resolved Issues

There are several topics under both the "open" and "resolved" headings. Discussion will be deferred to a second progress report.

⁶ In addition, the Permanent Fund Earnings Reserve Account is classified as general funds. Dividends and inflation proofing will now show in one of the general fund categories. That change will have little apparent impact because Permanent Fund appropriations will continue to be shown in a separate portion of the fiscal summary.

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Operating Budget

The fiscal summary provides a “big picture” of the budget, including not only the operating budget, but also the capital budget, revenue, debt service, and transfers. This introduction to the operating budget focuses on how to put the Governor’s operating request for individual agencies in perspective.⁷

Budget comparisons across fiscal years are always difficult—there are so many adjustments required to get an “apples-to-apples” comparison that a complete discussion would push the limits of the term “overview.” With that caveat, the Governor’s FY11 operating budget request could be considered, for the most part, a status quo budget. The \$4.3 billion of general funds requested for agency operations is \$228.3 million (or 5.6%) over the FY11 Adjusted base. These increases are primarily due to the following big ticket items (please see individual agency narratives for details):

- \$56 million to pay for increases in the K-12 statutory formula;
- \$36.2 million to address Medicaid growth;
- \$42 million for increased fuel costs;
- \$10 million in the Department of Law for in-state gas development and BP corrosion litigation;
- \$10 million in the University to address increased costs;
- \$7 million to pay for the Governor’s Sexual Assault and Domestic Violence Prevention Initiative; and
- \$6.5 million in the Governor’s Office for In-State Natural Gas Pipeline Development.

The agency discussions in this overview serve as a starting point for subcommittee discussion, and subcommittee books provide more detailed information. Each subcommittee book compares the Governor’s request to two scenarios: FY10 Management Plan and the FY11 Adjusted Base. The advantages and disadvantages of using each of the comparisons are discussed in the paragraphs that follow. The table below highlights items included throughout each stage of the budget.

	(GF Only)	Change	% Change
FY09 Conference Committee (GF Only)	\$4,079,986.9		
<i>FY09 Fiscal Notes</i>	2,157.7		
<i>CarryForward</i>	12,989.7		
<i>Special Appropriations</i>	(11,174.2)		
<i>Agency Transfers</i>	-		
<i>09 Contractual Salary Adjustments</i>	(1,475.7)		
<i>Misc Adjustments</i>	12,845.4		
<i>Vetoes</i>	(912.7)		
FY10 Management Plan (GF only)	\$4,094,417.1	\$14,430.2	0.4%
<i>One-time Items removed</i>	(71,353.4)		
<i>Transfers between Agencies (nets zero statewide)</i>	-		
<i>FY10 Contractual Salary and Health Increases</i>	23,651.1		
<i>Misc Adjustments</i>	-		
FY11 Adjusted Base Budget (GF only)	\$4,046,714.8	(\$47,702.3)	-1.2%
<i>FY10 Governor's GF Increments/Decrements/Fund Changes</i>	228,280.1		
FY10 Governor's Agency Request (GF only)	\$4,274,994.9	\$228,280.1	5.6%

⁷ Although operating budget reports include “Statewide items” (such as Debt Service, Fund Capitalization, and Retirement funding), budgets for ongoing agency operations are what most people mean when they refer to “the operating budget.” Because statewide items are discussed in other places in this *Overview*, these items have been excluded from the above discussion.

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FY10 Management Plan to the Governor's request: \$180.6 million. The Management Plan is the most accurate picture of the previous year's budget. It incorporates all appropriations that can be spent in FY10, including reappropriations and carryforward from multi-year appropriations, and reflects the latest estimates for open-ended language appropriations. Management Plan excludes supplemental appropriations (because they have not yet occurred) but any FY11 supplemental appropriations that may occur are also excluded, so there is no distortion from this source.

The Governor's FY11 budget, however, excludes reappropriations and carryforward from multi-year appropriations—they do not occur until year end—so comparing the FY10 Management Plan to the Governor's FY11 request tends to understate spending in FY11 relative to FY10. The amount carried forward to FY10 was about \$13 million.

One-time items are a far larger source of distortion. For example, \$9 million of fuel costs show in DOT&PF's Marine Vessel Operations management plan, but the FY11 budget shows the fuel trigger appropriation as a branch-wide appropriation, so the FY11 budget is \$3.6 million (or 3 percent) below FY10 Management Plan. Distortion of this type is the reason for making comparisons from adjusted base. The base to Governor comparison more accurately shows a \$1.5 million increase that is requested for more bandwidth for a new "Ship-to-Shore" system.

FY11 Adjusted Base to Governor's request: \$228.3 million. The adjusted base attempts to reduce distortion in comparing agency budgets across fiscal years. It is the first FY11 budget scenario and can be described as the "cost of doing the same functions in FY11 as in FY10." The adjusted base is the starting point for subcommittee discussion of the Governor's request.

- It removes one-time appropriations, reappropriations, and carryforward of multi-year appropriations that were included in the FY10 Management Plan.
- It incorporates the FY11 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.

The FY11 Adjusted Base includes increases 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 increased health insurance costs add \$26.7 million statewide (\$16.8 million UGF, \$6.9 million DGF, \$2.2 million Federal Receipts and \$0.8 million in Other State Funds).

The **Governor's column** includes program increments and fund source changes that the legislature may wish to consider on an individual basis. Note that the concept of adjusted base is useful only for agency operating budgets. Savings deposits and statewide items—debt service, fund transfers, retirement contributions, etc.—are not budgeted on an incremental basis and are not reviewed by subcommittees.

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. Also note that the adjusted base is set at the Governor's request for items other than agency operating budgets.

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 the language sections, position changes and details of debt obligations.

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Agency Summary - FY11 Operating Budget - Total Funds									
Agency	09 Actual	10 CC	10 Auth	10 Mgt Pln	Adj Base	Gov	10 Mgt Pln to Gov	Adj Base to Gov	
Administration	267,289.2	293,249.0	296,213.6	296,213.6	293,111.4	298,310.6	2,097.0	5,199.2	1.8%
Commerce, Community & Econ Dev	176,531.4	187,688.0	194,806.3	194,806.3	193,285.7	200,799.4	5,993.1	7,513.7	3.9%
Corrections	242,353.3	248,241.3	249,178.5	249,178.5	247,055.9	250,030.7	852.2	2,974.8	1.2%
Education & Early Development	1,279,344.2	1,358,427.2	1,443,035.2	1,443,035.2	1,362,394.5	1,485,614.9	42,579.7	123,220.4	9.0%
Environmental Conservation	68,234.0	73,982.9	74,008.8	74,008.8	73,994.4	75,546.7	1,537.9	1,552.3	2.1%
Fish and Game	156,258.9	181,126.6	181,191.7	181,191.7	181,235.0	188,559.6	7,367.9	7,324.6	4.0%
Office of the Governor	28,095.0	23,507.1	58,178.4	58,178.4	23,833.4	34,178.4	(24,000.0)	10,345.0	43.4%
Health & Social Services	1,898,277.5	2,085,528.9	2,074,780.3	2,074,780.3	2,052,305.5	2,147,318.5	72,538.2	95,013.0	4.6%
Labor & Workforce Development	156,840.5	177,745.1	195,187.7	195,187.7	173,934.1	190,244.5	(4,943.2)	16,310.4	9.4%
Law	80,453.4	84,382.5	85,357.6	85,357.6	72,920.4	86,918.4	1,560.8	13,988.0	19.2%
Military & Veterans Affairs	44,819.8	46,618.8	46,941.2	46,941.2	46,554.6	48,461.7	1,520.5	1,907.1	4.1%
Natural Resources	139,621.2	140,805.0	145,249.6	145,249.6	133,098.2	146,609.1	1,359.5	13,510.9	10.2%
Public Safety	147,027.5	171,594.8	180,253.2	180,253.2	174,113.4	185,276.3	5,023.1	11,162.9	6.4%
Revenue	199,297.0	251,111.8	251,143.0	251,143.0	248,708.6	242,330.5	(8,812.5)	(6,378.1)	-2.6%
Transportation & Public Facilities	519,782.8	532,923.9	542,391.8	542,391.8	535,912.5	542,985.8	594.0	7,073.3	1.3%
University of Alaska	762,916.1	823,208.9	824,858.9	824,858.9	830,039.1	847,858.5	22,999.6	17,819.4	2.1%
Alaska Court System	87,251.5	90,368.2	90,368.2	90,368.2	92,145.0	98,552.7	8,184.5	6,407.7	7.0%
Legislature	50,411.4	66,070.0	67,615.8	67,615.8	67,043.2	68,589.0	973.2	1,545.8	2.3%
Branch-wide Unallocated Approp	-	23,000.0	16,000.0	16,000.0	-	42,000.0	26,000.0	42,000.0	0
Agency Budgets Total	6,304,804.7	6,839,580.0	7,016,759.8	7,016,759.8	6,801,684.9	7,180,185.3	163,425.5	378,500.4	5.6%
Statewide Items									
Debt Service	357,499.1	375,295.8	375,295.8	375,295.8	-	275,978.3	(99,317.5)	275,978.3	0
Fund Capitalization	23,069.2	16,500.0	16,500.0	16,500.0	-	16,500.0	-	16,500.0	0.0%
Direct Appropriations to Retirement	449,622.5	284,687.5	284,687.5	284,687.5	-	357,584.7	72,877.2	357,584.7	0.0%
Special Appropriations	1,124,181.5	-	245,418.5	245,418.5	-	240,000.0	(5,418.5)	240,000.0	0.0%
Statewide Items Total	1,954,372.3	676,483.3	921,901.8	921,901.8	-	890,043.0	(31,858.8)	890,043.0	0.0%
Statewide Total	8,259,177.0	7,516,063.3	7,938,661.6	7,938,661.6	6,801,684.9	8,070,228.3	131,566.7	1,268,543.4	18.7%
Fund Summary									
Unrestricted General Funds (UGF)	5,008,810.9	3,840,119.7	4,100,491.3	4,100,491.3	3,365,140.6	4,363,513.3	263,022.0	998,372.7	29.7%
Designated General Funds (DGF)	643,392.1	699,712.6	699,189.7	699,189.7	681,574.2	713,580.0	14,390.3	32,005.8	4.7%
Other State Funds (Other)	1,061,629.5	1,213,285.4	1,212,873.6	1,212,873.6	1,006,114.5	1,080,531.8	(132,341.8)	74,417.3	7.4%
Federal Receipts (Fed)	1,545,344.5	1,762,945.6	1,926,107.0	1,926,107.0	1,748,855.6	1,912,603.2	(13,503.8)	163,747.6	9.4%
Fund Transfers (non-additive)	3,281,602.9	(421,769.7)	(428,288.1)	(428,288.1)	(1,057,407.7)	1,810,904.9	2,239,193.0	2,868,312.6	-271.3%

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Agency Summary - FY11 Operating Budget - General Funds									
Agency	09 Actual	10 CC	10 Auth	10MgtPIn	Adj Base	Gov	10MgtPIn to Gov	Adj Base to Gov	
Administration	93,036.7	96,038.4	97,516.0	97,516.0	95,993.5	97,405.6	(110.4)	1,412.1	1.5%
Commerce, Community & Econ Dev	97,356.0	97,592.4	103,203.1	103,203.1	103,308.6	103,745.8	542.7	437.2	0.4%
Corrections	222,874.5	228,505.5	229,442.7	229,442.7	227,878.0	230,478.8	1,036.1	2,600.8	1.1%
Education & Early Development	1,061,436.7	1,122,670.9	1,128,875.8	1,128,875.8	1,126,647.7	1,185,088.5	56,212.7	58,440.8	5.2%
Environmental Conservation	41,074.3	42,154.3	42,184.9	42,184.9	42,160.5	43,081.5	876.6	901.0	2.1%
Fish and Game	65,424.2	68,724.6	68,799.8	68,799.8	68,811.6	69,628.2	828.4	816.6	1.2%
Office of the Governor	27,123.2	22,485.0	26,452.0	26,452.0	22,794.4	33,139.4	6,687.4	10,345.0	45.4%
Health & Social Services	909,561.1	915,500.9	900,099.2	900,099.2	896,577.0	951,026.0	50,926.8	54,449.0	6.1%
Labor & Workforce Development	58,008.6	63,695.0	64,112.6	64,112.6	59,853.8	64,850.3	737.7	4,996.5	8.3%
Law	56,540.9	57,010.9	57,977.6	57,977.6	47,654.1	61,373.1	3,395.5	13,719.0	28.8%
Military & Veterans Affairs	12,057.1	11,297.5	11,687.7	11,687.7	11,297.6	11,631.9	(55.8)	334.3	3.0%
Natural Resources	95,430.7	92,267.7	95,978.4	95,978.4	86,778.9	93,874.0	(2,104.4)	7,095.1	8.2%
Public Safety	126,870.5	141,421.5	141,497.1	141,497.1	143,720.9	147,111.1	5,614.0	3,390.2	2.4%
Revenue	33,298.4	35,984.4	35,277.5	35,277.5	35,708.0	38,225.7	2,948.2	2,517.7	7.1%
Transportation & Public Facilities	295,199.8	291,654.2	302,133.2	302,133.2	295,111.2	299,876.4	(2,256.8)	4,765.2	1.6%
University of Alaska	576,412.5	617,042.4	618,692.4	618,692.4	625,752.4	638,913.8	20,221.4	13,161.4	2.1%
Alaska Court System	84,892.1	87,211.3	87,211.3	87,211.3	89,963.4	95,315.8	8,104.5	5,352.4	5.9%
Legislature	50,037.6	65,730.0	67,275.8	67,275.8	66,703.2	68,249.0	973.2	1,545.8	2.3%
Branch-wide Unallocated Approp	-	23,000.0	16,000.0	16,000.0	-	42,000.0	26,000.0	42,000.0	-
Agency Budgets Total	3,906,634.9	4,079,986.9	4,094,417.1	4,094,417.1	4,046,714.8	4,274,994.9	180,577.8	228,280.1	5.6%
Statewide Items									
Debt Service	164,764.1	167,657.9	167,657.9	167,657.9	-	197,033.7	29,375.8	197,033.7	0.0%
Fund Capitalization	7,000.0	7,500.0	7,500.0	7,500.0	-	7,500.0	-	7,500.0	0.0%
Direct Appropriations to Retirement	449,622.5	284,687.5	284,687.5	284,687.5	-	357,564.7	72,877.2	357,564.7	0.0%
Special Appropriations	1,124,181.5	-	245,418.5	245,418.5	-	240,000.0	(5,418.5)	240,000.0	0.0%
Statewide Items Total	1,745,568.1	459,845.4	705,263.9	705,263.9	-	802,098.4	96,834.5	802,098.4	-
Statewide Total	5,652,203.0	4,539,832.3	4,799,681.0	4,799,681.0	4,046,714.8	5,077,093.3	277,412.3	1,030,378.5	25.5%
Fund Transfers (non-additive)	3,254,644.2	(445,520.6)	(452,039.0)	(452,039.0)	(1,057,407.7)	1,773,472.9	2,225,511.9	2,830,880.6	-267.7%

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Position Comparison

The Governor's FY11 operating budget request increases permanent full-time (PFT) positions by 34 from the FY10 Management Plan. Departments also added 50 PFTs during FY10 (to the number authorized by the legislature) so the total increase from the FY10 authorized level is 84. Overall, the Governor's FY11 statewide budget contains 24,585 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	FY10 Authorized	FY10 Management Plan	FY11 Governor	Positions Added by Agencies in FY10	Additional Positions Requested in FY11	TOTAL Change from FY10 to FY11
Administration	1,068	1,070	1,069	2	(1)	1
Commerce, Community and Economic Development	525	529	528	4	(1)	3
Corrections	1,510	1,510	1,509	-	(1)	(1)
Education and Early Development	332	332	334	-	2	2
Environmental Conservation	532	532	538	-	6	6
Fish and Game	910	910	912	-	2	2
Office of the Governor	155	156	156	1	-	1
Health and Social Services	3,457	3,474	3,469	17	(5)	12
Labor and Workforce Development	834	836	847	2	11	13
Law	552	553	555	1	2	3
Military and Veterans Affairs	283	296	295	13	(1)	12
Natural Resources	779	779	780	-	1	1
Public Safety	863	863	870	-	7	7
Revenue	866	866	869	-	3	3
Transportation and Public Facilities	3,202	3,207	3,190	5	(17)	(12)
University of Alaska	4,694	4,694	4,694	-	-	-
Alaska Court System	732	737	763	5	26	31
Legislature	246	246	246	-	-	-
TOTAL - ALL Agencies	21,540	21,590	21,624	50	34	84

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Language Sections of the Governor's FY2011 Operating Budget

Section Deleted; appeared in FY10 Operating Budget

LEGISLATIVE INTENT. (a) 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, 2011.

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 was to emphasize that supplemental operating appropriations are designed to be limited to needs that are truly unanticipated.

(b) It is the intent of the legislature that money appropriated from the general fund be expended conservatively. If an appropriation includes the unexpended and unobligated balance of program receipts collected in a prior fiscal year, it is the intent of the legislature that the program receipts be expended, as allowed, before the expenditure of other money appropriated from the general fund. It is the intent of the legislature that the office of management and budget and the Department of Administration assist the legislature in carrying out this intent.

Legislative Fiscal Analyst Comment: The legislature may wish to discuss the impact of this section in terms of both general fund savings and accounting headaches. The legislature may wish to consider revising the language to allow a limited amount of carryforward of program receipts in those programs in which carryforward acts as a cushion against fluctuations in receipts.

Section Deleted; appeared in FY10 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, 2011.

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.

Section Deleted; appeared in FY09 Operating Budget

PERSONAL SERVICES TRANSFERS. It is the intent of the legislature that agencies restrict transfers to and from the personal services line. It is the intent of the legislature that the office of management and budget submit a report to the legislature on January 15, 2011, that describes and justifies all transfers to and from the personal services line by executive branch agencies during the first half of the fiscal year ending June 30, 2011. It is the intent of the legislature that the office of management and budget submit a report to the legislature on August 1, 2011, that describes and justifies all transfers to and from the personal services line by executive branch agencies during the second half of the fiscal year ending June 30, 2011.

* **Sec. 4. ALASKA AEROSPACE CORPORATION.** Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2011, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations during the fiscal year ending June 30, 2011.

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Legislative Fiscal Analyst Comment: This section is intended to maximize the Alaska Aerospace Corporation's (AAC) 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 the corporation 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 \$42,549,257 of the adjusted net income from the second preceding fiscal year will be available in fiscal year 2011 for payment of debt service, appropriation in this Act, appropriation for capital projects, and transfer to the Alaska debt retirement fund (AS 37.15.011(a)).

Subsection a specifies the amount of corporate receipts that will be made available to the state as an FY11 dividend payment but does not appropriate the dividend.

Legislative Fiscal Analyst Comment: The statutory dividend is the lesser of \$103 million or 75% of the corporation's net income in the most recently completed fiscal year (AS 56.089(c)).

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2011, 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;
- (2) \$2,592,558 for debt service on the bonds authorized under ch. 1, SSSLA 2002;
- (3) \$2,548,195 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection b makes no appropriation; it informs the legislature that Alaska Housing Finance Corporation (AHFC) will retain \$6,140,800 of the dividend to pay debt service on various AHFC-financed capital projects authorized by past legislatures. This leaves a net dividend of \$36,408,500 (\$26.1 million less than in FY10) for the legislature to spend as it wishes.

Legislative Fiscal Analyst Comment: AHFC retains the amount required to make debt service payments on state-requested corporate debt in order to avoid higher interest rates that bonds with debt service subject to appropriation might command.

(c) After deductions for the items set out in (b) of this section, \$36,408,504 of the remainder of the amount set out in (a) of this section is available for appropriation for capital projects.

Subsection c informs the legislature that, after the amounts retained in subsection b, the remaining amount of the AHFC Dividend is available for other purposes.

Legislative Fiscal Analyst Comment: Although corporate dividends are traditionally reserved for use in the capital budget, there is no requirement that this must occur—the legislature can appropriate corporate dividends for any purpose.

Legislative Fiscal Analyst Recommendation: Section c should state that the \$36.4 million is available for "other purposes" rather than limiting

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permissible appropriations to capital projects. Limiting use of the dividend to capital projects conflicts with section d, which mentions other uses for dividends.

(d) After deductions for the items set out in (b) of this section and deductions for 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, 2011, is appropriated to the Alaska debt retirement fund (AS 37.15.011(a)).

Subsection d appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund (ADRF).

Legislative Fiscal Analyst Comment: Appropriating any unused portion of the dividend to the ADRF was common in recent years. Because the Governor's bill incorporates a legislative request to fund debt service directly, the reference to the ADRF is unnecessary.

Legislative Fiscal Analyst Recommendation: *Appropriate the "unused" balance of dividends to the Alaska Capital Income Fund (AS 37.05.565). This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

(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 2011 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(a)) in accordance with procedures adopted by the board of directors.

Subsection e appropriates certain FY11 receipts of AHFC to the corporation and permits the corporation to allocate 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(a)) under (e) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2011, for housing loan 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(a)) under (e) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2011, for housing loan programs and projects subsidized by the corporation.

Subsections f and g appropriate bond proceeds and arbitrage earnings to the various housing programs.

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Legislative Fiscal Analyst Comment: The entire AHFC section was removed from the FY10 operating bill based upon a comment/recommendation that Legislative Finance found the section redundant. Legislative Finance later determined that parts of the section were informative, even if unnecessary, and asked OMB to restore them in FY11.

Legislative Fiscal Analyst Recommendation: Because AHFC has statutory authority to issue bonds and transfer arbitrage earnings to their loan programs, subsections (f) and (g) are neither informative nor necessary and can be removed.

(h) The sum of \$36,000,000 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, 2011.

Subsection h appropriates federal receipts received by the corporation for Section 8 housing assistance payments.

Legislative Fiscal Analyst Recommendation: These "pass through" amounts have been excluded from Legislative Finance reports on the operating bill. That treatment may be incorrect, and the legislature may wish to discuss recording the appropriation in budget reports.

* **Sec. 6. 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, 2011, 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 for administrative and associated costs for the fiscal year ending June 30, 2011.

Subsection a appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY11 (as calculated on the last day of the fiscal year) will be used to pay PFDs in October of 2011 and to pay administrative and associated costs throughout FY11.

Funding: The projected amount of dividend transfer for FY11 is \$637 million including administrative and associated costs. Administrative and associated costs for FY11 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 2011 is appropriated from the earnings reserve account (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 projected amount of inflation proofing for FY11 is \$886 million.

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during fiscal year 2011 is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

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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 \$673 million during FY11.

* **Sec. 7. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$23,423,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors for appropriation as the fiscal year 2011 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 Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the state will be \$23.4 million (the FY10 dividend was \$22.72 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, 2011, is appropriated to the Alaska debt retirement fund (AS 37.15.011(a)).

Subsection b appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund.

Legislative Fiscal Analyst Comment: Appropriating any unused portion of the dividend to the ADRF was common in recent years. Because the Governor's bill incorporates a legislative request to fund debt service directly, the reference to the ADRF is unnecessary.

Legislative Fiscal Analyst Recommendation: Appropriate the "unused" balance of dividends to the Alaska Capital Income Fund (AS 37.05.565). This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.

* **Sec. 8. 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, 2011.

Section 8 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 section 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.

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

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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 FY11 fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations!

* **Sec. 9. 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, 2011, 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, 2011;
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, 2011, 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, 2011.

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!

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 has not been made. The amount appropriated in subsection 1 (\$170,000) has not changed for several years!

Subsection 2 appears to change the intended purpose of lapsing receipts. Under AS 41.15.180(j) lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection 2 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 - 43.76.028 in calendar year 2009 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 2011 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!

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(c) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2009 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 2011 to qualified regional seafood development associations.

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

(d) The sum of \$23,673,600 is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2011.

Subsection d appropriates seven percent of the Power Cost Equalization Endowment to Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As in the past, this is the maximum withdrawal that can occur under the statutory formula (AS 42.45.070-085). The amount is an increase of \$2,780,900 over FY10.

(e) If the amount appropriated in (d) of this section is not sufficient to pay power cost equalization program costs without proration, the amount necessary to pay power cost equalization program costs without proration, estimated to be \$12,626,400 is appropriated from the general fund to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2011.

Subsection e is an open-ended general fund appropriation to AEA for the PCE program. Combined with the appropriation in subsection d, this appropriation will provide the amount required to fund the statutory formula for the PCE program.

Funding: The estimated impact of this section is \$12,626,400 which is \$4,140,900 less than the estimated UGF appropriation in FY10. The UGF reduction is due to two factors:

- the amount available from the PCE Endowment increased by \$2.78 million, and
- AEA revised its expenditure projections downward by \$1.34 million due to projected reductions in cost of fuel, number of eligible grantees, and power consumption.

(f) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2011.

Subsection f is intended to ensure that all federal funding received for the National Forest Receipts program is expeditiously disbursed to communities.

Legislative Fiscal Analyst Recommendation: To improve clarity, the legislature may want to place this subsection under subsection 9(a), where other National Forest Receipts appropriations occur.

Funding: The estimated impact of this section is zero. The \$17.1 million appropriated in section 1 for this program should be sufficient.

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(g) If the amount necessary to make payment in lieu of taxes payments under 3 AAC 152 exceeds the amount appropriated in sec. 1 of this Act, the amount necessary to make payment in lieu of taxes payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2011.

Subsection g is intended to ensure that PILT payments are expeditiously disbursed to communities. Payments in Lieu of Taxes (PILT) are federal payments to local governments that help offset losses in property taxes due to nontaxable federal lands within their boundaries.

Funding: The estimated impact of this section is zero. The \$10.1 million appropriated in section 1 for this program should be sufficient.

* **Sec. 10. DEPARTMENT OF HEALTH AND SOCIAL SERVICES.** The sum of \$1,200,000 is appropriated from the general fund to the Department of Health and Social Services, office of children's services, for the purpose of paying judgments and settlements against the state for the fiscal year ending June 30, 2011.

Section 10 appropriates funding for the FY11 settlement costs of a lawsuit filed by four Alaska Native tribes. The Curyung, Ekwok, Kwinhagak, and Chevak tribes alleged that the state violated the federal Indian Child Welfare Act (ICWA) when it (1) failed to notify the tribe when it took custody of a young tribal member; and (2) failed to meet placement preferences under ICWA; and (3) failed to provide proper and timely notice of placement changes for children (who are tribal members) that were taken from their parents due to abuse or neglect.

Legislative Fiscal Analyst Comment: A settlement has been reached between the tribal organizations and the state. The settlement mandates that the state pay \$1.2 million in FY10-FY12. An FY09 supplemental appropriation of \$1.3 million GF to the Department of Law paid the FY10 settlement amount. The legislature can also expect a request of \$1.2 million GF from the Department of Health and Social Services in the FY12 budget for the final settlement amount. Procedural changes within OCS, relating to the handling of tribal children, were among other agreed upon issues.

* **Sec. 11. 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, 2011.

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 additional 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, 2011.

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.

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(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, 2011.

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.

(d) If the amount of designated program receipts received under AS 43.20.014(a)(3) and deposited in the vocational education account (AS 37.10.200) during the fiscal year ending June 30, 2011, exceeds the amount appropriated in sec. 1 of this Act for purposes described in AS 37.10.200, the additional designated program receipts are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the fiscal year ending June 30, 2011.

Legislative Fiscal Analyst Comment: AS 43.20.014(a)(3) reads:

Income tax education credit. (a) A taxpayer is allowed a credit against the tax due under this chapter for cash contributions accepted... (3) by a state-operated vocational technical education and training school.

There are six problems with the Governor's language:

- The contributions are not program receipts as the Department of Revenue defines them.
- contributions under AS 43.20.014 do not go into the vocational education account, they go directly to a school.
- the recipient of the contributions (AVTEC) is not named.
- receipts should not be limited to the purposes of the vocational education account, which appears to be unrelated to these tax credits.
- the tax credits apply to several types of taxes, and
- the money could lapse if its use is limited to FY11.

Legislative Fiscal Analyst Recommendation: Subsection d should be modified to resolve these problems:

If the amount of contributions received by the Alaska Vocational Technical Center under AS 43.20.014(a)(3), AS 21.89.070, AS 21.89.075, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2011, exceeds the amount appropriated in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation. (Add non-lapse provision to section 31.)

* **Sec. 12. 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, 2008, June 30, 2009, and June 30, 2010, is appropriated from the Alaska veterans' memorial endowment fund to the Department of

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Military and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2011.

Funding: Endowment payout is expected to be about \$12,800. Proceeds may be used for maintenance, repair and construction of monuments to the military.

* **Sec. 13. DEPARTMENT OF NATURAL RESOURCES.** (a) Federal receipts received for fire suppression during the fiscal year ending June 30, 2011, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2011.

Subsection a appropriates an open-ended 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.

NEW SUBSECTION:

(b) The sum of \$1,000,000 is appropriated from federal receipts to the Department of Natural Resources, RS 2477/Navigability Assertions and Litigation Support allocation, for the United States Department of the Interior, Bureau of Land Management navigable water identification project, for the fiscal years ending June 30, 2011, and June 30, 2012.

Subsection b will provide two-year authorization for receipt of federal grant funds (no match is required) to produce navigability reports of watersheds and waterbodies in Alaska for the Department of the Interior, Bureau of Land Management (BLM). According to the Department, the reports will provide information essential to public land managers, and can also be used to support state applications for federal Recordable Disclaimer's of Interest (RDIs), which recognize state ownership of lands beneath waters that were navigable at the time of statehood. The funds will pay for research services provided by the State Historical Preservation Office and the Alaska Department of Fish and Game, through reimbursable services agreements with the Division of Mining, Land and Water.

Legislative Fiscal Analyst Comment: Although the Department does not currently anticipate requesting UGF to replace federal funding, future decisions regarding funding continued research to support the RDIs will be necessary if the federal funds do not continue.

Funding: According to the Department, up to \$1 million may be available for two years (ending 6/30/12).

* **Sec. 14. 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, 2011.

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, 2011, 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 fund appropriation if DPS receives over \$1.3 million in federal grants for drug and alcohol enforcement efforts.

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Legislative Fiscal Analyst Comment: The FY10 operating budget included similar language. DPS received \$1,476,855 of federal funds in FY10 for this purpose—resulting in a reduction of \$187,775 of general funds in the FY10 budget.

Funding: Because the amount of federal funds for FY11 is unknown, Legislative Finance is estimating the cost of the section to be the full \$1.4 million in general funds.

(c) The sum of \$1,270,000 is appropriated from the general fund to the Department of Public Safety, division of Alaska state troopers, special projects, for rural alcohol interdiction efforts for the fiscal year ending June 30, 2011.

Subsection c appropriates \$1.3 million in general funds for rural alcohol interdiction efforts.

(d) If federal receipts are received by the Department of Public Safety for the rural alcohol interdiction program during the fiscal year ending June 30, 2011, the appropriation in (c) of this section is reduced by the amount of the federal receipts.

Subsection d is contingency language that requires a dollar-for-dollar reduction of the previous subsection's general funds.

Legislative Fiscal Analyst Comment: The FY10 operating budget included similar language. DPS received \$200,000 of federal funds for this purpose—resulting in an equal reduction of general funds.

Funding: Because the amount of federal funds for FY11 is unknown, Legislative Finance is estimating the cost of the section to be the full \$1.3 million in general funds.

* **Sec. 15. DEPARTMENT OF REVENUE.** (a) The minimum amount of program receipts received for the fiscal year ending June 30, 2011, 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, 2011.

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: This section may be no longer relevant. In prior years, it was utilized as a mechanism to ensure required match for federal receipts. The last few years, however, have seen a decline in Temporary Assistance for Needy Families (TANF) cases, which has resulted in a significant decline in receipts to the agency. The receipts were backfilled in FY10 with American Recovery and Reinvestment Act of 2009 (ARRA) stimulus dollars and general funds. When the ARRA funding expires, general funds will likely be needed as replacement.

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(f), are appropriated to the Department of Revenue, child support services agency, for the fiscal year ending June 30, 2011.

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

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Funding: The Department estimates that paternity testing will generate \$46,000 in program receipts.

* **Sec. 16. OFFICE OF THE GOVERNOR.** (a) If the 2011 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$35 a barrel on August 1, 2010, the amount of money corresponding to the 2011 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 2011 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$35 a barrel on December 1, 2010, the amount of money corresponding to the 2011 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 the appropriations in (a) and (b) of this section:

2011 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$90 or more	\$27,500,000
89	27,000,000
88	26,500,000
87	26,000,000
86	25,500,000
85	25,000,000
84	24,500,000
83	24,000,000
82	23,500,000
81	23,000,000
80	22,500,000
79	22,000,000
78	21,500,000
77	21,000,000
76	20,500,000
75	20,000,000
74	19,500,000
73	19,000,000

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72	18,500,000
71	18,000,000
70	17,500,000
69	17,000,000
68	16,500,000
67	16,000,000
66	15,500,000
65	15,000,000
64	14,500,000
63	14,000,000
62	13,500,000
61	13,000,000
60	12,500,000
59	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
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

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37	1,000,000
36	500,000
35	0

(d) It is the intent of the legislature that a payment under (a) or (b) of this section be used to offset the effects of higher fuel and utility costs for the fiscal year ending June 30, 2011.

(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 the Department of Health and Social Services and the Department of Corrections, not more than five percent each of the total amount appropriated;

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

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

Subsections a and b appropriate up to \$55 million depending on the year-to-date average price of crude oil: up to \$27.5 million on August 1, 2010, and \$27.5 million on December 1, 2010. 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 subsection a.

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.

Funding: OMB included a \$42 million appropriation for fuel in its budget transmittal, which corresponds to the forecast oil price of \$77/bbl.

Legislative Fiscal Analyst Comment: Similar trigger mechanisms in recent operating bills appear to have functioned as designed—providing funding for fuel without permitting high fuel costs to become part of the base budget—and the legislature may wish to continue the concept.

Legislative Fiscal Analyst Recommendation: Although the trigger concept has worked as designed, it may be time to recognize that the chart is outdated. The legislature may want to cut the table off at \$60/bbl, add \$25 million to base budgets of Departments, and reduce the trigger amounts accordingly.

NEW SUBSECTION:

(f) The sum of \$6,500,000 is appropriated from receipts of the Alaska Housing Capital Corporation created under AS 18.56.086 to the office of the governor for the development of an in-state natural gas pipeline.

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Subsection f appropriates funds to continue work related to the development of an in-state natural gas pipeline. The increment addresses several projects:

- \$2.25 million for completion of the pipeline right-of-way permitting effort;
- \$500.0 for completion of the cost-of-service cost estimate for the stand alone pipeline project;
- \$3.5 million to gather detailed engineering data which will become the basis for the future detailed engineering design of the project; and
- \$250.0 for preparation for the sale of the in-state pipeline asset to a future pipeline company.

Legislative Fiscal Analyst Comment: Arguably, these requests might be more appropriately placed in the Department of Natural Resources. However, moving them from the Governor's Office is unlikely to change what is done or the cost of doing it.

The money appropriated in subsection f is from the Alaska Housing Capital Corporation, which is a subsidiary of the Alaska Housing Finance Corporation created in FY07 solely to hold a \$300 million deposit of general funds. To those who believe the money was set aside to pay for development of a gasline, the fund source will appear logical. Others may object to the fund source on the grounds that the money was set aside specifically to fund future capital projects, with no mention of gasline development. The operating appropriations in subsection (f) violate the stated purpose of the original appropriation, which is limited to capital projects. Regardless of where the money appears in the budget, the total of \$177 million the Governor proposes to spend from this fund must be classified as withdrawals from savings. Without this use of savings, the Governor's FY11 budget would produce a deficit of about \$125 million.

Legislative Fiscal Analyst Recommendation: Subsection (f) might be better placed in section 19, with other appropriations for gasline development.

* **Sec. 17. UNIVERSITY OF ALASKA.** The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2010, 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, 2011.

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

* **Sec. 18. BOND CLAIMS.** The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, is appropriated to the agency secured by the bond for the fiscal year ending June 30, 2011, 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 \$50,000: \$25,000 for reclamation of land use permits & leases on state lands in the Claims, Permits and Leases allocation; and \$25,000 for reclamation bonds associated with timber sales on state lands in the Forest Management & Development allocation.

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* **Sec. 19. GAS PIPELINE DEVELOPMENT.** The following amounts are appropriated to the named department and components from receipts of the Alaska Housing Capital Corporation created under AS 18.56.086 in the amounts stated for work associated with development of a natural gas pipeline for the fiscal year ending June 30, 2011:

DEPARTMENT AND COMPONENT	APPROPRIATION AMOUNT
(1) Administration	
Alaska Oil and Gas Conservation Commission	1,150,900
(2) Law	
Oil, gas, and mining	2,500,000
(3) Natural Resources	
Gas pipeline implementation	4,217,500
(4) Revenue	
Tax Division	1,100,000
Natural gas commercialization	1,550,000

Legislative Fiscal Analyst Comment: In FY09, the legislature consolidated oil and gas development funding requests in the Office of the Governor, with direction to distribute the one-time funding of \$7.3 million GF to the Departments of Labor and Workforce Development, Natural Resources, Law, and Revenue as needed for work associated with the Natural Gas Pipeline. Consolidation was intended to increase flexibility while easing the process of tracking statewide gasoline appropriations. Although the Governor's Office distributed money at the beginning of the fiscal year (rather than on an as-needed basis as the legislature intended), the wisdom of a consolidated appropriation was demonstrated when the Department of Law transferred \$550.0 to the Department of Revenue.

