

**1/27/11
LEGISLATIVE
FINANCE
DIVISION:
FY2012 BUDGET
OVERVIEW AND
FISCAL SUMMARY**

<TARGET><BILL></BILL><SUBJECT>1-27-11 LEGISLATIVE
FINANCE DIVISION FY2012 BUDGET OVERVIEW AND FISCAL
SUMMARY</SUBJECT><COMM>SFIN27</COMM></TARGET>

An Overview of Alaska's Fiscal Situation

Senate Finance Committee

January 26, 2011



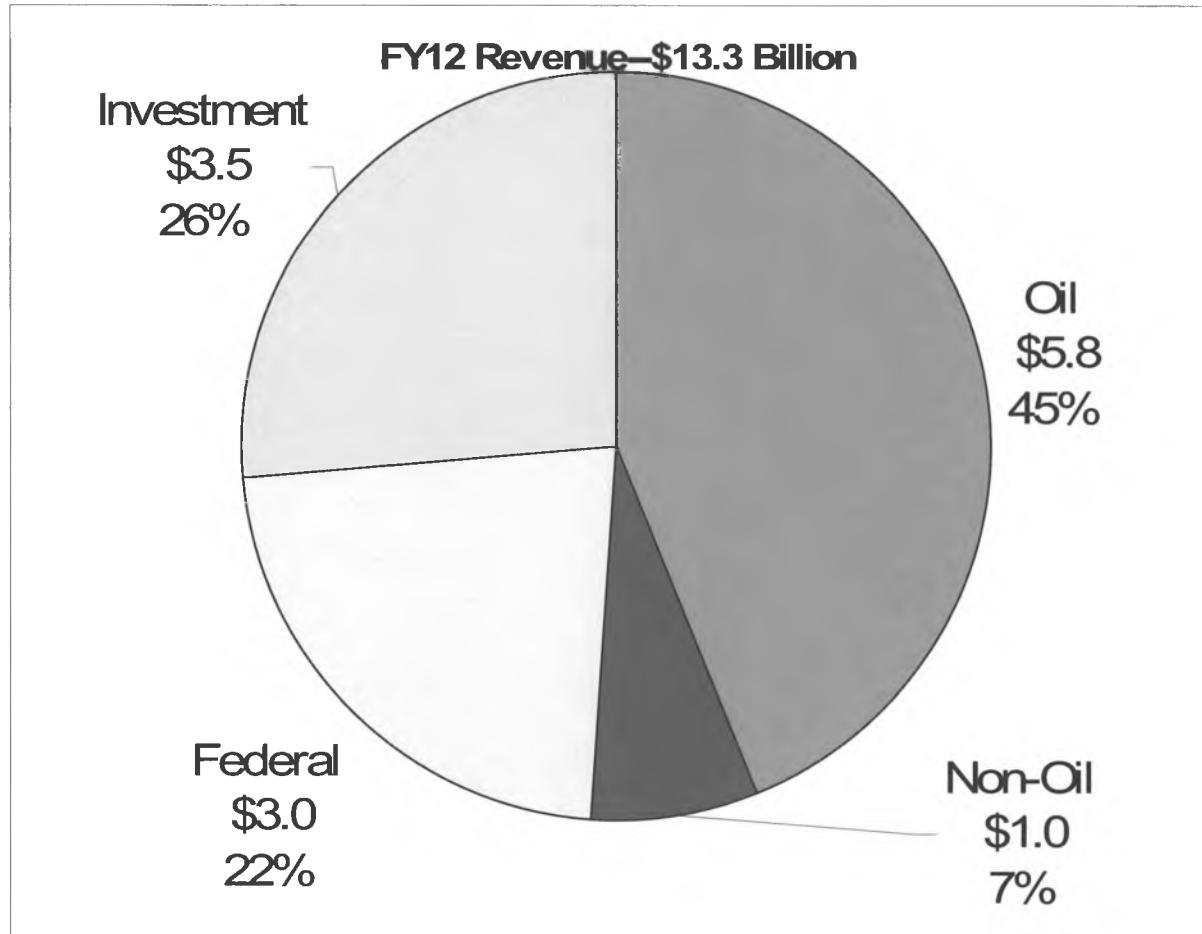
Legislative Finance Division

Four Elements of Budgeting

1. Revenue
2. Appropriations
3. Reserve Balances
4. A Long-Term Plan

Revenue Sources

DOR Fall 2010 Source Book



Revenue and Appropriations

- Unrestricted General Funds (UGF)
- Designated General Funds (DGF)
- Other State Funds
- Federal Receipts

Federal Receipts

- Typically have strings attached—the legislature has very little discretion in the appropriation process
- Frequently require state matching funds
- Split pretty evenly into thirds
 - Capital budget (primarily transportation)
 - Formula programs (primarily Medicaid)
 - Agency operations (DMVA, Labor, DEED)

Other State Funds

- Before Budget Clarification Project, “other” was almost \$3 billion, now is \$500 million
- Now, there is very little discretion in how money is spent—the category includes
 - international airport revenue,
 - state corporation receipts (including Permanent Fund)
 - Trusts (retirement, Mental Health and others)
 - Dedicated Funds (Fish & Game and others)

