

**02/10/16  
OPERATING  
BUDGET &  
SUBCOMMITTEE  
PROCESS 101  
OVERVIEW**

<TARGET><BILL></BILL><SUBJECT>02-10-16 OPERATING BUDGET  
and SUBCOMMITTEE PROCESS 101  
OVERVIEW</SUBJECT><COMM>HFIN29</COMM></TARGET>

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# BUDGET 101 TRAINING

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Wednesday, February 10, 2016

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Pete Ecklund, Staff to Representative Neuman

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# GOAL OF THIS PRESENTATION

- Provide legislators and staff with basic budget information. *This is not a discussion of the fiscal situation. It is a discussion of the budget – actually only the appropriation side of the operating budget.*
  - Appropriation Structure—How the legislature can control spending through appropriation (or budget) structure
  - Fund Groups—What they are & how they indicate the level of legislative discretion
  - Understanding the Fiscal Summary
  - Subcommittee Process
  - Resources helpful in analyzing and preparing subcommittee budgets

# APPROPRIATION (OR BUDGET) STRUCTURE

What is an appropriation?

- An appropriation is legislative authorization to spend funds. An appropriation has five requirements:
  1. purpose,
  2. funding source,
  3. amount,
  4. location, and
  5. time frame.

What is appropriation (or budget) structure?

- When many people speak about appropriations, they are referring to **the appropriation structure** in the numbers section of an appropriations bill.
  - Appropriations appear in bold
  - Allocations are indented and appear in non-bold type

Why is budget structure important?

- The legislature controls where funding can be spent through the budget structure.
  - Funding cannot be transferred between appropriations but can be transferred between the various allocations within an appropriation.

1	Department of Corrections (cont.)			
2			Appropriation	General
3		Allocations	Items	Funds
4	<b>Recidivism Reduction Grants</b>		<b>500,000</b>	<b>500,000</b>
5	Recidivism Reduction Grants	500,000		
6	<b>24 Hour Institutional Utilities</b>		<b>11,224,200</b>	<b>11,224,200</b>
7	24 Hour Institutional Utilities	11,224,200		
8	<b>Agency Unallocated Reduction</b>		<b>-2,345,500</b>	<b>-2,345,500</b>
9	Agency Unallocated Reduction	-2,345,500		
10	*****		*****	
11	***** Department of Education and Early Development *****			
12	*****		*****	
13	<b>K-12 Aid to School Districts</b>		<b>50,791,000</b>	<b>30,000,000</b>
14	Foundation Program	50,791,000		<b>20,791,000</b>
15	<b>K-12 Support</b>		<b>12,378,800</b>	<b>12,378,800</b>
16	Boarding Home Grants	7,696,400		
17	Youth in Detention	1,100,000		
18	Special Schools	3,582,400		
19	<b>Education Support Services</b>		<b>6,146,600</b>	<b>3,651,500</b>
20	Executive Administration	917,000		
21	Administrative Services	1,797,500		
22	Information Services	1,072,000		
23	School Finance & Facilities	2,360,100		
24	<b>Teaching and Learning Support</b>		<b>237,948,300</b>	<b>19,378,300</b>
25	Student and School Achievement	161,210,800		
26	Alaska Native Science and Engineering	1,000,000		
27	Program			
28	State System of Support	1,976,400		
29	Statewide Mentoring Program	1,500,000		
30	Teacher Certification	930,300		
31	The amount allocated for Teacher Certification includes the unexpended and unobligated balance			
32	on June 30, 2016, of the Department of Education and Early Development receipts from teacher			
33	certification fees under AS 14.20.020(c).			
	HB0256a		- 0 -	HB 256, Sec. 1

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## FUND GROUPS & LEGISLATIVE DISCRETION

The following four fund groups indicate the level of legislative discretion over the use of the funding

1. **Unrestricted General Funds (UGF)** — No statutory designations or restrictions on these funds. Deficits refer only to UGF. Deficits cannot occur in other fund groups.
2. **Designated General Funds (DGF)** — Although the Constitution prohibits the dedication of funds (with a few exceptions), the legislature has statutorily designated funds in this group for a specific purpose.
3. **Other Funds** — The legislature has limited discretion (includes dedicated and duplicated funding).
4. **Federal Funds** — Funding received from the federal government. The legislature has limited discretion over the use of this funding.