Legislative Fiscal Analyst Recommendation: Consolidate gasoline appropriations (including those in section 16(f)). Make a single appropriation to the Office of the Governor, with direction to distribute the money to the Departments/allocations and for the purposes listed. Include the estimated allocations to various Departments as information.

* **Sec. 20. 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 of the Alaska marine highway system fund described in AS 19.65.060(a), receipts of the University of Alaska as described in AS 37.05.146(b)(2), 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, 2011, 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, 2011, exceed the amounts

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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, 2011, 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 open-ended 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.

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. 21. FUND TRANSFERS.** (a) The federal funds received by the state under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 not appropriated for grants under AS 37.05.530(d) are appropriated as follows:

(1) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska) and the public school trust fund (AS 37.14.110(a)), according to AS 37.05.530(g)(1) and (2); and

(2) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska), the public school trust fund (AS 37.14.110(a)), and the power cost equalization and rural electric capitalization fund (AS 42.45.100(a)), according to AS 37.05.530(g)(3).

Subsection a appropriates the lapsing balance of NPR-A grants (per AS 37.05.530(g)). No lapsing balance is anticipated.

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

(b) The following amounts of revenue collected during the fiscal year ending June 30, 2011, are appropriated to the fish and game fund (AS 16.05.100):

(1) 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));

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

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Subsection b 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/PR appropriations) from the dedicated portion of the Fish and Game Fund.

Legislative Fiscal Analyst Comment: Beginning in FY11, use of the listed receipts by the Department will appear as designated general fund (DGF) expenditures. Depositing these receipts into the F&G Fund in past budgets occurred because the receipts then appeared as "other funds" when they were spent. Now that this funding will be counted as DGF expenditures, it may be time to appropriate the funding directly to allocations that use the funding.

Legislative Fiscal Analyst Recommendation: Consider deleting subsection (b) and appropriating the receipts directly (as GF/Program Receipts) to the allocations that use the funding.

Funding: The estimated fiscal impact of this subsection is \$2.3 million.

(c) 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(a)) 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, 2010, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2010, estimated to be \$8,300,000 from the surcharge levied under AS 43.55.300.

Subsection c is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY10 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.

(d) 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, 2010, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2010, from the surcharge levied under AS 43.55.201.

Subsection d is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY10 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.

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 a few more years.

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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 Prudhoe Bay oil field.

(e) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2011, are appropriated to the Alaska children's trust (AS 37.14.200(a)):

(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 e appropriates (to the Alaska Children's Trust) net receipts collected during FY10 from sales of heirloom birth certificates, heirloom marriage certificates, and Trust license plates.

The Alaska Children's Trust was created by Chapter 19, SLA 88. The legislature appropriated \$6 million from the investment loss trust fund to the principal of the trust in Chapter 123, SLA 96. 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 \$35.0 net proceeds from the sale of certificates/plates.

(f) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2011, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

Subsection f 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. For FY11, the Alaska Commission on Postsecondary Education has indicated that the maximum fee of 5% will be set. It is currently set at 5% and will remain so until further action is taken by the Board. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

(g) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2011, is appropriated to the disaster relief fund (AS 26.23.300(a)).

Subsection g 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.

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(h) The sum of \$7,500,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

Subsection h capitalizes the Disaster Relief Fund with \$7.5 million of general funds (an amount equal to the FY10 capitalization).

(i) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2010, and money deposited in that account during the fiscal year ending June 30, 2011, is appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)) for the fiscal year ending June 30, 2011. The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2011, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources.

Subsection i authorizes an internal transfer of funds from the income account to the operating account, where it is available to DNR to spend without further appropriation.

Funding: The agency estimates the amount needed for mine reclamation expenditures is about \$50,000 and is spent in the Claims, Permits and Leases allocation for reclamation of land use permits and leases on state lands.

(j) The sum of \$15,660,000 is appropriated to the Alaska clean water fund (AS 46.03.032(a)) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$2,700,000
Federal receipts	12,960,000

(k) The sum of \$13,092,200 is appropriated to the Alaska drinking water fund (AS 46.03.036(a)) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$2,963,000
Federal receipts	10,129,200

Subsections j and k 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.

(l) 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, 2010, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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

Funding: Earnings for FY09 were \$819,843. Expectations for FY10 and FY11 have declined due to the low short-term interest rate environment, in which the assets are invested.

(m) An amount equal to 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, 2009, through June 30, 2010, estimated to be \$45,000, are appropriated from the general fund to the bulk fuel revolving loan fund (AS 42.45.250(a)).

Subsection q appropriates to the bulk fuel revolving loan fund an amount of general funds equal to the loan fund fees collected in FY10.

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(n) The sum of \$7,000,000 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 n 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 with the fisheries revenue bonds.

(o) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise account (AS 16.05.130(e)), not to exceed \$1,644,800, 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).

Subsection o clarifies that the Department chooses to use \$1.6 million of current federal funding as reimbursement. They 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)).

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 direct fiscal impact.

(p) The amount received under AS 18.67.162 as program receipts, including donations and recoveries of or reimbursement for awards made from the fund, during the fiscal year ending June 30, 2011, is appropriated to the crime victim compensation fund (AS 18.67.162).

Subsection p capitalizes the Crime Victim Compensation Fund with "money from donations, recoveries of or reimbursements for awards made from the fund, income from the fund, and other program receipts."

Legislative Fiscal Analyst Comment: Chapter 112, SLA 2008 (HB 414) added language to the effect that money appropriated to the fund, "may include donations, recoveries of or reimbursements for awards made by the fund, income from the fund, and other program receipts."

(q) If the balance of the oil and gas tax credit fund (AS 43.55.028) is insufficient to purchase transferable tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceeds the balance of the fund is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

Subsection q is an open-ended appropriation of general funds to the oil and gas tax credit fund. The section ensures that the fund balance is sufficient to purchase claims for tax credits as provided for in statute.

Legislative Fiscal Analyst Comment: The history of this fund indicates that OMB's \$180 million estimated deposit under this section may be overstated. Through a series of requests, adjustments and supplemental appropriations, the fund was capitalized with \$250 million in FY08 and \$400 million in FY09. The Governor requested a \$300 million

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deposit for FY10, and then reduced the request by \$100 million. At the request of the legislature, the Department of Revenue provided a history of claims for credits. The data prompted the legislature to transfer \$450 million from the fund to the general fund, which was expected to leave a balance sufficient to pay claims in FY10 (based on claim history). To ensure a sufficient fund balance, the legislature added open-ended language similar to section q. The Governor vetoed \$35 million of the transfer, and then estimated that \$180 million would be transferred under the open-ended appropriation.

Funding: The projected value of this appropriation is \$180 million—the same amount the Department of Revenue estimated for a similar provision in the FY10 budget.

(r) An amount equal to 20 percent of the revenue collected under AS 43.55.011(g), not to exceed \$60,000,000, is appropriated from the general fund to the community revenue sharing fund (AS 29.60.850(a)).

Subsection r appropriates 20% of receipts from the progressive portion of the oil and gas production tax, to a limit of \$60 million, for revenue sharing.

Legislative Fiscal Analyst Comment: The revenue sharing fund was established with an FY08 supplemental appropriation of \$180 million. Each year since then, \$60 million (1/3 of the prior year balance, per AS 29.60.850) has been distributed to communities. Each year, the amount distributed was replaced by \$60 million of revenue from the progressive portion of the oil and gas production tax. The FY11 distribution to communities will be \$60 million (1/3 of the balance).

As long as oil prices are high enough to generate more than \$60 million from the progressive production tax, the cycle of \$60 million annual deposits/distribution will continue. At prices less than about \$60/barrel, the progressive tax generates no revenue and annual distributions will decline.

Funding: The full \$60 million potential amount of the appropriation is included in all Legislative Finance and OMB reports.

NEW SUBSECTION

(s) If the Alaska Municipal Bond Bank Authority must draw on the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)), 2005 general bond resolution reserve, because of a default by a borrower, an amount equal to the amount drawn from the reserve is appropriated from the general fund to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection s provides a state moral obligation pledge should the need arise. The intent of this section is to increase the credit rating of the Bond Bank and lower the cost of borrowing money.

Funding: The fiscal impact of this section is estimated to be zero. The Bond Bank has been entirely self sufficient throughout its 35 year history.

(t) The sum of \$1,130,982,400 is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsection t appropriates \$1.13 billion to the Public Education Fund (PEF).

Legislative Fiscal Analyst Comment: Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. FY10 budget bills contained appropriations of \$1.1 billion from the Constitutional Budget Reserve Fund (CBRF) to cover education costs in FY11, but the supermajority

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votes required to transfer funds from the CBRE failed. The supermajority vote failure does not affect K-12 funding in FY10 (because the PEF contained sufficient money to fund the formula in FY10), but it left the PEF without the \$1.1 billion expected to be required for K-12 education in FY11. A return to forward funding would require an appropriation of FY11 costs in addition to the FY12 costs that are included in the Governor's operating bill. The Governor has indicated that he intends to request the \$1.1 billion for FY11 in a supplemental bill.

* **Sec. 22. 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, 2011, 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, 2011, 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, 2011, 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.

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

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.

* **Sec. 23. RETIREMENT SYSTEM FUNDING.** (a) The sum of \$190,850,258 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 an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2011.

(b) The sum of \$165,841,171 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 an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2011.

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Legislative Fiscal Analyst Comment: During recent years, Alaska's retirement systems accrued a multi-billion dollar unfunded liability due to a combination of investment losses, escalating health care costs, modification of actuarial assumptions and capped contribution rates. Beginning in FY08, the state began making direct contributions to retirement systems in order to stabilize employer contribution rates while repaying that unfunded liability. FY11 actuarial rates for both TRS and PERS are little changed from FY10. The appropriations in subsections (a) and (b) are the amounts the state's actuaries determined to be required.

(c) The sum of \$84,175 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2011.

Legislative Fiscal Analyst Comment: A \$10 million FY08 supplemental appropriation to the retirement fund was intended to payoff the unfunded liability of the system. According to the December 2009 valuation, the system has an estimated unfunded liability of \$85,063.

(d) The sum of \$788,937 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2011.

Legislative Fiscal Analyst Comment: A \$49 million FY08 supplemental appropriation to the retirement fund was designed to payoff the unfunded liability of the system. According to the December 2009 valuation, large investment losses in FY09 reduced the market value of system assets by about \$28 million, which resulted in a re-opening of the unfunded liability gap. Unfunded liability is now estimated to be \$30.5 million. The appropriation in subsection (d) responds to the unfunded liability by increasing annual contributions.

Legislative Fiscal Analyst Recommendation: The legislature may wish to consider an appropriation of \$30.5 million to pay off the entire unfunded liability. Given a contribution rate of 26%, plus a past service rate bringing the total employer contribution rate to 43% of annual judicial salaries, the legislature may wish to review the structure of the retirement system.

* **Sec. 24. 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, 2011, of the following ongoing collective bargaining agreements:

- (1) Alaska Vocational Technical Center Teachers' Association - National Education Association, representing the employees of the Alaska Vocational Technical Center;
- (2) Public Safety Employees Association, representing the regularly commissioned public safety officers unit;
- (3) Inlandboatmen's Union of the Pacific, for the unlicensed marine unit;
- (4) International Organization of Masters, Mates, and Pilots, for the masters, mates, and pilots unit;

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(5) Marine Engineers' Beneficial Association.

(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, 2011, 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) University of Alaska Federation of Teachers;
- (3) United Academics;
- (4) United Academics-Adjuncts.

(c) If a collective bargaining agreement listed in (b) of this section is not ratified by the membership of the respective collecting 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.

Section 24 appropriates no money; it specifies that various contractual salary adjustments are funded with money appropriated in section 1.

* **Sec. 25. 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 2011:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Fisheries business tax (AS 43.75)	2010
Fishery resource landing tax (AS 43.77)	2010
Aviation fuel tax (AS 43.40.010)	2011
Electric and telephone cooperative tax (AS 10.25.570)	2011
Liquor license fee (AS 04.11)	2011

Subsection a ensures that the Department of Revenue has the authorization to disburse taxes and fees collected for local governments to those entities.

Legislative Fiscal Analyst Comment: The section does not reference compensating municipalities for lost aviation fuel tax receipts during a state-wide suspension of the motor fuel tax. The Governor recently submitted legislation to suspend the motor fuel tax.

Legislative Fiscal Analyst Recommendation: If the motor fuel tax is suspended, the legislature may wish to consider inserting a reference to shared aviation fuel tax receipts in order to compensate municipalities for lost tax revenue.

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

NEW SUBSECTION:

(b) The amount necessary to pay the first five ports of call their share of the tax collected under AS 43.52.220 in calendar year 2010 according to AS 43.52.230(b) is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the port of call during the fiscal year ending June 30, 2011.

Subsection b appropriates \$5 of the \$50 Commercial Passenger Vessel "Head" Tax to the first five ports of call.

Funding: Revenue to the ports totaled \$9.9 million for FY09. Expected revenue for FY10 and FY11 is \$9 and \$8.5 million, respectively. These "pass through" taxes are excluded from Legislative Finance reports on the operating bill.

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

Subsection c is intended to allow a municipality to assign a 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. 26. 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, 2011, 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 payment of principal and interest on those bonds for the fiscal year ending June 30, 2011.

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 \$7,066,800 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2003A general obligation bonds for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A, for the fiscal year ending June 30, 2011.

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(d) The sum of \$42,300 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 debt service fund of the series 2003A bonds for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A, for the fiscal year ending June 30, 2011.

(e) The amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A for the fiscal year ending June 30, 2011, after the payments in (c) and (d) of this section, estimated to be \$23,090,800, is appropriated to the state bond committee from the general fund for that purpose.

Subsections c, d and e appropriate \$30.2 million 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.

(f) The sum of \$374,800 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project fund for state guaranteed transportation revenue anticipation bonds, series 2003B, for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B, for the fiscal year ending June 30, 2011.

(g) The amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B, for the fiscal year ending June 30, 2011, after the payment in (f) of this section, estimated to be \$12,353,300, is appropriated to the state bond committee from federal receipts for that purpose.

Subsections f and g appropriate \$12.7 million to pay debt service on series 2003B general obligation bonds. The bonds were authorized by the voters in 2002 for road and harbor construction.

Legislative Fiscal Analyst Comment: Although these bonds were issued with a general obligation 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.

(h) The sum of \$1,902,400 is appropriated to the state bond committee from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, for the fiscal year ending June 30, 2011.

(i) The sum of \$2,278,900 is appropriated to the state bond committee from State of Alaska general obligation bonds, series 2009A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2009A bonds for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, for the fiscal year ending June 30, 2011.

(j) The amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2009A for the fiscal year ending June 30, 2011, after the payments made in (h) and (i) of this section, estimated to be \$6,650,800, is appropriated to the state bond committee from the general fund for that purpose.

Subsections h, i and j appropriate \$10.8 million to pay debt service on series 2009A general obligation bonds. The bonds were authorized by the voters in 2008 for road construction.

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(k) The sum of \$1,039,000 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011(a)) for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2010A, for the fiscal year ending June 30, 2011.

(l) The sum of \$34,000 is appropriated to the state bond committee from investment loss trust fund (AS 37.14.300(a)) for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2010A, for the fiscal year ending June 30, 2011.

(m) The amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2010A for the fiscal year ending June 30, 2011, after the payments made in (k) and (l) of this section, estimated to be \$3,927,000, is appropriated to the state bond committee from the general fund for that purpose.

Subsections k, l and m appropriate \$5.0 million to pay debt service on series 2010A general obligation bonds. The bonds were authorized by the voters in 2008 for road construction.

(n) The sum of \$50,047,900 is appropriated to the state bond committee for payment of debt service and trustee fees on outstanding international airports revenue bonds for the fiscal year ending June 30, 2011, from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430(a))	\$46,847,900
Passenger facility charge	3,200,000

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

(o) The sum of \$2,710,000 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565(a)) 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, 2011.

(p) The sum of \$2,973,200 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565(a)) 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, 2011.

Subsections o and p 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 21(j) and (k)). The federal receipts require a state match. Federal rules permit interest earnings of the loan funds to be used to pay debt service as well as making loans. 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.

(q) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2011,

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estimated to be \$12,326,200, is appropriated to the state bond committee from the general fund for that purpose.

Subsection q appropriates money to make payments on:

- the Virology Lab - \$2.2 million;
- the Alaska Psychiatric Institute - \$1.6 million;
- the Seafood/Food Safety Lab - \$1.3 million;
- the Series 2005 Refunding - \$2.8 million;
- the new Public Safety Crime Lab - \$1.6 million; and
- the new UAF Life Sciences Classroom and Lab Facility - \$2.7 million

Legislative Fiscal Analyst Comment: The crime lab and UAF Life Sciences building are proposed in the Governor's capital budget. Separate legislation is required for authorization of the COPs and should be expected.

Legislative Fiscal Analyst Recommendation: This section should be amended if COPs for the crime lab and life sciences building are not approved.

(r) The sum of \$3,467,100 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2011, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage.

Subsection r 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.

(s) The sum of \$22,924,500 is appropriated from the general fund to the Department of Administration for the fiscal year ending June 30, 2011, for payment of obligations and fees for the following facilities:

FACILITY	ALLOCATION
(1) Anchorage Jail	\$5,108,000
(2) Goose Creek Correctional Center	17,816,500

Subsection s appropriates funds to pay lease costs for the Anchorage Jail and the Goose Creek Correctional Center. Anchorage issued municipal bonds to pay for the construction of the Anchorage Jail, which the state leases. The Mat-Su Borough issued bonds for the Goose Creek Correctional Center.

Legislative Fiscal Analyst Comment: In common language, the contracts with the Municipality of Anchorage and the Mat-Su Borough are leases, but terms of the contracts are such that Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. This means that a default on lease payments could affect the state's credit rating. Because of the potential impact on credit rating, the obligations are categorized as debt.

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 Goose Creek Correctional Center construction. The

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25-year lease of the Goose Creek Correctional Center is capped in statute at \$11,600 per bed, and annual debt service is limited to \$17.8 million. Because the Department of Corrections reports the SCCC and the YKCC projects are on hold, appropriations for those facilities are not required.

(t) The sum of \$3,303,500 is appropriated from the general fund to the Department of Administration for payment of obligations to the Alaska Housing Finance Corporation for the Linny Pacillo Parking Garage in Anchorage, for the fiscal year ending June 30, 2011.

Subsection t appropriates \$3.3 million for obligations associated with the Linny Pacillo parking garage. The obligation is a lease purchase similar to the obligation for the Robert B. Atwood Building.

(u) The sum of \$106,258,500 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:

General fund	\$85,058,500
School Fund (AS 43.50.140)	21,200,000

Subsection u 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.

(v) The sum of \$5,707,302 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2011, 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	\$1,409,822
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)	127,000
(B) Matanuska-Susitna Borough (deep water port and road upgrade)	752,450
(C) Aleutians East Borough/False Pass (small boat harbor)	101,840
(D) Lake and Peninsula Borough/Chignik (dock project)	119,844
(E) City of Fairbanks (fire headquarters station replacement)	869,765

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(F) City of Valdez (harbor renovations)	222,868
(G) Aleutians East Borough/Akutan (small boat harbor)	465,868
(H) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	342,990
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Copper Valley Electric Association (cogeneration projects)	351,179

Subsection v appropriates \$5.7 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 about \$200,000 higher than that enacted for FY10. The level of reimbursement is subject to appropriation.

(w) 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 w 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 21(n) 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.

NEW SECTION

*** Sec. 27. GOVERNOR'S PERFORMANCE SCHOLARSHIP FUND; CONTINGENCY.**

(a) The sum of \$400,000,000 is appropriated from the general fund to the governor's performance scholarship fund for the fiscal year ending June 30, 2011.

(b) The appropriation made by (a) of this section is contingent on passage by the Twenty-Sixth Alaska State Legislature and enactment into law of a bill establishing the Governor's performance scholarship fund.

Section 27 appropriates \$400 million of general funds for the Governor's Performance Scholarship program. Preliminary information released indicates that this funding will be invested and the Fund's interest and earnings will pay for the scholarships.

Legislative Fiscal Analyst Recommendation: Because this funding is directly linked to legislation the Governor intends to propose, this funding should be requested in a fiscal note.

*** Sec. 28. BUDGET RESERVE FUND.** If the unrestricted state revenue available for appropriation in fiscal year 2011 is insufficient to cover general fund appropriations made for

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fiscal year 2011, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (AS 37.05.540(a)).

Section 28 allows the state to cover any shortfall in unrestricted revenues with transfers from the Statutory Budget Reserve Fund (SBR) to the general fund. In FY08, the legislature appropriated \$1 billion of general funds to the SBR (Sec. 21(c), Ch. 11, SLA 2008). Unless money is appropriated from the fund during FY10, the entire amount deposited in the SBR will remain available in FY11. Unlike the Constitutional Budget Reserve Fund (CBRF), the SBR can be accessed with a simple majority vote.

- * **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 2010 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 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 those funds were transferred.

Subsection a is "sweep reversal language." As long as there is an outstanding liability to the CBRF, the Constitution requires that year-end general fund balances be used to repay past withdrawals from the CBRF. This provision reverses that required sweep; all money in general fund subaccounts are returned to the accounts (on July 1) from which they were swept (on June 30).

Legislative Fiscal Analyst Comment: There is a strong possibility that the general fund liability to the CBRF will be eliminated during FY10. If the CBRF is fully repaid, no sweep will occur at the end of FY10, and subsection (a) will not apply.

Legislative Fiscal Analyst Recommendation: The language in subsection (a) does no harm and should be retained, especially if the CBRF is not fully repaid during FY10.

(b) Unrestricted interest earned on investment of the general fund balances for the fiscal year ending June 30, 2011, 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, 2011, 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 (art. IX, sec. 17, Constitution of the State of Alaska) to permit expenditure of operating and capital appropriations in the fiscal year ending June 30, 2011, 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 \$2,060,000 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, 2011.

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Subsection c appropriates \$2.1 million from the CBRF to the Department of Revenue, Treasury Division, for investment management fees for FY11.

Legislative Fiscal Analyst Comment: There is a possibility that the general fund liability to the CBRF will be eliminated during FY10. Appropriating management fees from the CBRF requires a supermajority vote and creates a general fund liability to the CBRF. That liability, in turn, would activate an FY11 year-end sweep of general funds into the CBRF, which would require a supermajority vote to reverse in FY12.

Legislative Fiscal Analyst Recommendation: *Appropriate general funds to pay management fees attributable to the CBRF.*

(d) 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 d 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: If general funds are appropriated for management fees, the reference to subsection (c) will not be relevant.

* **Sec. 30. LAPSE EXTENSION OF APPROPRIATIONS.** (a) The appropriation made in sec. 19(a) of ch. 30, SLA 2007, lapses June 30, 2011.

Subsection a extends the lapse date for an FY07 supplemental appropriation from June 30, 2010 to June 30, 2011. The Department of Public Safety (DPS) received an appropriation for \$5 million in federal receipts for domestic violence and sexual assault prevention programs in the areas of prosecution, law enforcement, judicial services, and victim services. The funding came from a Stop Grant provided through a U.S. Department of Justice, Violence Against Women Act (VAWA).

Legislative Fiscal Analyst Recommendation: *The Department is also requesting a one-time increment for \$697.4 in section 1 for this purpose. The section 1 increment is unnecessary if the lapse date is extended, so the increment request should be removed from the DPS budget. The lapse extension is the better option; it ensures that the entire amount of remaining funding will be available in FY11 and does not duplicate authorization.*

(b) The appropriations made in secs. 1 and 14 of ch. 17, SLA 2009, lapse June 30, 2011.

Most appropriations associated with the American Recovery and Reinvestment Act of 2009 (ARRA) were appropriated in Chapter 17, SLA 2009. This section extends the lapse date from June 30, 2010 to June 30, 2011 for operating appropriations in section 1 and for \$20.7 million appropriated for distribution to communities eligible to receive revenue sharing funds (section 14).

Legislative Fiscal Analyst Comment: Section 1 of the Governor's FY11 operating budget request includes \$81.6 million of ARRA funding that is expected to be unexpended at the end of FY10.

Legislative Fiscal Analyst Recommendation: *The section 1 increments for ARRA funding in FY11 are unnecessary if the lapse date is extended, so the increment requests should be removed from Department budgets. The lapse*

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extension is the better option, it ensures that the entire amount of remaining funding will be available in FY11 and results in more accurate accounting of ARRA funds.

* **Sec. 31. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 6, 21, and 23 of this Act are for the capitalization of funds and do not lapse.

* **Sec. 32. 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 2010 program receipts or the unexpended and unobligated balance on June 30, 2010, of a specified account are retroactive to June 30, 2010, solely for the purpose of carrying forward a prior fiscal year balance.

Section 32 ensures that unexpended receipts and balances carry forward into FY11 before they lapse.

* **Sec. 33.** Sections 30 and 32 of this Act take effect June 30, 2010.

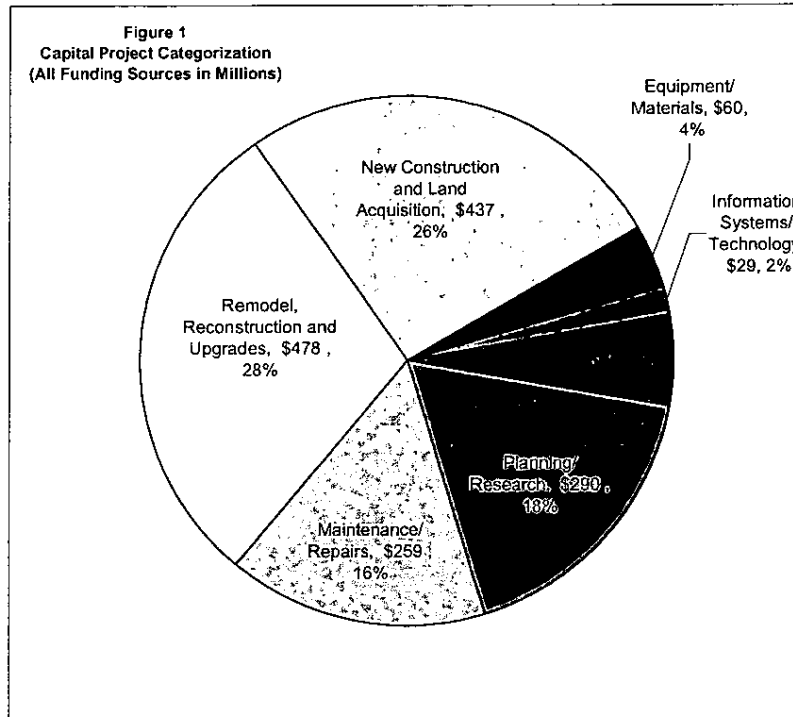
* **Sec. 34.** Except as provided in sec. 33 of this Act, this Act takes effect July 1, 2010.

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	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11 Gov	FY10 to FY11	Comments
(thousands)												
Alaska Debt Retirement Fund (ADRF)												
Capitalization	33,678.4	9,000.0	2,702.4	8,606.4	45,784.1	41,491.9	102,890.0	107,043.3	105,680.2		(105,680.2)	
General Funds			3,894.5	8,606.4	8,043.1	9,295.1	11,780.0	13,055.2	12,007.7		(12,007.7)	
Federal Receipts		100.0		104.0	77.8	12.7	376.5	171.9	26.0		(26.0)	
Investment Loss Trust Funds			775.0	250.0	250.0	250.0						
Municipal Bond Bank Receipts (Earnings)			8,611.1	27,588.0	18,854.6	17,441.7						
AHFC Dividend	6,000.0	18,700.0		13,837.4	8,812.0	16,849.5						
AIDEA Dividend		763.1			3,100.0							
ASLC Bonds				24,815.0	22,000.0							
Statutory Designated Program Receipts	723.0											
State Land Fund			2,500.0									
Church Inertia Earnings (Misc. Earnings)			30,489.0									
International Trade and Business Endowment			4,382.0									
Lease Payment/Accounts Receivable (Misc. Earnings)				109.8								
AAFP Bond Proceeds (Misc. Earnings)				438.6								
GO Bond Interest - Series 2003A (Misc. Earnings)				2,473.1	3,720.3	6,829.8	5,173.0		2,837.4		(2,837.4)	
GO Bond Interest - Series 2003B (Misc. Earnings)				1,166.9	1,364.8	2,387.0	1,434.7		877.4		(877.4)	
Total	40,401.4	27,583.1	56,084.0	78,727.3	111,838.8	94,337.7	121,070.2	120,728.1	121,428.7		(121,428.7)	
DEBT SERVICE/REIMBURSEMENT												
ADRF Debt Payments												
GO Bonds - Schools/Roads (Series 2003A)				19,706.2	31,772.1	31,470.9	31,148.6	30,803.3	30,248.0		(30,248.0)	
GO Bonds - GARVEES (Series 2003B)				4,194.5	9,241.0	11,682.0	13,222.7	13,062.5	12,885.1		(12,885.1)	
GO Bonds - Transportation (Series 2008A)									5,569.0		(5,569.0)	
GO Bonds - Transportation (Series 2010A)									1,039.0		(1,039.0)	
Certificates of Participation (COPs)	15,979.4	17,842.1	15,751.4	17,290.7	13,782.1	13,147.6	11,170.1	8,081.3	8,036.3		(8,036.3)	
School Debt Reimbursement	21,971.4	27,374.1	37,424.1	51,670.1	89,463.5	68,935.0	70,497.0	73,621.2	77,042.3		(77,042.3)	
Administrative Systems Replacement					400.0		2,302.0					
AMHS Vessel Overhaul					764.0							
Subtotal	43,950.8	45,014.2	57,370.0	97,712.0	115,422.7	123,215.5	128,240.4	125,548.3	133,803.7	1,039.0	(132,764.7)	
Direct Debt Payments												
GO Bonds - Schools/Roads (Series 2003A)			15,192.6	12,009.3	98.8	44.5	11.4	13.6	221.5	30,199.8	29,978.4	GO Bond Premium, Interest & GF
GO Bonds - GARVEES (Series 2003B)				5,945.6	4,543.3	1,860.1	56.3	6.9	1.3	12,728.1	12,728.1	Interest & Federal Regs
GO Bonds - Transportation (Series 2008A)										10,832.1	10,832.1	GO Bond Premium, Interest & GF
GO Bonds - Transportation (Series 2010A)										3,961.0	3,961.0	ILTF & GF
Certificates of Participation (COPs)	29,049.1	29,006.3	28,600.0	30,200.0	27,000.0	27,000.0	24,500.0	23,400.0	23,000.0	106,258.5	83,258.5	GF & School Fund
School Fund - School Debt Reimbursement	16,750.0	17,444.0	28,907.3	31,557.9	33,125.9	45,426.3	49,085.7	50,027.4	50,027.4	50,047.9	19.2	IARF and PFC's
Clean Water Fund Bonds	1,680.0	1,680.0	1,640.0	1,630.0	1,630.0	1,539.3	831.8	2,050.4	1,095.0	2,710.0	1,705.0	ACWF Receipts
Drinking Water Fund Bonds	850.0	1,060.5	1,040.0	1,030.0	1,105.0	1,075.3	1,108.8	1,115.0	1,670.0	2,873.2	1,503.2	ADWF Receipts
Sport Fish Hatchery Revenue Bonds						8,219.0	7,000.0	7,500.0	8,900.0	7,500.0	(1,400.0)	Sport Fish License Surcharge
Capital Project Reimbursement (HB 528)			2,818.7	2,736.0	3,634.1	10,209.9	10,459.0	8,036.2	5,548.9	5,707.3	158.4	GF
Alcedo Building	3,549.4	3,549.4	3,549.4	3,549.4	3,549.4	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1		GF
Liny Precils Parking Garage							3,443.0	3,303.5	3,303.5	3,303.5		GF
Anchorage Jail (Capital Lease)	3,555.7	3,262.8	5,284.5	5,274.1	5,275.1	5,081.8	3,102.0	5,091.2	5,103.9	5,103.9		4.1
Spring Creek Correctional Center								1,755.6				
Yukon-Kuskokwim Correctional Center								951.8				
Goose Creek Correctional Center								6,138.6				
AHFC State Capital Project Bonds	45,000.0	51,000.0	56,001.7	53,892.5	69,895.4	31,935.0	6,138.6	6,139.6	17,813.4	17,813.4		GF
NTSC Tobacco Settlement Bonds (off budget)	19,900.0	20,000.0	17,100.0	16,900.0	16,000.0	16,400.0	27,600.0	29,800.0	27,700.0	26,700.0		Diversed AHFC Dividends
Subtotal	120,334.2	129,003.0	160,114.2	164,424.8	155,855.0	152,268.3	138,804.7	142,657.9	153,903.2	307,780.1	153,876.9	Diversed Tobacco Settlement Revenue (to NTSC)
TOTAL Debt Service/Reimbursement	164,285.0	174,017.2	217,484.2	262,136.8	271,277.6	275,483.8	267,145.1	268,206.2	287,706.9	308,819.1	21,112.2	
Debt Payments by Type												
GO Bonds			19,387.1	46,205.1	45,653.2	45,037.5	44,439.0	43,886.3	48,941.9	58,780.1	9,815.2	
Lease - Purchase Financing	23,084.5	28,451.3	24,565.3	26,114.2	22,606.6	21,706.5	23,182.2	22,630.5	37,724.2	42,021.3	4,297.1	COP's, Alcedo Building/Garage, Anchorage Jail/Correctional Center
Revenue Bonds	16,750.0	17,444.0	28,907.3	31,557.9	33,125.9	53,645.3	56,085.7	57,527.4	59,027.4	57,547.9	(1,380.8)	International Airport, Sport Fish
Debt Reimbursement	57,020.5	56,878.4	88,842.8	90,861.6	90,861.6	104,144.9	105,456.0	105,057.4	111,965.8	111,965.8	6,371.6	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	64,900.0	71,000.0	73,101.7	70,792.5	75,895.4	49,335.0	33,738.6	35,839.6	33,839.9	32,840.8	(999.1)	AHFC, NTSC
Short Term Financing	2,530.0	2,740.5	2,660.0	2,660.0	3,135.0	2,614.6	4,243.6	3,165.0	2,675.0	5,603.2	3,008.2	Clean and Drinking Water

Capital Budget

The Governor has proposed capital projects of \$1.644 billion for FY11. The budget includes \$548.5 million in general funds, \$256.5 million of other state funds and \$839.3 million in federal funds. Compared to the budget for FY10⁸, it is \$268.5 million greater in general funds, \$169.7 million greater in other state funds, and down \$299.2 million in federal funds for a \$139 million net increase. The pie chart below provides a categorical breakdown of the proposed capital spending plan.⁹



Construction

Construction projects—both new and remodel—comprise 54% of the Governor's proposed capital budget. New construction involves adding infrastructure to the state's capital stock, and includes both new roads and new square footage. Reconstruction involves modifying or changing existing roads or space.

The Surface Transportation Program and the Airport Improvement Program within DOT&PF (along with associated state match) make up the majority (\$478 million) of the construction budget. Other significant construction programs include the Village Safe Water Program and the Municipal Water Sewer Matching Grants Program in the Department of Environmental Conservation. These programs account for \$60.9 million of the Governor's request. Large, stand-alone *state funded* construction projects include:

- \$108.6 million – UAF Life Sciences Classroom and Lab Facility;

⁸ The FY10 Budget figures includes RPL's through the 12/16/2009 meeting.

⁹ Please see page 61 of this section for the project categorization methodology.

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- \$75.8 million – Public Safety Crime Lab Replacement;
- \$21.3 million – Service High School Renovation;
- \$10 million – Port of Anchorage Expansion;
- \$9.9 million – Johnson Youth Center Renovation and Remodel;
- \$9.7 million – AHFC San Roberto Redevelopment;
- \$8 million – Roads to Resources: Foothills West (75 mile road Dalton Hwy to Umiat);
and
- \$6 million – Interior Alaska Veteran's Cemetery Design and Construction.

Maintenance/Repairs

This category includes deferred, scheduled and preventative maintenance or repair projects for agency facilities, state parks, harbors, highways, bridges, rural airports, aircraft and vessels. The category accounts for 16% of the total capital budget.

In January of 2007, Legislative Finance compiled a list that showed a deferred maintenance back-log of \$954 million. Three years later, the back-log totals approximately \$1.8 billion (an 89% increase). The Governor has announced a plan to reduce the back-log by spending \$100 million each year for the next five years. The Governor's bill contains a separate section for the \$100 million in FY11. The current back-log, as reported by each agency¹⁰, is as follows:

Deferred Maintenance by Agency (millions)	
Administration	80.8
Corrections	103.0
Court System	14.9
Education & Early Development	15.0
Environmental Conservation	0.5
Fish and Game	2.3
Health & Social Services	19.5
Labor & Workforce Development	58.2
Military & Veterans Affairs	32.4
Natural Resources	67.6
Public Safety	2.7
Transportation & Public Facilities	427.1
Airports	54.1
Harbors	19.1
Facilities	24.7
Highways	305.9
AMHS Vessels/Terminals	23.3
University of Alaska	967.3
Total	\$1,791.3

¹⁰ Deferred maintenance estimates are provided by individual agencies to the Office of Management and Budget. Estimates are preliminary and may have a significant margin of error.

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Planning/Research

Another 18% of the budget falls into the planning and research category. In addition to projects, the Governor proposed a \$150 million deposit to the Alaska Gasline Inducement Act (AGIA) Reimbursement Fund. Under AGIA, the state will provide matching contributions in the form of reimbursements to the licensee (TransCanada) in an amount not to exceed \$500 million of the qualified expenditures incurred in development of a natural gas pipeline. This particular funding will reimburse TransCanada for planning expenses through FY11.