Designated General Funds

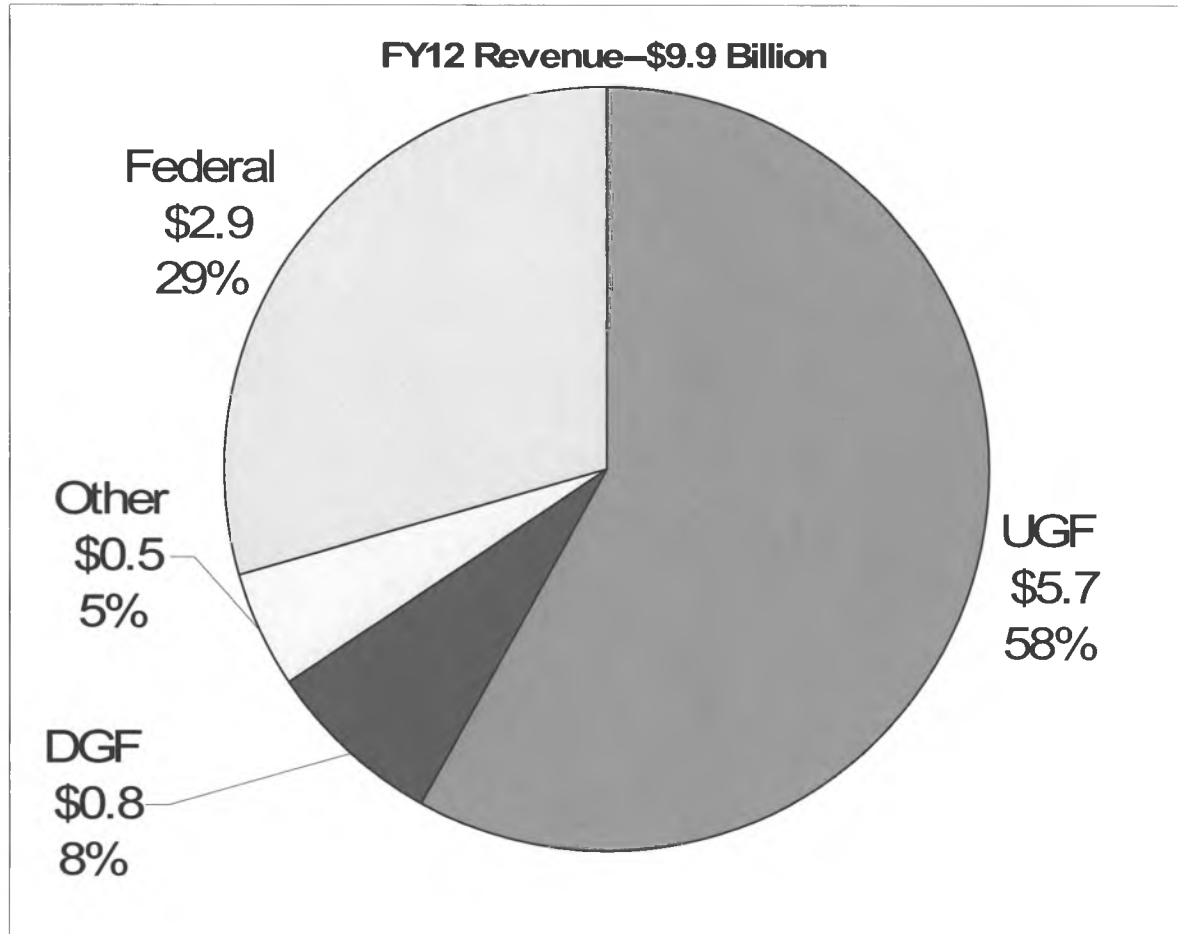
- Fund sources that have been designated—not dedicated—for a special purpose in statute
- Include University Receipts, AMHS receipts and other “fees for service” that agencies charge
- The legislature typically follows statutory **guidelines** (the law prohibits spending program receipts outside the program that generates them)

Unrestricted General Funds

- 88% of UGF revenue is derived from oil
- Complete discretion in appropriating UGF
- Typically referenced as the measure of state spending
- Used to calculate the Fiscal Surplus or Deficit

Revenue Sources

Degree of Discretion



State of Alaska Fiscal Summary--FY11 and FY12

(\$ millions)

	FY11 Management Plan						FY12 Governor's Request						Change in GF	
	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	\$	%
1 REVENUE (Excludes Permanent Fund Earnings) (1)	5,395.2	770.1	6,165.3	537.4	3,145.6	9,848.3	5,732.4	760.8	6,493.2	494.4	2,901.6	9,889.2	327.9	5.3%
2 Unrestricted General Fund Revenue (Fall 2010) (2)	5,371.8	-	5,371.8	-	-	5,371.8	5,743.9	-	5,743.9	-	-	5,743.9	-	-
3 Reappropriation and Carryforward (3)	21.4	0.6	22.0	0.9	144.8	167.7	-	-	-	-	-	-	-	-
4 Corporate Dividends (4)	1.9	-	1.9	-	-	1.9	(11.5)	-	(11.5)	-	-	(11.5)	-	-
5 Designated General Fund Revenue (5)	-	769.5	769.5	-	-	769.5	-	760.8	760.8	-	-	760.8	-	-
6 Other State Funds and Federal Receipts	-	-	-	536.5	3,000.8	3,537.4	-	-	-	494.4	2,901.6	3,396.0	-	-
APPROPRIATIONS														
7 TOTAL OPERATING APPROPRIATIONS	4,797.9	706.7	5,504.6	442.4	2,134.9	8,082.0	5,066.2	726.7	5,792.9	449.5	2,071.8	8,314.3	288.3	5.2%
8 Agency Operations	3,761.6	685.5	4,447.1	390.1	2,089.0	6,926.1	3,909.2	704.6	4,613.9	408.3	2,028.7	7,050.9	166.8	3.8%
9 Current Fiscal Year Appropriations (Includes Fiscal Notes)	3,711.6	685.5	4,397.1	390.1	2,089.0	6,876.1	3,859.2	704.6	4,563.9	408.3	2,028.7	7,000.9	166.8	3.8%
10 Agency Operations (Non-Formula)	1,991.5	633.1	2,624.6	385.9	1,059.8	4,070.3	2,060.5	648.1	2,708.5	405.5	919.2	4,033.3	84.0	3.2%
11 K-12 Formula and Pupil Transportation	1,114.3	10.7	1,125.0	-	23.5	1,148.5	1,124.7	12.4	1,137.0	-	23.5	1,160.5	12.0	1.1%
12 Other Formula Programs	605.8	41.7	647.5	2.8	973.6	1,623.9	674.1	44.2	718.3	2.8	1,086.0	1,807.2	70.9	10.9%
13 Revised Programs Legislatively Approved	-	-	-	1.4	32.1	33.5	-	-	-	-	-	-	-	-
14 Duplicated Authorization (non-additive) (6)	-	-	-	-	657.2	657.2	-	-	-	681.9	-	681.9	-	-
15 Supplemental Operating Appropriations	50.0	0.0	50.0	0.0	0.0	50.0	50.0	0.0	50.0	0.0	0.0	50.0	-	0.0%
16 Statewide Operations	1,036.4	21.2	1,057.6	52.4	45.9	1,155.8	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%
17 Current Fiscal Year Appropriations	1,036.4	21.2	1,057.6	52.4	45.9	1,155.8	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%
18 Debt Service	171.5	21.2	192.7	52.4	12.4	257.4	208.8	21.6	230.4	41.1	13.0	284.6	37.7	19.6%
19 Local Government Support	60.0	-	60.0	-	-	60.0	60.0	-	60.0	-	-	60.0	-	0.0%
20 Oil & Gas Investment Tax Credits	430.0	-	430.0	-	-	430.0	400.0	-	400.0	-	-	400.0	(30.0)	-7.0%
21 Other Fund Capitalization	11.6	0.0	11.6	-	33.5	45.1	7.5	0.4	7.9	0.0	30.2	38.1	(3.6)	-31.5%
22 Direct Appropriations to Retirement	357.6	-	357.6	-	-	357.6	479.5	-	479.5	-	-	479.5	121.9	34.1%
23 Resource Rebate	4.5	-	4.5	-	-	4.5	-	-	-	-	-	-	(4.5)	-100.0%
24 Judgments, Claims and Settlements	1.2	-	1.2	-	-	1.2	1.2	-	1.2	-	-	1.2	-	0.0%
25 Duplicated Authorization (non-additive) (6)	-	-	-	19.9	-	19.9	-	-	-	20.9	-	20.9	-	-
26 TOTAL CAPITAL APPROPRIATIONS	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%
27 Current Fiscal Year Appropriations	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%
28 Project Appropriations & RPLs (Revised Programs)	407.3	59,662.0	466.9	85.5	1,010.7	1,563.2	531.7	30.0	561.6	36.1	829.7	1,427.5	94.7	20.3%
29 Fund Capitalization	142.4	0.0	142.4	0.0	0.0	142.4	160.0	0.0	160.0	0.0	0.0	160.0	17.6	12.4%
30 Projects Funded with General Obligation Bonds (non-additive)	0.0	0.0	0.0	397.2	0.0	397.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
31 Projects Funded with Other Debt Proceeds (non-additive)	0.0	0.0	0.0	29.6	0.0	29.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
32 Capital Veloes (non-additive)	(100.3)	(25.3)	(125.5)	(6.4)	(0.3)	(132.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
33 Duplicated Authorization (non-additive) (6)	0.0	0.0	0.0	459.7	0.0	459.7	0.0	0.0	0.0	74.3	0.0	74.3	0.0	0.0%
34 Money on the Street (includes all fund sources) (7)	549.7	59.7	609.3	545.2	1,010.7	2,165.3	691.7	30.0	721.6	110.5	829.7	1,661.8	112.3	18.4%
35 Pre-Transfers Authorization (unduplicated)	5,347.6	766.4	6,114.0	527.9	3,145.6	9,787.5	5,757.9	756.6	6,514.5	485.7	2,901.6	9,901.8	400.6	6.6%
36 Pre-Transfers Surplus/(Deficit)	47.6	0.9%	of UGF Revenue				(25.5)	-0.4%	of UGF Revenue					