# FISCAL SUMMARY

## State of Alaska Fiscal Summary--FY16 and FY17 (Part 1)

(\$ millions)

	FY16 Management Plan						FY17 Governor						Change in UGF	
	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	\$	%
<b>REVENUE</b>	<b>1,609.5</b>	<b>926.8</b>	<b>2,536.2</b>	<b>639.5</b>	<b>3,458.3</b>	<b>6,634.0</b>	<b>5,013.5</b>	<b>894.7</b>	<b>5,908.2</b>	<b>713.2</b>	<b>3,142.9</b>	<b>6,976.6</b>	<b>3,404.0</b>	<b>211.5%</b>
Unrestricted General Fund Revenue (Fall 2015) (1)	1,593.0	-	1,593.0	-	-	1,593.0	1,796.4	-	1,796.4	-	-	1,796.4	-	-
Production Taxes and Non-dedicated Royalties	-	-	-	-	-	-	991.3	-	991.3	-	-	991.3	-	-
Other Current Sources of Revenue	-	-	-	-	-	-	805.1	-	805.1	-	-	805.1	-	-
Sustainable Transfer from the Earnings Reserve Account (2)	-	-	-	-	-	-	3,200.0	-	3,200.0	-	-	3,200.0	-	-
Transfer from the Earnings Reserve Account for Dividends (2)	-	-	-	-	-	-	230.9	-	230.9	-	-	230.9	-	-
Production Taxes and Royalties to Earnings Reserve Account	-	-	-	-	-	-	(446.5)	-	(446.5)	-	-	(446.5)	-	-
New Revenue Sources Proposed by the Governor (3)	-	-	-	-	-	-	244.0	-	244.0	-	-	244.0	-	-
Carryforward, Repeals, Adjustments and Fiscal Notes (4)	16.5	-	16.5	-	0.4	16.9	(11.3)	-	(11.3)	-	-	(11.3)	-	-
Designated General Fund Revenue (5)	-	926.8	-	-	-	926.8	-	894.7	-	-	-	894.7	-	-
<b>APPROPRIATIONS</b>														
<b>TOTAL OPERATING APPROPRIATIONS</b>	<b>5,270.6</b>	<b>830.6</b>	<b>6,101.2</b>	<b>611.8</b>	<b>2,182.4</b>	<b>8,895.4</b>	<b>5,259.9</b>	<b>848.7</b>	<b>6,108.6</b>	<b>645.6</b>	<b>2,185.9</b>	<b>8,940.2</b>	<b>(10.7)</b>	<b>-0.2%</b>
Agency Operations	4,111.8	805.0	4,916.9	558.9	2,153.7	7,629.4	3,997.9	828.8	4,826.7	564.3	2,157.1	7,548.1	(113.9)	-2.8%
Current Fiscal Year Appropriations (includes Fiscal Notes)	4,098.8	805.0	4,903.9	558.9	2,153.7	7,616.4	3,997.9	828.8	4,826.7	564.3	2,157.1	7,548.1	(100.8)	-2.5%
Agency Operations (Non-Formula)	2,040.4	714.1	2,754.5	563.5	906.1	4,214.0	1,979.8	721.8	2,701.6	559.5	905.4	4,166.6	(60.6)	-3.0%
K-12 Foundation Formula and Pupil Transportation	1,247.5	13.0	1,260.5	-	20.8	1,281.3	1,243.0	30.0	1,273.0	-	20.8	1,293.7	(4.9)	-0.4%
Medicaid Services (Formula)	635.1	1.8	636.9	2.8	966.2	1,606.0	603.5	1.8	605.3	4.8	1,125.3	1,735.3	(31.6)	-5.0%
Other Formula Programs	175.8	76.2	252.0	-	100.8	352.9	171.6	75.2	246.8	-	105.6	352.4	(4.2)	-2.4%
Revised Programs Legislatively Approved	-	-	-	2.8	159.7	162.3	-	-	-	-	-	-	-	-
Duplicated Authorization (non-additive) (6)	-	-	-	747.3	-	747.3	-	-	-	771.7	-	771.7	-	-
Supplemental Appropriations (Agency Operations) (7)	13.0	-	13.0	-	-	13.0	-	-	-	-	-	-	-	-