Other significant planning appropriations include the federal highway and airport pre-construction appropriations. At \$50 million and \$18 million, respectively, these highway and airport projects fund the preliminary design, engineering, environmental analysis, right-of-way and utility work for the federal Airport Improvement Program and Surface Transportation Program.

Information Systems/Technology

Information technology projects make up 2% of the budget. Spread throughout state agencies, projects include network upgrades/replacements, security projects, document imaging projects, database development and various communication projects. Also included are several Intelligent Transportation Systems (ITS) projects within DOT&PF. These projects utilize special funding from the Federal Highway Administration for improving transportation safety and efficiency. Examples include variable speed limit signs, traffic monitoring and incident detection systems, and weather and pavement sensors.

Two large projects—the DOR Tax Management System and the DOA Payroll and Accounting System Replacement—are conspicuously absent. Last session \$23.4 million and \$76.5 million, respectively, was requested for these two projects. See individual agency analysis for further information.

Equipment/Materials

This category, totaling 4% of the request (\$60 million), contains recurring projects for State Equipment Fleet replacement (\$15 million), materials stockpiling (Dalton Highway - \$5 million), various rural and international airport snow removal and safety equipment (\$15 million), and other agency equipment and materials.

Other

The “other” category, at 6% of the budget, is comprised of projects that do not fit well in any of the other project categories. The category includes projects that provide economic assistance, training, safety grants/programs, and similar miscellaneous items. This category has often contained appropriations that may be more appropriately placed in an agency operating budget. The legislature has taken steps during the last few years to place operating items in the operating budgets. This budget appears much improved in this regard.

Notable projects in the Other category include:

- \$9.5 million – State Homeland Security Grants;
- \$10 million – AHFC Homeless Assistance Program; and
- \$12.2 million – DOT&PF Statewide Safety Program.

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Funding

Unrestricted General Funds (UGF) - \$497.1 million

Unrestricted General Funds are up \$255.3 million over the FY10 capital budget. Primary drivers of the increase are \$150 million to the AGIA Reimbursement Fund and \$100 million for state-wide deferred maintenance.

The Governor proposes withdrawing money from the Alaska Housing Capital Corporation savings account. The legislature placed \$300 million of general funds in this sub-corporation of AHFC in FY07 with the intent that the money be used for future capital projects. The Governor utilizes \$160 of the \$356 million available.¹¹

General Fund Match totals \$62.2 million, up \$21.5 million from the FY10 budget. For FY10, the legislature reduced the two large match appropriations in DOT&PF (Federal Aid Highway and Aviation Match) by over 20% (a total of \$15.4 million). The impact of this reduction is not yet known, but the intent was to reduce excess authority in a pot of money over which the agency has considerable discretion.

The Governor's budget includes the top eight projects from the school Major Maintenance Priority List for a total of \$24.8 million. The Service High School Renovation project (\$21.3 million) consumes the majority of this funding. The full list contains 123 projects for a total state cost of \$274.7 million. The legislature typically adds to the Governor's request for school funding.

The Governor's budget does not address the 35 projects (with a total state cost of \$411.6 million) on the School Construction Priority List. These are large projects—the state share of the top five projects is \$200 million.

Atypical of a Governor's request, this budget includes some Grants to Municipalities and Grants to Named Recipients. These items are usually added by the legislature. The largest of these grants include:

- \$10 million: Port of Anchorage Expansion;
- \$4 million: Newtok Traditional Council – Evacuation Shelter and Access Road;
- \$3 million: Covenant House Alaska – Facility Construction; and
- \$1.5 million: Alaska Community Foundation – Jesse Lee Home Restoration.

Designated General Funds (DGF) - \$51.4 million

Appropriations of Designated General Funds are \$13.3 million greater in FY11; primarily the result of University Receipts, which were not in the FY10 capital budget. The Governor's general fund budget may be understated by \$25 million. The Governor proposes transferring \$25 million from the general fund into the Renewable Energy Grant Fund for renewable energy grants, but does not appropriate money from the fund for grants. The Governor's intentions for renewable energy projects are unclear.

Other State Funds - \$256.5 million

¹¹ The Governor proposes spending an additional \$17 million from the fund for operating purposes.

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Proposed appropriations of Other State Funds are \$169.7 million greater for FY11. This is almost entirely driven by the use of Certificates of Participation (COPs) for the UAF Life Sciences Classroom/Lab Facility (\$88 million) and the new Public Safety Crime Lab (\$76 million).

As a form of debt, COPs have caused controversy in the past. Legislative approval is now required before they can be issued to fund capital projects.

Federal Funds

Federal receipt authority is down \$299.2 million. Much of this can be attributed to the economic stimulus funding included in the FY10 budget, but absent in the FY11 budget. Stimulus RPL's have been prevalent in FY10. The current breakdown of capital project stimulus by agency is as follows:

Capital Budget Total Stimulus by Agency (thousands)					
Agency	Capital Bill SB 75	Non-DOT Stimulus Bill HB199	FY09 Capital RPLs	FY10 Capital RPLs	Total Stimulus Funding
Commerce, Community & Econ Dev	-	4,642.5	-	-	4,642.5
Environmental Conservation	-	70,637.0	-	-	70,637.0
Office of the Governor	-	1,000.0	-	-	1,000.0
Health & Social Services	23,947.5	-	-	-	23,947.5
Labor & Workforce Development	-	3,000.0	-	-	3,000.0
Natural Resources	-	1,500.0	4,030.0	5,211.0	10,741.0
Revenue	-	96,264.9	-	658.0	96,922.9
Transportation & Public Facilities	264,026.2	-	-	-	264,026.2
University of Alaska	-	117,000.0	32,929.9	25,896.0	175,825.9
Total	287,973.7	294,044.4	36,959.9	31,765.0	650,743.0

Note - Although there were significant RPLs for DOT&PF capital projects, the net result is zero additions of stimulus funding. Additional projects have been added due to a favorable bidding environment and some project delays, but no additional funding has been received.

Other reductions in Federal Receipt Authority appear in the DOT&PF Airport Improvement Program and the DEC Village Safe Water Program.

The Airport Improvement program is down \$80.6 million. Revenue to the state is not expected to decline, but excess legislative authority in prior years has reduced the need for authorization in FY11.

The Village Safe Water Program has been reduced \$13.6 million (26%) to \$38.5 million (for a program total of \$48.5 million, with associated state match). Rural water and sewer funding is continuing to decline while the state-wide sanitation need continues to grow. A recent DEC publication estimates the current need at over \$700 million, with FY11 funding from the USDA, state and other sources totaling approximately \$78 million.

Other Issues

Ding! Ding! Round 2!?

The possibility of a second round of federal economic stimulus has DOT&PF in rigorous preparation mode. A stimulus bill passed the House of Representatives and is expected before the Senate the week of January 18.

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As currently constructed, funding to Alaska will be on a similar level to last year—in the range of \$250 million. The project eligibility criteria are identical: “shovel ready” including all federal planning requirements. However, the timing deadlines are more expedited. The previous authorization required that 50% of the funding be *obligated* within 90 days. The new authorization requires 50% of funding be placed *under contract* within 90 days. The remaining 50% must be under contract within one year.

Congressional intent is to get money on the street quickly. Projects are not getting underway—and jobs are not being created—as fast as they would have liked. Congress is hoping that added pressure to get the projects under contract, or lose the funding to other states, will improve results.

Identifying eligible projects was a significant problem in the first round of stimulus funding. DOT&PF and the legislature had to work hard to fully utilize funding, especially because a very favorable bidding environment effectively made money available late in the process and because of federal restrictions regarding population and economic conditions.

In preparation for round 2, DOT&PF is working on a STIP amendment listing state highway projects that could meet the “50% within 90 days” deadline. These projects are being fast-tracked through all federal requirements in the hope of using as much funding as possible. Additionally, DOT&PF has mailed a letter to all communities and tribal governments requesting lists of potential 2nd round projects. The idea is to first tackle projects over which the state has the most control, and then work toward community additions in another STIP amendment that addresses the “remaining 50% in one year” deadline.

The new STIP amendment is posted and open for public comment through February 1st.

Legislative authority for these projects is a DOT&PF concern. Utilizing the FY10 Legislative Budget and Audit (RPL) process does not appear to be an option—the language of the capital appropriation bill specifically identified the 2009 American Recovery and Reinvestment Act as a fund source. The new stimulus money will be from a different congressional act, potentially eliminating that avenue as a fast-track method of project approval. The best available option may be fast-tracking a stand-alone appropriation bill.

Federal Highway Trust Fund

In the summer of 2008, the Congressional Budget Office projected a Federal Highway Trust Fund shortfall of \$3.3 billion for Federal Fiscal Year 2009 (FFY09). This shortfall was addressed by Congress, albeit temporarily, by an \$8 billion infusion from the general treasury in September 2008. Current projections have the Trust Fund entering another critical stage before the end of FFY09, with \$15 billion needed to ensure solvency through FFY10. These infusions fix immediate shortfalls in funding, but do not address the structural problem with regard to the Trust Fund. Congress will need to address the funding mechanism of the fund on a long-term basis in the transportation authorization bill to follow SAFETEA-LU.

Alaska is considered a “donee” state in regard to the Highway Trust Fund. We receive far beyond our share of revenue from the fund than we put into the fund. In the future, as the fund revenue stream is restructured, the impacts to Alaska may be severe.

What else is Missing?

Significant FY10 Governor priorities not included by the legislature in the FY10 budget and missing from the FY11 request include:

- \$76.5 million - DOA Payroll and Accounting System (previously mentioned);
- \$26.3 million - Dalton Highway: MP 9-11;

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- \$15.3 million - UAF Energy Technology Building; and
- \$6 million (\$12 million initially) - AVTEC Heavy Equipment and Diesel Shop.

Project Categorization Methodology

The pie chart beginning of this section and the spreadsheets accompanying each agency narrative categorize the capital budget by project groups. The groupings are a mutually exclusive set. This allows Legislative Finance to prepare a Project Group Summary report that reflects the entire capital budget without duplication. As with any task of categorization, subjectivity exists.

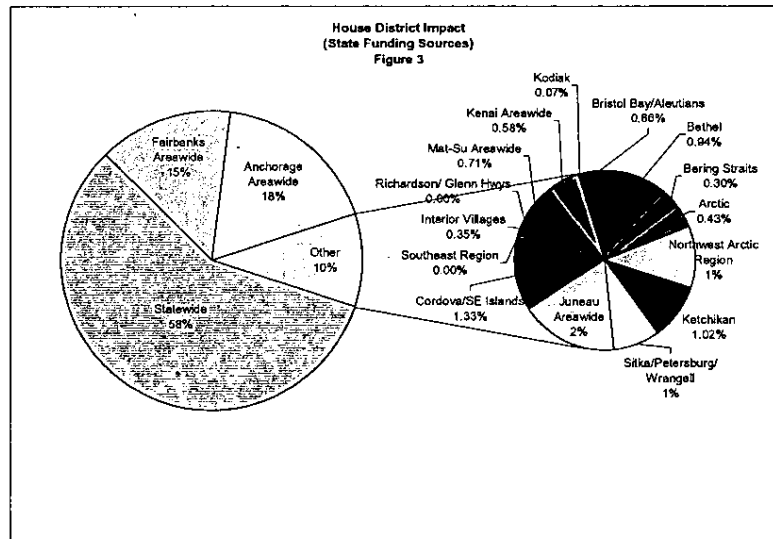
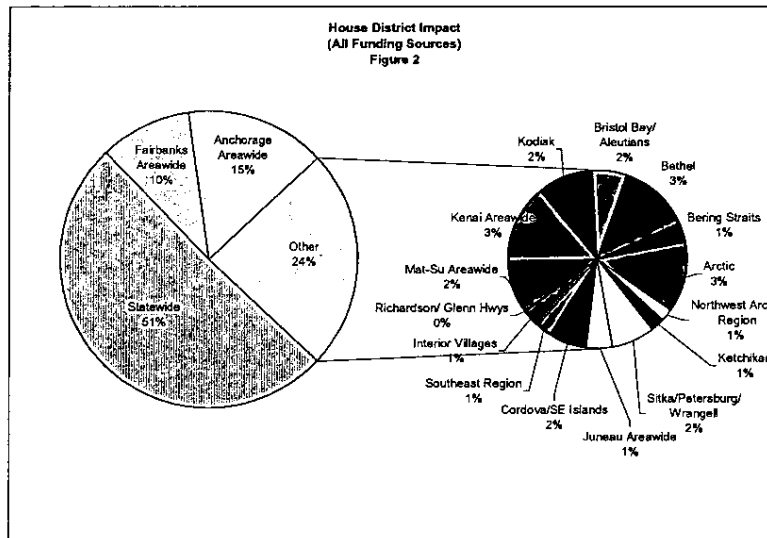
The rules used to define the projects in each group are provided in the table below.

Project Group	Description
Planning and Research	Projects involving planning, design, engineering, research, or studies
Maintenance and Repairs	Projects involving the repair of deteriorated conditions, restoration to previous condition, and preventative maintenance
Remodel, Reconstruction and Upgrades	Projects modifying or rebuilding existing space; includes complete replacement and upgrades
New Construction and Land Acquisition	Projects involving the addition of new space; including extensions and expansions
Information Systems and Technology	Projects related to information technology regardless of whether they are in a planning phase or construction (programming) phase - segregated due to their unique nature
Other	Projects that do not fit elsewhere

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Distribution by House District

The pie charts below (Figures 2 & 3) detail the proportional breakdown of the Governor's capital request by house district on an "impact" basis.¹² Figure 2 contains all funding sources, while Figure 3 is state funds only. As can be seen, the majority of projects are assigned to the "Statewide" House District. Projects falling under this assignment are generally broad appropriations that span multiple regions of the state. The types of projects included are large deferred maintenance projects, information technology projects, and federal grant programs. The Capital Budget Summary table on page 63 breaks out the funding sources by fund group (General funds (UGF & DGF), Other State, and Federal funds) for each house district. Project detail reports by House District (along with project back-up) can be found on the Legislative Finance website.



¹² Legislative Finance assigns two house districts to each project: 1) by the house districts impacted by a project, and 2) by the geographic location of a project.

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Capital Budget Summary

(thousands) Agency	Agency Comparison - All Funds (Includes MH)		FY11 Governor by House District					
	FY10 Budget (1)	FY11 Governor (12/15/2009)	Change FY10-FY11	House District	HD #	General Funds	Other State Funds	Federal Funds
Administration	5,475.0	25,275.0	19,800.0	Ketchikan	1	2,225.5	6,000.0	1,221.5
Commerce, Community & Econ Dev	133,332.6	96,083.8	(37,248.8)	Sitka/Petersburg/Wrangell	2	2,105.2	4,500.0	24,254.5
Corrections	7,000.0	6,950.0	(50.0)	Juneau Areawide	3-4	9,880.0	4,500.0	3,800.0
Education and Early Development	44,147.1	26,470.7	(17,676.4)	Cordova/SE Islands	5	3,797.8	6,910.0	17,345.3
Environmental Conservation	95,606.0	75,339.4	(20,266.6)	Southeast Region	1-5	-	-	11,075.0
Fish and Game	28,283.0	31,305.0	3,022.0	Interior Villages	6	2,818.4	-	10,105.1
Office of the Governor	459.7	1,255.3	795.6	Fairbanks Areawide	7-11	27,606.2	89,315.0	47,510.7
Health and Social Services	41,578.3	18,950.0	(22,628.3)	Richardson/ Glenn Hwys	12	15.9	-	317.7
Labor and Workforce Development	3,692.2	6,051.7	2,359.5	Mat-Su Areawide	13-16	5,687.5	-	32,000.0
Law	-	150.0	150.0	Anchorage Areawide	17-32	44,013.2	99,321.8	106,523.8
Military and Veterans Affairs	29,550.0	34,542.0	4,992.0	Kanai Areawide	33-35	4,669.6	-	50,604.6
Natural Resources	76,714.4	29,848.0	(46,866.4)	Kodiak	36	584.2	-	40,402.5
Public Safety	4,442.8	81,886.0	77,443.2	Bristol Bay/Aleutians	37	5,284.1	-	18,782.3
Revenue	60,935.2	70,733.1	9,797.9	Bethel	38	7,589.1	-	43,017.1
Transportation & Public Facilities	891,294.7	823,312.5	(67,982.2)	Bering Straits	39	2,405.5	-	12,510.7
University of Alaska	58,773.0	162,500.0	103,727.0	Arctic	40	3,481.5	-	45,892.4
Alaska Court System	7,140.0	2,500.0	(4,640.0)	Northwest Arctic Region	39-40	9,000.0	-	-
Fund Capitalization (2)	16,820.0	151,131.5	134,311.5	Statewide	1-40	417,353.3	45,965.0	373,892.1
Total Capital Money on the Street (3)	1,505,244.0	1,644,284.0	139,040.0	Total		548,517.0	256,511.8	839,255.3
Unrestricted General Funds	241,837.9	497,120.4	255,282.5	Unrestricted General Funds		497,120.4	-	-
Designated General Funds	38,138.7	51,396.5	13,257.8	Designated General Funds		51,396.5	-	-
Other State Funds	86,833.9	256,511.8	169,677.9	Other State Funds		-	256,511.8	-
Federal Funds	1,138,433.6	839,255.3	(299,178.3)	Federal Funds		-	-	839,255.3
Fund Transfers - Non-Additive (4)	25,000.0	35,000.0	10,000.0					

Notes:

- 1) The FY10 Budget figure includes RPL's through the 12/16/2009 meeting.
- 2) Fund Capitalization refers to funding appropriated to a program not requiring further appropriation for expenditure (e.g. Harbor Facility Grant Fund, AGIA Reimbursement Fund).
- 3) "Money on the Street" is the total amount of funding for capital projects, net of fund transfers. Duplicated fund sources are not removed. Doing so would underestimate the actual amount of funding going toward capital projects. This is the opposite of operating budget duplicate funds, whereby the duplicate fund sources would double the actual money paying for services.
- 4) Fund Transfers are appropriations that move money from one "fund" to another "fund," not actually placing any new capital projects "on the street."

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Language Sections of the Governor's FY2011 Capital Budget

* **Sec. 7. 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 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 unanticipated additional receipts that are appropriated subject to review by the Legislative Budget and Audit (LB&A) Committee. 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. The operating language excludes test fisheries receipts and corporate receipts of the Alaska Aerospace Development Corporation.

(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 state 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. The language applies to all appropriations in the Act, not merely to appropriations subject to LB&A review.

* **Sec. 8. FUND TRANSFERS.** (a) The income earned during fiscal year 2011 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 a appropriates the FY11 earnings associated with the State vs. Amerada Hess settlement (held within the Permanent Fund) to the Alaska Capital Income Fund. This fund was established in FY05 and is customarily appropriated for capital projects.

Legislative Fiscal Analyst Comment: Capitalization of the fund is preferable to direct appropriations from the Permanent Fund Earnings Reserve Account. Because the precise amount of earnings is unknown, the amount available for appropriation is unknown. Putting the money in a non-lapsing fund ensures that all available earnings are appropriated while reducing the danger of appropriating more money than is available.

Funding: The Amerada Hess settlement portion of the Permanent Fund is "fenced off" from the rest of the Permanent Fund principal. The earnings on this \$425 million portion have historically been projected at \$28 million per year based on the expected rate of return on Permanent Fund investments. Actual earnings (in millions) from FY05-09 are: FY05 - \$27, FY06 - \$37, FY07 - \$42, FY08 - \$33, and FY09 - \$0. Current projections for FY10 and FY11 are \$0 and \$3 million.

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respectively. The low earnings projections for FY10 and FY11 are the result of the way the Permanent Fund accounts for investment losses experienced in FY09. These figures will increase if the legislature disagrees with the accounting choices made by the Permanent Fund. For details, see a discussion paper on this topic posted to the Legislative Finance website!

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

- (1) interest earned on amounts in the election fund required by the federal Help America Vote Act;
- (2) the sum of \$1,075,000 from federal receipts;
- (3) the sum of \$56,500 from the general fund.

Subsection b capitalizes the Election Fund with federal Help America Vote Act (HAVA) funds, the earnings of the Election Fund, and general funds for state match!

(c) The sum of \$25,000,000 is appropriated from the general fund to the renewable energy grant fund (AS 42.45.045(a)).

Subsection c transfers general funds to the renewable energy grant fund for energy grant appropriations!

Funding: To date, \$125 million has been appropriated to and from the fund for projects!

(d) The sum of \$150,000,000 is appropriated from receipts of the Alaska Housing Capital Corporation created under AS 18.56.086 to the Alaska Gasline Inducement Act reimbursement fund (AS 43.90.400(a)) for the natural gas pipeline project construction inducement under AS 43.90.110(a)(1).

Subsection d capitalizes the AGIA Reimbursement Fund with \$150 million from the savings account created within the Alaska Housing Finance Corporation. Under AGIA, the state will provide matching contributions in the form of reimbursements (not to exceed \$500 million) to the licensee (TransCanada) of qualified expenditures incurred in development of a natural gas pipeline. No appropriation is required to disburse money from the fund!

Legislative Fiscal Analyst Comment: The appropriation may be \$20 million more than is necessary for FY11. However, given the uncertainty of project expenditures, a little surplus in the fund may be prudent. On the other hand, a shortfall could be filled with a supplemental appropriation!

Funding: \$45 million has been appropriated to the fund with no reimbursements paid to date. Expected reimbursements through FY11 amount to approximately \$175 million (as outlined in the 10/31/2009 pipeline project report <http://gov.state.ak.us/agia>). Placing \$150 million in the fund will provide a balance of \$195 million, before reimbursements!

(e) The sum of \$7,000,000 is appropriated from the dividend paid to the state by the Alaska Industrial Development and Export Authority under AS 44.88.088 for the fiscal year 2011 to the power project fund (AS 42.45.010).

Subsection e transfers \$7 million to the power project fund for additional power project loans. Demand for loans has increased significantly in association with \$125 million of Renewable Energy Grants made available by the state. Many of the grants require

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matching funds that the grantees do not have on hand. The power project fund can provide an avenue to borrow funding for this purpose.

Funding: As of 12/31/2009, the fund had an available loan balance of \$4.1 million. Current loan applications total \$9.5 million. \$7 million would provide the fund more than sufficient capital if all the loan applications were to be processed.

* **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.

Section 9 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.** The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) under 42 U.S.C. 6506a(1) or former 42 U.S.C. 6508 by August 31, 2010, estimated to be \$14,882,800, 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.

Section 10 appropriates the entire amount received (estimated at \$14.9 million for FY11) from the revenue shared by the federal government from sales, rentals, bonuses, and royalties on leases issued within the NPR-A to the NPR-A Impact Grant Program. Grants are awarded to municipalities impacted by oil and gas development in the NPR-A. AS 37.05.530(g) states that receipts not appropriated as grants are to be distributed 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.

Legislative Fiscal Analyst Comment: Recent capital bills contained a list of grantees and the projects to be funded. Providing this information allows it to be entered into the budget system so that it is available for future queries regarding grants.

Legislative Fiscal Analyst Recommendation: Grantees and a short description of projects should appear in the bill.

Legislative Fiscal Analyst Recommendation: Remaining balances should be appropriated to a fund other than the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer used because the Power Cost Equalization program is funded with an open-ended appropriation of general funds.

* **Sec. 11. DEPARTMENT OF REVENUE; CONTINGENCY.** (a) The amount necessary for issuance costs relating to certificates of participation issued for real property for the University of Alaska, Fairbanks campus, Life Sciences Classroom and Laboratory facility, estimated to be \$900,000, is appropriated to the state bond committee from the proceeds of the issuance of a certificate of participation for that purpose, for the fiscal year ending June 30, 2011.

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(b) The appropriation made by (a) of this section is contingent on passage by the Twenty-Sixth Alaska State Legislature and enactment into law of a bill authorizing the issuance of a certificate of participation for real property for the University of Alaska, Fairbanks campus, Life Sciences Classroom and Laboratory facility.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to move this section to the operating budget so it is grouped with other appropriations associated with certificates of participation.*

* **Sec. 12. LAPSE.** (a) The appropriations made by secs. 8 and 9(1) of this Act are for the capitalization of funds and do not lapse.

(b) The appropriations made by secs. 10 and 11 of this Act are for capital projects and lapse under AS 37.25.020.

Under AS 37.25.020, a capital appropriation is for the life of the project. In addition, an Attorney General's Opinion states that exclusion of a capital appropriation from a capital lapse provision (such as subsection (b)) does not prevent the appropriation from lapsing under AS 37.25.020 as long as the appropriation is "clearly a capital improvement."

Legislative Fiscal Analyst Comment: *The belief that capital appropriations have a five-year lapse is a common misunderstanding. Capital projects are initially booked in the state accounting system for five years, but are administratively extended if the funding is still needed.*

The statutes governing Grants to Municipalities, AS 37.05.315, include a provision that if substantial and ongoing work has not begun within five years of the appropriation, the funding shall lapse.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to consider adding a similar provision to AS 37.25.020 in order to prevent capital projects from remaining on the books for extended periods with little to no activity.*

(c) A grant awarded in sec. 1 of this Act to a named recipient under AS 37.05.316 is for a capital project, unless specifically identified in this Act as an operating grant, and lapses under AS 37.25.020 unless otherwise stated or designated for a fiscal year.

Legislative Fiscal Analyst Comment: *This subsection is included to clarify that all grants under AS 37.05.316 are to be considered capital projects and are to lapse like other capital projects. There has been confusion in the past when some grants were booked as operating grants with a one-year lapse. This language clarifies legislative intent.*

* **Sec. 13.** This Act takes effect July 1, 2010.

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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; and
- People with Alzheimer's disease and related dementia.

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 and the Alaska Department of Revenue Treasury Division manages the trust principal, the Mental Health Trust Lands Office (Dept. of Natural Resources) manages the land and non-cash assets, 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 (currently 4.25%) of the total cash asset value of the Trust Fund Corpus (Principal);
- lapsed funds from the prior year;
- income from the Trust's account in the treasury; and

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- 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 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. Although the budget is developed cooperatively, the Governor's request may make 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-Based Budgeting: The Trust continues zero-based budgeting of MHTAAR in FY11, meaning that all MHTAAR in state agencies was removed from the FY11 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. Under incremental budgeting, 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 FY11 Mental Health Budget

The Trustees approved the following five focus areas for the FY11 budget cycle:

- Bring The Kids Home;
- Affordable, Appropriate Housing for Trust Beneficiaries;

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- Disability Justice for Trust Beneficiaries;
- Trust Beneficiary Projects Initiative; and
- Workforce Development

OPERATING

Mental Health Trust recommendations typically address only *increments* to the budget. The Trust's recommendations do not address FY10 GF/MH funding that remains in the base for FY11. The net requested increase in operating funding from FY10 to FY11 is approximately \$8.8 million.

Statewide Total Appropriations for Mental Health Programs						
	FY07	FY08	FY09	FY10	FY11 Trust Request	FY11 Gov
State Funds	127,712.4	131,568.6	159,818.2	171,200.9	15,340.0	180,595.1
MHTAAR	11,446.4	12,308.7	13,714.2	12,636.5	12,091.2	12,087.5
Subtotal Operating	139,158.8	143,877.3	173,532.4	183,837.4	27,431.2	192,682.6
Change from previous year		4,718.5	29,655.1	10,305.0		8,845.2
State Funds	12,200.0	13,600.0	7,550.0	4,984.2	12,975.0	11,150.0
MHTAAR	2,650.0	2,500.0	3,500.0	1,650.0	2,050.0	2,050.0
Subtotal Capital	14,850.0	16,100.0	11,050.0	6,634.2	15,025.0	13,200.0
Change from previous year		1,250.0	-5,050.0	-4,415.8		6,565.8
Grand Total	\$154,008.8	\$159,977.3	\$184,582.4	\$190,471.6		\$205,882.6

The Trust recommendations included additional state operating funds of \$15.3 million in FY11. Budget requests approved by the Trust but not included in the Governor's FY11 budget request include:

- Department of Health and Social Services (DHSS): \$2.3 million in Senior and Disabilities Services for:
 - traumatic brain injury services coordination;
 - emergency intervention services;
 - tele-care/smart home technology projects;
 - Alzheimer's disease and related dementia grants; and
 - establishment of a crisis response stabilization program and grant funding for clients that are developmentally disabled.
- DHSS: \$1.3 million in Rural Services and Suicide Prevention for implementation of childhood and adolescent prevention grants and funding to supplement the Alaska Native Tribal Health Consortium's efforts in Crisis Intervention Stress Management training and Applied Suicide Intervention Skills training in Barrow and Dillingham.

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- DHSS: \$1.2 million in rate increases for Behavioral Rehabilitation crisis stabilization services providers.

The FY11 Trust-recommended appropriation of Trust Receipts (MHTAAR) totals \$12.1 million. The Trust recommendations include \$3.7 more for FY11 health insurance increases than are included in the Governor's FY11 budget.

CAPITAL

The Governor's FY11 capital budget request of \$15.1 million for Mental Health programs is \$175.0 more than the Trust's recommendations of \$15.0 million. The Trust's recommendations include \$2.1 million MHTAAR, \$6.0 million GF/MH, and \$7.0 million AHFC Dividends.

The \$175.0 difference between the Trust recommendations and the Governor's budget request is the result of several actions:

- Trust projects that were not submitted to the legislature by the Governor:
 - \$1.2 million in funding to aid in the construction of the new Bethel Sobering Center, grants for assistive technology projects, and essential equipment purchases for Trust beneficiaries.
- Trust project that received partial funding in the Governor's budget:
 - The Governor's budget includes \$500.0 (of the \$2.5 million recommended) for deferred maintenance of non-profit service providers and beneficiaries' facilities.
- Trust project to which the Governor added funding:
 - The Governor added \$3.4 million to support temporary emergency housing service providers.

Some of the significant projects contained in both the Trust's recommendations and the Governor's Mental Health budget are listed below (funding levels shown are from the Governor's budget):

- | | |
|---|---------------|
| • MH AHFC Beneficiary and Special Needs Housing (ED 99) | \$1.8 million |
| • MH Home Modification and Upgrades to Retain Housing (ED 99) | \$1.1 million |
| • MH Coordinated Transportation and Vehicles (ED 99) | \$1.1 million |
| • MH Housing, Pre-Development, Anchorage Assets Building | \$500.0 |

Agency Narratives and Funding Summaries

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Department of Administration				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$96,038.4			
FY10 Fiscal Notes	-			
Carry Forward	1,700.9			
Special Appropriations	-			
Agency Transfers	(9.7)			
10 Contractual Salary Adjustments	(13.6)			
Misc Adjustments	-			
Vetoed	(200.0)			
FY10 Management Plan (GF only)	\$97,516.0	\$1,477.6	1.5%	
One-time Items removed	(1,943.1)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	420.6			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$95,993.5	(\$1,522.5)	-1.6%	
FY11 Governor's GF Increments/Decrements/Fund Changes	1,412.1			
FY11 Governor's Request (GF only)	\$97,405.6	\$1,412.1	1.5%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$1,412.1	
Office of Administrative Hearings	419.1	431.4	12.3	5
Office of the Commissioner	345.0	352.7	7.7	5
Administrative Services	58.0	59.9	1.9	5
Personnel	1,045.4	1,046.4	1.0	5
Lease Administration	58.1	59.3	1.2	5
Elected Public Officers Retirement System Benefits	1,898.1	2,498.1	600.0	2
Enterprise Technology Services	1,237.2	1,241.4	4.2	5
Alaska Oil and Gas Conservation Commission	5,550.6	6,701.5	1,150.9	1
Office of Public Advocacy	20,310.0	20,313.8	3.8	5
Violent Crimes Compensation Board	1,587.6	1,885.5	297.9	3
Motor Vehicles	15,259.3	14,590.5	(668.8)	4
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	194,334.3	197,471.4	3,137.1	
Federal Funds (all allocations)	2,783.6	3,433.6	650.0	
Total Non-General Funds (all allocations)	\$197,117.9	\$200,905.0	\$3,787.1	
Position Changes (From FY10 Management Plan to Gov)	1,124	1,119	(5)	
PFT	1,070	1,069	(1)	
PPT	20	18	(2)	
Temp	34	32	(2)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,300.0	-	1,300.0	
Maintenance and Repairs	7,250.0	-	7,250.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	16,725.0	-	16,725.0	
Other	-	-	-	
TOTAL CAPITAL	\$25,275.0	\$0.0	\$25,275.0	

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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 Alaskans. DOA establishes policies and coordinates services among departments and 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 on 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 which collects revenues from vehicle titling and registration and driver licensing; by legal and advocacy services through the Public Defender Agency and the Office of Public Advocacy; and through the Office of Administrative Hearings which provides for adjudication services in a broad range of administrative appeals and alternative dispute resolution processes. 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 FY11 Department of Administration general fund operating budget submitted by the Governor is \$1,412.1 above the FY11 Adjusted Base [\$1,783.0 Unrestricted General Funds (UGF)/a reduction of \$370.9 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

**1. Alaska Oil and Gas Conservation Commission (AOGCC):
\$1,150.9 Alaska Housing Capital Corporation (AHCC) (UGF).**

The AOGCC is tasked with independent evaluation of depletion plans for reservoirs prior to the start of major gas sales from the North Slope of Alaska. The Commission is required to rule upon offtake rates, timing, and depletion plans for the fields being developed before gas sales are approved. Although the AOGCC has completed a portion of the significant reservoir evaluation studies that are necessary to accomplish these tasks, an increment of \$1,150,900 is requested in the Governor's budget to complete the work.

Legislative Fiscal Analyst Comment: The AOGCC typically uses regulatory fees to pay for Commission activities. However, the depletion studies are required in advance of gas

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sales, so general funds have been used to pay for the studies since FY06. This request is part of the Governor's \$10.5 million appropriation to a variety of agencies for gas pipeline development.

2. **Elected Public Officers Retirement System (EPORS) Benefits: \$600.0 UGF.** EPORS currently has 39 members (24 retirees and 15 surviving dependents) who receive benefits. Costs have increased due to mandatory benefit increases based upon the salaries of the positions from which members retired and the projected rise in the cost of health insurance (also a member benefit).
3. **Violent Crimes Compensation Board (VCCB): \$297.9 PFD Criminal Receipts (DGF).** The Violent Crimes Compensation Board was established to help mitigate financial losses that are the direct result of violent crimes that occur against Alaskans and visitors to Alaska. In addition, the Board helps to foster victim advocacy services and promotes victim recovery. Assistance is generally in the form of payment for services, reimbursement of certain losses, and financial help to ensure the safety of Alaskan victims. Due to statewide outreach programs, the number of applicants has increased over the years, a trend that is expected to continue.
4. **Motor Vehicles: (-\$668.8 Receipt Supported Services) (DGF).** The Department anticipates a reduction of \$668,800 in the Anchorage Bensen Office lease that is scheduled for renewal in FY11. Terms of the initial lease included the cost of the customization (build out) of the space to meet Division of Motor Vehicles' needs. Those terms provided that, in the case of a renewal, a lesser amount would be charged.
5. **Salary Fund Source Changes: \$32.1 UGF.** The Governor's budget proposes using general funds to replace a portion of other funding sources that could be used to pay for contractual health insurance increases for noncovered employees. Although the overall amount is small, seven different allocations are affected for a total of \$32,100 UGF (the switch occurs from Interagency Receipts (\$27,900) and the Information Services Fund (\$4,200)). As an alternative to these fund source changes, DOA could either 1) charge agencies for services and let any necessary fund source changes occur in the agencies or 2) absorb these personal services costs within the individual allocation vacancy factors.

ORGANIZATIONAL CHANGES

In FY11, the following structural changes are reflected in the Governor's Department of Administration budget:

- The State Travel Office allocation within Centralized Administrative Services is re-named E-Travel. This program has been established as the managed travel program serving the State of Alaska Executive Branch, including employees, members of boards and commissions, inmates, witnesses, and other individuals that travel on official state business; and
- The Enterprise Technology Services appropriation, which had consisted of a single allocation, has split into three allocations for management and tracking purposes:
 - State of Alaska Telecommunications System;
 - Alaska Land Mobile Radio; and

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- o Enterprise Technology Services.

CAPITAL REQUEST

The Governor's FY11 Department of Administration capital budget totals \$25.3 million. Included in the general fund category is \$7.9 million UGF and \$8.5 million Receipt Supported Services (RSS) (Designated GF), divided into the following projects:

- \$600,000 UGF – Alaska Public Offices Commission (APOC) Electronic Filing System to complete the APOC Web Based Electronic Filing System;
- \$8,500,000 RSS (DGF) – Alaska License and Vehicle Information System to replace the Division of Motor Vehicles information network. The system is thirty-plus years old and is becoming increasingly difficult to support and maintain;
- \$50,000 UGF – Alaska Rural Communications Service (ARCS) Digital Conversion Planning to meet FCC mandated standards for all low power television services and expand public service to residents in bush Alaska; and
- \$7,250,000 UGF – Statewide Deferred Maintenance Projects managed by the Department of Administration for Public Building Fund and non-Public Building Fund facilities as well as projects for the State of Alaska Telecommunication System infrastructure.

The capital request presented by the Governor also includes \$8.9 million in non-GF projects. The most significant of those non-GF projects is \$3.7 million (Information Services Fund) for Enterprise Technology Services infrastructure upgrades and support. This project contributes to the Division's core service of providing business management and information technology support to all state agencies and to citizens accessing state services.