Notes:

- Although Permanent Fund earnings may be appropriated for any purpose, the legislature traditionally excludes them from the definition of available revenue. Appropriations of Permanent Fund earnings are reported in lines 48-51 of the summary. Permanent Fund earnings and balance information is reported in part 2 of the fiscal summary.
- The Department of Revenue's December 2010 oil forecast for FY11 is 0.616 mbd at \$77.96 per barrel; the FY12 forecast is 0.622 mbd at \$82.67/bbl.
- Carryforward is money that was appropriated in a prior year that is made available for spending in FY11 via multi-year appropriations or reappropriations. FY12 carryforward will be unknown until the close of FY11.
- Funds made available to the state by the boards of the Alaska Industrial Development and Export Authority (AIDEA) and Alaska Housing Finance Corporation (AHFC) are included in the revenue forecast. The amounts on this line correct estimates reported in the revenue forecast.
- Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose.
- Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
- From an accounting perspective, unduplicated authorization 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.

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37	Transfers (8)	62.2	3.7	65.9	9.5	-	75.4	(309.9)	4.2	(305.7)	8.8	-	(296.9)	(371.6)	-563.5%
38	Current Fiscal Year Transfers	62.2	3.7	65.9	9.5	0.0	75.4	(309.9)	4.2	(305.7)	8.8	0.0	(296.9)	(371.6)	-563.5%
39	Designated Savings (Public Education Fund)	16.7	-	16.7	-	-	16.7	16.3	-	16.3	-	-	16.3	-	-
40	Designated Savings (Railbelt Energy Fund)	-	-	-	-	-	-	(65.7)	-	(65.7)	-	-	(65.7)	-	-
41	Undesignated Savings (Alaska Housing Capital Corp)	-	-	-	-	-	-	(295.4)	-	(295.4)	-	-	(295.4)	-	-
42	Undesignated Savings (Other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
43	Other Operating Transfers	10.6	3.7	14.3	9.5	-	23.8	9.9	4.2	14.1	8.8	-	22.8	-	-
44	Capital Power Project Fund	10.0	-	10.0	-	-	10.0	-	-	-	-	-	-	-	-
45	Capital Renewable Energy Fund	25.0	-	25.0	-	-	25.0	25.0	-	25.0	-	-	25.0	-	-
46	Post-Transfers Authorization (unduplicated)	5,409.8	770.1	6,179.9	537.4	3,145.6	9,863.0	5,448.0	760.8	6,208.8	494.4	2,901.6	9,604.8	28.9	0.5%
47	Post-Transfer Balance to/(from) the SBR	(14.6)	-0.3%	of UGF Revenue				284.3	5.0%	of UGF Revenue					
48	Permanent Fund	1,200.0	42.0	1,242.0	6.9	-	1,248.8	1,468.0	41.8	1,509.8	7.0	-	1,516.8		
49	Permanent Fund Dividends	696.0	-	696.0	-	-	696.0	524.0	-	524.0	-	-	524.0	-	-
50	Deposits to Principal	501.0	-	501.0	-	-	501.0	922.0	-	922.0	-	-	922.0	-	-
51	Other Uses of Earnings (included in op or cap budget) (9)	3.0	42.0	45.0	6.9	-	51.8	22.0	41.8	63.8	7.0	-	70.8	-	-
52	Total Authorization (unduplicated)	6,606.8	770.1	7,376.9	537.4	3,145.6	11,060.0	6,894.0	760.8	7,654.8	494.4	2,901.6	11,050.8	277.9	3.8%
	FISCAL YEAR SUMMARY	6,544.6	766.4	7,311.0	527.9	3,145.6	10,984.5	7,203.9	756.6	7,960.5	485.7	2,901.6	11,347.8	649.6	8.9%
	Agency Operations	3,761.6	685.5	4,447.1	390.1	2,089.0	6,926.1	3,909.2	704.6	4,613.9	408.3	2,028.7	7,050.9	166.8	3.8%
	Statewide Operations	1,036.4	21.2	1,057.6	52.4	45.9	1,155.8	1,157.0	22.0	1,179.0	41.2	43.2	1,263.4	121.5	11.5%
	Total Operating	4,797.9	706.7	5,504.6	442.4	2,134.9	8,082.0	5,066.2	726.7	5,792.9	449.5	2,071.8	8,314.3	288.3	5.2%
	Capital	549.7	59.7	609.3	85.5	1,010.7	1,705.6	691.7	30.0	721.6	36.1	829.7	1,587.5	112.3	18.4%
	Appropriation of Permanent Fund Earnings	1,197.0	0.0	1,197.0	0.0	0.0	1,197.0	1,446.0	0.0	1,446.0	0.0	0.0	1,446.0	249.0	20.8%
	Transfers (nonadditive)	563.2	3.7	566.9	9.5	-	576.4	(309.9)	4.2	(305.7)	8.8	-	(296.9)	(872.6)	-153.9%

Notes:

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

(9) Amounts shown on line 51 can be considered duplicated appropriations—they are included in the operating or capital budgets above. Amounts in the UGF column indicate earnings deposited in the Capital Income Fund; amounts in the DGF column indicate costs associated with the dividend program; and amounts in the Other column reflect gross earnings of the Permanent Fund spent for purposes other than operation of the corporation.