Statewide Obligations	1,158.7	25.6	1,184.3	52.9	28.7	1,265.9	1,262.0	19.9	1,281.9	81.3	28.9	1,392.1	103.3	8.9%
Current Fiscal Year Appropriations	979.3	25.6	1,004.9	48.7	28.7	1,082.3	1,262.0	19.9	1,281.9	81.3	28.9	1,392.1	282.7	28.9%
Debt Service	206.2	23.9	230.1	43.3	5.2	278.7	436.7	18.3	455.0	76.0	5.2	536.2	230.4	111.8%
Fund Capitalization	502.0	1.7	503.7	5.4	23.5	532.5	776.4	1.6	778.0	5.3	23.6	807.0	274.4	54.7%
Oil & Gas Production Tax Credits	500.0	-	500.0	-	-	500.0	73.4	-	73.4	-	-	73.4	(426.6)	-85.3%
Other Fund Capitalization	2.0	1.7	3.7	5.4	23.5	32.5	3.0	1.6	4.6	5.3	23.6	33.5	1.0	50.0%
Permanent Fund Dividend Fund (2)	-	-	-	-	-	-	700.0	-	700.0	-	-	700.0	700.0	-
Retirement Costs: Actuarial Recommendation	262.5	-	262.5	-	-	262.5	48.9	-	48.9	-	-	48.9	(213.6)	-81.4%
Judgments, Claims and Settlements	8.6	-	8.6	-	-	8.6	-	-	-	-	-	-	(8.6)	-100.0%
Duplicated Authorization (non-additive) (6)	-	-	-	15.4	-	15.4	-	-	-	12.2	-	12.2	-	-
Supplemental Appropriations (Statewide)	179.4	-	179.4	4.2	-	183.6	-	-	-	-	-	-	-	-
Community Revenue Sharing	35.4	-	35.4	-	-	35.4	-	-	-	-	-	-	-	-
AKLNG and In-state Pipeline (7)	144.0	-	144.0	4.2	-	148.2	-	-	-	-	-	-	-	-
Cost of Issuing Pension Obligation Bonds (duplicated)	-	-	-	12.7	-	12.7	-	-	-	-	-	-	-	-
Pension Obligation Bond Proceeds to Retirement (duplicated)	-	-	-	2,531.5	-	2,531.5	-	-	-	-	-	-	-	-
<b>TOTAL CAPITAL APPROPRIATIONS</b>	<b>118.4</b>	<b>56.6</b>	<b>175.0</b>	<b>27.7</b>	<b>1,275.9</b>	<b>1,478.6</b>	<b>194.3</b>	<b>6.8</b>	<b>201.0</b>	<b>67.6</b>	<b>956.9</b>	<b>1,225.5</b>	<b>75.9</b>	<b>64.1%</b>
Current Fiscal Year Appropriations	118.4	56.6	175.0	27.7	1,275.9	1,478.6	194.3	6.8	201.0	67.6	956.9	1,225.5	75.9	64.1%
Project Appropriations & RPLs (Revised Programs)	118.4	56.6	175.0	27.7	1,275.9	1,478.6	194.3	6.8	201.0	67.6	956.9	1,225.5	75.9	64.1%
Duplicated Authorization (non-additive) (6)	-	-	-	32.5	-	32.5	-	-	-	36.2	-	36.2	-	-
Money on the Street (includes all fund sources) (8)	118.4	56.6	175.0	60.2	1,275.9	1,511.1	194.3	6.8	201.0	103.8	956.9	1,261.8	75.9	64.1%
<b>Pre-Transfers Authorization (unduplicated)</b>	<b>5,389.0</b>	<b>887.2</b>	<b>6,276.2</b>	<b>639.5</b>	<b>3,458.3</b>	<b>10,374.0</b>	<b>5,454.2</b>	<b>855.4</b>	<b>6,309.6</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,165.7</b>	<b>65.2</b>	<b>1.2%</b>
Pre-Transfer Surplus/(Deficit)	(3,779.5)	-	Revenue Covers	29.9%	of Appropriations	(440.7)	Revenue Covers	91.9%	of Appropriations	-	-	-	-	-
Pre-Transfer Authorization without Governor's Legislation (9)	-	-	-	-	-	-	5,305.8	-	-	-	-	-	-	-
Pre-Transfer Deficit without Governor's Legislation (9)	-	-	-	-	-	-	(3,520.7)	-	Revenue Covers	33.6%	of Appropriations	-	-	-