Legislative Fiscal Analyst Comment: A large project—replacement of the state's payroll and accounting software—is significant in its absence. In FY10, the Department requested (but did not receive) \$76 million to work toward replacing legacy administrative systems, primarily the statewide accounting system (AKSAS) and payroll system (AKPAY). The continued operation of these systems is threatened by their age and the antiquated software languages in which they are written. The legislature previously appropriated \$41 million for this massive project, which is projected to take at least six more years to complete and to require many more millions of dollars.

Legislative Fiscal Analyst Comment: As in previous years, 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. A total of \$357.6 million in direct appropriations for retirement include:

(a) \$190,850.3 GF for the teachers' retirement system defined benefit plan account;

(b) \$165,841.2 GF for the public employees' retirement system defined benefit plan account;

(c) \$84.2 GF for the Department of Military and Veterans' Affairs AK National Guard and Alaska Naval Militia defined benefit plan account; and

(d) \$788.9 GF for the judicial retirement system defined benefit plan account.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Commerce, Community, and Economic Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$97,592.4			
FY10 Fiscal Notes	98.0			
CarryForward	-			
Special Appropriations	5,500.0			
Agency Transfers	12.7			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$103,203.1	\$5,610.7	5.7%	
One-time Items removed	(91.0)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	196.5			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$103,308.6	\$105.5	0.1%	
FY11 Governor's GF Increments/Decrements/Fund Changes	437.2			
FY11 Governor's Request (GF only)	\$103,745.8	\$437.2	0.4%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$437.2	
Community and Regional Affairs	6,171.5	6,612.4	440.9	3
Office of Economic Development	1,890.9	1,950.8	59.9	
AEA Power Cost Equalization	37,660.0	36,300.0	(1,360.0)	2
Alaska Seafood Marketing Institute	12,212.2	13,212.2	1,000.0	1
Banking and Securities	3,110.3	3,264.3	154.0	4
Community Development Quota Program	57.6	-	(57.6)	
Insurance Operations	6,491.3	6,691.3	200.0	5
Non-General Fund Agency Summary				
Other State Funds (all allocations)	25,866.6	31,001.0	5,134.4	
Federal Funds (all allocations)	64,110.5	66,052.6	1,942.1	6
Total Non-General Funds (all allocations)	\$89,977.1	\$97,053.6	\$7,076.5	
Position Changes (From FY10 Management Plan to Gov)	541	545	4	
PFT	526	528	2	
PPT	2	2	-	
Temp	13	15	2	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,100.0	-	1,100.0	
Maintenance and Repairs	250.0	-	250.0	
Remodel, Reconstruction and Upgrades	26,160.0	16,000.0	42,160.0	
New Construction and Land Acquisition	24,250.0	14,822.8	39,072.8	
Equipment and Materials	-	-	-	
Information Systems and Technology	935.0	-	935.0	
Other	5,941.0	6,625.0	12,566.0	
TOTAL CAPITAL	\$58,636.0	\$37,447.8	\$96,083.8	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 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 grant and loan programs;
- manages programs aimed at key economic sectors such as electric power generation, tourism, aerospace, mining, and fishing;
- participates in the 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, utilities, planning, and energy management.

SIGNIFICANT ISSUES

The FY11 Department of Commerce, Community, and Economic Development general fund operating budget submitted by the Governor is \$437.2 above the FY11 Adjusted Base [\$2,640.1 reduction of Unrestricted General Funds (UGF)/\$3,077.3 increase of Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

1. **Alaska Seafood Marketing Institute (ASMI) Campaign: \$1 million UGF.** ASMI's \$1 million UGF increment request increases ASMI's total GF budget to \$3.7 million (an increase of 37.5% over FY10). Of the \$3.7 million total, ASMI plans to spend \$2.2 million to access the Federal Market Access Program's (MAP) formula funding (a 2:1 match) that must be spent on International marketing. Another \$1.5 million will be used in the domestic market for core program activities and promotions. More specifically, ASMI argues that the funding is needed for the following:
 - **To mount a major sustainability campaign in Europe** to combat the perception that Alaska Seafood is not sustainable unless it has a Marine Stewardship Council (MSC) endorsement;
 - **To maintain its purchasing power.** The weaker U.S. dollar has reduced ASMI's purchasing power abroad;
 - **To access more federal funds for International marketing.** Because the ability to raise matching funds counts for 40% of the Federal Market Access Program's funding formula, Alaska has been less successful than other states at accessing the full amount that could be available to it;

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

- **To offset the anticipated loss of revenue from industry funds.** ASMI expects a drop of \$1-2 million in industry funds (based on ex-vessel prices) in FY10 and FY11. They plan to replace lost industry funds with UGF and use the funds in the domestic market; and
- **To take advantage of currently existing opportunities to capture more of the domestic market** due to reduced Chilean imports resulting from farm disease.

2. Power Cost Equalization (PCE): \$1.36 million UGF decrement.

Although language in the operating budget bill appropriates general funds in the amount necessary to pay for the PCE program, the Department revised its expenditure projections downward due to the lower cost of fuel, fewer eligible grantees, and lower consumption projections.

In addition, the amount available from the PCE Endowment for FY11 is calculated to be \$23,834.4 (less \$160.8 for the Department of Revenue management fees), which is an increase of \$2,780.9 over the amount budgeted in FY10. Funds from the Endowment replace UGF.

3. Community and Regional Affairs: \$440.9 million UGF.

- **Local Government Assistance: \$343.9 GF.** This request funds three positions to provide technical assistance to at-risk communities with populations between 25 and 2500. Currently, three staff cover 386 communities. According to the Department, of these 386 communities, 40% (or 153) are not meeting federally required management sustainability indicators. Non-compliance renders the communities ineligible for state financial assistance and places state and federal infrastructure investment at risk.
- **Assistance with Alaska Native Claims Settlement Act (ANCSA) 14(c) actions: \$97.0 GF.** This funding will support a position to provide communities with land management, site control verification, planning assistance services and management of ANCSA 14(c) actions.

When ANCSA was passed in 1971, 95 unincorporated communities had a land conveyance obligation to the State under section 14(c)(3). Over 50 communities still have not completed the conveyance of land to the village corporation to be held in trust for a future municipality.

Site control and land status verifications are needed to ensure clear title on village corporation land. Lack of this verification can result in legal issues and can hold up capital grants disbursement. Other departments and entities depend upon the Department's verification actions to allow for the disbursement of capital grants and to avoid legal complications resulting from unresolved land status issues.

4. Banking and Securities: \$164.0 DGF. An increment of \$164.0 is requested to pay travel costs to conduct eight safety and soundness examinations and approximately 68 compliance examinations on a 12-18 month cycle. In addition, this funding will pay travel costs of recently hired examiners to receive specialized training in areas such as: Capital Adequacy, Asset Quality, Management Ability, Earnings Adequacy, Liquidity Management, Sensitivity to Market Risk, Operations, Internal Controls and Audit, and a Compliance Review. *This is an increase of 84.3% in the travel line from FY10.*

5. Insurance Operations: \$200.0 DGF. By statute, Insurance must notify up to 37,000 licensees whenever there is change in rules, regulations or policy that may impact

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

licensees. Print, mail and legal costs have increased by \$300.0 in two years. This increment is requested to help offset these rising costs.

- 6. Federal Program Funding for National Forest Receipts: \$1.4 million Federal Receipts.** The Department anticipates receiving and distributing (to local governments) \$17.1 million in National Forest Receipts. This is an increase of \$1.4 million over FY10.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL REQUEST

DCCED's total capital budget is nearly \$96.1 million—\$37.4 million of which is federal money. The budget consists of a diverse mix of grants and capital projects, most of which are more clearly described as *passing through DCCED* rather than *going to DCCED*. The pass-through projects include rural power and transportation systems, community economic assistance, port expansion and cruise ship industry enhancements. Projects requested by DCCED include:

- \$609,000 of RSS for a Banking and Securities Imaging project; and
- \$326,000 of RSS to replace and consolidate many of Division of Community and Regional Affairs' (DCRA) computer applications.

Legislative Fiscal Analyst Comment: Because DCRA does not generate receipts that can be used to pay for various software applications, this funding source is invalid. If the project is approved, the funding source should be replaced with general funds.

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Department of Corrections				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$228,505.5			
FY10 Fiscal Notes	-			
CarryForward	500.0			
Special Appropriations	-			
Agency Transfers	600.0			
10 Contractual Salary Adjustments	(162.8)			
Misc Adjustments	-			
Vetoes	-			
FY10 Management Plan (GF only)	\$229,442.7	\$937.2	0.4%	
One-time Items removed	(1,600.0)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	35.3			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$227,878.0	(\$1,564.7)	-0.7%	
FY11 Governor's GF Increments/Decrements/Fund Changes	2,600.8			
FY11 Governor's Request (GF only)	\$230,478.8	\$2,600.8	1.1%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$2,600.8	
Offender Habilitation Programs	1,142.2	1,292.2	150.0	1d
Wildwood Correctional Center	11,744.6	12,995.4	1,250.8	1a
Community Jails	6,115.4	6,415.4	300.0	1c
Community Residential Centers	19,377.9	20,277.9	900.0	1b
Inmate Health Care (fund source change)	-	-	0.0	2
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	16,174.5	16,548.5	374.0	
Federal Funds (all allocations)	3,003.4	3,003.4	0.0	
Total Non-General Funds (all allocations)	\$19,177.9	\$19,551.9	\$374.0	
Position Changes (From FY10 Management Plan to Gov)	1,511	1,511	0	
PFT	1,510	1,509	1	
PPT	1	2	(1)	
Temp	-	-	0	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	6,500.0	-	6,500.0	
Remodel, Reconstruction and Upgrades	450.0	-	450.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$6,950.0	\$0.0	\$6,950.0	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Corrections

The mission of the Department of Corrections (DOC) is to provide secure confinement, reformatory programs, and a process of supervised community reintegration to enhance the safety of Alaskan communities. The Department:

- provides secure confinement;
- provides reformatory programs; and
- provides supervised re-entry.

SIGNIFICANT ISSUES

The FY11 Department of Corrections general fund operating budget as submitted by the Governor is \$2,600.8 above the FY11 Adjusted Base [\$3,452.3 Unrestricted General Funds (UGF)/a reduction of \$851.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

1. Although Alaska's **prison population** had a small and anomalous decline in 2008, the long-term upward trend in population continues to increase departmental costs. The 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 long-term decline in the offender population. The Department addresses the prison population issue with the following increments:
 - a) **Wildwood Correctional Center: \$1,250.8 GF (\$1,242.8 UGF, \$8.0 RSS (DGF)).** In FY09, the Wildwood Correctional Center received an increment of \$1.115 million to convert and operate two existing buildings that could house 80 offenders. However, due to delays from unforeseen construction problems (primarily asbestos abatement), the legislature reduced the operating funding request in FY10.

With construction now completed, this increment provides the full funding needed to cover FY11 operating costs.
 - b) **Community Residential Centers (CRC): \$900.0 UGF.** This increment includes:
 - **\$500.0 UGF** to fully fund the addition of 43 regular beds for which the Department began contracting in FY09. This request, combined with the \$719.2 UGF increase the Department received in FY10, will meet the full costs associated with these additional beds and reduce the Department's number of "hard bed" placements.
 - **\$400.0 UGF** for an annual 2% Consumer Price Index (CPI) rate increase included in the professional services contracts with five of the six department CRC providers.
 - c) **Community Jails: \$300.0 UGF.** The City of Kodiak is in the process of opening a new facility to house the City's police department and jail. Due to the staggered completion dates of these two units, the Department is requesting one-time funding to keep the old facility operational until the new jail comes on line in early FY11.

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- d) **Offender Habilitation Programs: \$150.0 UGF.** During FY08, the Department of Corrections began a construction apprenticeship program in conjunction with the Department of Labor at the Palmer Correctional Center (PCC). This request will allow the program to expand to other institutions, primarily the Pt. Mackenzie Work Farm and the Wildwood Correctional Center.
2. **Fund Change/Inmate Health Care: \$859.5 UGF from PFD Criminal Funds (DGF).** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to the number of convicted felons and third time misdemeanants who are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of PFD Criminal funds is volatile. For FY11, the Department of Revenue calculated the amount available for appropriation to be \$1.7 million less than in FY10.

The requested fund change replaces the Department's portion of that reduction with UGF (as anticipated by the Legislative Finance Division) in order to maintain services.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL REQUEST

The Agency's \$6.9 million UGF capital budget is comprised primarily of a \$6.5 million proposal for deferred maintenance projects. The majority of the 117 state-owned buildings the Department is charged with maintaining are over 20 years old, and 20% are over 30 years old. This appropriation will fund the most urgent safety, environmental, utility infrastructure, security and projects in the Department.

The Department's other two capital projects include:

- Anchorage Correctional Complex Renovation and Remodeling: **\$350.0 UGF**
- Community Jails Repairs, Renovations, and Equipment: **\$100.0 UGF**

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Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Education and Early Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$1,122,670.9			
FY10 Fiscal Notes	1,314.3			
Carry Forward	-			
Special Appropriations	-			
Agency Transfers	57.2			
10 Contractual Salary Adjustments	(12.0)			
Misc Adjustments	4,845.4			
Vetoed	-			
FY10 Management Plan (GF only)	\$1,128,875.8	\$6,204.9	0.6%	
One-time Items removed	(2,257.2)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	29.1			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$1,126,647.7	(\$2,228.1)	-0.2%	
FY11 Governor's GF Increments/Decrements/Fund Changes	58,440.8			
FY11 Governor's Request (GF only)	\$1,185,088.5	\$58,440.8	5.2%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$58,440.8	
Foundation Program	1,010,509.3	1,065,847.4	55,338.1	1, 2
Pupil Transportation	61,149.7	63,839.2	2,689.5	1
Special Schools	3,127.5	3,303.0	175.5	6
Alaska Challenge Youth Academy	6,429.1	5,826.8	(602.3)	8
Executive Administration	2,142.3	2,434.0	291.7	4
Student and School Achievement	8,965.6	9,003.9	38.3	7
Early Learning Coordination	7,599.7	7,799.7	200.0	5
WWAMI Medical Education	2,654.8	2,964.8	310.0	3
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	20,786.5	21,146.1	359.6	
Federal Funds (all allocations)	214,960.3	279,380.3	64,420.0	
Total Non-General Funds (all allocations)	\$235,746.8	\$300,526.4	\$64,779.6	
Position Changes (From FY10 Management Plan to Gov)	350	350	0	
PFT	332	334	2	4
PPT	15	13	(2)	
Temp	3	3	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	1,934.2	-	1,934.2	
Remodel, Reconstruction and Upgrades	24,536.4	-	24,536.4	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$26,470.6	\$0.0	\$26,470.6	

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Department of Education and Early Development

The Department of Education and Early Development (DEED) 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 Standards, 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;
- 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, EED State Facilities Maintenance, and Alaska Library and Museums.

SIGNIFICANT ISSUES

The FY11 Department of Education and Early Development general fund operating budget submitted by the Governor is \$58,440.8 above the FY11 Adjusted Base [\$60,639.5 Unrestricted General Funds (UGF)/a reduction of \$2,198.7 Designated General Funds (DGF)]. This General Funds (GF) change is due primarily to statutory adjustments to the Foundation Program, but also incorporates six increments and two decrements.

Significant issues are highlighted in the notes below and correspond to the numbers in the last column of 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 statutory formula requires \$1,065,847.4 of UGF for the Foundation Program and \$63,839.2 for Pupil Transportation. Total funding for K-12 Support programs is increasing by \$58.2 million over FY10.

Two years ago, the legislature adopted a three-year education plan presented by an Education Task Force. The recommendations (adopted in HB 273 (Ch. 9, SLA 2008)):

- increased the Base Student Allocation (BSA) by \$100/student/year for FY09, FY10, and FY11;

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- increased the geographic differential paid to school districts with high operating costs; and
- increased the amount paid to school districts for approximately 2,000 intensive-needs students who experience health conditions and disabilities requiring daily monitoring and assistance with their school day activities.

FY11 is the final year of a three-year phase-in of significantly higher payments to school districts. In FY11, the Base Student Allocation is \$5,680.

Section 21(t) of the Governor's operating budget bill appropriates \$1.131 billion from the general fund to the Public Education Fund (PEF). That amount is the projected need for K-12 formula funding for the Foundation Program and Pupil Transportation for FY12, and is about \$14.4 million more than the projected need for FY11.

Legislative Fiscal Analyst Comment: Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. FY10 budget bills contained appropriations of \$1.1 billion from the Constitutional Budget Reserve Fund (CBRF) to cover education costs in FY11, but the supermajority votes required to transfer funds from the CBRF failed. The supermajority vote failure does not affect K-12 funding in FY10 (because the PEF contained sufficient money to fund the formula in FY10), but it left the PEF without the \$1.1 billion expected to be required for K-12 education in FY11. A return to forward funding would require an appropriation of FY11 costs in addition to the FY12 costs that are included in the Governor's operating bill. The Governor has indicated that he intends to request the \$1.1 billion for FY11 in a supplemental bill.

2. **Age-4 Pre-Kindergarten Program: \$2,000.0 UGF.** This request is for the second year of program implementation for an Alaska pre-kindergarten program. According to the Department, this preschool program provides a voluntary, comprehensive, half-day for four-year olds and early five-year olds based on the standards set forth in the Alaska Early Learning Guidelines. Participating school districts are funded through a competitive grant process. It is anticipated that the preschools will serve 500 children statewide and that, eventually, this project will provide the framework and guidance for the creation of local programs in a variety of urban, rural, and remote sites.

Legislative Fiscal Analyst Comment: In FY10, the legislature approved \$2 million as one-time funding for an Age 4 Pre-K Pilot Program. For FY11, the Department requests that this amount be added to its base budget.

3. **WWAMI Medical Education Contract Increase: \$310.0 UGF.** This increment is required for implementation of the expanded program under Alaska's contract with the University of Washington School of Medicine (UWSM). In the spring of 2007, the Alaska WWAMI program expanded class size from 10 to 20 incoming students per year (Ch. 5, SLA07, AS 14.42.030(d)). The basis for the funding structure is determined by a partnership contract between the UWSM, the University of Alaska, and the State of Alaska. Students attend a year of training at the Anchorage campus of the University of Alaska before attending 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

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\$300,000 per year. Since the inception of the program in 1971, approximately 400 students have been enrolled in this program, which to date has a 95% graduation rate.

4. **Executive Administration Specialists for Math, Science, and Reading: \$291.7 UGF.** The Executive Administration allocation includes a request for additional funds (\$291.7 UGF) aimed at improving school district support services. According to the Department, three permanent, full-time positions (Education Specialist II (Range 21)) will be added as content specialists for math, science, and reading. Each content specialist will work with school districts to help them align their curriculum to Alaska Grade Level Expectations in reading, math, and science. They will also serve as a resource for the State System of Support team and their Technical Assistance Coaches. These specialists will collect, report, and analyze student performance data, serve on advisory committees, search for potential grants, and review methodology for increasing student achievement.
5. **Early Learning Coordination: \$200.0 UGF.** This one-time increment continues funding for a grant to Best Beginnings, a public-private partnership that works to mobilize people and resources to ensure that Alaska children begin school ready to succeed. These funds are intended to support early literacy and the Imagination Library in providing matching grants to local communities to purchase children's books.
6. **Special Schools – Additional Transportation Services School for the Deaf: \$180.0 UGF.** Under agreements with the Department of Education and Early Development, the Anchorage School District has operated the Alaska School for the Deaf for many years. The program is operated in three different schools in the Anchorage area—Russian Jack Elementary, Hanshaw Middle School, and East High School. Additional funding is needed in FY11 to provide transportation services from Mat-Su to the program schools.
7. **Student and School Achievement Technical and Vocational Education Program Funding (TVEP): \$38.3 TVEP Receipts (DGF).** The increase in TVEP funding matches revenue projections for FY11. This increment request supports a grant to the Galena School District estimated at \$416,200 for FY11. Funding is used to build up a prepared resident workforce through early career education. By integrating both vocational and traditional academic education, students are prepared for development of occupational skills in areas such as automotive, food services, child care, and cosmetology.
8. **Alaska Challenge Youth Academy (ACYA) – Formula Decrease: (\$602.3) UGF.** The academy is operated by the Department of Military and Veterans Affairs (DMVA) and is funded through a Reimbursable Services Agreement with DEED in accordance with AS 14.30.740. The total FY11 general fund budget for the ACYA will be \$5,826,800. This amount reflects a decrease in FY11 of \$602,292 and is calculated using the student base allocation amount of \$5,680. Given the fact that the Department of Military and Veterans Affairs federal grant is more than was initially anticipated, the department reduced its request for state aid.

Legislative Fiscal Analyst Comment: The legislature may wish to revisit this formula program. The current statutory program support formula provides seven times the base student allocation for ACYA residential students plus a smaller non-resident amount. The legislature may wish to consider a direct appropriation to DMVA, as DEED has no

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legal responsibility for the ACYA and, therefore, should not act as a pass-through agency.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL REQUEST

In addition to school district major maintenance grants totaling \$24.8 million, the Department of Education and Early Development's FY11 capital budget includes \$1.7 million UGF for continued work on deferred maintenance and construction projects from the overall Mt. Edgecumbe High School capital project plan. Specific projects are determined by an annual review including verification that the school is performing maintenance and operation tasks in accordance with the requirements of AS 14.11.011.

Legislative Fiscal Analyst Comment: The school debt reimbursement program is shown in a separate section of this overview that addresses debt obligations (see table on page 54).

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Department of Environmental Conservation				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$42,154.3			
FY10 Fiscal Notes	-			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	37.8			
10 Contractual Salary Adjustments	(7.2)			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$42,184.9	\$30.6	0.1%	
One-time Items removed	(37.8)			
Transfers between Agencies (nets zero statewide)	-			
FY10 Contractual Salary and Health Increases	13.4			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$42,160.5	(\$24.4)	-0.1%	
FY11 Governor's GF Increments/Decrements/Fund Changes	901.0			
FY11 Governor's Request (GF only)	\$43,061.5	\$901.0	2.1%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$901.0	
Commissioner's Office	427.3	427.8	0.5	
Laboratory Services	1,596.8	1,856.8	260.0	2
Drinking Water	1,863.7	2,163.7	300.0	1
Solid Waste Management	1,735.5	1,888.5	153.0	4
Air Quality	2,883.8	3,033.8	150.0	3
Facility Construction	1,101.4	1,138.9	37.5	5
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	10,262.4	10,260.7	(1.7)	
Federal Funds (all allocations)	21,571.5	22,224.5	653.0	1, 5
Total Non-General Funds (all allocations)	\$31,833.9	\$32,485.2	\$651.3	
Position Changes (From FY10 Management Plan to Gov)	541	547	6	
PFT	532	538	6	1, 3
PPT	2	2	-	
Temp	7	7	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	573.9	10,671.8	11,245.7	
Maintenance and Repairs	3,200.0	-	3,200.0	
Remodel, Reconstruction and Upgrades	21,617.6	12,663.6	34,281.2	
New Construction and Land Acquisition	10,997.9	15,614.7	26,612.6	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$36,389.4	\$38,950.1	\$75,339.5	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 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;
- 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 FY11 Department of Environmental Conservation general fund operating budget submitted by the Governor is \$901.0 GF above the FY11 Adjusted Base [\$748.0 Unrestricted General Funds (UGF)/\$153.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Environmental Protection Agency (EPA) Drinking Water Rule Implementation: \$300.0 General Fund Match (UGF)/ \$300.0 Federal Receipts.** The Alaska Drinking Water program is requesting funding for the adoption and implementation of three EPA rules (finalized in 2006) which the State must adopt by the end of 2010. If these rules are not adopted, the EPA will revoke approvals already given and withdraw primacy. Five new permanent full-time positions are needed to conduct the implementation, monitoring, reporting, and enforcement work associated with these rules as well as the 1,600 sanitary surveys that must be completed on a three-year cycle.
- 2. Public Health Equipment Maintenance and Service Contract Shortfalls: \$260.0 General Fund (UGF).** The Environmental Health Laboratory provides testing for a variety of environmental, animal, food, and water sources. Maintenance contracts for annual equipment calibration for federal certification and licensing have increased by \$260.0. The Department indicates that laboratory services could cease if equipment were to break down without a maintenance contract in place.
- 3. EPA and State Coordination of Outer Continental Shelf (OCS) Air Quality Permits: \$150.0 General Fund (UGF).** Funds will allow the Department to add one new permanent full-time position to work with the Environmental Protection Agency in processing up to three unique and complex OCS air quality permits anticipated during FY11. OCS federal permitting requires continual coordination between the EPA, the Department and industry representatives. Approval of this increment will provide funds needed for state compliance.
- 4. Toxicology Specialty Contracting: \$153.0 Receipt Supported Services (DGF).** This increment funds professional services contracts with toxicologists to evaluate environmental fate and transport and drift prevention and to study issues raised by the EPA and the public during evaluations of pesticide spray proposals. The funding for this increment will come from registration fees assessed by

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the Department on pesticide manufacturers outside of Alaska so their products can be sold in Alaska.

5. **Remote Maintenance Worker Program: \$112.5 Federal Receipts/ \$37.5 General Fund Match (UGF).** The Department is requesting general funds to match federal funds available to the Remote Maintenance Worker program. Grant funds will be distributed to seven regional health corporations that provide Remote Maintenance Workers (RMWs) to supply operations and maintenance support and emergency response services for public water and sewer systems. It has been demonstrated that the routine and regular on-site presence of the RMWs prevents catastrophic failures and helps sustain the water and wastewater infrastructure in rural Alaska.

ORGANIZATIONAL CHANGES

In FY11, the only structural change in the Department of Environmental Conservation is an allocation name change from Information and Administrative Services to Administrative Services within the Administration appropriation.

CAPITAL REQUEST

The agency's \$75.3 million capital budget, of which \$35.9 is GF, includes the following:

- \$48.5 million for Village Safe Water and Wastewater Infrastructure Projects;
- \$23.2 million for Municipal Water, Sewage, and Solid Waste Facilities Grants;
- \$3 million for Statewide Contaminated Sites Cleanup;
- \$450.0 for Environmental Monitoring and Assessment of Surface Waters (EMAP);
and
- \$200.0 for Environmental Health Lab Deferred Maintenance.

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Department of Fish and Game				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$68,724.6			
FY10 Fiscal Notes	-			
Carry Forward	-			
Special Appropriations	-			
Agency Transfers	77.7			
10 Contractual Salary Adjustments	(2.5)			
Misc Adjustments	-			
Vetoes	-			
FY10 Management Plan (GF only)	\$68,799.8	\$75.2	0.1%	
One-time Items removed	(77.7)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	89.5			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$68,811.6	\$11.8	0.0%	
FY11 Governor's GF Increments/Decrements/Fund Changes	816.6			
FY11 Governor's Request (GF only)	\$69,628.2	\$816.6	1.2%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$816.6	
Commercial Fisheries	42,926.8	43,056.8	130.0	3
Wildlife Conservation	4,896.4	5,383.0	486.6	2
State Subsistence	2,000.1	2,200.1	200.0	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	55,584.5	58,147.5	2,563.0	
Federal Funds (all allocations)	56,838.9	60,783.9	3,945.0	1
Total Non-General Funds (all allocations)	\$112,423.4	\$118,931.4	\$6,508.0	
Position Changes (From FY10 Management Plan to Gov)	1,737	1,737	0	
PFT	912	912	-	
PPT	760	760	-	
Temp	65	65	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,930.0	15,825.0	17,755.0	
Maintenance and Repairs	700.0	-	700.0	
Remodel, Reconstruction and Upgrades	1,150.0	-	1,150.0	
New Construction and Land Acquisition	1,625.0	2,325.0	3,950.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	250.0	-	250.0	
Other	-	7,500.0	7,500.0	
TOTAL CAPITAL	\$5,655.0	\$25,650.0	\$31,305.0	

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Department of Fish and Game

The Department of Fish and Game (ADF&G) is charged with protecting and improving the fish, game, and aquatic plant resources of the state, and managing their use and development in the best interests of the economy and the people of the state, consistent with the sustained yield principle.

Core Services:

- Provide opportunity to utilize fish and wildlife resources;
- Ensure sustainable and harvestable surplus of fish and wildlife resources;
- Provide information to all customers;
- Involve the public in management of fish and wildlife resources; and
- Protect the state's sovereignty to manage fish and wildlife resources.

Goals:

- Optimize habitats and economic benefits from fish and wildlife resources;
- Optimize public participation in fish and wildlife pursuits; and
- Increase public knowledge and confidence about management of fish and wildlife.

SIGNIFICANT ISSUES

The FY11 Department of Fish & Game general fund operating budget submitted by the Governor is \$67,628.2. This is \$816.6 above the FY11 Adjusted Base. The following notes correspond to the numbers in the last column of the preceding spreadsheet:

- 1. Wildlife Conservation: \$3.5 million Federal Funds.** An increment of \$3.5 million is requested to expand field research and wildlife population surveys and to replace funding from two FY07 and FY08 general fund capital appropriations that have been used to fund operating projects for the division. The capital appropriations totaled \$3.6 million and will be 85% expended by the end of FY10. According to the Department, the increased effort by regional biologists over the past two years can be maintained in FY11 if this increment is approved.

Legislative Fiscal Analyst Comment: Federal excise taxes on firearms and ammunition are distributed annually to states for propagation and management of wildlife. Because national sales of firearms and ammunition increased dramatically during the past twelve months, the Department has received anecdotal information regarding potential receipt of an additional \$5 to \$7 million from the federal Pittman-Robertson Wildlife Restoration Trust Fund during the next two years (FY11 and FY12). More conservative estimates of future apportionments from the Trust Fund published by the U.S. Fish & Wildlife Service in January 2009 are depicted in the table below.

Until FY06, Wildlife Conservation was funded primarily from federal funds and the Fish & Game Fund. Increased program emphasis on intensive management field work to address declining moose and caribou populations along with declining Fish & Game Fund revenue from non-resident licenses and tags resulted in requests for GF. Since

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FY06, general funds have increased from \$1.3 million (4% of the budget) to \$6.2 million (15% of the budget).

Based on published revenue estimates, the increment requested by the Department may be unsustainable unless the sale of ammo and firearms stays at an elevated level. If sales return to historical levels, another funding source may be needed to maintain expanded services requested in the Governor's budget, or services may have to be curtailed.

Alaska's Pittman/Robertson Fund (PR) Fund Apportionment (1) & (2)	Authorized	Gov's Req	Projected (3)			
	SFY10	SFY11	SFY12	SFY13	SFY14	SFY15
Current Year Pittman Robertson Revenue	14,243.0	15,279.6	14,427.8	13,817.6	12,807.5	11,997.3
PR funding remaining from previous year	1,975.8	4,646.5	4,853.8	4,209.3	2,754.6	489.8
Total Available PR Revenue	16,218.8	19,926.1	19,281.6	17,826.9	15,562.1	12,487.1
Projected Expenditures	11,572.3	15,072.3	15,072.3	15,072.3	15,072.3	15,072.3
Revenue less Expenditures (4)	4,646.5	4,853.8	4,209.3	2,754.6	489.8	(2,585.2)

(1) ADF&G uses the prior year FFY apportionment for the following state fiscal year.
 (2) Projected apportionments based on USFWS table for SFY11-13. Amount for apportionments times 4.2%. Example: 363,800 x 5% from FFY10, planned for ADF&G use in FY11.
 (3) Projected expenditure authorization for FY11 based on Governor's FY11 Budget Request. SFY 12 & 13 projected at FY11 level.
 (4) Numbers noted as "Revenue less Expenditures" continue to be available to ADF&G as each apportionment has two years to be obligated.

2. **Wildlife Conservation: \$486.6 (UGF).** Wildlife conservation is requesting two UGF increments for the following items:

- **Intensive Predator Management: \$250.0 UGF.** This increment will fund focused predator management for three game management units (GMU) identified by the Board of Game under the Intensive Management statute. Costs of recent field operations for predator control were between \$100.0 and \$125.0 for a two to three week effort. Three operations are planned for FY11, each necessitating helicopter support costs between \$50.0 and \$100.0.
- **Endangered Species Act Listings Coordination: \$236.6 UGF.** This increment allows the state to become more involved in aspects of the federal Endangered Species Act (ESA) process. Once a decision is made to list a species, the ESA specifies that critical habitat must be designated. Making a designation requires balancing biologic needs associated with species recovery against economic issues. A recovery plan must be prepared that specifies recovery objectives and research needs.

3. **Commercial Fisheries, Westward Region Fisheries Mgmt.: \$130.0 (UGF).**

The Department is requesting replacement of federal receipts that are no longer available for the Yukon River Chinook stock ID project. The project applies genetic stock identification to Chinook salmon fishery harvests by collecting and analyzing fish from commercial, subsistence, and test fisheries throughout the mainstream Yukon River. Samples from lower river commercial and/or test fisheries will be analyzed in-season.

The primary application of this information is to determine the proportion of Canadian-origin Chinook salmon in fishery harvests in the U.S. waters of the Yukon River, which has ramifications for the management of fisheries both in the U.S. and Canada; there are treaty-defined goals for passage of Chinook salmon into Canada. Further, knowing the abundance of Canadian-origin Chinook salmon in-season can improve management decisions made during the fishing season. These data are also used to construct brood tables and make run size projections.

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Other Item of Interest: Use of Loan Funds. The Department of Commerce, Community, and Economic Development remains concerned about the long-term health of the Commercial Fisheries Revolving Loan Fund (CFRLF), which the Department of Fish and Game has used as a funding source for several years. Because loan interest rates are linked to the prime rate, and prime rate has fallen to an all-time low, fund income is in decline. Continuing to withdraw money from the loan fund for purposes not related to lending will eventually limit the ability to make loans. Subcommittees may wish to replace \$1.3 million of CFRLF receipts used by the Department of Fish and Game with unrestricted general funds. However, it should be noted that the CFRLF has received \$3.1 million in direct payments from assignments of Exxon Valdez Oil Spill (EVOS) settlements and another \$2.7 million is expected this fiscal year.

Legislative Fiscal Analyst Comment: Beginning in FY11, use of CFRLF receipts by the Department will appear as general fund expenditures. The receipts were added to past budgets precisely because they used to appear as "other funds." Perhaps now that CFRLF receipts will be counted as GF expenditures, a fund source change to unrestricted general funds will be easier to accomplish. If the CFRLF has a surplus balance now or in the future, the fund should simply transfer money to the general fund rather than have receipts appropriated for uses other than those specified by statute.

ORGANIZATIONAL CHANGES

The Division of Commercial Fisheries has been consolidated into a single appropriation called Commercial Fisheries. This means that SE Region, Central Region, Alaska Yukon Kuskokwim (AYK) Region, Westward Region, Headquarters and the Special Projects allocations will no longer be separately identified in the budget. According to the Department, this change will significantly streamline administrative functions.

CAPITAL REQUEST

The Department of Fish and Game requested twelve capital projects totaling about \$31.3 million (\$4.3 million UGF; \$1.4 million Other Funds, and \$25.7 million of Fed Rcpts). The major projects are highlighted below:

- **Pacific Coastal Salmon Recovery Fund: \$15.0 million Fed Rcpts.** The Alaska portion of the Pacific Coastal Salmon Recovery Fund (PCSRF) federal appropriation is estimated to be \$15.0 million. Funding comes to the state through a Memorandum of Understanding in which the U.S. Department of Commerce designates the Alaska Department of Fish and Game as the program manager. This program seeks to manage salmon populations for sustainability.
- **Statewide Employee Housing Infrastructure Needs/Upgrades: \$850.0 UGF.** This funding is requested for specific housing projects to address the Department's most critical employee housing needs. Depending on the location and local conditions, the Department will either construct and purchase pre-fabricated housing units, or purchase and modify existing structures in various communities.
- **Sport Fish Recreational Boating Access: \$775.0 F&G Funds, \$2.325 million Fed Rcpts.** This annual request authorizes the Division of Sport Fish to continue to construct and upgrade boating and sport fish access facilities statewide from funds comprised of 75% federal assistance and 25% Fish and Game Fund state match.

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Projects include boat launches, mooring floats, parking lots, restrooms, fish cleaning facilities, and other facilities for recreational boaters.

- **Facilities, Vessels, and Aircraft Maintenance, Repair and Upgrades: \$700.0 UGF.** This request provides funding for repair, maintenance and renovation of Department facilities statewide and vessel and aircraft repair and maintenance. This is an annual ongoing request.
- **Statewide Storage/Shop Facilities Upgrades: \$700.0 UGF.** This request provides funding to upgrade/replace many of the Department's old and deteriorating enclosed secure storage and similar facilities with new code compliant and low maintenance types of structures.
- **Endangered Species Act Listed Marine Mammals Research: \$150.0 UGF/Match; \$450.0 Fed Rcpts.** This project leverages federal grant opportunities to conduct research that will expand the state's knowledge base of the Endangered Species Act (ESA) listed marine mammals in Alaska to ensure appropriate implementation of the ESA with minimal burden on resource development activities.
- **Genetic Analysis: \$750.0 UGF.** This project funds continued studies using genetic stock identification to identify the stock composition of Western Alaska chum and sockeye salmon fisheries. This is the second half of a request for \$1.5 million submitted in FY10 and the Department contends that this funding is necessary to complete the project's objectives.
- **Kodiak Warehouse/Compound Upgrades: \$450.0 UGF.** This request funds improvements to the design of the Department's Kodiak warehouse. It will allow upgraded siding, garage doors, windows and other improvements.

The remainder of ADF&G's request includes seven projects totaling \$791.0 in the areas of software development, salmon assessment, and interagency cooperation resources.