The Governor's capital budget request includes \$19.1 million for items that Legislative Finance considers to be operating in nature. This amount has been added to agency operations (line 10) and subtracted from capital projects (line 28).

Fiscal Summary Key Points

1. FY12 revenue is \$328 million above FY11 revenue
2. But spending is \$400 million higher
 - Agency Operations is up \$167 million (3.8%)
 - Statewide is up \$122 million (11.5%)
 - Capital is up \$112 million (18.4%)
3. There is a cash flow deficit of \$25 million
4. The Governor removes a net of \$310 million from savings accounts
5. The FY11 surplus remains a question mark

Reserves—the Third Element of Budgeting

- Alaska has reserves like no other state
- Excluding the Permanent Fund, which cannot be spent, Alaska has over \$14 billion in reserves
- Some are difficult to access—PF ERA and CBRF
- No disagreement on accessible cash of about \$1.5 billion

State of Alaska Fiscal Summary--FY11 and FY12

(\$ millions)

Part 2--Approximate Balances of Savings Accounts

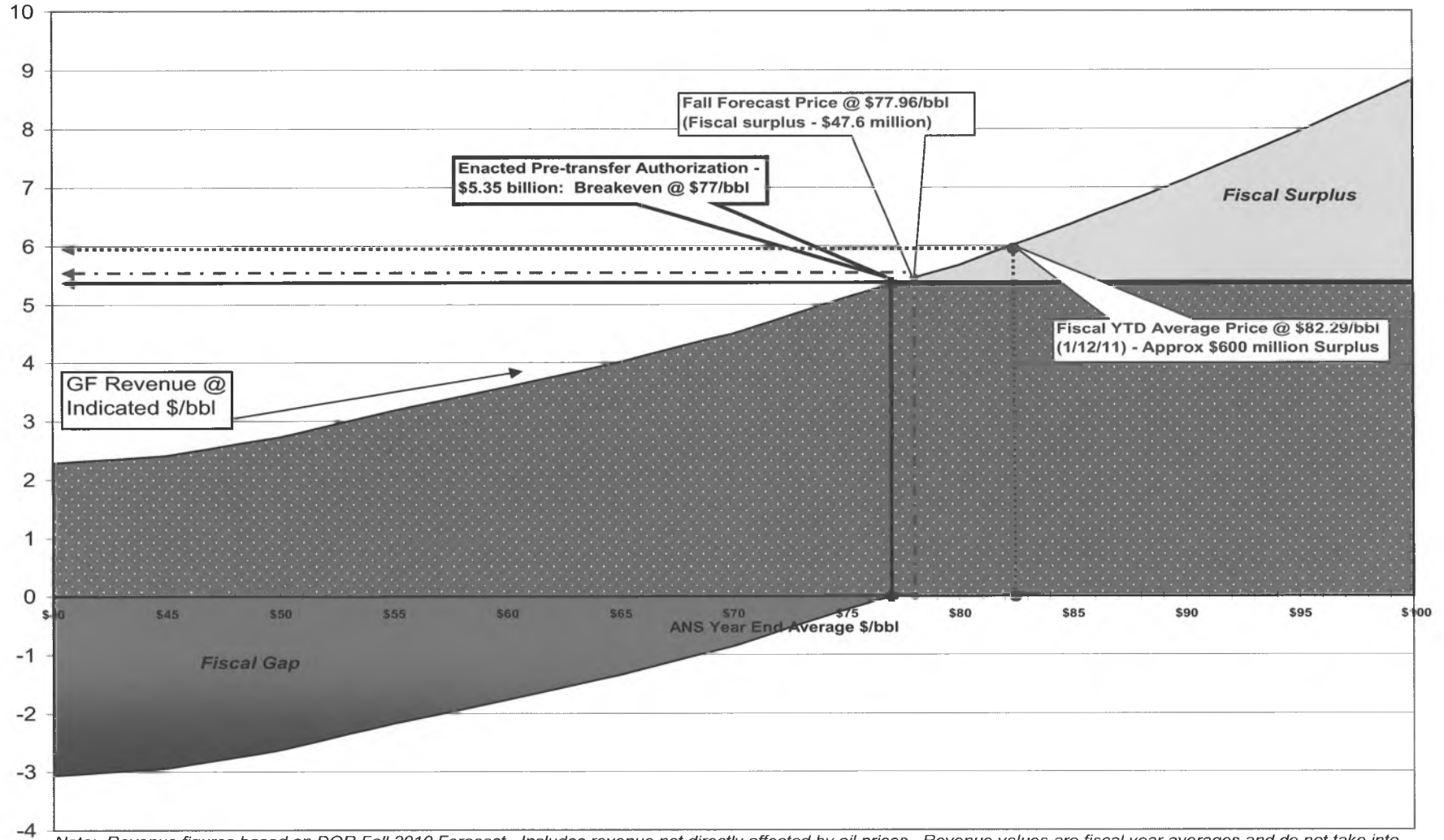
	FY11				FY12			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund (no appropriations allowed)	31,624.0	1,153.0	0.0	32,777.0	32,777.0	1,645.0	0.0	34,422.0
Undesignated Savings	11,977.2	1,702.0	1,223.6	12,455.6	12,455.6	2,758.6	1,762.4	13,451.8
Permanent Fund Earnings Reserve Account	1,209.8	1,190.0	1,209.0	1,190.8	1,190.8	1,865.0	1,467.0	1,588.8
Constitutional Budget Reserve Fund (cash)	9,166.1	495.0	0.0	9,661.1	9,661.1	572.3	0.0	10,233.4
Statutory Budget Reserve Fund	1,197.5	0.0	14.6	1,182.9	1,182.9	284.3	0.0	1,467.2
Alaska Housing Capital Corporation Fund	360.7	14.0	0.0	374.7	374.7	15.0	295.4	94.3
Alaska Capital Income Fund	43.1	3.0	0.0	46.1	46.1	22.0	0.0	68.1
Designated Savings	1,737.1	1,261.1	1,198.0	1,800.3	1,800.3	1,237.7	1,274.1	1,763.9
Public Education Fund	1,171.0	1,131.0	1,114.3	1,187.7	1,187.7	1,141.0	1,124.7	1,204.0
Revenue Sharing Fund	180.0	60.0	60.0	180.0	180.0	60.0	60.0	180.0
Railbelt Energy Fund	65.5	0.0	0.0	65.5	65.5	0.0	65.7	(0.2)
Power Cost Equalization Endowment	320.7	70.1	23.7	367.1	367.1	36.7	23.7	380.1
Reserves (Excluding Permanent Fund Principal)	13,714.4	2,963.1	2,421.6	14,255.9	14,255.9	3,996.3	3,036.5	15,215.7
Unrestricted General Fund Appropriations				6,606.8				6,894.0
Years of Reserves (Reserves/UGF Appropriations)				2.16				2.21