January 14, 2016

# FISCAL SUMMARY (CONTINUED)

State of Alaska Fiscal Summary--FY16 and FY17 (Part 1)														
(\$ millions)														
	FY16 Management Plan						FY17 Governor						Change in UGF	
	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	\$	%
<b>45 Fund Transfers (10)</b>	<b>(226.1)</b>	<b>39.6</b>	<b>(186.5)</b>	-	-	<b>(186.5)</b>	<b>62.2</b>	<b>39.3</b>	<b>101.5</b>	-	-	<b>101.5</b>	<b>288.3</b>	<b>-127.5%</b>
<b>46 Current Fiscal Year Transfers</b>	<b>(226.1)</b>	<b>39.6</b>	<b>(186.5)</b>	-	-	<b>(186.5)</b>	<b>62.2</b>	<b>39.3</b>	<b>101.5</b>	-	-	<b>101.5</b>	<b>288.3</b>	<b>-127.5%</b>
47 Designated Reserves (Public Education Fund)	(280.5)	-	(280.5)	-	-	(280.5)	-	-	-	-	-	-	280.5	-100.0%
48 Statutory Budget Reserve to Earnings Reserve Account	-	-	-	-	-	-	3,000.0	-	3,000.0	-	-	3,000.0	3,000.0	-
49 Earnings Reserve Account from Statutory Budget Reserve	-	-	-	-	-	-	(3,000.0)	-	(3,000.0)	-	-	(3,000.0)	(3,000.0)	-
50 Earnings Reserve Account to Alaska Capital Income Fund	-	-	-	-	-	-	21.0	-	21.0	-	-	21.0	21.0	-
51 Alaska Capital Income Fund from Earnings Reserve Account	-	-	-	-	-	-	(21.0)	-	(21.0)	-	-	(21.0)	(21.0)	-
52 Oil & Hazardous Substance Fund	15.6	7.5	23.0	-	-	23.0	15.5	7.2	22.7	-	-	22.7	22.7	0.0%
53 REAA School Fund	38.8	-	38.8	-	-	38.8	41.6	-	41.6	-	-	41.6	2.9	7.4%
54 Renewable Energy Fund	-	-	-	-	-	-	5.0	-	5.0	-	-	5.0	5.0	-
55 Vaccine Assessment Account	-	31.2	31.2	-	-	31.2	-	31.2	31.2	-	-	31.2	31.2	-
56 Other Funds	-	0.9	0.9	-	-	0.9	-	0.9	0.9	-	-	0.9	0.9	-
57 Net Zero Movement CBR to SBR (non-additive)	-	-	-	6,685.0	-	6,685.0	-	-	-	-	-	-	-	-
<b>58 Post-Transfers Authorization (unduplicated)</b>	<b>5,162.9</b>	<b>926.8</b>	<b>6,089.6</b>	<b>639.5</b>	<b>3,458.3</b>	<b>10,187.4</b>	<b>5,516.4</b>	<b>894.7</b>	<b>6,411.1</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,267.2</b>	<b>353.5</b>	<b>6.8%</b>
<b>59 Post-Transfer Balance to/from the SBR or CBR (11)</b>	<b>(3,553.4)</b>		<b>Revenue Covers</b>	<b>31.2%</b>	<b>of Appropriations</b>		<b>(502.9)</b>		<b>Revenue Covers</b>	<b>90.9%</b>	<b>of Appropriations</b>			
<b>60 Permanent Fund</b>		<b>2,362.4</b>	<b>2,362.4</b>	<b>170.8</b>		<b>2,533.2</b>		<b>47.7</b>	<b>47.7</b>	<b>188.9</b>		<b>216.6</b>		
61 Permanent Fund Dividends	-	1,405.0	1,405.0	-	-	1,405.0	-	-	-	-	-	-	-	-
62 Deposits to Principal	-	888.0	888.0	-	-	888.0	-	-	-	-	-	-	-	-
63 Alaska Capital Income Fund	-	21.0	21.0	-	-	21.0	-	-	-	-	-	-	-	-
64 Permanent Fund Corporation (included in op/cap budget) (12)	-	-	-	162.3	-	162.3	-	-	-	160.3	-	160.3	160.3	-
65 Other Uses of Earnings (included in op/cap budget) (12)	-	48.4	48.4	8.6	-	57.0	-	47.7	47.7	8.6	-	56.3	56.3	-
<b>66 Total Authorization (unduplicated)</b>	<b>5,162.9</b>	<b>3,240.8</b>	<b>8,403.6</b>	<b>639.5</b>	<b>3,458.3</b>	<b>12,501.4</b>	<b>5,516.4</b>	<b>894.7</b>	<b>6,411.1</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,267.2</b>	<b>353.5</b>	<b>6.8%</b>
<b>FISCAL YEAR SUMMARY</b>	<b>5,389.0</b>	<b>3,201.2</b>	<b>8,590.2</b>	<b>639.5</b>	<b>3,458.3</b>	<b>12,688.0</b>	<b>5,454.2</b>	<b>855.4</b>	<b>6,309.6</b>	<b>713.2</b>	<b>3,142.9</b>	<b>10,165.7</b>	<b>65.2</b>	<b>1.2%</b>
Agency Operations	4,111.8	805.0	4,916.9	558.9	2,153.7	7,629.4	3,997.9	828.8	4,826.7	564.3	2,157.1	7,548.1	(113.9)	-2.8%
Statewide Operations	1,159.7	25.6	1,184.3	52.9	28.7	1,265.9	1,262.0	19.9	1,281.9	81.3	29.9	1,392.1	103.3	8.0%
Total Operating	5,270.6	830.6	6,101.2	611.8	2,182.4	8,895.4	5,259.9	848.7	6,108.6	645.6	2,185.9	8,940.2	(10.7)	-0.2%
Capital	118.4	56.6	175.0	27.7	1,275.9	1,478.6	194.3	6.8	201.0	67.6	956.9	1,225.5	75.9	64.1%
Unduplicated Appropriation of Permanent Fund Earnings Transfers (non-additive)	0.0	2,314.0	2,314.0	0.0	0.0	2,314.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
	(226.1)	39.6	(186.5)	-	-	(186.5)	62.2	39.3	101.5	-	-	101.5	288.3	-127.5%