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Office of the Governor				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$22,485.0			
FY10 Fiscal Notes	-			
CarryForward	3,967.0			
Special Appropriations	-			
Agency Transfers	-			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$26,452.0	\$3,967.0	17.6%	
One-time Items removed	(3,967.0)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	309.4			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$22,794.4	(\$3,657.6)	-13.8%	
FY11 Governor's GF Increments/Decrements/Fund Changes	10,345.0			
FY11 Governor's Request (GF only)	\$33,139.4	\$10,345.0	45.4%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$10,345.0	
AK Resources Marketing and Development	-	6,500.0	6,500.0	1
Elections	3,285.0	7,130.0	3,845.0	2
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	849.1	849.1	-	
Federal Funds (all allocations)	189.9	189.9	-	
Total Non-General Funds (all allocations)	\$1,039.0	\$1,039.0	\$0.0	
Position Changes (From FY10 Management Plan to Gov)	179	208	29	
PFT	156	156	-	
PPT	-	-	-	
Temp	23	52	29	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	123.8	-	123.8	
Other	1,131.5	-	1,131.5	
TOTAL CAPITAL	\$1,255.3	\$0.0	\$1,255.3	

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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. The Governor also oversees the Alaska State Commission for Human Rights, Redistricting Planning, the Office of Management and Budget, and the Division of Elections.

SIGNIFICANT ISSUES

The FY11 Office of the Governor general fund operating budget is \$10,345.0 above the FY11 Adjusted Base (all in Unrestricted General Funds (UGF)). This change is due to three Division of Elections' increments and one language section for In-State Natural Gas Pipeline Development. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

1. Resource Marketing and Development In-State Natural Gas Pipeline Development: \$6.5 million AHCC (UGF). The Governor requested an increment to continue work related to the development of an in-state natural gas pipeline. The increment addresses several projects:

- \$2.25 million for completion of the pipeline right-of-way permitting effort;
- \$500.0 for completion of the cost-of-service cost estimate for the stand alone pipeline project;
- \$3.5 million to gather detailed engineering data which will become the basis for the future detailed engineering design of the project; and
- \$250.0 for preparation for the sale of the In-State pipeline asset to a future pipeline company.

Legislative Fiscal Analyst Comment: Arguably, these requests might be more appropriately placed in the Department of Natural Resources. However, moving them from the Governor's Office is unlikely to change what is done or the cost of doing it.

2. Elections: \$3,845.0 (UGF). The Governor requested the following three increments:

- \$3,693.8 to conduct the statewide primary and general elections (includes the addition of 29 temporary positions);
- \$77.2 for purchase of redistricting equipment to enable staff training prior to the FY12 redistricting plan implementation; and
- \$61.0 for increased annual costs of Regional Educational Attendance Area (REAA) and Coastal Resource Service Area (CRSA) elections (primarily due to increased postage rates and printing costs). A \$13.0 increase for annual optical scan maintenance is included in the transaction.

Legislative Fiscal Analyst Comment: The requests associated with primary and general elections are about 7% higher than a similar request for FY09 elections. This amount is consistent with salary and other cost increases since FY09.

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ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL REQUEST

The Governor's Office FY11 capital budget contains two projects related to the Division of Elections.

- \$1,131,500 (Election Fund)—Elections Reform under the Federal Help America Vote Act (HAVA). The funds will be used to improve the administration of elections. Funding includes \$56.5 of general fund match.
- \$123,800 (GF)—Division of Elections Technology Refresh. This project funds replacement of personal computers and software updates. Project backup indicates the intent to schedule a similar project every four years, concurrent with each gubernatorial term of office.

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Department of Health and Social Services				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$915,500.9			
FY10 Fiscal Notes	28.0			
Carry Forward	40.0			
Special Appropriations	(15,855.0)			
Agency Transfers	600.0			
10 Contractual Salary Adjustments	(214.7)			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$900,099.2	(\$15,401.7)	-1.7%	
One-time Items removed	(3,298.5)			
Transfers between Agencies (nets zero statewide)	(305.0)			
FY11 Contractual Salary and Health Increases	81.3			\$0.0
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$896,577.0	(\$3,522.2)	-0.4%	
FY11 Governor's GF Increments/Decrements/Fund Changes	54,449.0			
FY11 Governor's Request (GF only)	\$951,026.0	\$54,449.0	6.1%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$54,449.0	
Behavioral Health Medicaid Services	51,040.9	56,474.1	5,433.2	1
Behavioral Health Grants	26,698.1	28,991.4	2,293.3	3
Services for Severely Emotionally Disturbed Youth	11,245.2	12,345.2	1,100.0	7
Front Line Social Workers	25,016.9	26,872.2	1,855.3	4
Family Preservation	5,798.8	7,148.8	1,350.0	6
Adult Preventative Dental Medicaid Services	(185.2)	2,873.2	2,688.0	1 & 2
Health Care Services/Medicaid Services	181,688.4	199,116.1	17,427.7	1
Senior Benefits Payment Program	19,623.5	20,473.5	850.0	9
Nursing	20,679.4	21,679.4	1,000.0	8
Senior and Disabilities Medicaid Services	131,803.9	144,987.6	13,183.7	1
Information Technology Services	6,426.2	7,901.2	1,475.0	5
All Other Increments	416,740.9	422,163.3	5,792.8	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	86,237.9	86,498.1	260.2	
Federal Funds (all allocations)	1,073,022.4	1,109,794.4	36,772.0	1
Total Non-General Funds (all allocations)	\$1,159,260.3	\$1,196,292.5	\$37,032.2	
Position Changes (From FY10 Management Plan to Gov)				
PFT	3,690	3,667	(23)	
PPT	3,474	3,469	(5)	
PPT	93	93	0	
Temp	123	105	(18)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	8,000.0	20.0	8,020.0	
Remodel, Reconstruction and Upgrades	10,930.0	-	10,930.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$18,930.0	\$20.0	\$18,950.0	

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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:

- provide the highest quality of life in a safe home environment for older Alaskans and veterans;
- manage an integrated and comprehensive behavioral health system based on sound policy, effective practices, and open partnerships;
- promote safe children and strong families;
- manage health care coverage for Alaskans in need;
- hold juvenile offenders accountable for their behavior, promote the safety and restoration of victims and communities, and assist offenders and their families in developing skills to prevent crime;
- provide self-sufficiency and basic living expenses to Alaskans in need;
- protect and promote the health of Alaskans;
- promote the independence of Alaskan seniors and persons with physical and developmental disabilities; and
- provide quality administrative services in support of the department's mission.

SIGNIFICANT ISSUES

The FY11 Department of Health and Social Services' general fund operating budget submitted by the Governor is \$54,449.0 above the FY11 Adjusted Base [\$53,776.5 Unrestricted General Funds (UGF)/\$672.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

The largest general fund increases in this year's budget are for:

- Medicaid growth—\$36.2 million;
- Behavioral Health Grants for alcohol, substance abuse, and mental health treatment—\$2.3 million; and
- Family Preservation for settlement of a lawsuit (Curyung and Ekwok tribes vs. State) and foster parent training—\$1.4 million GF.

A few general fund increases are attributable to decreases in federal and interagency receipts (resulting in the need for general funds to replace lost funding in order to maintain service levels):

- Front Line Social Workers—the FY11 cost is \$1.9 million in GF; and
- Information Technology—the FY11 cost is \$975.0 in GF.

- 1. Medicaid Growth: \$36.2 million UGF.** Medicaid growth-related increases appear in the Behavioral Health (BH), Adult Preventative Dental Medicaid Services, Health Care Services (HCS), and Senior/Disabilities Medicaid appropriations. The Department states that Medicaid cost increases are based on historical trends in spending,

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population, utilization, provider reimbursement rates, and federal financial participation. The Department's Medicaid growth funding requests are included in the following allocations:

Legislative Fiscal Analyst Comment: Based on the FY11 increment for the Medicaid Program, the legislature should not be surprised to see a supplemental funding request for Medicaid growth in FY10!

- **Behavioral Health/Medicaid, \$5.4 million UGF:** This increment request is intended to maintain behavioral health services for those persons with serious behavioral health problems. The three types of services provided by BH/Medicaid are inpatient psychiatric hospitals, residential psychiatric treatment, and outpatient behavioral health services. Behavioral health services play a major role in the Bring-the-Kids-Home initiative.

Approximately 12,000 clients (9% of all enrollees in Alaska's Medicaid program) receive Medicaid services for serious behavioral health issues.

- **Health Care Services/Adult Preventative Dental Medicaid, \$256.4 UGF:** The funding request is for maintaining restorative and preventative dental services for Medicaid clients. The program provides most routine restorative dental services including exams, cleanings, tooth restoration or extraction, and upper or lower full dentures. Approximately 7,336 adult clients received preventative and restorative dental services in FY09 through this program.
- **Health Care Services/Medicaid, \$17,330.2 UGF:** To maintain the current level of Medicaid core services, the Department is requesting funding to pay for a projected cost increase of 2.1% in FY11. HCS/Medicaid Services can be grouped into the following areas:
 - Direct Services are provided to the client and processed through the Medicaid Management Information System (MMIS). The diverse mix of services includes inpatient and outpatient hospital, physician, health and surgical clinic, prescription drugs, adult dental services, durable medical equipment, and prosthetic devices, among others;
 - Non-MMIS services payments for insurance premiums (Medicare), contracts for Medicaid operations, and supplemental payments to hospitals for uninsured and uncompensated care (Disproportionate Share Hospital Program or DSH); and
 - Medicaid Financing Services for activities to maximize federal funding.

The Health Care Services' Medicaid allocation provided benefits for approximately 122,926 clients (6,374 more than FY08) at an annual cost of \$4,665 per person in FY09 (latest data).

In FY09 the percentage of Medicaid benefits went to the following groups in the following percentages: 44.0% to children, 24.8% to disabled adults, 21.4% to adults, 5.8% to disabled children, and 4.0% to the elderly.

The State Children's Health Insurance Program (SCHIP), operated through Denali KidCare, is also included in the Health Care Services/Medicaid allocation. This program provides health insurance coverage to uninsured children whose families earn too much to qualify for Medicaid, but not enough to afford private coverage.

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- **Senior and Disabilities Services/Medicaid, \$13,183.7 UGF:** The budget request is to maintain the current level of institutional and home and community-based services for older Alaskans, children who are developmentally disabled, and adults with disabilities. Some clients receive care through one of the state's four Medicaid Waiver programs that allow clients to be served in non-institutional, home and community based settings rather than in institutions. Eligible clients receive services including nursing facility services, personal care services, home and community based waiver services.

The Senior and Disability Services Medicaid allocation provided benefits for approximately 7,600 clients (200 more than in FY08) at an annual cost of \$41,800 per person in FY09 (\$2,600 more than FY08). In FY09, benefits went to the following categories: 54.4% to disabled adults, 41.0% to elderly adults, 4.0% to disabled children, and the remaining 0.6% of benefits were allocated between adults and children. Home and community based settings delay entry into an institution and typically save the state money.

Anticipated FMAP Fund Source Change Reversals—\$35-75 million UGF—were NOT Included in the Governor's Budget Request. Federal reimbursement rates for Medicaid are set by the Centers for Medicare and Medicaid and are outside the control of state governments. A state's Federal Medical Assistance Percentage (FMAP) rate is based on the state's national rank of per capita personal income, with a minimum rate of 50%. The amount of federal funds each 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.

The federal Stimulus Bill signed in February 2009 authorized a temporary increase in Federal Medical Assistance Percentage (FMAP) matching funds. Alaska's FMAP rate increased from 50.53% to 61.12% (including an unemployment rate bonus) for the period from October 1, 2008 through December 31, 2010. The rate change affected three-quarters of state FY09, all of FY10 and the first two quarters of state FY11. Unless an extension is approved, the general FMAP rate will drop to 50% for the second half of state FY11.

Legislative Fiscal Analyst Comment: The temporary increase in the FMAP rate will save the state about \$25 million per calendar quarter. If the American Recovery and Reinvestment Act of 2009 (ARRA) is not extended beyond 12/31/10, a drop to 50% for the second half of FY11 would cost Alaska \$50 million or more in general funds. The legislature should not be surprised to see an amendment of \$50 million or more for FY11. Subcommittees may wish to discuss Medicaid expenditure projections with the Department.

2. **Adult Preventative Dental Medicaid Services: \$2.6 million UGF.**

This increment is a technical correction to the Governor's budget. A one-time funding request of \$2.6 million GF was approved by the legislature in the FY10 budget. Because the Department did not remove the one-time funding from the base budget, the Governor did not submit an FY11 increment. Legislative Finance removed the funding from the base, and then added an increment of \$2.6 million GF in order to match the Governor's FY11 request.

Legislative Fiscal Analyst Comment: The program was originally scheduled to sunset on June 30, 2009. Legislation was approved in last year's session extending the program

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indefinitely. If approved, the \$2.6 million FY11 GF increment will become part of the base budget.

3. Behavioral Health Grants: \$2.3 million UGF. The funding is intended to treat alcohol, substance abuse and co-occurring disorders (i.e., clients with mental health and substance abuse issues). The specific budget requests are as follows:

- **Specialized Treatment Unit, \$1.2 million UGF:** By statute (AS 47.37.180-205), clients can be involuntarily committed for detoxification and residential substance abuse treatment services. This funding request provides continuation funding for treatment options for chronic inebriates. One-time funding was provided for a FY10 pilot program for a Secured Treatment Unit at the Salvation Army Clitheroe Center in Anchorage. These clients are typically the most difficult to serve and use a disproportionate amount of costly resources (emergency room visits, Alaska Psychiatric Institute and state correctional institutions) as compared to other client groups or populations.
- **Detox and Treatment Capacity Alternatives to Protective Custody Holds, \$518.3 UGF:** This funding will continue efforts to develop community detoxification capacity and treatment alternatives in Bethel, and avoids the high costs incurred by State correctional institutions for Title 47 substance abuse protective custody holds.
- **Substance Abuse Treatment for Pregnant Women, \$500.0 UGF:** This funding is intended to expand statewide residential treatment capacity for pregnant women, alleviate travel to Anchorage and Fairbanks, encourage expansion of family-based treatment models where children can reside at the facility with the mother, and will allow for expanded intensive after care treatment.
- **Therapeutic Court – Palmer Mental Health Court, \$75.0 UGF:** This funding is requested to maintain co-occurring disorder treatment services for participants at the Palmer Mental Health Court. Treatment will address underlying mental health and substance abuse issues that contributed to their contact with the criminal justice system.

4. Front Line Social Workers: \$1.9 million UGF. To maintain service levels in FY11, the Department is requesting replacement of unrealizable federal funds and interagency receipts with general funds. The specific budget requests are to:

- **Replace Disproportionate Levels of Federal Authorization, \$900.0 UGF:** This funding is requested to revise an FY06 Front Line Social Work Expansion and Title IV-E Foster Care increment. The Department indicates that federal receipts routinely fall short of the original, anticipated funding ratio. The impact was not immediately visible due to high position vacancy rates over the years.
- **Replace Unrealizable Medicaid School Based Claims, \$955.3 UGF:** In August of 2008, the Centers for Medicare and Medicaid Services (CMS) conducted an audit of the Medicaid School Based Administrative (MSBA) claims. This audit resulted in the denial of CMS reimbursement claims because it was determined that the Department did not adequately follow the approved plan. Because the CMS will not be reimbursing the MSBA claims, a fund source change is requested to maintain services. The GF requested will remain in the base budget in future years.

Legislative Fiscal Analyst Comment: The legislature approved \$2.1 million in GF to replace lost I/A receipts in last year's supplemental bill in several allocations; for this

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purpose. The subcommittee may wish to ask the Department about corrective action that will make the state eligible for federal reimbursement again.

5. Information Technology (IT): \$1.5 million UGF. The Governor requested two fund source changes and increases for software maintenance and rising centralized IT services costs. The specific budget requests are highlighted below.

- **Replace Unrealizable Federal Receipts, \$750.0 GF:** The Department is requesting funding to replace unrealizable federal receipts that were transferred to this allocation and indicates that without the funding, shortfalls will occur in the personal services line.

Legislative Fiscal Analyst Comment: The subcommittee may wish to discuss why uncollectible federal authorization was transferred to this allocation.

- **Replace Unrealizable Interagency Receipts, \$225.0 GF:** This request will replace (with UGF) unrealizable I/A receipts transferred from Health Care Services. The Department indicates that a cost allocation plan analysis found that Health Care Services was not charged correctly and continuation of the practice will result in audit findings.

Legislative Fiscal Analyst Comment: The subcommittee may wish to discuss why uncollectible inter-agency receipt authority was transferred to this allocation.

- **Software Maintenance and Centralized IT Cost Increases, \$500.0 GF:** This funding is requested for increased software maintenance and system costs for the Juvenile Offender Management Information System, the Public Assistance Eligibility Information System, and Microsoft Enterprise Licensing (server licenses and MS Office).

6. Family Preservation: \$1.35 million UGF. The increment requests are for legal settlement costs associated with a lawsuit filed against the state, and to improve the recruitment and retention of foster parents. The specific budget requests are:

- **Judgments and Settlements, \$1.2 million UGF.** The Department is seeking funding for the FY11 settlement costs of a lawsuit filed by four Alaska Native tribes. The Curyung, Ekwok, Kwinhagak, and Chevak tribes alleged that the state violated provisions of the federal Indian Child Welfare Act (ICWA) when it (1) failed to notify the tribe when it took custody of a young tribal member; and (2) failed to meet placement preferences under ICWA; and (3) failed to provide proper and timely notice of placement changes for children (who are tribal members) that were taken from their parents due to abuse or neglect.

Legislative Fiscal Analyst Comment: A settlement has been reached between the tribal organizations and the state. The settlement mandates that the state pay \$1.2 million in FY10-FY12. An FY09 supplemental appropriation of \$1.3 million GF to the Department of Law paid the FY10 settlement amount. The legislature can also expect a request of \$1.2 million GF from the Department of Health and Social Services in the FY12 budget for the final settlement amount. Procedural changes within OCS, relating to the handling of tribal children, were among other agreed upon issues.

- **Foster Parent and Parent Recruitment Training and Support, \$150.0 GF.** This funding is requested to recruit and screen potential foster parents and to provide training and technical assistance to assist in the retention of foster parents.

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7. Services for Severely Emotionally Disturbed Youth: \$1.1 million

UGF. This funding request would provide services, including assessments, psychotherapy, chemotherapy, case management, and rehabilitation to severely emotionally disturbed youth (SED), their families, and for youth who are at risk of becoming severely emotionally disturbed. Specific budget requests are highlighted below.

- **Community Health Center Outpatient, Emergency Residential Services and Training, \$500.0 UGF.** This request will provide funding to community health centers for innovative programs and training. The intent is to reduce the need to send youth experiencing serious emotional disturbances to more costly residential care facilities. Special populations, including children with co-occurring disabilities or extreme presentations will be targeted.
- **Bring The Kids Home – Individualized Services, \$300.0 UGF.** This funding is requested for the continued support and care of youth who experience serious emotional disturbances, but who are not qualified for Medicaid or who need services not eligible for Medicaid reimbursement. Program objectives include avoiding more costly residential treatment settings through effective interventions within the family/home.
- **Expansion of School-Based Services Capacity, \$200.0 UGF.** The Governor's request will provide funding for two initiatives. The first will track youths returning to school from residential psychiatric treatment centers and coordinate their transition to ensure educational success. The second will support evidence-based practice (Positive Behavioral Support) through pilot projects in the Ketchikan, Juneau, Sitka, and Dillingham school districts.
- **Transitional Aged Youth, \$100.0 UGF.** This funding is aimed at coordinating and sustaining community-based capacity for transitional aged youth into adulthood to ensure future productive work or educational activities. Targeted youth include those who are vulnerable to future needs for mental health, substance abuse, early pregnancy, or hospital based services, and those who have high potential for interaction with the criminal justice system.

8. Nursing: \$1.0 million UGF. Funding is designed to maintain and stabilize the costs of public health nursing grantee services. Public health nurses deliver essential clinical and community-based services to prevent and protect against infectious and chronic diseases.

- **Maintain and Stabilize Public Health Nursing Grantees, \$1.0 million UGF.** This budget proposal would increase funding for four public health grant recipients (Municipality of Anchorage, Norton Sound Health Corporation, North Slope Borough, and the Maniilaq Association). The Department indicates that the three northern region grantees serve approximately 23,439 people living in 31 villages. The Municipality of Anchorage serves approximately 42% of the state population.

The rising costs of salaries, travel, and overhead have adversely affected the number of nurses employed by the four public health grantees. The number of public health grantee nurses has decreased from 48 in 2003 to 29 in 2010, according to the Department.

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9. **Senior Benefits Payment Program: \$850.0 UGF.** The senior benefit payment program provides a cash benefit to seniors (based upon income levels up to a maximum of 175% of the federal poverty level).

This request for funding is based on a projected 4% caseload increase in FY11. The Department indicates that over 7,000 seniors have been successfully transitioned from the previous state SeniorCare program, which expired in June of 2007, to the new Senior Benefits program. In FY09, program caseloads reached a high of 9,886 seniors, with the increase attributable to outreach efforts that made seniors more aware of the program, according to the Department.

In the FY 10 Governor's request, the Department recommended a \$500.0 reduction in Senior Benefits because enrollment and expenditures for the new program were lower than initially projected. The FY10 decrement was increased by an additional \$221.9 during the 2009 legislative budget deliberations for a total of \$721.9, with recognition that funding may need to be restored to meet future caseload needs. In FY11, the Department projects that program enrollment will reach 10,448. This projected estimate falls in line with the caseload estimate that was projected when the new program was established in June 2007.

Legislative Fiscal Analyst Comment: The current senior benefit payment program is due to sunset on June 30, 2011. The subcommittee may wish to discuss what the future holds for Alaska's senior benefit payment program.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

DHSS has proposed a total capital budget of \$19.0 million, which is comprised of \$18.6 million UGF, \$20.0 in federal receipts, and \$300.0 in MHTAAR funding. All of the Department's capital budget requests involve deferred maintenance, renovations, repairs, and remodels of facilities. The diverse mix of projects include the Johnson Youth Center and grantee facilities, renovations of housing for persons with special needs, updating the Anchorage Assets building in preparation for transfer to the non-profit Assets, Statewide Pioneer Homes upgrades, and maintenance of 44 state-owned facilities including health centers, youth facilities, behavioral health facilities, and the Pioneer Homes.

Highlights of the Department's capital budget are described below:

- **Johnson Youth Center Renovation and Remodel — Safety and Security Needs, Phase 1 of 3, \$9.9 million UGF.** The Department is re-submitting a capital budget request (that was not approved last year) to renovate and remodel the Juneau Youth facility. The Johnson Youth Center is located in Juneau and is the state's fourth oldest Center. According to a Department 2007 assessment study, threats to safety and security in this facility are a result of aging infrastructure, overcrowding, and a population with a high incidence of behavioral health issues. The original structure was designed to be a women's prison and is 30 years old and, according to the Department, needs safety and security issues addressed in order to expect positive results from the youth and staff. Examples of deficiencies include antiquated door locking systems, non-compliant cells,

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unsafe utilization of existing space, and design flaws that prevent secure supervision of the residents.

- **Pioneer Homes Deferred Maintenance, Renovation, Repair and Equipment — \$4.0 million GF.** This request addresses ongoing and deferred maintenance needs of the six state-owned and operated Pioneer Homes in Ketchikan, Sitka, Juneau, Anchorage, Palmer, and Fairbanks. The homes have a combined capacity of over 600 residents.

A 2008 audit of Department-owned buildings identified \$8.3 million in priority deferred maintenance needs. A priority listing has been created using ratings of urgency, fire life safety, security, building integrity, and mission efficiency. As the Department noted, once the deferred maintenance issues are resolved, ongoing annual investments would be needed to address the normal repairs and maintenance needs or the deferred maintenance backlog will continue to grow.

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Department of Labor and Workforce Development				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$63,695.0			
<i>FY10 Fiscal Notes</i>	-			
<i>CarryForward</i>	410.0			
<i>Special Appropriations</i>	-			
<i>Agency Transfers</i>	40.5			
<i>10 Contractual Salary Adjustments</i>	(32.9)			
<i>Misc Adjustments</i>	-			
<i>Vetoes</i>	-			
FY10 Management Plan (GF only)	\$64,112.6	\$417.6	0.7%	
<i>One-time Items removed</i>	(4,450.3)			
<i>Transfers between Agencies (nets zero statewide)</i>	-			
<i>FY11 Contractual Salary and Health Increases</i>	191.5			
<i>Misc Adjustments</i>	-			
FY11 Adjusted Base Budget (GF only)	\$59,853.8	(\$4,258.8)	-6.6%	
<i>FY11 Governor's GF Increments/Decrements/Fund Changes</i>	4,996.5			
FY11 Governor's Request (GF only)	\$64,850.3	\$4,996.5	8.3%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$4,996.5	
Labor Market Information	1,443.7	1,491.2	47.5	
Workers Compensation	5,079.7	5,165.2	85.5	
Employment and Training Services	2,191.5	1,243.2	(948.3)	1
Workforce Investment Board	301.7	386.7	85.0	
Business Services	11,026.9	12,701.8	1,674.9	2
Kotzebue Tech Operations Grant	1,450.2	1,536.3	86.1	
SW AK Voc Educ Ctr Ops Grant	478.4	507.1	28.7	
Yuut Learning Ctr Ops Grant	850.2	936.3	86.1	
NW Ak Career & Tech Center	683.4	712.1	28.7	
Delta Career Advancement Center	283.4	312.1	28.7	
New Frontier Vocations Tech	188.9	208.1	19.2	
Construction Academy Training	-	3,500.0	3,500.0	3
Independent Living Rehab	918.3	988.3	70.0	
Alaska Vocational Tech Center	9,236.6	9,441.0	204.4	
Non-General Fund Agency Summary				
	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	26,400.5	26,620.5	220.0	
Federal Funds (all allocations)	87,679.8	98,773.7	11,093.9	1
Total Non-General Funds (all allocations)	\$114,080.3	\$125,394.2	\$11,313.9	
Position Changes (From FY10 Management Plan to Gov)	983	986	3	
PFT	846	847	1	
PPT	117	117	-	
Temp	20	22	2	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	1,000.0	-	1,000.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	3,139.0	-	3,139.0	
Equipment and Materials	600.0	1,312.7	1,912.7	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$4,739.0	\$1,312.7	\$6,051.7	

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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. It has also been charged with developing a statewide training program for an Alaskan workforce capable of managing, constructing, operating, and maintaining a gasline. To accomplish these goals the Department provides the following core services:

- employment assistance;
- training and education;
- workforce and economic development;
- injured worker and unemployment compensation;
- statutory and regulatory assistance and enforcement; and
- assistance to people with disabilities to obtain and maintain employment.

SIGNIFICANT ISSUES

The FY11 Department of Labor and Workforce Development's general fund operating budget submitted by the Governor is \$4,996.5 above the FY11 Adjusted Base [\$3,339.2 Unrestricted General Funds (UGF)/\$1,657.3 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

1. **Workforce Development Employment and Training: Replace \$948.3 of UGF with Federal Reed Act Funding.** Labor's budget request replaces \$948.3 of UGF with Federal Reed Act funding. Labor is requesting that \$717.5 of the "freed up" general funds be spent in other allocations (*see table below*) and requests a decrement of \$230.8 in this allocation.

Budget Request Associated with Reed Act Funding Increment Employment and Training Services Allocation			
	UGF	Fed	Total Change
Federal Reed Act Increment		948.3	948.3
General Fund Decrement	-230.8		-230.8
UGF Transfers to Other Allocations			
Workforce Investment Board	-85.0		-85.0
Labor Market Information	-47.5		-47.5
Business Services	-585.0		-585.0
Total Transfers	-717.5		-717.5
Total Budget Request	-948.3	948.3	0.0

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Legislative Fiscal Analyst Comment: According to the Department, this fully expends available federal Reed Act funding, which will need to be replaced in FY12 in order to maintain services.

2. Workforce Development Business Services: \$585.0 UGF; \$1,089.9 State Training and Employment Program (STEP) Funds (DGF).

The following two increments are requested in Business Services:

- **\$585.0 of UGF is requested to support part of the Department's Gasline Training Program.** The increment is intended to provide:
 - training for at least 70 apprentices at Regional Training Centers and rural campuses for registered apprenticeships in gasline related occupations (\$180.1);
 - funding for cooperative training agreements with business and industry for registered apprentices and on-the-job training for approximately 125 workers (\$321.7); and
 - funding for Division of Business Partnership's staff assigned to assist in development of this project (\$83.2).

Legislative Fiscal Analyst Comment: In FY10, the legislature approved one-time funding for this item. This request would make funding for the gasline training program part of the base budget.

- **The \$1,089.9 of STEP Funds (DGF) requested for workforce training will fully obligate available STEP funds.** The funds will support grants for workforce training to advance the Department's overall goal of maximizing the number of Alaskans employed in skilled occupations. The Department projects that this increase will provide training opportunities to an additional 325 Alaskans.

Legislative Fiscal Analyst Comment: Estimated annual STEP revenue is \$6.5 million. If this increment is approved, expenditure authorization will be about \$10 million, which will reduce the STEP fund balance to zero. STEP funds available in FY12 are expected to be about \$3.5 million less than the amount requested in FY11. According to the Department, spending the balance of the fund will not create a need for replacement funding; training opportunities will be reduced.

Legislative Fiscal Analyst Comment: Based on projections received from the Department, it appears that several of Labor's funds are being expended at an unsustainable rate (i.e., annual expenditures exceed estimated revenue). The legislature may want to explore the ramifications of continuing this trend. For more details, please see the following table.

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Department of Labor and Workforce Development Fund Balances									
Fund	FY09 Year End Balance	FY10				FY11*			
		Revenue	Expenditures	FY10 Projected Year-End Balance	Change in Year-End Balance (10 to 09)	Revenue	Expenditures	FY11 Projected Year-End Balance	Change in Year-End Balance (11 to 10)
Second Injury Fund	5,646.2	3,500.0	3,977.9	5,168.3	(477.9)	3,500.0	3,977.9	4,690.4	(477.9)
Fishermen's Fund	11,709.9	1,000.0	1,618.6	11,091.3	(618.6)	1,000.0	1,618.6	10,472.7	(618.6)
Worker Safety & Compensation Account	12,645.8	7,600.0	8,643.1	11,602.7	(1,043.1)	7,600.0	8,643.1	10,559.6	(1,043.1)
Workers' Compensation Benefits Guaranty Fund	1,026.7	450.0	280.0	1,196.7	170.0	450.0	280.0	1,366.7	170.0
Training & Building Fund	207.4	800.0	800.0	207.4	0.0	800.0	800.0	207.4	0.0
State Training & Employment Program	5,961.7	6,500.0	8,935.9	3,525.8	(2,435.9)	6,500.0	10,025.8	0.0	(3,525.8)
Technical Vocational Education Program	1,593.4	9,750.0	9,943.3	1,400.1	(193.3)	9,750.0	10,900.1	250.0	(1,150.1)
Building Safety Account	226.8	2,185.4	1,942.7	469.5	242.7	2,185.4	1,942.7	712.2	242.7
Small Business Enterprise Fund	122.2	143.3	200.0	65.5	(56.7)	143.3	200.0	8.8	(56.7)
Randolph Sheppard Small Business Fund	222.2	74.0	125.0	171.2	(51.0)	74.0	125.0	120.2	(51.0)

*FY11 projections provided by the Department of Labor and Workforce Development.

3. **Construction Academy Training: \$3,500.0 UGF.** The Alaska Construction Academy received funding in the capital budget in FY07 and FY08, and in FY09 and FY10 funding was moved to the operating budget and appropriated as one-time items. This request will provide on-going funding for this program in the Department's base budget. The Department states that an aging workforce and lack of available training opportunities for young Alaskans leave the construction, mining, transportation, and energy industries with a significant shortage of skilled workers. It contends that the shortage can be remedied in part through continuation of this program.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Department of Labor and Workforce Development's capital budget totals \$6,051.7, of which \$4,739.0 is UGF. These projects are:

- **Alternative Energy Training Facility Expansion: \$1,139.0 UGF.** Expand the Industrial Electricity training facility to add wind turbine and hydro training programs.
- **Fairbanks Pipeline Training Center Utilities and Equipment Purchase: \$2 million UGF.** This request will fund the extension of sewer and water utilities to the central facility site, a heat recovery and ventilation system for the welding shop and welding and pipeline related equipment: This will make the Center fully operational for year-round training.

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- **Medium/Heavy Duty Truck and Culinary Equipment: \$1 million Fed Receipts; \$500.0 UGF.** This funding will be used to purchase heavy duty truck equipment for the Truck Technician program (Alaska Vocational Technical Center's (AVTEC) newest program) and culinary training equipment for the culinary program.
- **Culinary Video Teleconferencing Equipment: \$312.7 Fed Receipts; \$100.0 UGF.** Provides video teleconferencing equipment in the new Culinary Academy facility so that AVTEC can create a distance delivered training program for rural Alaska high school students to receive training and education in the culinary industry.
- **AVTEC Deferred Maintenance: \$1 million UGF.** This request is to pay for deferred maintenance needs at 16 state-owned and one leased building in Seward.

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Department of Law				
All Dollars in Thousands				
FY10 Conference Committee (GF Only)	(GF Only)	Change	% Change	See Note:
FY10 Fiscal Notes	\$57,010.9			
CarryForward	966.2			
Special Appropriations				
Agency Transfers	0.5			
10 Contractual Salary Adjustments				
Misc Adjustments				
Vetoes				
FY10 Management Plan (GF only)	\$57,977.6	\$966.7	1.7%	
One-time Items removed	(10,740.4)			
Transfers between Agencies (nets zero statewide)				
FY11 Contractual Salary and Health Increases	416.9			
Misc Adjustments				
FY11 Adjusted Base Budget (GF only)	\$47,654.1	(\$10,323.5)	-17.8%	
FY11 Governor's GF Increments/Decrements/Fund Changes	13,719.0			
FY11 Governor's Request (GF only)	\$61,373.1	\$13,719.0	28.8%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$13,719.0	
Second Judicial District	1,355.0	1,535.1	180.1	3
Third Judicial District: Anchorage	6,777.5	7,113.1	335.6	3
Third Judicial District: Outside Anchorage	4,245.8	4,700.4	454.6	3
Fourth Judicial District	4,937.9	5,234.0	296.1	3
Criminal Justice Litigation	1,963.0	2,163.0	200.0	4
Criminal Appeals/Special Litigation	3,176.7	4,217.3	1,040.6	3
Child Protection	4,184.0	4,384.0	200.0	5
Natural Resources	2,025.4	3,025.4	1,000.0	6
BP Corrosion		4,000.0	4,000.0	2
Oil, Gas and Mining	3,611.2	9,611.2	6,000.0	1
Administrative Services	1,047.9	1,059.9	12.0	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	23,670.9	23,949.9	279.0	
Federal Funds (all allocations)	3,902.4	1,595.4	(2,307.0)	3
Total Non-General Funds (all allocations)	\$27,573.3	\$25,545.3	(\$2,028.0)	
Position Changes (From FY10 Management Plan to Gov)	560	561	1	
PFT	553	555	2	4,5,6
PPT	7	6	(1)	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	150.0	-	150.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$150.0	\$0.0	\$150.0	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Law

The mission of the Alaska Department of Law is to prosecute crime and provide legal services to state government for the protection and benefit of Alaska's citizens. The Department represents the state in:

- protecting the safety and physical and financial well-being of Alaskans;
- fostering the conditions for economic opportunity and responsible development and use of our natural resources;
- protecting the fiscal integrity of the state; and
- promoting and defending good governance.

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 and to managing the resources of the Department.

SIGNIFICANT ISSUES

The FY11 Department of Law general fund operating budget as submitted by the Governor is \$13,719.0 above the FY11 Adjusted Base [\$13,707.0 Unrestricted General Funds (UGF)/\$12.0 Designated General Funds (DGF)]. Of the \$13.7 million increase, \$10.0 million is for continuing Oil and Gas issues. In FY10, \$9.6 million was appropriated for these same issues. The FY11 Adjusted Base was also reduced \$3.5 million due to a one-time appropriation in FY10 for BP Corrosion litigation (the same amount the Department received in FY09 for this purpose). The FY11 request for BP Corrosion is \$4.0 million. Other UGF increments replacing funding available to the Department in FY10 include \$2.3 million for expiring federal grants and \$1.0 million for Endangered Species Act matters. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Oil, Gas and Mining: \$6 million UGF.** The Department is requesting funds in order to continue its role in the Governor's top priority project (the construction of a gas pipeline and bringing natural gas to market). Additionally, the Department has a number of major oil and gas projects underway that will continue to require outside counsel and experts beyond the funding included in the Department's base budget.
 - **\$3.5 Million UGF** added to the base budget for ongoing non-gas pipeline and oil matters including Pt. Thomson Litigation, proceedings before the Federal Energy Regulatory Commission, TransAlaska Pipeline Service (TAPS) tariff issues, and TAPS property tax matters.
 - **\$2.5 Million AHCC Receipts (UGF)** one-time increment to assist the Department in the preparation of legislation and implementation of a comprehensive plan to commercialize North Slope gas.