The Value of Reserves

- Provide a certain level of comfort for the longer term
 - There is time to react, but not as much as many may believe
- Provide breathing room in the FY12 budget process

FY2011 Unrestricted General Fund Revenue - Fiscal Sensitivity

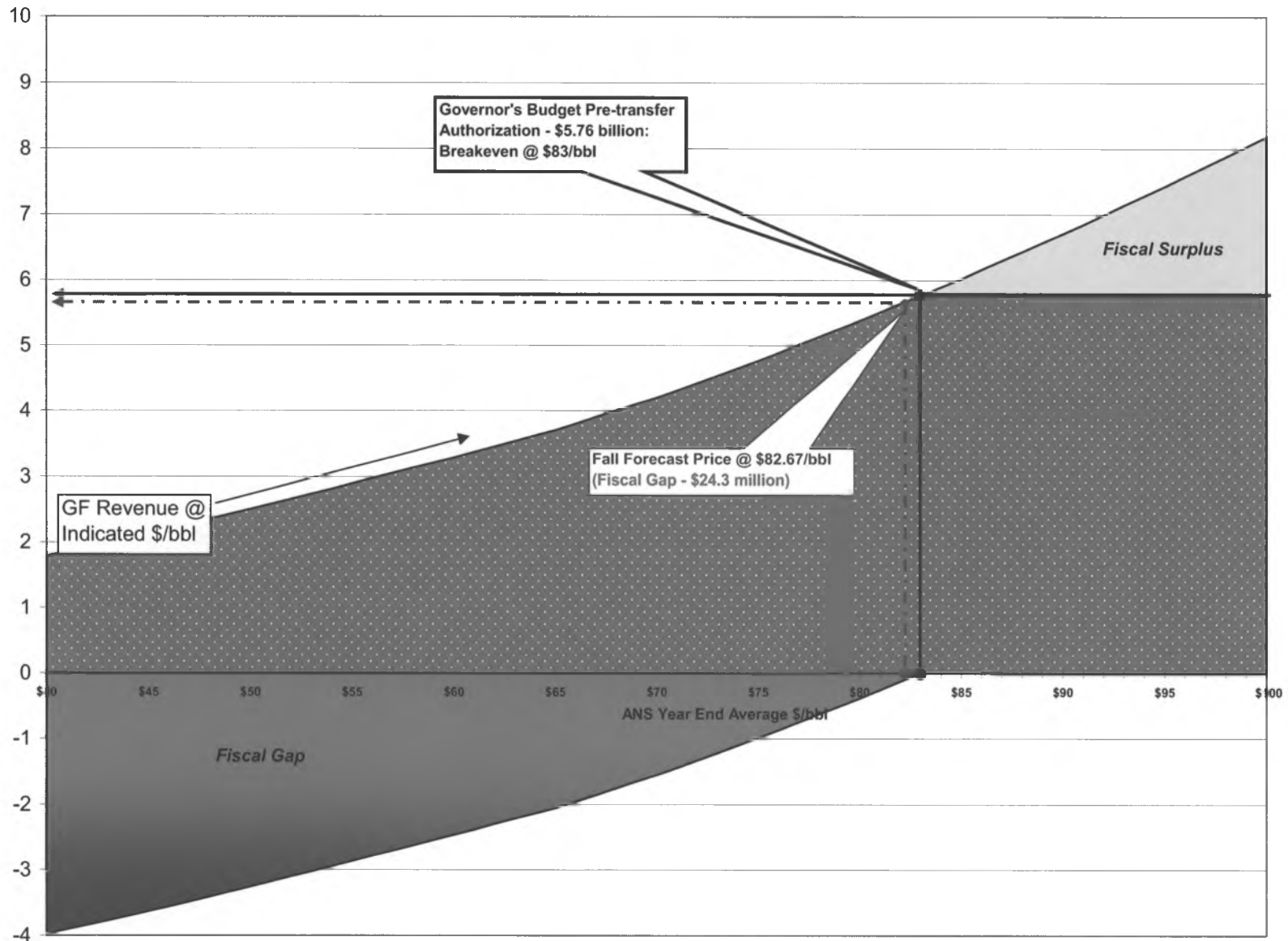
(\$ Billions)



Note: Revenue figures based on DOR Fall 2010 Forecast. Includes revenue not directly affected by oil prices. Revenue values are fiscal year averages and do not take into account monthly price volatility that could affect the total revenue received.

FY2012 Unrestricted General Fund Revenue - Fiscal Sensitivity

(\$ Billions)