**Notes:**

- The Department of Revenue's Fall 2015 oil forecast for FY16 is 0.500 mbd at \$49.58 per barrel; the FY17 forecast is 0.505 mbd at \$56.24 per barrel.
- Under the proposed Permanent Fund Protection Act, \$3.2 billion is available for transfer from the Earnings Reserve Account to the general fund. The appropriation to the Dividend Fund is shown in Line 27. The appropriations associated with the dividends are missing in the Governor's budget submission; this will be corrected in amendments.
- New revenue sources proposed by the Governor are: \$100 million from an income tax, \$45 million from a motor fuel tax, \$40 million from an alcohol tax, \$27 million from a tobacco tax, \$20 million from a fisheries business tax and fisheries resource lending tax, and \$12 million from a mining license tax. In addition, another bill would bring in \$15 million from a cruise ship head tax, but this revenue is considered "Other" and is not included in this line.
- Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY17 will be unknown until the close of FY16. The AIDEA dividend reported in the Revenue Sources Book is \$11.3 million too high and is adjusted in this line.
- 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 authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.
- FY16 Supplemental Appropriations for agency operations and fund transfers include appropriations made in SB 3001, passed in October 2015.
- Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.
- The deficit without the Governor's legislation excludes revenue from new legislation and transfers from other funds. On the expenditure side, it excludes transfers to the ERA and dividends, and assumes \$625 million in tax credit payments.
- "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.
- The post-transfer withdrawal necessary to balance the budget is anticipated to be \$3.6 billion in FY16 (from the Constitutional Budget Reserve Fund) and \$500 million in FY17 (from the Statutory Budget Reserve Fund).
- Amounts shown on lines 64 and 65 can be considered duplicated appropriations - they are included in the operating or capital budgets above. The Designated General Funds column includes amounts associated with the dividend program in FY16, but those amounts become UGF under the Governor's plan. Amounts in the Other column reflect gross earnings of the Permanent Fund.