In FY10, the Department received a total of \$6.1 million UGF one-time funding for Oil & Gas related matters, an amount approximating the amount received in FY09. Please see the following table:

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Table 1. Oil & Gas Related Funding FY09-FY11

Department of Law Oil & Gas Related Funding Base and Non-Base FY09-FY11	FY09 Budget		FY10 Budget		FY11 Request	
	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE
Gas Pipeline and Other Oil & Gas Projects/Oil and Non-Gas Pipeline Matters Including Pt. Thomson Litigation, FERC on TAPS Tariffs		\$3.0 million UGF		\$5.1 million UGF	FY10 non-base items are combined into a single request	
TAPS Strategic Reconfiguration Oil and Gas Outside Counsel and Experts		Transfer through Governor's Office		\$1.0 million UGF	\$3.5 million UGF	
Oil and Gas Development - Preparation of Legislation and Implementation of a Comprehensive Plan to Commercialize North Slope Gas		\$3.5 million UGF				\$2.5 million AHCC

Legislative Fiscal Analyst Comment: *Subcommittees may wish to ask the following questions of the Department:*

• *How are one-time increments allocated between gasoline and non-gasoline work?*

• *When does the agency anticipate resolution of the litigation issues mentioned in this request (i.e. Pt. Thomson)?*

Legislative Fiscal Analyst Comment: *The subcommittee may wish to consider appropriating the \$3.5 million UGF increment as one-time funding. This approach is consistent with the funding method used for the BP Corrosion litigation and promotes annual legislative review of what may be varying external costs.*

2. BP Corrosion: \$4 million UGF (one-time funding). The Department is requesting \$4.0 million of UGF (\$500.0 more than the FY09 and FY10 appropriations of \$3.5 million) to continue the pending litigation seeking penalties and lost revenues for the 2006 Prudhoe Bay pipeline spills and production shutdowns. The state filed its complaint in Superior Court on March 31, 2009, seeking recovery of lost revenues for 2006-08 due to curtailments of oil production stemming from BP Exploration's (Alaska, BPXA) negligent corrosion practices.

According to the Department, FY11 is a critical year for the litigation. The jury trial is scheduled for September 2011, with the bulk of the discovery and post discovery pre-trial work occurring in FY11.

3. Replace One-Time Earmarks for Sexual Assault/Domestic Violence Grants: \$2,307.0 UGF from Federal Receipts. Beginning in FY06, the Department received three multi-year federal grants, totaling \$8,288.3, for sexual assault and domestic violence prevention programs, and for a rural prosecution unit. These grants will expire between June 30, 2010 and December 31, 2010. In FY09,

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\$2.3 million related to these grants was expended. Because these federal funds will not be available in FY11, the Department is requesting that unrestricted general funds be appropriated to replace lost federal one-time grants. The request is for the UGF to be built into their base in order to continue funding the 16 full-time and six part-time positions now associated with these grants.

***Table 2. FY11 Sexual Assault and Domestic Violence Funding Request
(Federal Receipts replaced with UGF)***

	Alaska Domestic Violence & Sexual Assault Prosecution Program	Rural Prosecution Unit Grant	Alaska Statewide Sexual Assault Unit Grant
2 nd Judicial District	\$90.0	\$90.1	
3 rd Judicial District – Anchorage			\$335.6
3 rd Judicial District – Outside Anchorage			\$454.6
4 th Judicial District	\$285.0		\$11.1
Criminal Appeals/Special Litigation	\$271.6	\$769.0	
Subtotal FY11 Request	\$646.6	\$859.1	\$801.3
OVERALL TOTAL: \$2,307.0			

Legislative Fiscal Analyst Comment: The Department indicated it is hoping to replace some of these funds with federal funds (yet to be identified). The subcommittee may wish to inquire on the status of efforts to supplant these funds with new federal funds.

4. **Sexual Assault Coordinator: \$200.0 UGF.** In early December of 2009, the Governor announced his initiative to “eliminate the epidemic of sexual assault and domestic violence within a decade.” The Governor’s comprehensive approach includes concentrated coordination between the Department of Public Safety and the Department of Law in an effort to pervasively prevent and stigmatize these types of crimes. This new position will coordinate state, federal, tribal and non-profit program efforts addressing domestic violence and sexual assault prevention.
5. **Kenai Child Protection Caseload Attorney: \$200.0 UGF.** Currently, the Department’s one Assistant Attorney General in Kenai carries a caseload of 170 children (federal guidelines suggest a caseload of no more than 100 per attorney). In addition, there are up to 40 children’s cases in Homer, which would logically be serviced out of Kenai, but are now handled out of Anchorage as a stopgap measure. The Department requests this new position to alleviate the caseload burden in Kenai and Homer.
6. **Endangered Species Issues: \$1 million UGF.** Over the next three years, the Department anticipates a significant increase in legal work involving issues under the

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Endangered Species Act (ESA). The state is currently challenging the Polar Bear and Beluga Whale listings as threatened species. Because endangered species listings can have severe impacts on the economy of the area where they are found, the Agency addresses these issues with the following two increments:

- \$200.0 UGF - Assistant Attorney General for Endangered Species Issues
- \$800.0 UGF - Endangered Species Act Outside Counsel

Legislative Fiscal Analyst Comment: The subcommittee may wish to consider the increments as one-time funding. This approach is consistent with the funding method used for the BP Corrosion litigation and promotes annual legislative review of what may be varying external costs.

ORGANIZATIONAL CHANGES

The following FY11 changes in the Department's organizational structure occur in the Civil Division:

- Split the Human Services and Child Protection allocation into the following allocations:
 - Child Protection Allocation
 - Human Services Allocation
- Merge the Statehood Defense allocation with the Natural Resources allocation.
- Transfer BP Corrosion appropriation into its own allocation.

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Department of Military and Veterans Affairs				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$11,297.5			
FY10 Fiscal Notes	83.5			
CarryForward	-			
Special Appropriations	-			
Agency Transfers	327.3			
10 Contractual Salary Adjustments	(20.6)			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$11,687.7	\$390.2	3.5%	
One-time Items removed	(410.8)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	20.7			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$11,297.6	(\$390.1)	-3.3%	
FY11 Governor's GF Increments/Decrements/Fund Changes	334.3			
FY11 Governor's Request (GF only)	\$11,631.9	\$334.3	3.0%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$334.3	
Army Guard Facilities Maintenance	2,185.5	2,274.4	88.9	2
Air Guard Facilities Maintenance	1,378.0	1,618.0	240.0	1
Veterans' Services	983.0	988.0	5.0	
Retirement Benefits	880.8	881.2	0.4	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	13,020.1	13,352.9	332.8	3
Federal Funds (all allocations)	22,236.9	23,476.9	1,240.0	4
Total Non-General Funds (all allocations)	\$35,257.0	\$36,829.8	\$1,572.8	
Position Changes (From FY10 Management Plan to Gov)	299	298	(1)	
PFT	296	295	(1)	
PPT	2	2	-	
Temp	1	1	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	5,250.0	13,642.0	18,892.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	1,050.0	5,000.0	6,050.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	9,600.0	9,600.0	
TOTAL CAPITAL	\$6,300.0	\$28,242.0	\$34,542.0	

Department of Military and Veterans Affairs

The mission of the Department of Military and Veterans Affairs (DMVA) is to provide military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military style training and education. The Department accomplishes this mission by providing core services for the following:

- Alaska National Guard Joint Forces Headquarters;
- National Guard Support;
- Homeland Security and Emergency Services Management & Coordination;
- Alaska Statewide Emergency Communications (IT);
- Veterans' Services;
- Alaska Military Youth Academy;
- Administrative Services Support; and
- Special Operations.

SIGNIFICANT ISSUES

The FY11 Department of Military and Veterans Affairs general fund operating budget as submitted by the Governor is \$334.3 above the FY11 Adjusted Base (all Unrestricted General Funds (UGF)). Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Air Guard Facilities Maintenance: \$240.0 GF Match (UGF).** This increment would align the Department's budget with the Alaska Air National Guard's (AANG) Financial Plan. The Air and Army Guard both receive federal money for operations from the National Guard Bureau (NGB), which is the federal pass-through agency in the Department of Defense (DoD) that provides continuity and cohesiveness between the active duty military and all 54 state and territory national guards.

The Alaska Air National Guard federal employees complete an operations plan and a budget, called the financial plan (FINPLAN), for NGB consideration in March of each year. The FINPLAN, which is derived from formula-based calculations as well as estimates, goes to NGB for review and approval. NGB then allocates money to states before the beginning of the federal fiscal year. The federal allocation is typically about 90% of what was submitted in the FINPLAN. There is then a second round of allocations in mid-federal fiscal year (FFY). The Alaska Air National Guard submits requests to NGB for additional funding, and NGB distributes available federal funding to states based on numerous factors.

Historically, the State of Alaska has budgeted to the original allocation. As a result, the state match for any additional federal funding received was not specifically in the budget. The partnership between the state and the federal government hinges upon a budget match agreement, which averages 25% state funding to 75% federal funding. During the past two years, the gap between available and required GF matching funds in the Air Guard component has become increasingly apparent. The current available match is

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about 19% of total authority. This increment would bring the ratio to about 23%—close to where the ratio was in FY06—and would be sufficient to match about \$720.0 in federal receipts.

According to the Department, the timing of this request is critical. In accordance with the federal Base Realignment and Closure Commission law passed in 2005, the NGB is making a push to move assets from states that have multiple wings—Alaska has two wings—to states that are without. This push leaves Alaska vulnerable to losing a wing, and the risk increases if Alaska does not appropriate sufficient matching funds. Loss of a wing would mean about 500 full-time Alaska Air National Guard jobs lost, about 500 additional drill status guard member jobs lost, and millions of dollars in federal contracts lost each year. In addition, loss of a wing would reduce AANG's ability to support the active duty military as well as the ability to respond to natural disasters and search and rescue situations.

2. **Bethel Armory Lease Costs: \$88.9 UGF.** In cooperation with the Federal Government, the Department is constructing a new armory (\$5.2 million State funds and \$15.3 million Federal funds) adjacent to the existing but aging hangar facility. Although lease costs will be periodically re-evaluated based on fair market value, the current annual land lease costs are \$0.34/sq. foot @ 261,360 square feet.
3. **Alaska Military Youth Academy (AMYA) Formula: -\$602.3 I/A Receipts.** By statute, the Academy is funded through a Reimbursable Services Agreement with the Department of Education and Early Development (DEED) in accordance with AS 14.30.740 (The statutory base student allocation funding is \$5,680 per student in FY10). Based on the attendance at the Academy on October 1, 2009, the amount of state aid needed will decline in FY11. The total FY11 general fund budget for the AMYA will be \$5,826,800 (a decrease of \$602,292).

Legislative Fiscal Analyst Comment: The legislature may wish to revisit this formula program. The current statutory program support formula provides seven times the base student allocation for AMYA residential students plus a smaller non-resident amount. The legislature may wish to consider a direct appropriation to DMVA, as DEED has no legal responsibility for the AMYA and, therefore, should not act as a pass-through agency.

4. **Emergency Management Performance Grant: \$1.2 Million Federal Receipts.** The Emergency Management Performance Grant Program (EMPG) is a vital part of the Division of Homeland Security and Emergency Management's preparedness mission and directly supports the state's emergency management community. The Department requests an additional \$1.2 million in federal authority to meet the anticipated FFY10 need.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

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CAPITAL REQUEST

The agency's capital budget of \$34.5 million includes \$28.2 million Federal Receipts and \$6.3 million Unrestricted General Funds. The larger projects include:

- **State Homeland Security Grant Program: \$9.5 million Federal Receipts.** The 100% federally funded State Homeland Security grant program is annually awarded by the U.S. Department of Homeland Security. Programs include homeland security planning, equipment, training, and exercises to support local first responders, private sector critical infrastructure and state preparedness. This funding has been requested to assist in life-safety citizen preparedness.
- **Armory Facilities Deferred Maintenance: \$8.4 million (\$6.3 million Federal Receipts/\$2.1 million GF Match).** The Department's Facility Management Office mission is to provide, maintain and operate safe, secure, high quality facilities and training areas for the Alaska National Guard on a cost effective basis which meet or exceed mission requirements, environmental compliance standards and energy efficiencies. The armories located at Jewel Lake, Fort Richardson, Sitka and Kenai top the list on the Department's deferred maintenance priority schedule.
- **Army Guard Facilities Project: \$9.2 million (\$7.3 million Federal Receipts/\$1.9 million GF Match).** With 237 Alaska Army National Guard buildings at 96 various locations with an average age of approximately 30 years, deferred maintenance, renewal and replacement are a high priority. Alaska National Guard preventative maintenance is performed on a schedule, yet building components have a limited life requiring eventual renewal and replacement. The funding schedule for this requested project is:

<i>Funding (\$ millions)</i>	FY11	FY12	FY13	FY14	FY15	TOTAL
<i>Federal Receipts</i>	\$7.3	\$8.9	\$5.0	\$5.0	\$5.0	\$31.2
<i>GF Match</i>	\$1.9	\$2.7	\$1.0	\$1.0	\$1.0	\$6.7
<i>TOTAL</i>	\$9.2	\$11.6	\$6.0	\$6.0	\$6.0	\$37.9

- **Interior Alaska Veterans Cemetery Design and Planning: \$6.0 million (\$5 million Federal Receipts/\$250.0 GF, \$750.0 GF Match).** The purpose of this project is to design and construct a dedicated state Veterans' cemetery in or near Fairbanks on donated land. The Department hopes to leverage future federal funds to offset operating costs, which are projected at \$250.0 GF annually.
- **Military Youth Academy Deferred Maintenance: \$1.0 million GF.** The Alaska Military Youth Academy (AMYA) operates at Camp Carroll on Fort Richardson. The campus currently has 23 buildings totaling 61,805 sq ft. with an average building age of 35+ years. Inadequacies include basic life-safety issues, outdated and inefficient heating/ventilation systems, restrooms, showers, and laundry facilities. This request will fund the modification of the Academy's ChalleNGe facilities to improve safety and living conditions (in compliance with ADA regulations), as well as improve technical training and educational training platforms.

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Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$92,267.7			
<i>FY10 Fiscal Notes</i>	-			
<i>CarryForward</i>	3,685.9			
<i>Special Appropriations</i>	-			
<i>Agency Transfers</i>	70.9			
<i>10 Contractual Salary Adjustments</i>	(46.1)			
<i>Misc Adjustments</i>	-			
<i>Vetoes</i>	-			
FY10 Management Plan (GF only)	\$95,978.4	\$3,710.7	4.0%	
<i>One-time Items removed</i>	(9,297.0)			
<i>Transfers between Agencies (nets zero statewide)</i>	-			
<i>FY11 Contractual Salary and Health Increases</i>	97.5			
<i>Misc Adjustments</i>	-			
FY11 Adjusted Base Budget (GF only)	\$86,778.9	(\$9,199.5)	-9.6%	
<i>FY11 Governor's GF Increments/Decrements/Fund Changes</i>	7,095.1			
FY11 Governor's Request (GF only)	\$93,874.0	\$7,095.1	8.2%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$7,095.1	
Gas Pipeline Implementation	685.3	4,902.8	4,217.5	1a
Oil & Gas Development	8,171.3	9,514.4	1,343.1	1b
Claims, Permits, & Leases	7,408.9	7,778.9	370.0	1c
Geological Development	4,298.5	4,598.5	300.0	2
Information Resource Management	2,534.2	2,784.2	250.0	3
All Other Increments	63,680.7	64,295.2	614.5	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	30,261.1	33,391.9	3,130.8	
Federal Funds (all allocations)	16,058.2	19,343.2	3,285.0	
Total Non-General Funds (all allocations)	\$46,319.3	\$52,735.1	\$6,415.8	
Position Changes (From FY10 Management Plan to Gov)	1,107	1,109	2	
PFT	779	780	1	
PPT	247	247	0	
Temp	81	82	1	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	6,655.0	2,360.0	9,015.0	
Maintenance and Repairs	4,160.0	5,575.0	9,735.0	
Remodel, Reconstruction and Upgrades	190.0	-	190.0	
New Construction and Land Acquisition	3,850.0	2,600.0	6,450.0	
Equipment and Materials	1,750.0	-	1,750.0	
Information Systems and Technology	908.0	-	908.0	
Other	800.0	1,000.0	1,800.0	
TOTAL CAPITAL	\$18,313.0	\$11,535.0	\$29,848.0	

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Department of Natural Resources

The Department of Natural Resources (DNR) develops, conserves, and maximizes the use of Alaska's natural resources on state-owned land consistent with public interest by providing the following core services:

- provide opportunities to utilize state land and water resources;
- acquire and provide hydrologic, geologic, geographic, historical site, and other land record and natural resource information;
- acquire land;
- make land available for sale to the public, and transfer land to municipalities;
- preserve and enhance the value of state land and water resources and Alaska's coastal areas;
- mitigate potential disasters and hazards; and
- comply with federal regulations and programs related to natural resources.

SIGNIFICANT ISSUES

The FY11 Department of Natural Resources' general fund operating budget submitted by the Governor is \$7,095.1 above the FY11 Adjusted Base [\$6,552.1 Unrestricted General Funds (UGF)/\$543.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

1. Resource Development Initiatives and Projects – \$5.8 million

AHCC Receipts (UGF). The Department is requesting funding to keep pace with Alaska's natural resource development. The largest project is the planning, development, and construction of the Alaska Natural Gas Pipeline. The agency indicates that oil, gas, and mining resource development activity within the state has increased the Department's oversight responsibilities and workload. Additional details on these items follow.

a) Gas Pipeline Implementation Office, One-Time Funding of \$4.2 million AHCC Receipts (UGF). The Governor is requesting one-time funding for costs associated with implementing and fulfilling the responsibilities of the Alaska Gas Inducement Act (AGIA), and to ensure that the state and the licensee (TransCanada Alaska) comply with the terms of the AGIA agreement. The proposal includes the following three increments:

- **\$1.4 million UGF to hire additional professional and support staff.** Pipeline engineering staff will evaluate the technical design, cost estimates, and construction schedule of the proposed 1,715 mile pipeline (750 miles within Alaska) to facilitate the complex permitting process. Habitat Biologist staff will analyze the impact of the project on Fish and Wildlife and coordinate those efforts with Alaska's Fish and Game and the US Fish and Wildlife agencies.
- **\$2.3 million UGF to retain specialized consultants and experts.** Consultants will assist in pipeline engineering, practices, and analysis. Advice will be

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obtained on tariffs, cost overruns, royalty valuation methodologies, enforcement remedies, and off-ramp options for the state and licensee.

- **\$477.5 UGF for local, national and federal outreach efforts.** Local outreach efforts will keep local communities informed of current gasline activities that impact the areas along the gasline route.

Funding for the federal and national outreach efforts will be used to raise awareness and educate the public and Congress on the national importance and impact of an Alaska gas pipeline.

- b) **Oil & Gas Development, \$1.3 million UGF.** This request is comprised of \$1.1 million for on-going oil and gas development workload increases and \$200.0 for outside legal counsel and consultants to assist with arbitration of oil and gas royalty issues.

- The Department contends that the **\$1.1 million UGF funds existing staff** that are critical to the division's ability to work on oil and gas exploration and development issues. Without these staff, timely completion of tasks may be jeopardized.

Legislative Finance Analyst Comment: One-time funding has been added on an annual basis (since FY05) to the Department's budget to address the increased oil and gas workload. The temporary funding was intended to reflect the temporary nature of the gasline workload. This request adds funding to the base budget.

- **\$200.0 UGF is requested to fund reopener arbitrations** as the state proceeds with renegotiations and arbitration of royalty issues. These "reopeners" offer the state and its lessees the opportunity to resolve disputes over royalty value, keep royalty settlement agreements up-to-date, and avoid costly and time-consuming litigations.

Legislative Finance Analyst Comment: One-time funding has been added on an annual basis (since FY09) to the Department's budget to address the cost of outside legal counsel and experts. This request will add \$200.0 GF to the base budget. Subcommittees may wish to discuss how much of the Department's requests are for temporary workload and how much are continuing workload. This request is not related to gasline work.

- c) **Claims, Permits & Leases, \$250.0 UGF.** The Division is seeking base funding to increase their capacity (2 PFT staff and funding) to address an anticipated increase in this year's permit requests and a backlog of permit requests from previous years. Upcoming projects include: one new large mine scheduled to begin permitting in FY10, two other large mine projects in earlier stages of review, natural gas pipeline projects, potential railroad extensions, and several alternative energy projects.

2. **Geological Development – Alaska Volcano Observatory, \$300.0 UGF.** GF is requested to partially replace lost federal earmarks from the Federal Aviation Administration (FAA). Funding is for the maintenance and upgrading of equipment. The Department indicates that this will allow the Alaska Volcano Observatory (AVO) to continue monitoring and mitigating the effects of the most critical volcanoes in the Cook Inlet area.

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Historically, an annual federal earmark from the FAA in the amount of \$5 million supplemented the monitoring and alert capabilities of the AVO. However, that federal earmark is no longer available.

The AVO is a federally funded cooperative program carried out by the US Geological Survey (USGS), University of Fairbanks, and DNR's Geological Development Office. The observatory prevents aircraft equipment failures and saves lives through alerting and monitoring the volcanic activity in the Aleutian and Cook Inlet areas. The general funds would remain in the base budget in future years.

Legislative Fiscal Analyst Comment: American Recovery and Reinvestment Act of 2009 (ARRA) capital funding of \$1.5 million was approved by the Legislative Budget & Audit Committee on December 16, 2009 to assist in continuing the current levels of operation. This temporary funding is available from December 1, 2009 through September 15, 2011. The subcommittee may wish to pursue federal funding on the basis that the monitoring and alerting cover national and international air corridors.

- 3. Information Resource Management – Statewide Parcel Database, \$250.0 Receipt Supported Services (DGF).** This budget proposal would continue the creation of a statewide parcel database. A previous capital project provided the funding for the foundation of a database. The goal is to have a single source of detailed ownership, interest, and boundary information for all state lands and provide quick and easy access of land ownership for land managers, developers, first responders, and the public. The funding, along with \$50.0 in federal receipts from the US Bureau of Land Management, would remain in the base budget in future years.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL BUDGET

DNR has requested a total capital budget of \$29.8 million (\$16.8 million GF, \$11.5 million Federal, and \$1.5 million Other Funds). The budget consists of a diverse mix of projects from deferred maintenance for State Parks and the Plant Material Center in Palmer to snowmobile trail development and in-state natural gas assessments, among others. A few highlights from the Department's capital budget are described below:

- **Deferred Maintenance, \$4.0 million UGF.** This proposal is for deferred maintenance, equipment replacement, and emergency repairs at State Parks, the Plant Material Center in Palmer, and the Mt. McKinley Meat Plant. State Parks is requesting \$3.5 million to address the most pressing problems in the park system, and to improve safety and accessibility for park visitors. \$330.0 is for paving and drainage improvements to eliminate annual flooding and replace outdated farm machinery at the Plant Material Center. \$190.0 will address equipment upgrades to increase efficiency, address safety concerns and reduce operating costs at the Mt. McKinley Meat Plant.

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- **Land Sales – New Subdivision Development, \$3.6 million Land Sales Receipts (DGF).** The funding request would authorize DNR to propose, design, and develop new subdivisions. Capital expenditures include road building and access improvements, surveys, appraisals, wetlands delineations, topographical and archaeological surveys, field inspections, and rights-of-way brushing. Alaska's Constitution and AS 38.04 and AS 38.05 require the state to make some of this land available for settlement purposes. DNR intends to offer new parcels of land for sale in FY14, FY15, and FY16.

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Department of Public Safety				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$141,421.5			
FY10 Fiscal Notes	7.9			
CarryForward	-			
Special Appropriations	(187.8)			
Agency Transfers	273.9			
10 Contractual Salary Adjustments	(18.4)			
Misc Adjustments	-			
Vetoes	-			
FY10 Management Plan (GF only)	\$141,497.1	\$75.6	0.1%	
One-time Items removed	(86.1)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	2,309.9			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$143,720.9	\$2,223.8	1.6%	
FY11 Governor's GF Increments/Decrements/Fund Changes	3,390.2			
FY11 Governor's Request (GF only)	\$147,111.1	\$3,390.2	2.4%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$3,390.2	
Special Projects	1,454.1	2,110.6	656.5	3
AST Director's Office	350.8	365.4	14.6	
Narcotics Task Force	2,296.0	2,321.2	25.2	
AST Detachments	50,807.3	51,406.6	710.4	1a
VPSO Contracts	9,136.6	10,621.9	1,485.3	2a, 2b
Domestic Violence/Sexual Assault	8,268.1	8,650.0	381.9	1b, 4
Training Academy	1,667.6	1,678.8	11.2	
Laboratory Services	4,476.7	4,581.8	105.1	1d, 1e
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	18,787.4	20,111.0	1,323.6	3
Federal Funds (all allocations)	11,605.1	18,054.2	6,449.1	1c
Total Non-General Funds (all allocations)	\$30,392.5	\$38,165.2	\$7,772.7	
Position Changes (From FY10 Management Plan to Gov)	893	899	6	
PFT	863	870	7	
PPT	16	16	-	
Temp	14	13	(1)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	100.0		100.0	
Maintenance and Repairs	2,200.0		2,200.0	
Remodel, Reconstruction and Upgrades	-		-	
New Construction and Land Acquisition	75,750.0		75,750.0	
Equipment and Materials	1,086.0		1,086.0	
Information Systems and Technology	1,250.0		1,250.0	
Other	-	1,500.0	1,500.0	
TOTAL CAPITAL	\$80,386.0	\$1,500.0	\$81,886.0	

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Department of Public Safety

The mission of the Department of Public Safety (DPS) is to ensure public safety and enforce fish and wildlife laws. The Department's core services include the following items:

- perform criminal and traffic law enforcement and investigations;
- manage and perform search and rescue operations for lost and missing persons;
- provide wildlife law enforcement and investigations;
- provide support to rural law enforcement entities;
- provide security to the Alaska Court System, transport inmates to and from court and between correctional institutions, and perform extradition of wanted persons to and from the state;
- provide criminal laboratory and forensic services, administer the statewide breath alcohol program, maintain Alaska's DNA identification system, and provide expert testimony in court proceedings;
- maintain accurate and complete Alaska criminal records and information for use by law enforcement agencies in Alaska and elsewhere;
- manage building and fire codes (development, adoption, interpretation, and review), conduct building plan reviews of commercial buildings and 4-plex and larger housing units, conduct fire and life safety inspections of priority facilities; and
- enforce alcoholic beverage laws.

SIGNIFICANT ISSUES

The FY11 Department of Public Safety general fund operating budget as submitted by the Governor is \$3,390.2 above the FY11 Adjusted Base [\$4,043.7 Unrestricted General Funds (UGF)/a reduction of \$653.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Sexual Assault and Domestic Violence Prevention: \$1.9 million (\$1.2 million UGF, \$700.0 Federal Receipts).** In early December of 2009, the Governor announced his initiative to "eliminate the epidemic of sexual assault and domestic violence within a decade." The Governor's comprehensive approach includes concentrated coordination between the Department of Public Safety and the Department of Law in an effort to pervasively prevent and stigmatize these types of crimes. Major DPS increments for this initiative are highlighted below.

- a. Domestic Violence and Sexual Assault Related Investigations, Training, and Exams: \$725.0 UGF:**

Alaska State Troopers (AST) Appropriation/AST Detachment Allocation

- **\$500.0 UGF** for three new Anchorage-based State Trooper/Investigator positions, whose primary focus will be follow-up investigations specific to sexual assault and sexual abuse of minors. Follow-up activities include locating and

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interviewing witnesses, investigating "prior bad acts" committed by the offender, determining if there are any additional victims, and following up on other actions recommended by the prosecutor.

- **\$75.0 UGF** to provide training for Village Public Safety Officers, Village Tribal Police Officers, and other first responders such as Behavioral Health Aides and Village Health Aides. By increasing understanding and recognition of these crimes, the Department hopes to improve first responder skills specific to this discipline.
- **\$150.0 UGF** to assist local governments with paying for the costs of forensic sexual assault exams in emergency circumstances. According to the Department, without financial support, these necessary exams would not take place and vital evidence would be lost. Assistance will include the collection of evidence, documentation of injuries, and transportation to exam locations for victims in communities without access to services.

Council on Domestic Violence and Sexual Assault (CDVSA) Appropriation/CDVSA Allocation

- b. **Increased Support for Domestic Violence Shelters: \$381.9 UGF.** This increment represents a nearly 4% increase in funding that will go directly to shelters to offset rising utility, fuel, food, insurance, building maintenance, and personal service costs. Additionally, costs have risen as crisis centers have experienced an increase in demand for services. The Department states that this funding is needed to maintain current levels of service.
- c. **Council on Domestic Violence and Sexual Assault: \$697.4 Federal Receipts (one-time funding).** Beginning in FY08, the Department received a \$5 million, three-year federal grant for domestic violence and sexual assault prevention programs. The Department estimates that \$697.4 will be unspent by June 30, 2010. The Department is requesting an extension of both the federal grant and state appropriation lapse dates to make these funds available in FY11 for prosecution, law enforcement, and judicial services. The grant is expected to be fully expended in FY11.

Statewide Support Appropriation/Laboratory Services Allocation

- d. **DNA Forensic Scientist Position: \$92.8 UGF.** This increment replaces pass-through federal funds from CDVSA (that are expiring in FY10) for a position dedicated to the analysis of sexual assault cases where a suspect has not been identified. The position processes about 60 cases per year statewide. According to the Department, the position will be eliminated if replacement funds are not forthcoming.
 - e. **Pediatric Sexual Assault Evidence Collection Kits: \$12.3 UGF.** The Department is requesting additional funds to develop and distribute pediatric evidence collection kits. Currently, adult and adolescent kits are adapted for use in pediatric exams.
2. **Village Public Safety Officers (VPSO): \$1.5 Million UGF.** The Department has dramatically increased its rural law enforcement recruiting efforts during the past few years. Increased funding is requested as follows:
- a. **\$1.2 Million UGF.** This increment adds grant funding for fifteen new VPSOs and is consistent with the VPSO Senate Task Force's recommendation to add 15 new officers each year for a total of five years. This third year request brings the total of

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new VPSOs to 45. At present, 69 of the 71 authorized VPSO positions are filled and the Governor has indicated a desire to add 15 positions every year for the next ten years; and

- b. **VPSO Cost of Living Increase: \$223.8 UGF.** This request provides partial funding for a three percent cost of living adjustment as well as annual merit increases for existing VPSOs. The cost of living adjustment is designed to match the Public Safety Employee Association's (PSEA) pay schedule.

3. Fund Change/AST Special Projects: \$656.5 UGF from CIP

Receipts. A federal grant for the Illegal Drug and Alcohol Use program expired on September 30, 2009. The seven positions associated with this funding are located in Anchorage and Soldotna and primarily focus their efforts on:

- the detection and investigation of clandestine methamphetamine laboratories;
- the transportation, importation, distribution and sale of all illegal drugs;
- the sale of alcohol in local option communities throughout the State of Alaska; and
- follow up investigations on cold case homicides.

Legislative Fiscal Analyst Comment: The Department received capital funding for the (Statewide) Illegal Drug and Alcohol Use Program for three straight years beginning in FY03 (\$2 million Federal Receipts each year). Based on the backup provided, the positions associated with this program were considered "long-term non-permanent" and the funding was deemed to be one-time without a state match requirement. The grant expired in the first quarter of FY10. The Department has requested an extension of the grant, but has received no indication from the U.S. Department of Justice as to whether the extension will be approved. If not, the Department anticipates requesting a supplemental appropriation for FY10.

4. Fund Change/CDVSA: \$651.4 UGF from PFD Criminal Funds

(DGF). Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to the number of convicted felons and third time misdemeanants who are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of PFD Criminal funds is volatile. For FY11, the Department of Revenue calculated the amount available for appropriation to be \$1.7 million less than in FY10.

The requested fund change replaces the Department's portion of that reduction with UGF in order to maintain services.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL REQUEST

The Governor's total capital budget is \$81.9 million (\$4.7 million UGF/\$75.7 million Other/\$1.5 million Federal) for the Department of Public Safety. Some of the larger projects are:

- **Crime Lab Replacement: \$75.7 million Certificates of Participation**

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- Marine Fisheries Patrol Improvements: **\$1.5 million Federal Receipts**
- Statewide Facilities Maintenance, Repairs, and Improvements: **\$1.35 million UGF**
- Alaska Public Safety Information Network (APSIN) Redesign: **\$1.0 million UGF**
- Aircraft and Vessel Repair and Maintenance: **\$850.0 UGF**
- Alaska State Trooper Law Enforcement Equipment Replacement: **\$500.0 UGF**
- Alaska Wildlife Trooper Law Enforcement Equipment Replacement: **\$500.0 UGF**

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Department of Revenue				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$35,984.4			
FY10 Fiscal Notes	626.0			
Carry Forward	-			
Special Appropriations	(631.4)			
Agency Transfers	11.2			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Vetoed	(712.7)			
FY10 Management Plan (GF only)	\$35,277.5	(\$706.9)	-2.0%	
One-time Items removed	393.1			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	37.4			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$35,708.0	\$430.5	1.2%	
FY11 Governor's GF Increments/Decrements/Fund Changes	2,517.7			
FY11 Governor's Request (GF only)	\$38,225.7	\$2,517.7	7.1%	
FY11 Governor's Increments, Decrements and Fund Changes				
	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$2,517.7	
Natural Gas Commercialization	-	1,550.0	1,550.0	1(a,d)
Tax Division	13,680.8	14,780.8	1,100.0	1(b,c)
Treasury Division	4,112.6	4,499.6	387.0	2
Permanent Fund Dividend Division	7,418.0	7,518.0	100.0	
Long Term Care Ombudsman	111.9	207.9	96.0	
Commissioner's Office	195.6	197.6	2.0	
Administrative Services	243.3	244.1	0.8	
Child Support Services	7,719.6	7,001.5	(718.1)	3
Non-General Fund Agency Summary				
	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	173,164.8	163,040.7	(10,124.1)	4, 5, 6, 7
Federal Funds (all allocations)	40,553.9	41,064.1	510.2	3
Total Non-General Funds (all allocations)	\$40,553.9	\$41,064.1	\$510.2	
Position Changes (From FY10 Management Plan to Gov)				
	925	927	2	
PFT	866	869	3	
PPT	41	41	0	
Temp	18	17	(1)	
Governor's Capital Request				
	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,000.0	262.0	1,262.0	
Maintenance and Repairs	5,700.0	-	5,700.0	
Remodel, Reconstruction and Upgrades	10,708.5	6,200.0	16,908.5	
New Construction and Land Acquisition	20,250.0	4,000.0	24,250.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	1,429.5	133.1	1,562.6	
Other	11,550.0	9,500.0	21,050.0	
TOTAL CAPITAL	\$50,638.0	\$20,095.1	\$70,733.1	

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Department of Revenue

The Department of Revenue's responsibilities include:

- 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; and
- 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 FY11 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$2,517.7 above the FY11 Adjusted Base [\$3,535.8 Unrestricted General Funds (UGF) and a reduction of \$1,018.1 Designated General Funds (DGF)].

The following notes correspond to the numbers in the last column of the preceding spreadsheet:

1. **Gas Pipeline Development: \$2.65 million UGF.** The Governor's bill includes a language section totaling just over \$10.5 million for gas pipeline development. Itemized in this section is \$2.65 million to the Department of Revenue for the following:
 - a. **\$1.5 million – Continued contractual assistance in the analysis and implementation of a natural gas pipeline.** The Department received \$1.221 million in FY09 for contract assistance. The Department requested \$771.0 for FY10. The funding was ultimately denied by the legislature. Just before the FY09 books closed, \$550.0 was transferred through the Governor's Office to DOR in order allow DOR to extend a contract into FY10.

Legislative Fiscal Analyst Comment: It is difficult to determine gas pipeline funding needs statewide, let alone for individual agencies. Centralizing gasline funding in the Governor's Office provides centralized control and flexibility as circumstances change. Although the Governor's Office distributed money at the beginning of the fiscal year (rather than on an as-needed basis, as the legislature intended), the redistribution of funding among agencies demonstrates that centralizing funding may be a good option.
 - b. **\$800.0 - Four exempt oil and gas Commercial Analyst positions** in the Tax Division; starting salary of \$144,000 (\$200,000 with benefits). These exempt positions are intended to attract employees with industry experience and expertise to

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strengthen the state's position on oil and gas issues. This is similar to the approach used for the Audit Master positions created by Alaska Gasline Inducement Act (AGIA).

Legislative Fiscal Analyst Comment: Due to its less competitive pay package, the Department has had difficulty attracting talent from the oil and gas industry. The Chief Economist position in the Tax Division has remained unfilled for the last two years. Even with more competitive salaries, the Audit Master positions have been difficult to fill. One of the four positions is still unfilled. Recruitment difficulty was anticipated by prior legislatures and increment requests were reduced. If these positions are determined to be warranted, subcommittees may want to consider funding this request in a similar manner—using a phased approach recognizing that all positions are unlikely to be filled on the first day of the fiscal year.

- c. **\$300.0 AGIA Information Reporting System.** This new system (to be built in-house with contractual assistance) will be used initially to track and report on AGIA reimbursements. As the project progresses, the system would be used to hold the pipeline builder accountable for project timelines, costs, and other details required under AGIA.

Legislative Fiscal Analyst Comment: This request may be better placed in the capital budget. The Department has several information technology capital requests to which this could be added.

- d. **\$50.0 AGIA Fund Audit.** AS 43.90.400(c) requires that regulations address periodic audits of the AGIA Reimbursement Fund. The new regulations [15 AAC 90.020(c)] establish that audits be performed not less than annually. The Department is requesting \$50.0 for a contractor to conduct this audit.

Legislative Fiscal Analyst Comment: As with much of AGIA, this function is the responsibility of the Commissioners of both Revenue and Natural Resources. The audit function, however, does correspond with the duties of DOR. Subcommittees may want to determine if this requirement could be performed in-house with currently available resources. If not, an annual one-time increment may be necessary for the limited years in which reimbursements are expected to occur.