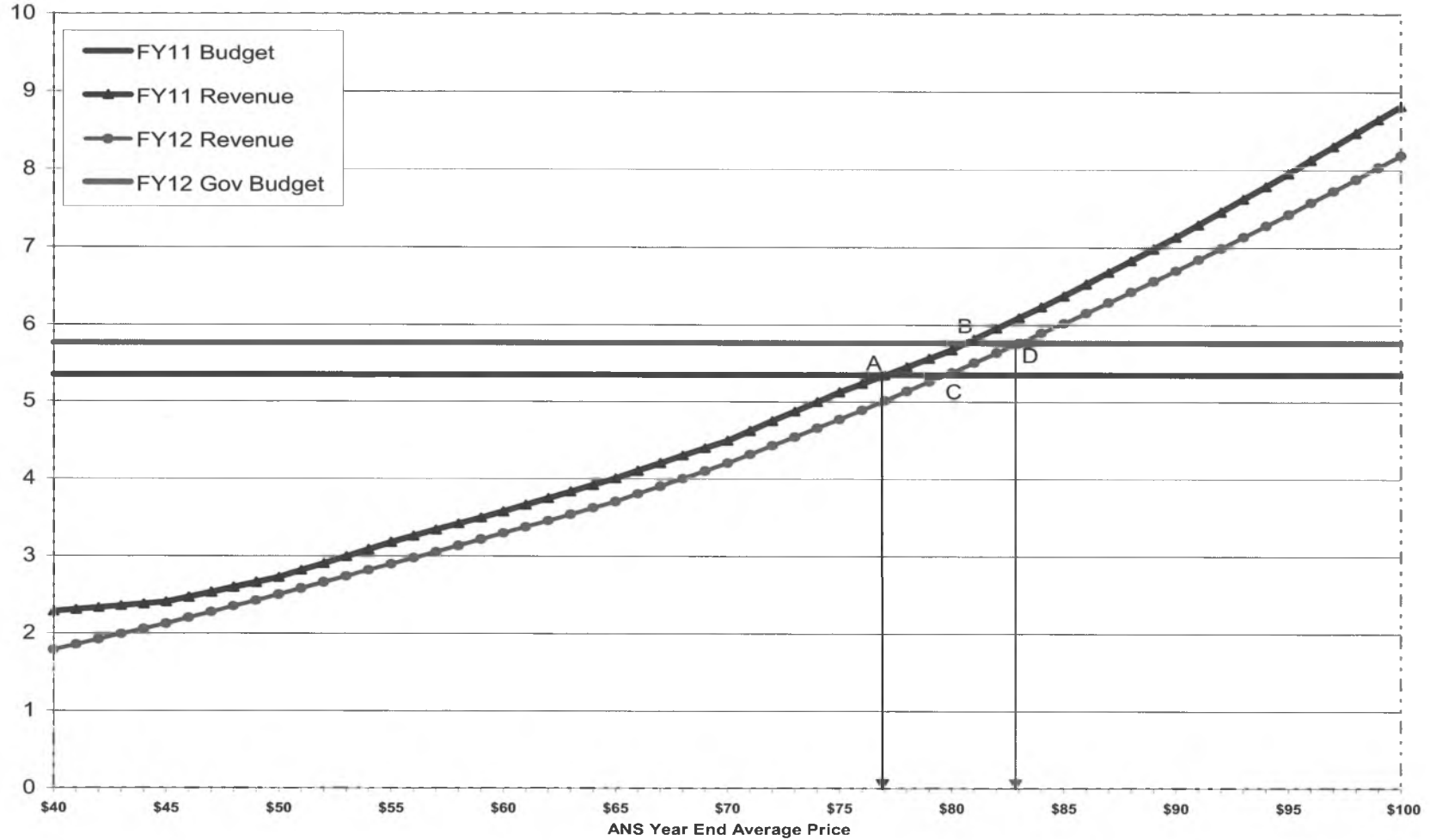
Note: Revenue figures based on DOR Fall 2010 Forecast. Includes revenue not directly affected by oil prices. Revenue values are fiscal year averages and do not take into account monthly price volatility that could affect the total revenue received.

Key Points

- An increase in spending shifts the expenditure line upward
- Declining oil production, lower tax rates, additional tax credits and/or declining profitability shifts the revenue curve downward
- A \$1 change in oil price produces a \$100 million change in revenue—movement along a revenue curve
- As the expenditure line shifts upward, the revenue curve shifts downward, or oil prices decline, the breakeven price of oil rises--reserves can vanish very quickly

FY11/12 General Fund - Fiscal Sensitivity Overlay

(\$ Billions)



Note: Revenue figures from DOR Fall 2010 Forecast. Figures include sources not directly affected by oil prices. Budget Authorization corresponds with "Pre-transfer" authorization on Fiscal Summary.

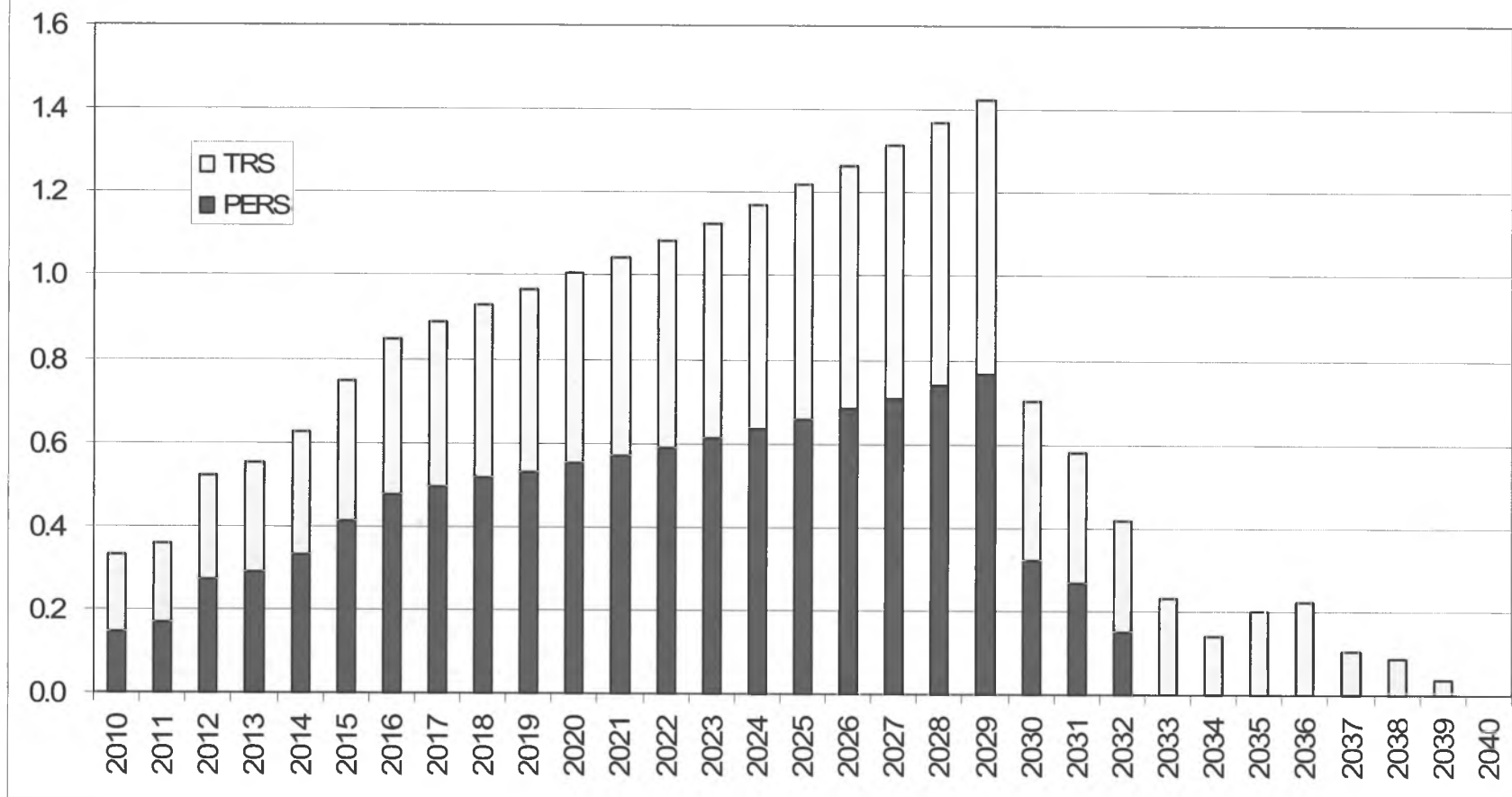
Why the Revenue Curve Shifts Downward Over Time