January 14, 2016

## SHORT FISCAL SUMMARY

- Focus is on UGF Only
- Status Quo Removes the Governor's Proposed Legislation
  - New Revenue Sources
  - Pension Obligation Bonds
  - Oil Tax Credits
- Status Quo Dividends are not UGF

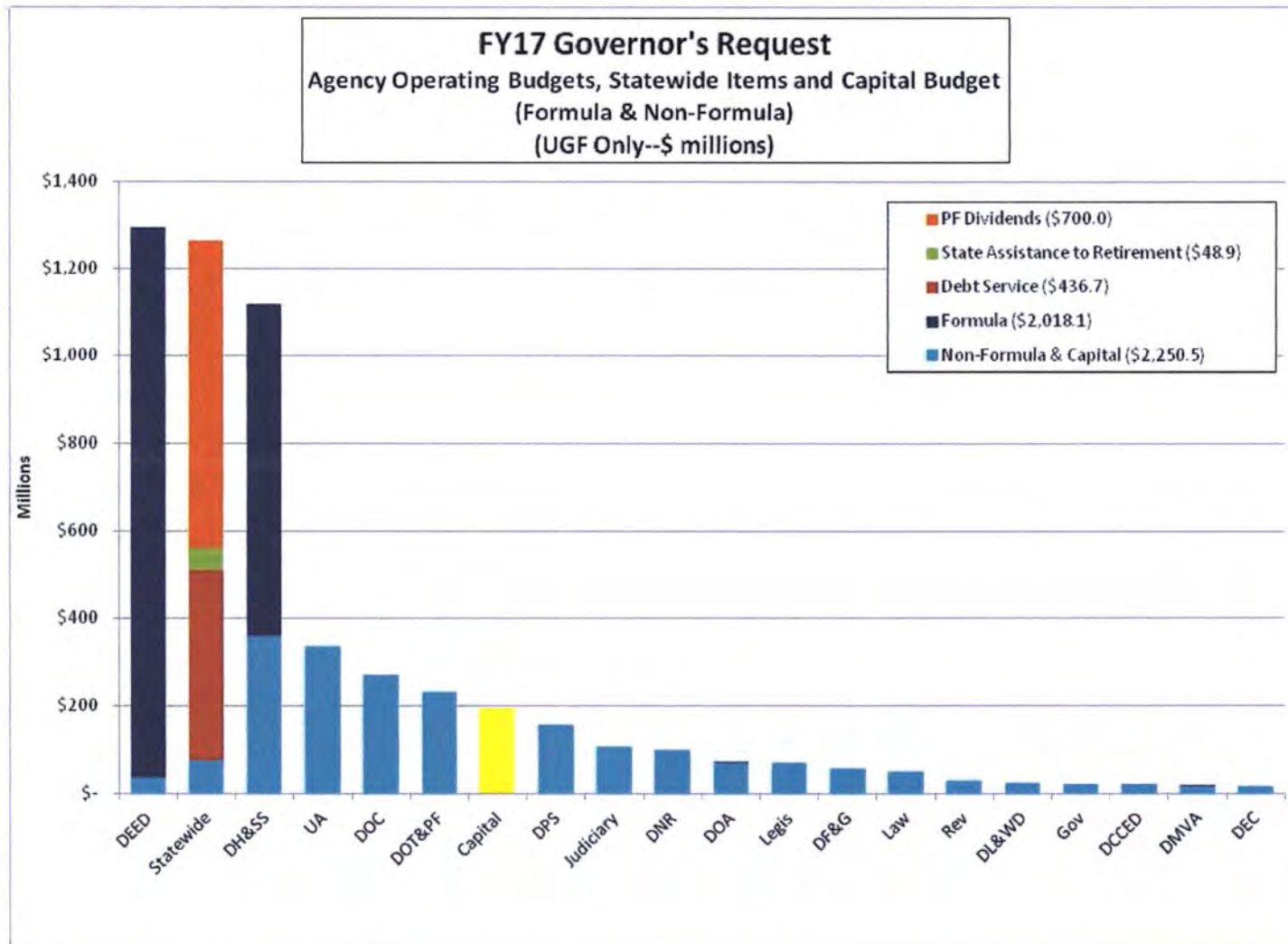
### FY 17 Budget with and without Governor's Legislation Unrestricted General Funds Only