2. **Constitutional Budget Reserve (CBR) Fund Management Fees: \$387.0 (UGF).** As the general fund liability to the CBR has been repaid (see following table), assets under management (and associated management fees) have increased. This increment request will fund the full \$2.06 million cost of managing the CBR.

Legislative Fiscal Analyst Comment: The general fund surpluses of recent years have provided the legislature with funding to pay down the liability to the CBR. For the first time since its inception, the CBR was fully repaid—at least momentarily—at the end of FY09 when a portion of the statutory budget reserve (SBR) fund was swept into the CBR. However, a liability was again created when the FY10 reverse sweep restored \$401.6 million to the SBR.

Legislative Finance Recommendation: The legislature may wish to consider paying the investment management fees from the general fund. The state's CBR liability may soon be fully repaid. Paying management fees from the general fund would eliminate the need for a supermajority vote to pay management fees.

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GF Liability to the CBR				
	FY07	FY08	FY09	FY10
Prior Year End Liability	5,091,129,825	4,781,779,253	150,093,111	-
GF Reverse Sweep	156,696,777	416,165,110	1,466,159,407	401,617,000
Year Beginning Liability	5,247,826,602	5,197,944,363	1,616,252,518	401,617,000
Special Appropriations to Fund	(50,000,000)	(3,000,000,000)	(1,000,000,000)	-
CBR management fees	117,761	466,868	1,239,870	-
GF Sweep	(416,165,110)	(2,048,318,120)	(617,492,388)	-
Year End Liability	4,781,779,253	150,093,111	-	?
GF Surplus	-	582,158,713	215,875,388	

3. **Child Support Services Division (CSSD) Fund Source Change: \$400.0 UGF/ -\$1,118.1 DGF (Net -\$718.1 GF).** The Governor's FY10 original budget request included a \$1.9 million fund source change from Receipt Supported Services (RSS) to GF/Match for two reasons: declining Temporary Assistance for Needy Families (TANF) cases resulted in insufficient funding to match federal receipts, and the federal government is no longer allowing the use of Federal Incentive Payments as state match. However, the ARRA bill provided temporary funding for CSSD and temporarily allowed the Federal Incentive Payments to be used as state match. The end result was that CSSD received \$1.331 million of Stimulus funds, along with \$400.0 of GF Match in HB 199 (Ch. 17, SLA09).

When the ARRA funding expires on September 30, 2010, this funding will no longer be available and the Federal Incentive Payments cannot be used as state match.

Legislative Fiscal Analyst Comment: The Stimulus dollars are set to lapse September 30, 2010. The Governor's budget does not adjust for the loss of ability to use federal incentive payments as match. Legislative Finance Division (LFD) removed the federal funding from the base budget and added it back as part of the Governor's FY11 request. An adjustment may need to be made in subcommittee and an amendment should be expected.

4. **Mental Health Trust Zero-based Budgeting: \$2,758.3 MH Trust Receipts.** The Alaska Mental Health Trust Authority continues to use zero-based budgeting for all of their programs. The goal of the Trust is to be able to identify how Trust funding is being allocated on a year-by-year basis.

Legislative Fiscal Analyst Comment: This concept may work well for Trust program funding; however, the benefits appear limited for the Trust's administrative budget. The FY11 request is \$108.3 larger than FY10, but the reason for the increase is not entirely clear.

Legislative Fiscal Analyst Recommendation: Return to incremental budgeting for Trust administrative components (including the Trust Land Office in Department of Natural Resources).

5. **Permanent Fund Corporation (APFC) Investment Systems and Technology: \$518.0 APFC Receipts.** Contractual fees for existing investment information and analytic systems are increasing by \$117.0. New contract services of \$321.0 are requested for expanded and additional risk management analysis systems. Also, \$80.0 is requested for a network security audit, firewall security upgrades and fixed income trade system enhancements.

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Legislative Fiscal Analyst Comment: The costs for the network audit and firewall security upgrades appear to be one time in nature. It may be prudent to change the increment to an Increment-OTI transaction.

6. Permanent Fund Corporation Vacancy Factor Adjustment:

\$318.2 APFC Receipts. The corporation is requesting a reduction to their personal services vacancy factor from 5.7% to 0.86%. The Office of Management and Budget's (OMB) vacancy factor guidelines for a staff of 37 are between 3% and 6%. OMB does make the lower limit optional, however. APFC currently has 33 of its 35 full-time positions filled and will be recruiting to fill the others in the near future. One position was unsuccessfully filled in the fall of 2009.

Legislative Fiscal Analyst Comment: It is unclear whether a vacancy factor reduction of this magnitude is warranted. Turnover for FY09 was 9.3% while the average for FY06-09 is 12.6%. While turnover does not precisely equate to vacancy, it does imply that vacancies are likely to occur. Subcommittees may wish to review personal services expenditure plans before approving this increment.

7. APFC Investment Management Fees: \$-14.24 million APFC

Receipts. The market collapse in the latter half of 2008 and beginning of 2009 eliminated substantial wealth from the Permanent Fund. Ending FY08, right before the crash, the Permanent Fund's total market value stood at \$36.5 billion. At the bottom of the crash in February of 2009, the fund value was \$26.7 billion, rebounding to finish the fiscal year at \$29.9 billion. Although there was substantial loss recovery, and more is projected for FY10, the amount budgeted for management fees in FY10 is in excess of what is likely to be needed in FY11.

Legislative Fiscal Analyst Comment: The FY08 peak market value required a \$6 million supplemental appropriation for management fees. That same session, \$18.6 million was added to the FY09 budget in anticipation of continued market growth. The FY10 budget was then reduced \$10 million because of the crash. The proposed reduction for FY11 seems warranted, but perhaps is too large. A \$6.5 million decrement would put them more in line with the ratio of fees to market value of FY08. Unless management fees have declined, subcommittees may want to reduce the decrement. See table below.

Permanent Fund (millions)

FY	Yr end Market Value	Management Fee Budget	Change in Budget	Action	Ratio Mgmt Fees/ Market Value
2008 Base		73.8			
2008	36,534.0	79.8	6.0	Supplemental	0.218%
2009	29,916.0	92.4	18.6	Increment	0.309%
2010	32,165.0	82.4	(10.0)	Decrement	0.256%
2011	34,800.0	68.2	(14.2)	Decrement	0.196%
Target ?	34,800.0	75.9	(6.5)	Decrement	0.218%

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ORGANIZATIONAL CHANGES

A new component titled Natural Gas Commercialization has been created within the agency. The funding is separated from other gas-line funding proposed for the Tax Division.

CAPITAL REQUEST

The Alaska Housing Finance Corporation (AHFC) capital budget makes up the majority of DOR's annual request (97% of the budget for FY11). AHFC has over \$68 million budgeted for their housing programs, including \$19.7 million of federal receipts and \$30 million of the \$42.5 million AHFC dividend to the state. A few of the larger projects are:

- the Supplemental Housing Development Program: \$8 million AHFC Dividend;
- the Senior Citizen's Housing Development Program: \$4.5 million AHFC Dividend;
- the Homeless Assistance Program: \$10 million (\$3.35 million AHFC Dividend, \$3 million Alaska Industrial Development and Export Authority (AIDEA) Dividend, \$500.0 GF, \$1.15 Mental Health Trust Authority Receipts (MHTAAR) and \$2 million Federal);
- the San Roberto Redevelopment: \$9.7 million (\$2.2 million AHFC Dividend, \$7.5 million AHFC Bonds); and
- the Teacher, Health, Public Safety Professionals, and Village Public Safety Officer (VPSO) Housing Loan Program: \$6 million AHFC Dividend.

The remainder of DOR's request is comprised of various small information technology projects totaling approximately \$1.5 million. Most notable, however, is a \$300.0 UGF request to create a plan for a Tax Revenue Management System, currently estimated to cost \$35 million (with annual license and maintenance fees of \$2 million).

Legislative Fiscal Analyst Comment: Last session DOR requested \$23.4 million to be combined with \$3.9 million received in FY09 for a new Tax Revenue Management System. The funding was ultimately denied. During the interim, the Enterprise Investment Board (the information technology oversight board within the Department of Administration) directed DOR to compile a comprehensive plan outlining in detail the functions of the new system. This \$300.0 would be utilized for this plan.

The \$3.9 million received in FY09 was broken down into three appropriations - \$830.0 for a Corporate/Motor Fuel Tax System; \$460.0 for a Mining Tax System; and \$2.62 million for an Oil and Gas Production Tax System. None of this funding has been expended to date. Repealing these appropriations in anticipation of an integrated tax system appropriation for FY12 may be prudent.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Transportation and Public Facilities				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$291,654.2			
FY10 Fiscal Notes	-			
Carry Forward	173.9			
Special Appropriations	-			
Agency Transfers	11,250.0			
10 Contractual Salary Adjustments	(944.9)			
Misc Adjustments	-			
Vetoed	-			
FY10 Management Plan (GF only)	\$302,133.2	\$10,479.0	3.6%	
One-time Items removed	(11,423.9)			1
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	4,401.9			
Misc Adjustments*	-			
FY11 Adjusted Base Budget (GF only)	\$295,111.2	(\$7,022.0)	-2.3%	
FY11 Governor's GF Increments/Decrements/Fund Changes	4,765.2			
FY11 Governor's Request (GF only)	\$299,876.4	\$4,765.2	1.6%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$4,765.2	
Central Region Highways and Aviation	43,746.8	45,636.8	1,890.0	2
Marine Vessel Operations	115,199.8	116,199.8	1,000.0	3
Marine Shore Operations	6,800.9	7,300.9	500.0	4
Northern Region Highways and Aviation	59,267.4	59,637.4	370.0	5
Statewide Design and Engineering Services	1,164.5	1,439.5	275.0	6
Northern Region Facilities	9,352.1	9,594.1	242.0	
Statewide Aviation	2,092.5	2,312.5	220.0	
Measurement Standards and Commercial Vehicle Enforcement	4,506.7	4,608.8	102.1	
Central Design and Engineering Services	864.5	924.6	60.1	
Traffic Signal Management	1,633.8	1,682.2	48.4	
Equal Employment and Civil Rights	306.2	350.7	44.5	
Transportation Management and Security	939.7	969.7	30.0	
Program Development	556.9	540.0	(16.9)	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	236,587.9	239,187.1	2,599.2	7
Federal Funds (all allocations)	4,213.4	3,922.3	(291.1)	
Total Non-General Funds (all allocations)	\$4,213.4	\$3,922.3	(\$291.1)	
Position Changes (From FY10 Management Plan to Gov)	3,866	3,847	(19)	
PFT	3,207	3,190	(17.0)	
PPT	439	437	(2.0)	
Temp	220	220	0.0	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	2,750.0	93,754.0	96,504.0	
Maintenance and Repairs	35,400.0	117,810.0	153,210.0	
Remodel, Reconstruction and Upgrades	15,150.0	332,000.0	347,150.0	
New Construction and Land Acquisition	69,137.2	74,008.8	143,146.0	
Equipment and Materials	24,862.0	30,575.0	55,437.0	
Information Systems and Technology	2,185.5	4,750.0	6,935.5	
Other	400.0	20,530.0	20,930.0	
TOTAL CAPITAL	\$149,884.7	\$673,427.8	\$823,312.5	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Department of Transportation and 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 260 state-owned airports and seaplane bases, 5,600 miles of state roads, 700 buildings ranging from maintenance shops to state office complexes, and 25 ports and harbors. In addition, the Department owns and operates the Alaska Marine Highway System (AMHS). 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 7,967 light and heavy duty vehicles and attachments.

SIGNIFICANT ISSUES

The FY11 Department of Transportation and Public Facilities (DOT&PF) general fund operating budget submitted by the Governor is \$4,765.2 above the FY11 Adjusted Base [\$2,788.0 Unrestricted General Funds (UGF)/\$1,977.2 Designated General Funds (DGF)].

Legislative Fiscal Analyst Comment: Last session, the legislature expanded the DOT&PF highway, rural airport and facility maintenance and operations budget by \$12.7 million UGF. The intent was to mitigate accumulating inflationary pressures (\$2.7 million) and expand service levels (\$10 million). The legislature may want to ascertain how this funding has been utilized to improve services in FY10 and what the Department's expectations are for FY11 before adding expenditure authorization.

Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

- 1. Fuel/Utility "Trigger" Appropriation (DOT&PF Maximum \$41.25 million UGF).** The last three budget cycles have seen unprecedented commodity price volatility. FY08 was a year of high energy prices. World-wide economic conditions during FY09 relieved energy cost pressure statewide, and FY10 began with Alaska North Slope (ANS) crude trading near \$70/barrel (nearly 180% greater than the December 2008 low of \$25.81/bbl). As of this writing, ANS Crude is trading near \$80/bbl and trending higher.

The oil price "trigger" appropriation created by the legislature has performed as intended in this environment. By making fuel appropriations one-time items, and backing them out of base budgets each year, the legislature has avoided building a budget base that may contain unnecessary funding.

As in FY10, disbursements of "fuel trigger" funding would occur at the beginning of August and December. Disbursements would be based on the average price per barrel of ANS Crude to date on the first day of the aforementioned months. For example, prices averaging \$76 (the Department of Revenue's Fall Forecast price for FY11) on August 1st would result in disbursement of **\$20.5 million, of which DOT&PF would receive 65% plus or minus 10%** (as decided by the Governor's Office). As is expected, DOT&PF has utilized the majority of past disbursements to purchase fuel for the Alaska Marine Highway System.

DOT&PF received \$33 million under the "trigger" appropriation in FY09 (their maximum allocation of the \$44 million triggered). Due to the crash in the price of oil, and subsequent reduction in the price of fuel, \$9.2 million (of the \$33 million DOT&PF

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

received) was available for reprogramming during the FY09 supplemental process. The funding was appropriated to the Alaska Marine Highway Fund for future needs. In FY10, the Department received \$11.25 million in August, and \$13.5 million in December 2009.

Legislative Fiscal Analyst Comment: Given the current price of oil, none of the FY10 distribution is expected to be available at year end. The agency could require a supplemental appropriation for FY10 if the price trend continues.

At some point, it may be advisable to accept that the world energy market has changed permanently. The current Department of Revenue oil price forecast has prices trending upward for the next decade ranging from \$80 to over \$100/bbl. It may be prudent to adjust agency base budgets, reducing the amount to be distributed via the trigger.

- 2. Environmental Protection Agency (EPA) Water Quality Permit Compliance: \$1.87 million UGF.** The EPA National Pollutant Discharge Elimination System Program (NPDES) requires the Department to obtain a permit for municipal storm water conveyance systems. The NPDES requires compliance to a strict set of standards regarding maintaining water quality. The recently renewed permit, effective February 1, 2010, mandates additional drain inventory and cleaning and increased street sweeping (from once a year to three times). Funding for two new positions is requested to manage and oversee compliance for the program.

The Department's capital request includes \$1 million UGF for creation of a geographic information system that maps the entire storm drainage system in the Anchorage region. Another \$1.041 million UGF is included in the capital budget in response to an NPDES mandate to map all sand storage sites within the Municipality of Anchorage.

Legislative Fiscal Analyst Comment: The full impact of the more stringent permit requirements on DOT&PF is not yet known. Subcommittees may wish to ask the agency for a complete multi-year impact analysis on both their operating and capital budgets. Also, given the February 1 effective date, the FY10 budget may need adjustment in order to comply with permit requirements.

- 3. AMHS Satellite Communications Contract: \$1 million UGF.** The Alaska Marine Highway System has recently closed a Request for Proposal (RFP) to supply the fleet with satellite communications. A vendor is expected to be selected in mid January of 2010. The funding being utilized for the hardware and installation will be supplied from the Federal Highway Administration through various AMHS and Intelligent Transportation System (ITS) capital appropriations. The agency is requesting an increment to purchase the operating bandwidth for the communication system to commence operations.

Legislative Fiscal Analyst Comment: This increment request is an engineering estimate, as a vendor has not yet been awarded a contract. Refinements to the request can occur in subcommittee.

- 4. AMHS Bellingham Terminal Lease Increase: \$500.0 DGF.** The lease for the Bellingham Terminal has recently been renegotiated. The building lease will increase \$483.4 along with operating and maintenance increases of an additional \$148.0. Contracted terminal services (ticketing, reservations, etc.), however, decreased \$134.0 for a net increase of approximately \$500.0.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

5. **Northern Region ADA Compliance, Positions, and Building Costs: \$547.0 UGF.** The Federal Highway Administration has notified the agency that they are potentially in violation of the Americans with Disabilities Act (ADA) with regard to sidewalk and bike path maintenance in the Northern Region. Additional funding (\$305.0) is requested in the Highways and Aviation allocation to create a Sidewalk/Wheel Chair Ramp Repair Program. The funding will be utilized to replace frost heaved sections of bike path and repair or install necessary wheel chair ramps. Included in the Facilities allocation is an increment for two maintenance specialist positions and the operating costs for two new buildings that came online in 2009 (\$242.0).

Legislative Fiscal Analyst Comment: As noted above, considerable funding was added to the three regional Highways, Aviation and Facilities allocations last session for inflationary costs and service expansion. Northern Region Highways and Aviation received \$5.4 million and Northern Region Facilities received \$826.6. Subcommittees may wish to review how this funding is being utilized before increasing expenditure authority.

6. **Harbor Program Administration: \$275.0 UGF.** The budget for administration of the Harbor Program is being moved from the capital budget to the operating budget. An annual general fund appropriation has been included in the capital budget for some time. Prior year amounts are: FY10 - \$200.0, FY09 - \$400.0, FY08 - \$200.0, FY07 - \$600.0, FY06 - \$100.0.

Legislative Fiscal Analyst Comment: DOT&PF has requested this ongoing program be moved in order to conform with recent legislative policy regarding clearer differentiation between capital and operating budget items. This action would not only clarify the capital and operating budgets, but provide DOT&PF with a consistent annual budget.

7. **State Equipment Fleet (SEF) Commodities, Fuel, and Services: \$2.7 million (Other).** Additional expenditure authority is requested from the Highway Equipment Working Capital Fund (HEWCF¹²) in order to match budgetary authority with anticipated costs. As the cost of maintaining and replacing the fleet's assets increases, so do the rates the State Equipment Fleet must charge to agencies that rent the equipment. Pressures driving the budget increase include the cost of motor fuel (purchased through the SEF credit card system), the cost of travel to perform remote maintenance, shipping costs and inflationary effects on other commodities.

ORGANIZATIONAL CHANGES

There are no significant changes.

¹² The HEWCF is an internal service fund of the state (like the Information Services Fund or Public Building Fund) used to aggregate operating and replacement costs of the State's equipment fleet. Revenue of the fund is derived from the leasing of state equipment to state agencies.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

CAPITAL REQUEST

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 state match components 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 above. See the capital budget section on page 55 for further details.

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Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

University of Alaska				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$617,042.4			
FY10 Fiscal Notes	-			
Carry Forward	-			
Special Appropriations	-			
Agency Transfers	1,650.0			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Vetoes	-			
FY10 Management Plan (GF only)	\$618,692.4	\$1,650.0	0.3%	
One-time Items removed	(4,518.4)			
Transfers between Agencies (nets zero statewide)	305.0			
FY11 Contractual Salary and Health Increases	11,273.4			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$625,752.4	\$7,060.0	1.1%	
FY11 Governor's GF Increments/Decrements/Fund Changes	13,161.4			
FY11 Governor's Request (GF only)	\$638,913.8	\$13,161.4	2.1%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$13,161.4	
Budget Reductions/Additions - Systemwide	2.0	432.5	430.5	5
Statewide Services	29,353.6	29,593.0	239.4	1,2
Office of Information Technology	16,923.1	17,681.9	758.8	1
Systemwide Education and Outreach	7,589.0	7,591.0	2.0	1
Anchorage Campus	204,532.1	207,162.7	2,630.6	1,2,3
Kenai Peninsula College	10,714.3	10,828.5	114.2	1,2
Kodiak College	3,684.1	3,721.4	37.3	1,2
Matanuska-Susitna College	8,765.9	8,862.3	96.4	1,2
Prince William Sound Community College	6,120.3	6,176.6	56.3	1,2
Small Business Development Center	887.2	891.2	4.0	1
Fairbanks Campus	192,486.2	197,447.7	4,961.5	1,2,3
Fairbanks Organized Research	56,474.2	58,213.1	1,738.9	1,4
Bristol Bay Campus	2,005.6	2,033.4	27.8	1,2
Chukchi Campus	1,245.5	1,265.7	20.2	1,2
College of Rural and Community Development	11,101.6	11,102.2	0.6	1
Interior-Aleutians Campus	2,607.3	2,648.7	41.4	1,2
Kuskokwim Campus	4,534.1	4,630.2	96.1	1,2
Northwest Campus	2,054.3	2,078.1	23.8	1,2
Tanana Valley Campus	11,792.2	11,808.6	16.4	1
Cooperative Extension Service	5,220.3	6,525.5	1,305.2	1,4
Juneau Campus	37,296.4	37,770.0	473.6	1,2,5
Ketchikan Campus	4,463.7	4,517.4	53.7	1,2
Sitka Campus	5,899.4	5,932.1	32.7	1,2
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	73,280.0	76,146.0	2,866.0	
Federal Funds (all allocations)	131,006.7	132,798.7	1,792.0	
Total Non-General Funds (all allocations)	\$204,286.7	\$208,944.7	\$4,658.0	
Position Changes (From FY10 Management Plan to Gov)	5,216	5,216	0	
PFT	4,994	4,994	-	
PPT	222	222	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,400.0	-	1,400.0	
Maintenance and Repairs	37,500.0	-	37,500.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	108,600.0	-	108,600.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	15,000.0	-	15,000.0	
TOTAL CAPITAL	\$162,500.0	\$0.0	\$162,500.0	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

University of Alaska

The major goals of the University are to inspire learning, and to advance and disseminate knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples 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
- the University as the state's primary research facility with focus on the application of new knowledge and emerging technologies to meet the needs of the state.

SIGNIFICANT ISSUES

The FY11 University of Alaska (UA) general fund operating budget submitted by the Governor is \$13,161.4 above the FY11 Adjusted Base [\$5,294.7 Unrestricted General Funds (UGF)/ \$7,866.7 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

1. Non-Personal Services Fixed Cost Increases: \$8.75 million (\$2,168.4 UGF/ \$4,520.0 DGF/ \$1,172.8 Other/ \$892.0 Federal Receipts). This increment is intended to cover:

- a. facilities maintenance and repair costs (calculated at a minimum 1.5% of current building value to keep pace with ever increasing building maintenance needs) and other increases in non-discretionary costs (estimated at 1.5% of contractual services and commodities); and
- b. statewide network infrastructure/connectivity funding which is necessary to fully utilize the high-speed network connectivity currently provided by the GCI broadband capacity gift circuit between the University of Alaska and the national research/educational network Internet2. This request also provides expansion of the available bandwidth to UA Community Campuses and rural locations, improving the availability and speed of telecommunications services.

2. Utility Cost Increases: \$2.6 million (\$1,484.3 UGF/ \$1,100.0 DGF). This increment covers the projected FY11 utility and fuel oil cost increases, estimated at ten percent over FY10.

Legislative Fiscal Analyst Comment: As in FY10, the Governor included a contingent appropriation in the operating budget to offset increased fuel and utility costs of agencies. The University contends that the fuel trigger provides insufficient funding because it does not cover the total cost of fuel/utility increases since FY07. The University indicates that a supplemental request for fuel/utility costs may be submitted for FY10.

3. New Facility Operating and Maintenance Costs: \$692.0 (all UGF). Additional funding in this area would cover:

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

- a. the Integrated Science Building (ISB) (\$429.0 UGF) at the University of Alaska Anchorage campus. The request adds to the \$2,094.3 (\$1,025.0 UGF/\$1,069.3 DGF) received as base funding for ISB operating and maintenance costs in FY10; and
- b. the State Virology Lab (\$263.0 UGF) at the University of Alaska Fairbanks (UAF) campus. This increment will provide UAF's portion of annual base funding for maintenance and operations of the new lab that is owned and primarily occupied by the State of Alaska Department of Health and Social Services. In FY10, one-time funding of \$150.0 UGF (which was to cover approximately 57% of UAF's portion of the cost) was approved. The one-time appropriation was removed from the FY11 Adjusted Base.

4. Energy Priority Program: \$3.6 million (\$950.0 UGF/ \$1,768.4 DGF/ \$900.0 Federal Receipts). Fairbanks Organized Research and the Cooperative Extension Service each request increments of approximately \$1.8 million to work with the Alaska Center for Energy and Power (ACEP) and other University researchers to bring applicable energy research information to communities throughout the state. A liaison will work with communities, inform ACEP of energy-related problems and local resources, and transmit information from ACEP to communities. The increment will also allow for the development of energy-related extension materials for use statewide. The same amounts of one-time funding were appropriated for these purposes in FY10; this request would make the funding part of the University's base budget.

5. Technical Vocational Education Program (TVEP) Receipts distribution: \$478.3 (all DGF). According to Chapter 47, SLA 2008 (HB 2), 50% of TVEP funding is allocated to the University. Available TVEP funding is projected to be \$5.2 million for FY11 (approximately a 10% increase over FY10). (The estimated statewide total net available TVEP funding for FY11 is \$10.9 million, an increase of \$956.8 over FY10.) University funding is statutorily allocated to Statewide Programs—45% (\$430.5 increment in FY11) and the University of Alaska Southeast—5% (\$47.8 increment in FY11). TVEP funding has been instrumental in the University's ability to meet Alaska's workforce training and educational needs and continues to be the key source of funds for that purpose.

Legislative Fiscal Analyst Comment: In FY09, the University transferred TVEP funds from the University of Alaska Southeast through a Reimbursable Services Agreement (RSA), and indicated they were likely to do so in FY10. Legislative Finance believes the transfers violate rules regarding transfers across appropriation lines and are counter to legislative intent.

Legislative Fiscal Analyst Recommendation: If the University of Alaska Southeast appropriation cannot use the TVEP allocation, the money should lapse or the law should be modified.

The Governor's University of Alaska FY11 budget adds no new positions. The total count is 4,916 (4,694 PFT and 222 PPT) positions.

Legislative Fiscal Analyst Comment: The Governor's budget is less than the Board of Regents' request by \$17.9 million (all GF). In past years, narratives discussed differences between the Regent's request and the Governor's request. In response to legislative direction that the Governor's request will serve as the starting point of budget deliberations, the Regent's request is not discussed here.

ORGANIZATIONAL CHANGES

The single appropriation structure under which the University had been organized for many years was replaced by the legislature with a multiple appropriation structure in FY09. The legislature determined that seven appropriations would allow more oversight and control from a legislative perspective. The Governor's FY11 budget has maintained the same structure that is in place for FY10.

CAPITAL REQUEST

There are two general fund projects in the University's FY11 capital budget:

- \$37.5 million GF to maintain existing facilities (renewal and renovation annual requirement); and
- \$1.4 million GF for a feasibility study for community campuses. This evaluation would use the academic and campus master plans to identify academic and support infrastructure facilities needed and then test the ability of current campus facilities to meet those needs. These campuses are located throughout Alaska from Ketchikan to Kotzebue.

The largest item in the University's capital request—\$108.6 million for the UAF Life Sciences Classroom and Lab Facility—is funded with a combination of Certificates of Participation and University Receipts. The facility—which has been a University priority project for several years—would provide classrooms, research lab space and offices for life sciences programs.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Alaska Court System				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$87,211.3			
FY10 Fiscal Notes	-			
Carry Forward	-			
Special Appropriations	-			
Agency Transfers	-			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Vetoes	-			
FY10 Management Plan (GF only)	\$87,211.3	\$0.0	0.0%	
One-time Items removed	(1.5)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	2,753.6			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$89,963.4	\$2,752.1	3.2%	
FY11 Governor's GF Increments/Decrements/Fund Changes	5,352.4			
FY11 Governor's Request (GF only)	\$95,315.8	\$5,352.4	5.9%	
↓				
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$5,352.4	
Appellate Courts	6,469.0	6,642.3	173.3	1,2
Trial Courts	71,490.3	76,108.0	4,617.7	1,2,3,4
Administration and Support	9,522.2	10,048.6	526.4	1
Commission on Judicial Conduct	366.9	376.9	10.0	1
Judicial Council	1,073.0	1,098.0	25.0	
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	506.0	1,561.3	1,055.3	5
Federal Funds (all allocations)	1,675.6	1,675.6	0.0	
Total Non-General Funds (all allocations)	\$2,181.6	\$3,236.9	\$1,055.3	
Position Changes (From FY10 Management Plan to Gov)	806	832	26	
PFT	737	763	26	1
PPT	47	47	0	
Temp	22	22	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	2,500.0	-	2,500.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$2,500.0	\$0.0	\$2,500.0	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Alaska Court System

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and completely state-funded judicial system. The mission of the Alaska Court System is to provide, expeditiously and with integrity, 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.

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's budget is presented in three appropriation requests - the Alaska Court System, the Commission on Judicial Conduct, and the Judicial Council.

SIGNIFICANT ISSUES

The FY11 Alaska Court System's general fund operating budget is \$5,352.4 Unrestricted General Funds (UGF) above the FY11 Adjusted Base. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Improve Public Service: \$4.25 million UGF.** The Court System has been experiencing difficulty in recruiting and retaining qualified staff to manage the Agency's increased caseloads throughout the state. To address this problem, the Agency has requested twenty-six additional full-time positions in the FY11 budget. Increments to address caseloads include:

- **\$2,007.0 UGF:** Add clerical and administrative support positions in communities with the largest need;

Legislative Fiscal Analyst Comment: In FY10, the legislature approved 50% (\$1 Million UGF) of the Court's \$2.1 Million UGF request to increase court positions statewide.

- **\$1,483.2 UGF:** Apply changes to the geographical differential as recommended by a recent salary study commissioned by the Department of Administration and to progress towards parity of the court system's salary structure with that of the General Government and Supervisory Bargaining Unions. The differential currently paid to court employees (AS 39.27.02) has not been changed in over 25 years;

Legislative Fiscal Analyst Comment: The geographic differential recommendations have not been adopted and do not yet apply to other state employees.

- **\$174.7 UGF:** Increase hourly pay for Pro Tem Judges and Justices from \$30/hour to \$75/hour. Courts contends that this rate is comparable to the hourly rate of court appointed attorneys. Pro tem appointments are made to cover judicial vacancies;

Legislative Fiscal Analyst Comment: In FY10, the Court System requested a smaller increment for this purpose (\$147.4 UGF), which the legislature denied. This FY11

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

request reflects an increase in the Judicial Retirement System (JRS) contribution rate;

- **\$574.3 UGF:** Eliminate vacancy factors that currently exacerbate the number of backlogged caseloads by forcing delays in filling judgeships; and

Legislative Fiscal Analyst Comment: In FY10, the legislature approved 39% (\$250.0 UGF) of the Court's \$639.4 UGF request to eliminate vacancy factors;

- **\$10.0 UGF:** Reduce personal services underfunding in the office of Judicial Conduct.

Legislative Fiscal Analyst Comment: In FY10, the legislature fully funded the Court System's \$3.6 UGF request for personal services underfunding in the office of Judicial Conduct;

2. **Operating Expenses: \$803.2 UGF.** Operating costs are increasing for the Court System in the areas of lease costs, building maintenance, utilities, service contracts, equipment, and travel. Increments for these purposes include:

- **\$278.8 UGF:** This increment would cover annual building maintenance costs if the Courts were to assume ownership of the Nome court facility from the Federal Government. This increment will not be needed if funding for a new State Office Building in Nome is approved. In 2009, the legislature appropriated \$1.9 million UGF to the Department of Transportation and Public Facilities (DOT&PF) for land purchase and project design. The Governor did not include the Court's request (submitted through DOT&PF on behalf of the Court System and other agencies for \$33 million UGF) to construct a new facility in the FY11 capital budget. If the Governor does not submit a budget amendment for facility construction, the Court System will seek additional funding to address numerous building maintenance issues surrounding the existing Nome court facility;
- **\$250.0 UGF:** Update operating systems and replace outdated equipment with a planned, cycled approach;

Legislative Fiscal Analyst Comment: The Court System requested a similar increment in FY10; half (\$125.0 UGF) was approved;

- **\$99.2 UGF:** Increase lease space in both Galena and Chevak. Any trial requiring a jury in the Chevak area must presently be conducted in Bethel due to inadequate space in the current building. Additionally, the Agency requests an increment for new space in Galena indicating that its trial facility is too small and becoming increasingly difficult to maintain;
- **\$98.0 UGF:** Increase for instate/long distance phone expenses. In past years the Court System used prepaid phone cards extensively to save on toll costs for instate/long-distance services. Because the current carrier will no longer provide these services at rates formerly offered, the Court System will use a combination of local carriers and a teleconferencing service provided through Intercall, Inc.;
- **\$67.8 UGF:** Replacement of aging workstations and furniture; and

Legislative Fiscal Analyst Comment: In FY10, the legislature approved 42% (\$50.0 UGF) of the Court's \$117.8 UGF request for replacement of aging equipment and furniture.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

- **\$9.4 UGF:** Additional travel expenses for the Juneau-based Chief Justice to participate in interagency meetings, court functions, and official events, many of which occur in Anchorage.

3. **Transcript Costs for Criminal Proceedings: \$125.0 UGF.** The demand for transcripts has increased in step with an increase in criminal caseloads. Coupled with this increased demand, fewer contractors are willing to accept work from the court because the payment rates are below market standards. The Court System is currently paying a per page rate of \$2.65 - \$3.05, while federal courts are paying a per page rate of \$3.65 - \$4.85.

Legislative Fiscal Analyst Comment: The Court System's request for a similar increment in FY10 was denied.

4. **Custody Mediation Program: \$125.0 UGF.** Over a recent 18-month period, mediation referrals increased sharply resulting in a 250 percent increase in costs—an amount not sustainable by the federal grant that funds this program. The Court System seeks funding to augment federal funds and to expand this program. According to Courts, this program is successful and assists parents in developing workable custody agreements while supporting domestic violence prevention.
5. **Mental Health Programs: \$955.3 MHTAAR and \$845.6 GF/MH.** FY11 will be the third year of zero-based budgeting for Mental Health Trust Authority Authorized Receipts (MHTAAR) funding – meaning that all MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year.

For FY11, The Mental Health Trust Authority is recommending \$955.3 (\$20.0 less than FY10 Authorized) in MHTAAR funding for the MH Trust Disability Justice Initiative. The majority of the funding is for:

- preventative treatment for youth intended to avoid future expensive treatment services associated with the adult correctional and judicial systems; and
- developing court-ordered treatment plans that address client's treatment needs and are monitored by the court, thus reducing risk of future contacts with the criminal justice system.

The majority of the \$845.6 GF/MH funding will support Disability Justice Initiative programs to ensure continued access to treatment services for existing and new therapeutic courts participants.

ORGANIZATIONAL CHANGES

There are no significant changes requested.

CAPITAL REQUEST

As a separate branch of state government, the Alaska Court System has the constitutional authority to submit its operating budget request directly to the legislature. As a courtesy, the Court System sends its operating budget to the Governor for forwarding to the legislature. This allows the operating budgets for all three branches to be introduced in the same budget bill.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

The Alaska Court System also has the constitutional authority to submit its capital budget request directly to the legislature, and it does so each year. This budget is submitted in the form of budget documents rather than in the form of legislation. Because the Court System does not have the power to introduce bills, governors have traditionally included some or all of the Court System's capital budget request in the Governor's capital budget bill.

For FY11, the Court System is presenting a capital request of \$41.1 million UGF to the legislature. The Governor included \$2.5 million UGF (all for deferred maintenance projects) in his capital budget bill. The list of all the Court System's capital projects is listed below:

Priority	Project	Amount <i>(in thousands)</i>
1)	Anchorage Campus Project Renovation	\$18,148.1
2)	Nome Courthouse Deferred Maintenance, Code Upgrades, and Remodel	\$3,830.9
3)	Court Information Technology Enhancements	\$1,943.8
4)	Law Library Integrated Services Software	\$150.0
5)	Court Security Projects	\$978.8
6)	Building Equipment & Systems Replacement (to Extend Life of Facilities)	\$1,000.1
7)	Statewide Remodel Projects	\$1,690.0
8)	Replace Worn Furnishings and Repair Specialized Finishes in Public Use Spaces	\$650.0
9)	Deferred Maintenance Projects	\$11,826.7
10)	Statewide Building Code and Energy Upgrade for Court Buildings	\$745.0
11)	Vehicles and Forklift Replacement	\$95.0
	TOTAL	\$41,058.4

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Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Alaska Legislature				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY10 Conference Committee (GF Only)	\$65,730.0			
FY10 Fiscal Notes	-			
CarryForward	1,545.8			
Special Appropriations	-			
Agency Transfers	-			
10 Contractual Salary Adjustments	-			
Misc Adjustments	-			
Veto	-			
FY10 Management Plan (GF only)	\$67,275.8	\$1,545.8	2.4%	
One-time Items removed	(1,545.8)			
Transfers between Agencies (nets zero statewide)	-			
FY11 Contractual Salary and Health Increases	973.2			
Misc Adjustments	-			
FY11 Adjusted Base Budget (GF only)	\$66,703.2	(\$572.6)	-0.9%	
FY11 Governor's GF Increments/Decrements/Fund Changes	1,545.8			
FY11 Governor's Request (GF only)	\$68,249.0	\$1,545.8	2.3%	
FY11 Governor's Increments, Decrements and Fund Changes	FY11 Adjusted Base Budget (GF Only)	FY11 Governor's Request (GF only)	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Allocation			\$1,545.8	
Council and Subcommittees	1,296.9	2,842.7	1,545.8	2
Office of Victims Rights (fund source change)	-	-	0.0	1
Non-General Fund Agency Summary	FY11 Adjusted Base Budget	FY11 Governor's Request	Change from FY11 Adj Base to FY11 Governor's Request	See Note:
Other State Funds (all allocations)	0.0	0.0	0.0	
Federal Funds (all allocations)	340.0	340.0	0.0	
Total Non-General Funds (all allocations)	\$340.0	\$340.0	\$0.0	
Position Changes (From FY10 Management Plan to Gov)	526	526	0	
PFT	246	246	-	
PPT	280	280	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Legislative Fiscal Analyst's Overview of the Governor's FY2011 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. The legislature includes the following appropriations and allocations:

- Legislative Budget and Audit Committee
 - Legislative Audit
 - Legislative Finance
 - Committee Expenses
 - Legislature State Facilities Rent
- Legislative Council
 - Legislative Salaries and Allowances
 - Administrative Services
 - Session Expenses
 - Council and Subcommittees
 - Legal and Research Services
 - Select Committee on Ethics
 - Office of Victims Rights
 - Office of the Ombudsman
- Legislative Operating Budget

SIGNIFICANT ISSUES

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally reviewed by legislative leadership. The FY11 submittal is essentially identical to the FY10 budget, with the exception of salary adjustments and a fund change (see #1 below). The notes below correspond to the numbers in the last column on the preceding spreadsheet.