- Production decline
 - Typically, greatest impact in past years. But the forecast for FY12 production is *up* 1%
- Taxes
 - Rates
 - Credits—not the transferable credits—the net-out credits that we can't see
- Lower profitability

Why Expenditures Shift Upward Over Time

- **Formula programs** seemingly inexhaustible demand
- **Incremental budget process** if you simply review increments, the budget will always increase
- **Debt service and tax credits** consequences of past legislation
- **Retirement Costs** along with a review of oil tax rates, one of the big issues facing the legislature this year

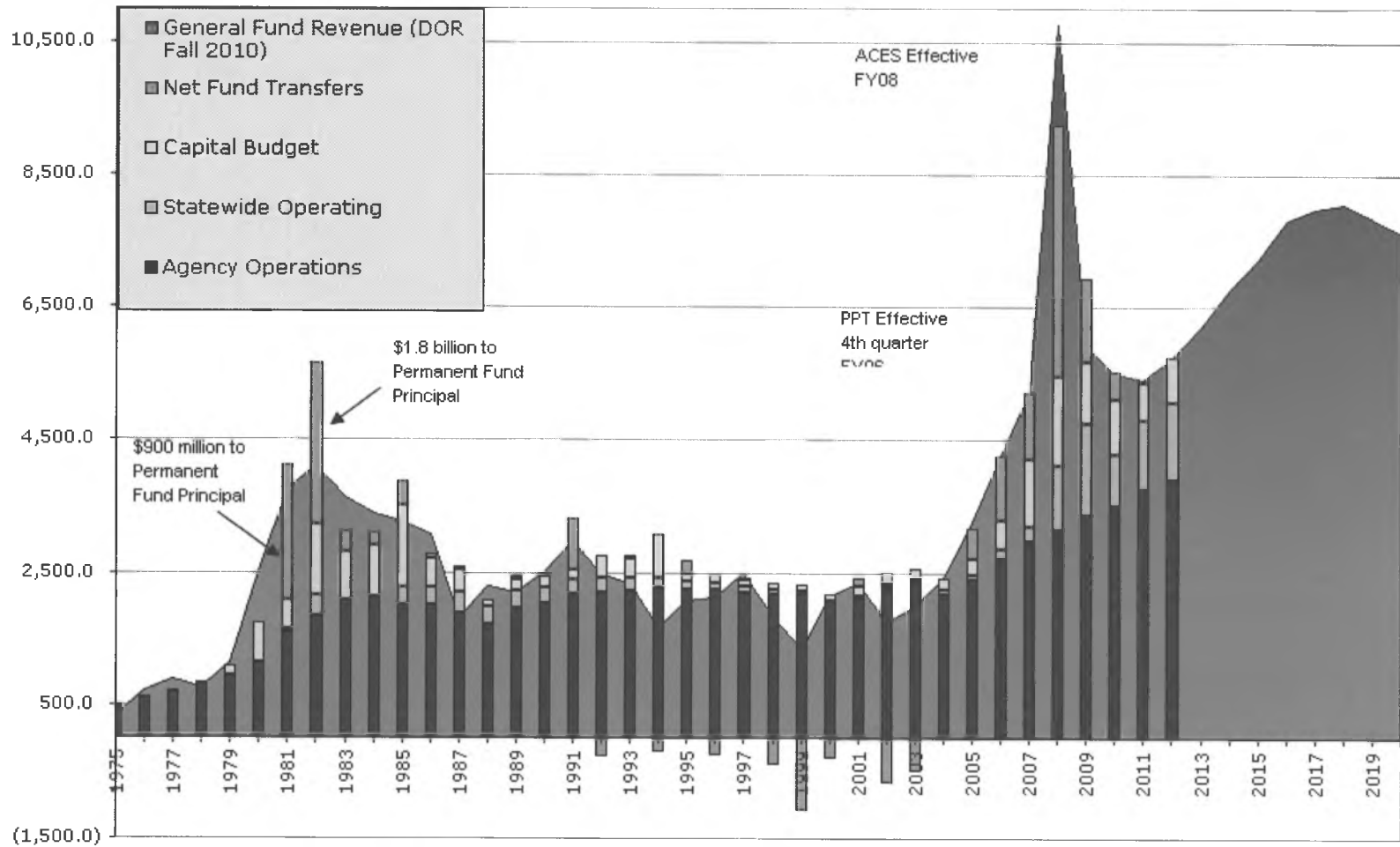
State Assistance to Retirement (\$ billions)