1. A fund change replaces \$60.5 of Permanent Fund Dividend (PFD) Criminal funds with unrestricted general funds.

Legislative Fiscal Analyst Comment: The amount of PFD Criminal funds available varies with the amount of the Permanent Fund dividend and the number of felons incarcerated. Because recent investment losses reduced PFDs, there is a corresponding decrease in available PFD Criminal funds. The result is that Unrestricted General Funds (UGF) is requested to replace PFD Criminal funds.

2. Because the Governor traditionally does not alter the budget submitted by the legislature, two one-time appropriations from FY10 remain in the FY11 budget—\$45.8 UGF for the Legislative Outdoor Heritage Council and \$1.5 million UGF for an Endangered Species Act/Effects of Climate Change.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

Legislative Fiscal Analyst Comment: In keeping with a legislative decision to minimize carryforward, the legislature may wish to delete these FY10 one-items from the FY11 budget.

There are no capital projects or organizational changes requested.

Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request

State of Alaska Fiscal Summary – FY10 and FY11 (in millions)

	FY10 Authorized Budget				FY11 Governor's Proposed Budget				Change In GF	
	Total General Funds	Other State Funds	Federal Receipts	All Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
REVENUE (Excludes Permanent Fund Earnings) (1)	5,573.2	500.8	3,091.3	9,165.3	6,008.0	501.3	2,780.6	9,289.9	434.8	7.8%
Unrestricted General Fund Revenue (Fall 2009) (2)	4,777.9	-	-	4,777.9	5,236.6	-	-	5,236.6	-	-
Carryforward (3)	22.1	1.3	146.4	169.8	-	-	-	-	-	-
Other Revenue Reclassified as General Fund Revenue (4)	773.2	-	-	773.2	771.4	-	-	771.4	-	-
Federal and Other Funds	-	499.5	2,944.9	3,444.4	-	501.3	2,780.6	3,281.9	-	-
APPROPRIATIONS										
TOTAL OPERATING APPROPRIATIONS	4,849.7	351.2	1,939.2	7,140.0	5,129.1	352.3	1,912.6	7,394.0	279.4	5.8%
Agency Operations	4,144.4	295.3	1,915.5	6,355.3	4,327.0	299.9	1,885.6	6,512.5	182.6	4.4%
Current Fiscal Year Appropriations (includes bills)	4,094.4	295.3	1,915.5	6,305.3	4,277.0	299.9	1,885.6	6,462.5	182.6	4.5%
Agency Operations (Non-Formula)	2,438.7	292.4	991.2	3,722.2	2,528.4	290.1	941.3	3,759.8	89.7	3.7%
K-12 Education	1,073.7	-	20.8	1,094.5	1,129.7	-	20.8	1,150.5	56.0	5.2%
Other Formula Programs	582.1	2.8	890.5	1,475.3	616.9	2.8	923.5	1,543.2	34.8	6.0%
RPLs (No FY2011 RPLs are included)	-	0.2	13.1	13.2	-	-	-	-	-	-
Fiscal Notes	-	-	-	-	2.0	7.0	-	9.0	-	-
Duplicated Authorization (non-additive) (5)	-	625.2	-	625.2	-	621.1	-	621.1	-	-
Supplemental Appropriations	50.0	0.0	0.0	50.0	50.0	0.0	0.0	50.0		
Statewide Operations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
Current Fiscal Year Appropriations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
Debt Service	167.7	55.8	14.7	238.2	197.0	52.4	18.0	267.4	29.4	17.5%
Fund Capitalization	7.5	-	9.0	16.5	7.5	-	9.0	16.5	-	0.0%
Direct Appropriations to Retirement	284.7	-	-	284.7	357.6	-	-	357.6	72.9	25.6%
Local Government Support	60.0	-	-	60.0	60.0	-	-	60.0	-	0.0%
Oil & Gas Investment Tax Credits	180.0	-	-	180.0	180.0	-	-	180.0	-	0.0%
Resource Rebate	5.4	-	-	5.4	-	-	-	-	(5.4)	-100.0%
Duplicated Authorization (non-additive) (5)	-	137.1	-	137.1	-	6.5	-	6.5	-	-
TOTAL CAPITAL APPROPRIATIONS	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
Current Fiscal Year Appropriations	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
Project Appropriations & RPLs (Revised Programs)	263.2	40.0	1,138.4	1,441.6	398.5	54.7	838.2	1,291.4	135.3	51.4%
Fund Capitalization	16.8	-	-	16.8	150.1	-	1.1	151.1	133.2	792.1%
Projects Funded with General Obligation Bonds (non-add)	-	-	-	-	-	-	-	-	-	-
Projects Funded with Other Debt Proceeds (non-additive)	-	24.0	-	24.0	-	181.1	-	181.1	-	-
Capital Voles (non-additive)	-	-	-	-	-	-	-	-	-	-
Duplicated Authorization (non-additive) (5)	-	46.8	-	46.8	-	201.8	-	201.8	-	-
Money on the Street (includes all fund sources) (6)	280.0	86.8	1,138.4	1,505.2	548.5	256.5	839.3	1,644.3	-	-
Transfers	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	1,282.1	-127.3%
Current Fiscal Year Appropriations	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	1,282.1	-127.3%
Designated Savings (Public Education Fund)	(1,057.4)	-	-	(1,057.4)	14.0	-	-	14.0	-	-
Designated Savings (Performance Scholarship Fund)	-	-	-	-	400.0	-	-	400.0	-	-
Undesignated Savings (Constitutional Budget Reserve Fund)	(1.7)	-	-	(1.7)	(2.1)	-	-	(2.1)	-	-
Undesignated Savings (Alaska Housing Capital Corporation)	-	-	-	-	(177.0)	-	-	(177.0)	-	-
Other Transfers	52.0	10.0	13.7	75.7	40.1	8.7	28.8	77.5	-	-
Post-Transfers Authorization (unduplicated)	4,122.6	401.2	3,091.3	7,615.1	5,952.6	415.7	2,780.6	9,148.9	1,830.0	44.4%
Post-Transfers Surplus (Draw From CBRF)	1,450.6	26%	of Revenue		55.3	1%	of Revenue			
Permanent Fund Appropriations	590.0	99.6	0.1	689.6	1,523.0	85.6	-	1,608.6		
Permanent Fund Dividends	590.0	-	-	590.0	637.0	-	-	637.0	-	-
Deposits to Principal	-	0.1	-	0.1	886.0	-	-	886.0	-	-
Other Uses of Earnings	-	99.6	-	99.6	-	85.6	-	85.6	-	-
Total Authorization (unduplicated)	4,712.6	500.8	3,091.3	8,304.7	7,475.6	501.3	2,780.6	10,757.5	2,763.0	58.6%
FISCAL YEAR SUMMARY (Excludes PermF)	4,122.6	401.2	3,091.3	10,678.6	5,952.6	415.7	2,780.6	14,890.5	1,830.0	44.4%
Agency Operations	4,144.4	295.3	1,915.5	6,355.3	4,327.0	299.9	1,885.6	6,512.5	182.6	4.4%
Statewide Operations	705.3	55.8	23.7	784.8	802.1	52.4	27.0	881.5	96.8	13.7%
Total Operating	4,849.7	351.2	1,939.2	7,140.0	5,129.1	352.3	1,912.6	7,394.0	279.4	5.8%
Capital	280.0	40.0	1,138.4	1,458.4	548.5	54.7	839.3	1,442.5	268.5	95.9%
Total Authorization	5,129.7	391.2	3,077.6	8,598.5	5,677.6	407.0	2,751.9	8,836.5	548.0	10.7%
Transfers	(1,007.0)	10.0	13.7	(983.4)	275.0	8.7	28.8	312.5	-	-
Federal Stimulus Funding (ARRA of 2009)	-	-	297.1	-	-	-	176.1	-	-	-

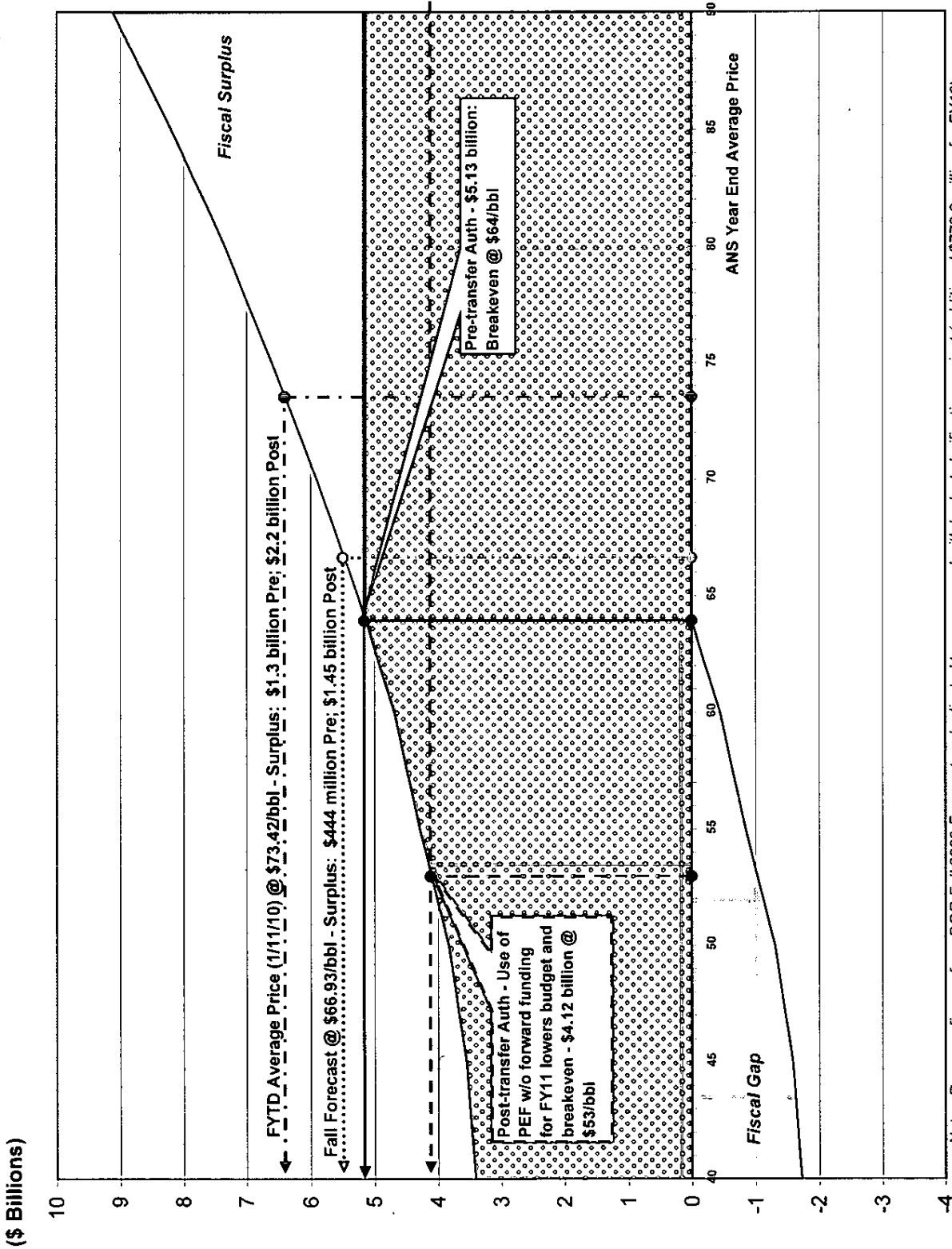
Notes:

January 15, 2010

- (1) Permanent Fund earnings are excluded from reported revenue because the entire balance of the earnings reserve account is available for appropriation. Permanent Fund earnings and balance information is reported on page 2 of the fiscal summary.
- (2) The Fall 2009 oil forecast for FY10 is 0.668 mbd at \$66.93 per barrel; the FY11 forecast is 0.631 mbd at \$76.35/bbl. Source: Revenue Sources Book, Fall 2009.
- (3) Carryforward is money that was appropriated in a prior year that is made available for spending in FY10 via multiyear appropriations or reappropriations. FY11 carryforward will be unknown until the close of FY10.
- (4) In an effort to present the budget in a more meaningful and accurate way, many sources of funds were recategorized from "other" funds to general funds beginning in FY11. This summary presents both FY10 and FY11 budgets in the revised fund categories in order to make comparisons across years valid.
- (5) 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.
- (6) From an accounting perspective, unduplicated authorization (line 26) is the best measure of capital spending. However, adding duplicated fund sources provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

P.6

FY10 General Fund Revenue - Fiscal Sensitivity

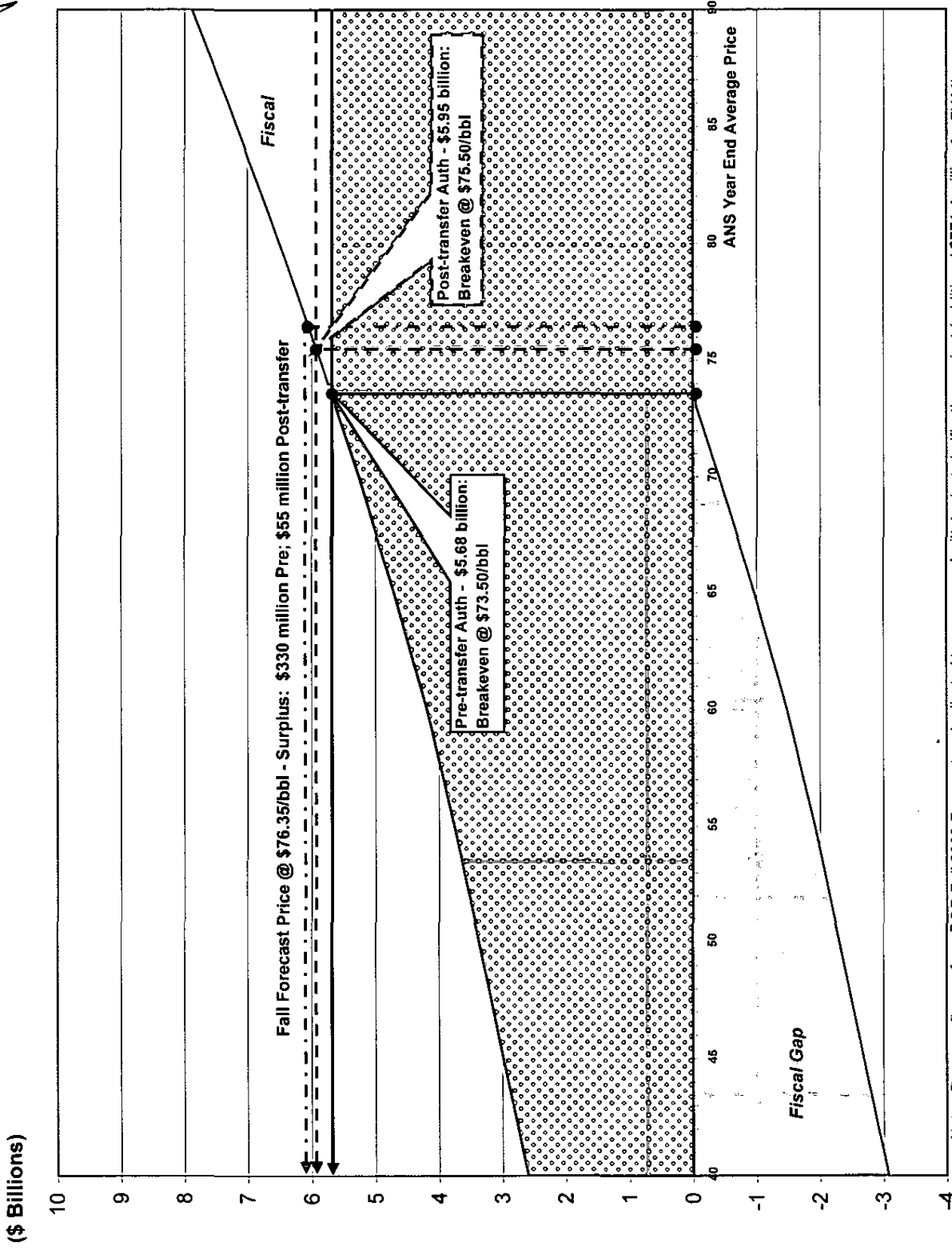


Note: Revenue figures from DOR Fall 2009 Forecast and adjusted to correspond with budget clarification project (additional \$773.2 million for FY10). Figures include sources not directly affected by oil prices. Lease expenditures estimated at \$16/bbl (\$4.5 billion total).

2

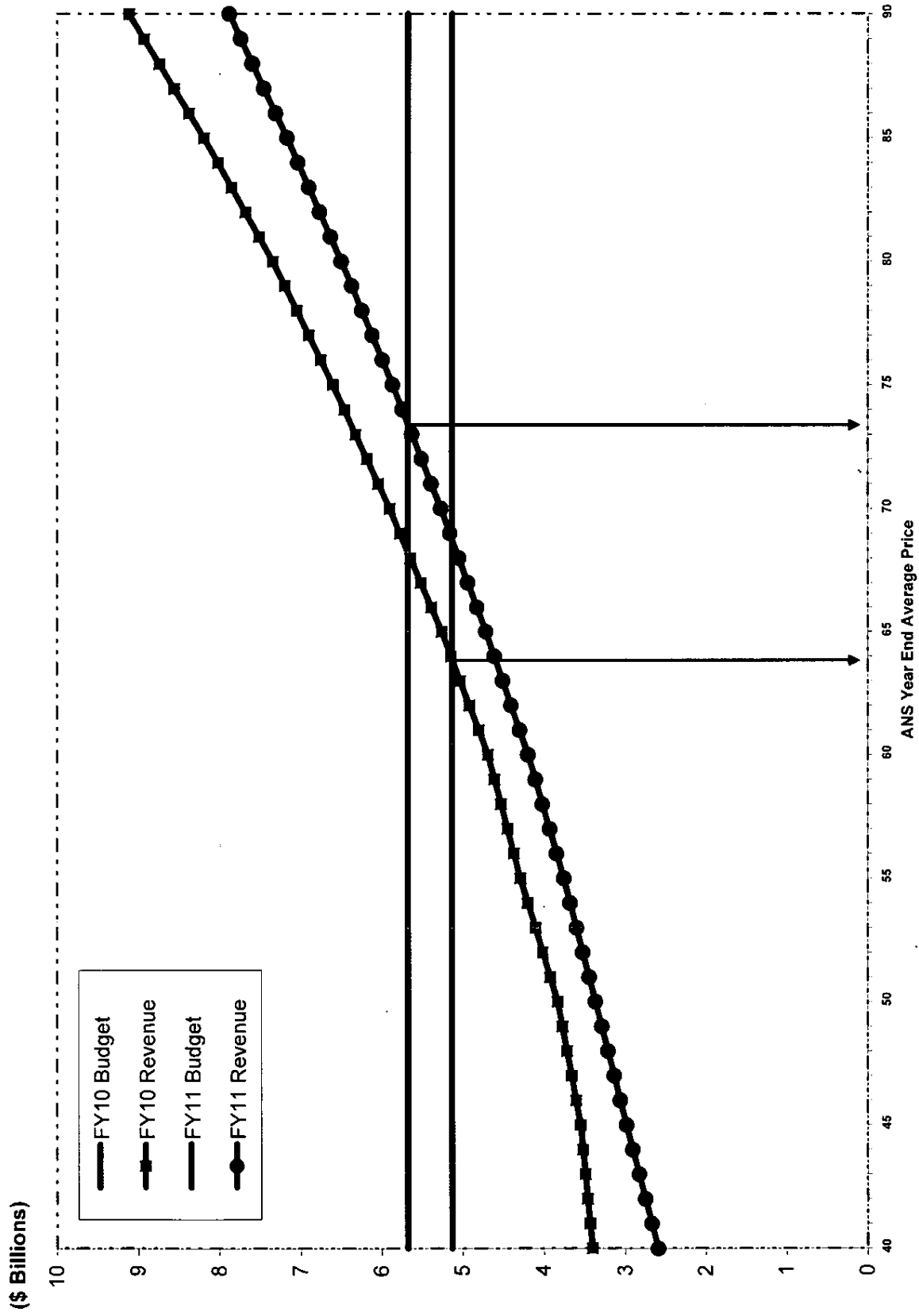
P.7

FY2011 General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures from DOR Fall 2009 Forecast and adjusted to correspond with budget clarification project (additional \$771.4 million for FY11).
 Figures include sources not directly affected by oil prices. Revenue lease expenditures estimated at \$19/bbl (\$5 billion total).

FY10/11 General Fund - Fiscal Sensitivity Overlay

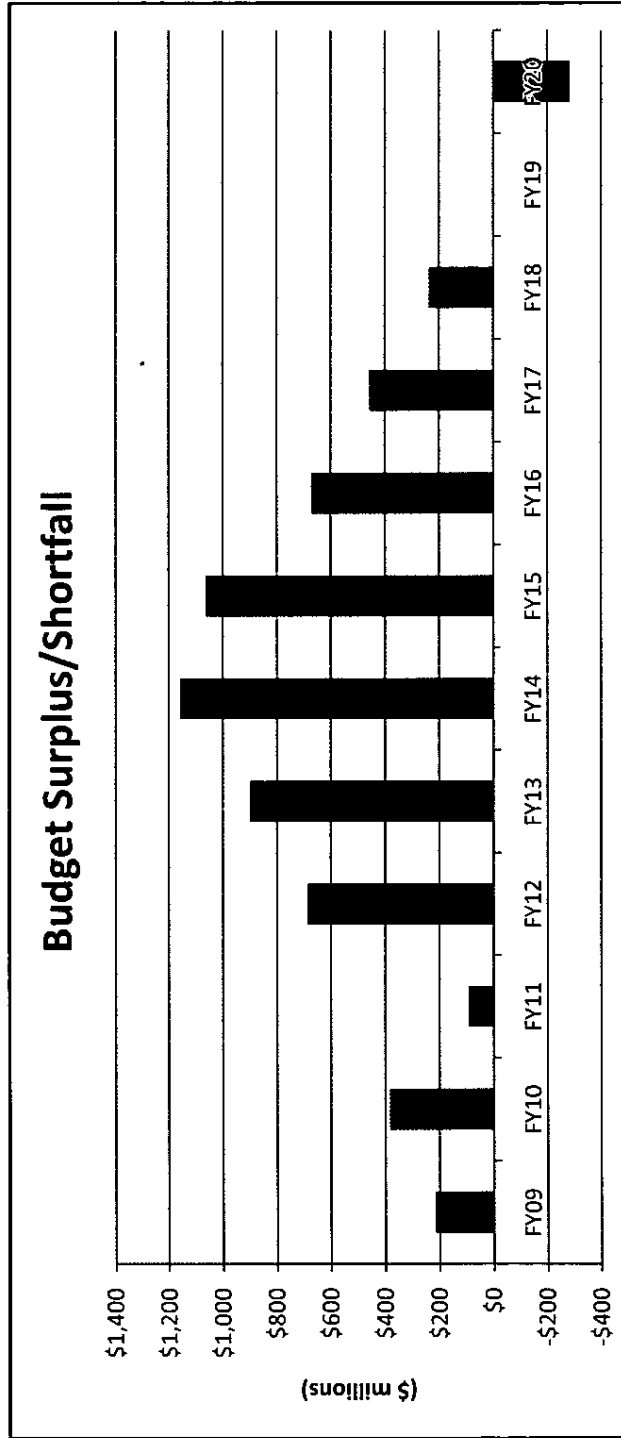


Note: Revenue figures from DOR Fall 2009 Forecast and adjusted to correspond with budget clarification project. Figures include sources not directly affected by oil prices. Budget Authorization corresponds with "Pre-transfer" authorization on Fiscal Summary.



10-Year Revenue and Spending

Assumes Fall 2009 Revenue and 3% budget escalation from FY11



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue vs. Spending (\$Millions)												
General Fund Unrestricted Revenue	6,874.9	4,800.0	5,236.6	5,573.3	5,931.6	6,340.2	6,399.8	6,170.7	6,120.1	6,069.5	6,002.7	5,904.9
General Fund Expenses	6,659.0	4,415.2	4,742.6	4,884.9	5,031.4	5,182.4	5,337.8	5,498.0	5,662.9	5,832.8	6,007.8	6,188.0
Budget Surplus/Shortfall	215.9	384.8	94.0	688.4	900.2	1,157.8	1,062.0	672.7	457.2	236.7	(5.1)	(283.1)
Reserve Balances												
CBRF Total	7,114.4	9,070.0	9,750.0	11,082.0	12,704.0	14,674.0	16,649.0	18,330.0	19,884.0	21,301.0	22,561.0	23,903.0
Statutory Budget Reserve Balance	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	995.0	712.0
Total Reserve Balances	8,114.4	10,070.0	10,750.0	12,082.0	13,704.0	15,674.0	17,649.0	19,330.0	20,884.0	22,301.0	23,556.0	24,615.0

Source: OMB

- FY09 represents actuals rather than forecast.

- FY10 surplus/shortfall calculation adds \$22.1 in reappropriations and carry over to total available revenue.

- FY11 surplus calculation subtracts \$400 from surplus for Governor's Performance Scholarship Fund and \$13.1 deposit to Public Education Fund for FY12. CBR balance assumes that all available surplus is deposited to CBR main fund.

Appropriations projections do not represent a commitment by the Administration to propose spending at a particular level in FY11 or any future year. The 10 year forecast shows that unanticipated shortfalls during the period could be filled primarily through the use of reserve funds. However, other options could be used in whole, or in part. The plan will be revisited as conditions warrant.

5

Alaska State Legislature
HOUSE FINANCE COMMITTEE

Agenda
1:30 PM

Friday, January 22, 2010

Office of Management and Budget
Karen Rehfeld, Director
John Boucher, Senior Economist

Legislative Finance Division
David Teal, Director

FY11 Governor's Budget Overview
Comparative Fiscal Summary

FY2011 Budget Overview
House Finance Committee



Office of Management and Budget

January 22, 2010

Budget Guidance

The mission

The FY2011 budget supports Governor Parnell's number one mission:

**“Position Alaska’s economy for growth and
Alaska’s families for opportunity.”**

Budget Guidelines

How do we get there?

- Focus on the priorities mandated by Alaska's constitution- Education, Public Safety, Transportation and Resource Development
- Maintain budget discipline by limiting agency growth
- Focus on results for Alaskans
- Take a long-term view



FY2011 Budget Summary

FY2011 Fiscal Summary	Recast General Funds	Recast Other Funds	Recast Federal Funds	Total
Oil Price \$76.35				
Unrestricted GF	\$5,236.6			\$5,236.6
Other Revenue moved to GF	\$759.6			\$759.6
Corporate Dividends	\$59.5			\$59.5
Federal and Other State Funds		\$501.3	\$2,780.6	\$3,281.9
Total Revenue	\$6,055.7	\$501.3	\$2,780.6	\$9,337.6
<u>Expenditures</u>				
Agency Operations	\$4,327.0	\$385.5	\$1,885.6	\$6,598.1
Statewide	\$802.1	\$52.4	\$27.0	\$881.5
Total Operating	\$5,129.1	\$437.9	\$1,912.6	\$7,479.6
Capital	\$580.5	\$54.7	\$839.3	\$1,474.5
Transfers/Savings	\$253.0	\$8.7	\$28.8	\$290.5
Total FY2011 Authorization excludes Permanent Fund	\$5,962.6	\$501.3	\$2,780.7	\$9,244.6
Balance	\$93.1			\$93.1
Permanent Fund	\$1,523.0			\$1,523.0
Total FY2011 Authorization with Permanent Fund	\$7,485.6	\$501.3	\$2,780.7	\$10,767.6

Office of Management and Budget

FY2011 Expenditures by Category

Proposed Spending Plan

Capital Budget 14%
\$1.47 Billion

Other Formula 14%
\$1.54 Billion

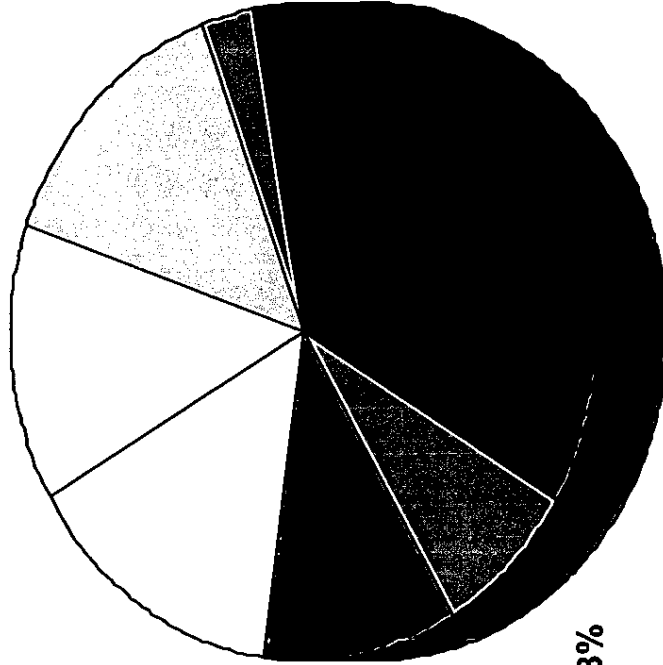
Permanent Fund 14%
\$1.52 Billion

Transfers/Savings 3%
\$290.5 million

K-12 Formula 11%
\$1.15 Billion

Statewide Appropriations 8%
\$881.5 Million

Agency Nonformula 36%
\$3.85 Billion



Total Funds = \$10,767.5 million

FY2011 Budget Priorities

Highlights of the FY2011 spending/savings proposal

- **Education**
 - Fully funds K-12 education funding formula- \$56 million increase
 - Deposit \$400 million into savings to fund the Governor's Performance Scholarship
 - Forward fund FY2011 and FY2012 K-12 - \$1.1 billion each fiscal year
- **Public Safety**
 - \$75 million for statewide Crime Lab
 - \$7 million for 10-year DVSA plan, including 15 new VPSOs
- **Resource and Economic Development**
 - \$177 million for natural gas development
 - Deferred maintenance- \$100 million first installment of a 5-year plan
 - University of Alaska Life Sciences Building \$109.5 million
 - Transportation infrastructure
- **Energy**
 - Traditional efforts; AEA energy projects, power projects
 - Renewable Energy Fund \$25 million
 - Assistance (PCE & LIHEAP) \$53 million
 - Conservation efforts



Revenue Forecast Revised Upward

Revised Revenue Forecast Creates Opportunity

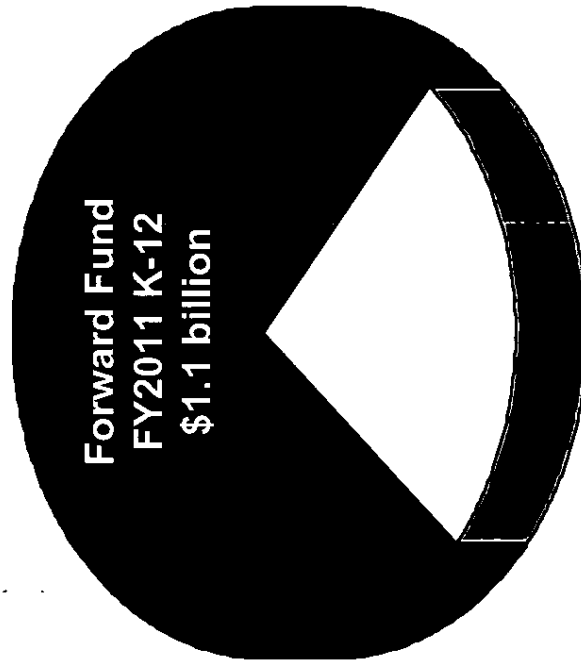
Forecast version

	Spring 2009	Fall 2009	Difference
FY2010			
ANS West Coast Oil Price (Per Barrel)	\$58.29	\$66.93	\$8.64
Production (mmbbl./day)	0.655	0.659	.004
FY2010 GF Unrestricted Revenue (\$millions)	\$3,210.7	\$4,777.0	\$1,566.3
FY2011			
ANS West Coast Oil Price (Per Barrel)	\$67.67	\$76.35	\$8.68
Production (mmbbl./day)	0.634	0.623	-0.011
FY2011 GF Unrestricted Revenue (\$millions)	\$3,876.0	\$5,236.6	\$1,360.6

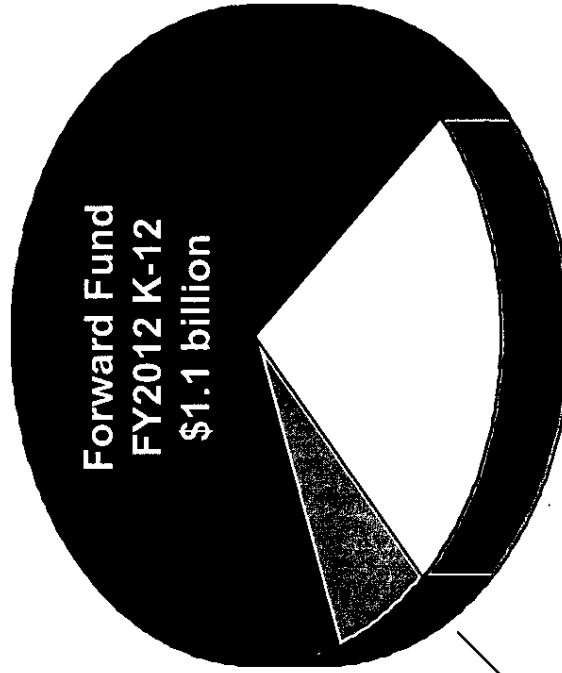
Save / Invest the Projected Surplus

Proposal forward funds K-12 education and saves for Alaska's future

FY2010 Surplus



FY2011 Surplus



FY2011 Results-Based Budgeting

Utilizing the state's performance framework to measure results for Alaskans

- **Agency Missions**
 - Consistent with statutory authority
- **Core Services**
 - Activities to accomplish the mission
 - End Results – planned goals and achievements
 - Strategies and Targets – planned actions and targets to measure success
 - Status and Analysis of Results – How are we doing and what does the data show?
- **System Changes**
 - Align agency and state priorities
 - Identify department priority programs and key performance indicators
 - Distribution of current budget capacity (FY2010) by priorities
 - Key performance indicators to reflect progress toward desired results
 - Link proposed budget changes with desired results System Changes
- **Legislative Review**
 - Part of the annual review and approval of the budget
 - Process outlined in AS 37.07.014
 - Promote results-based government and method to measure results for each agency



Long-Range Fiscal Plan

Resource Development, Spending Discipline, and Saving for the Future

- Combination of resource development, spending discipline, and use of reserves
 - Current long-range forecast results in a sustained budget through FY2020
 - Reserve accounts continue to grow
- Guiding Principles
 - Responsibly develop Alaska's natural resources – oil, gas, and other natural resources such as mineral, mining, fishing, tourism
 - Restrain spending – focus on essential services, results for Alaskans, promote economic growth and fiscal stability
 - Save for the future – build reserves, forward fund when appropriate, preserve and grow the permanent fund
- Assumptions
 - 3% annual growth rate in beginning in FY2012
 - Inflation at 2.75%
 - Population Growth at 1% annually
 - Requires state service delivery to become more efficient over the 10-year period
- Major Challenges
 - Formula program increases – Education and Medicaid
 - Infrastructure development
 - Unfunded Liability of Retirement Systems



FY2011 Fund Code Project

Transition to new fund categories will take time and patience

- **FY2011 Revenues and Expenditures**
 - Aligned with Legislative Finance on the numbers
- **FY2010 Expenditures**
 - Three Areas of Differences
 - Governor includes \$2 million additional estimate for fuel trigger
 - Governor includes \$15.9 million for DOTPF economic stimulus RPL's
 - Governor includes deposit/transfer of \$1.116 billion to the Public Education Fund
- **Fund Transfer Differences**
 - Renewable Energy Fund \$25 million
 - Power Project Fund \$7 million
 - Agency Operations – Law, Natural Resources, Revenue – PFD funds



For More Information on the Budget

How can I get more details about the Governor's FY2011 budget?

<http://www.omb.alaska.gov>

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