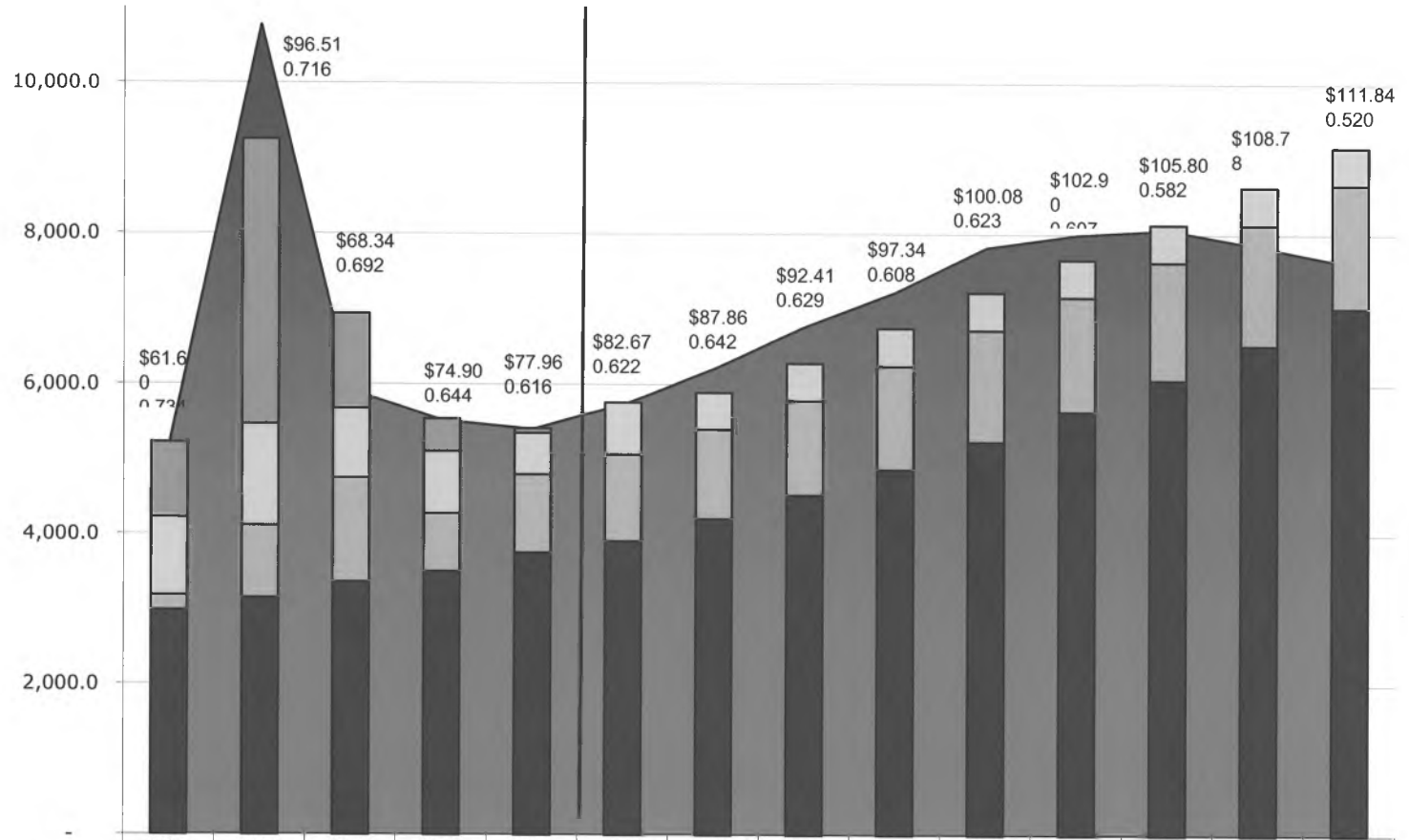
The Fourth Element of Budgeting— A Plan

- FY12 looks like a good year—the Governor’s budget is balanced and reserves are sufficient to handle anything but a major change in circumstances
- But what about next year? And the year after that?

Unrestricted General Fund Revenue/ Budget History (millions)



Unrestricted General Fund Revenue/ Budget (millions)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
■ GF Revenue (DOR Fall 2010)	5,215.7	10,764.3	5,918.8	5,512.7	5,395.0	5,732.4	6,207.7	6,767.8	7,233.1	7,822.4	7,992.7	8,060.4	7,845.7	7,610.7
■ Net Fund Transfers	1,003.3	3,788.3	1,260.0	426.1	62.2	(25.5)								
□ Capital Budget	1,035.1	1,351.7	924.1	826.2	549.7	691.7	500.0	500.0	500.0	500.0	500.0	500.0	500.0	500.0
■ Statewide Operating	196.1	961.1	1,388.7	771.0	1,036.4	1,157.0	1,188.0	1,260.0	1,382.0	1,484.0	1,526.0	1,565.0	1,601.0	1,640.0
■ Agency Operations-7.6% Growth	2,986.5	3,150.6	3,360.0	3,506.6	3,761.6	3,909.2	4,206.3	4,526.0	4,870.0	5,240.1	5,638.3	6,066.8	6,527.9	7,024.0

Growth in Agency Operating Budgets (UGF)-- FY06MP to FY11MP						
Agency	FY06 Mgmt. Plan	FY11 Mgmt. Plan	Growth	Annual Growth Rate	Share of Growth	Cumulative Share of Growth
Department of Health and Social Services	608,356.0	930,456.1	322,100.1	8.9%	28%	28%
Department of Education and Early Development	891,623.0	1,173,368.2	281,745.2	5.6%	24%	52%
Department of Transportation & Public Facilities	169,715.4	276,235.3	106,519.9	10.2%	9%	62%
University of Alaska	245,443.7	338,983.4	93,539.7	6.7%	8%	70%
Department of Corrections	169,865.4	231,033.5	61,168.1	6.3%	5%	75%
Department of Public Safety	93,766.5	137,029.6	43,263.1	7.9%	4%	79%
Department of Commerce, Community and Economic Development	8,736.7	43,592.3	34,855.6	37.9%	3%	82%
Department of Revenue	17,954.7	51,912.8	33,958.1	23.7%	3%	85%
Department of Fish and Game	33,980.1	65,414.0	31,433.9	14.0%	3%	88%
Alaska Court System	64,000.9	94,841.3	30,840.4	8.2%	3%	90%
Department of Administration	51,970.3	76,651.2	24,680.9	8.1%	2%	92%
Legislature	49,768.7	68,472.8	18,704.1	6.6%	2%	94%
Department of Law	42,074.6	59,264.7	17,190.1	7.1%	1%	95%
Department of Labor and Workforce Development	15,796.6	29,367.3	13,570.7	13.2%	1%	98%
Office of the Governor	19,640.3	31,245.5	11,605.2	9.7%	1%	99%
Department of Natural Resources	65,283.5	72,077.0	6,793.5	2.0%	1%	99%
Department of Environmental Conservation	12,994.3	18,895.4	5,901.1	7.8%	1%	100%
Department of Military and Veterans Affairs	12,801.4	12,735.5	(65.9)	-0.1%	0%	100%
TOTAL	2,573,772.1	3,711,575.9	1,152,303.8	7.6%		

Wrap Up

- The fiscal situation is strong for FY12
 - Balanced budget
 - Solid reserves
- The future is less rosy
 - Downward shifts in the revenue curve
 - Upward shifts in the expenditure curve
 - Retirement system unfunded liability
 - Reserves can vanish as quickly as they were built up



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