	FY17 Status Quo	FY17Gov
<b>Fall 2015 Revenue Forecast</b>	<b>1,785.1</b>	<b>5,013.5</b>
UGF Revenue	1,785.1	1,785.1
New Revenue Sources	0.0	244.0
Sustainable ERA Draw	0.0	3,200.0
PFD Draw (1)	0.0	230.9
Prod Tax + Royalties to ERA	0.0	(446.5)
<b>Appropriations</b>		
Agency Operations (non-formula)	1,979.8	1,979.8
Agency Operations (formula)	2,018.1	2,018.1
Oil Tax Credits (2)	625.0	73.4
Other Statewide Operating Items	488.6	488.6
Permanent Fund Dividends (1)	0.0	700.0
<b>Total Operating</b>	<b>5,111.5</b>	<b>5,259.9</b>
Capital Projects	194.3	194.3
<b>Total Budget before Transfers</b>	<b>5,305.8</b>	<b>5,454.2</b>
<b>FY17 Pre-Transfer Deficit</b>	<b>(3,520.7)</b>	<b>(440.7)</b>
Revenue as a % of Appropriations	34%	92%
<b>Fund Transfers</b>	<b>62.2</b>	<b>62.2</b>
<b>Total Budget after Transfers</b>	<b>5,368.0</b>	<b>5,516.4</b>
<b>FY17 Post-Transfer Deficit</b>	<b>(3,582.9)</b>	<b>(502.9)</b>
Revenue as a % of Appropriations	33%	91%
<b>Expected Supplementals</b>		
Fire Suppression Activity	30.0	30.0
Community Revenue Sharing	-	80.0
<b>Total Expected Supplementals</b>	<b>30.0</b>	<b>110.0</b>
<b>Total Reserves (CBR + SBR + ERA)</b>		
<b>Starting Balance</b>	<b>15,155.6</b>	<b>15,155.6</b>
Oil Tax Credit Transitional Fund (2)	-	(1,200.0)
FY17 Dividend (1)	(1,400.0)	-
FY17 Deficit (w/ supplementals)	(3,550.7)	(550.7)
<b>End Balance</b>	<b>10,204.9</b>	<b>13,404.9</b>
Deficit/Balance	35%	3%

(1) The Governor reduces dividends to \$700 million (UGF) in FY17. Status quo dividends cost \$1.4 billion and come from the ERA.

(2) Governor's plan includes \$73.4 for oil and gas tax credits in FY17, but then uses an additional \$1.2 billion to set up a transitional fund. Without this change, the credit amount is \$625 million.

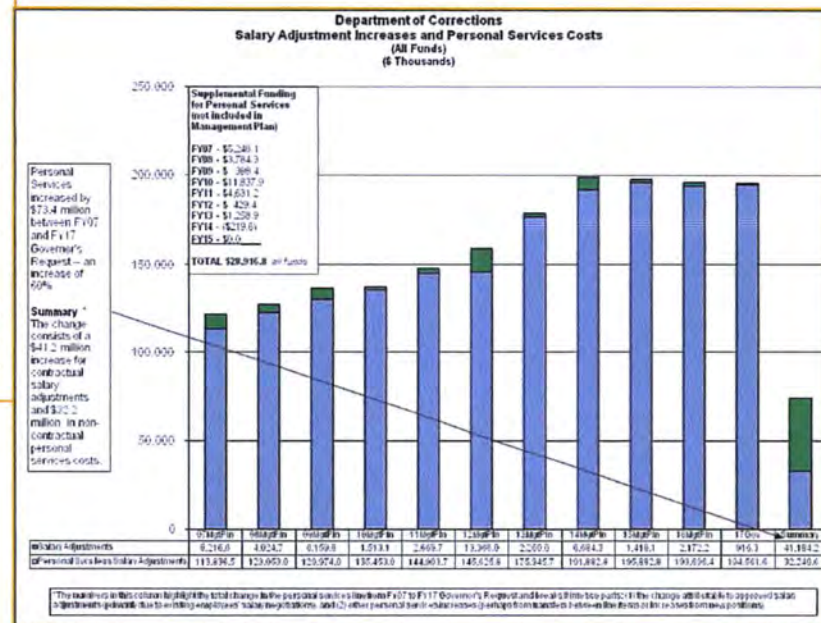
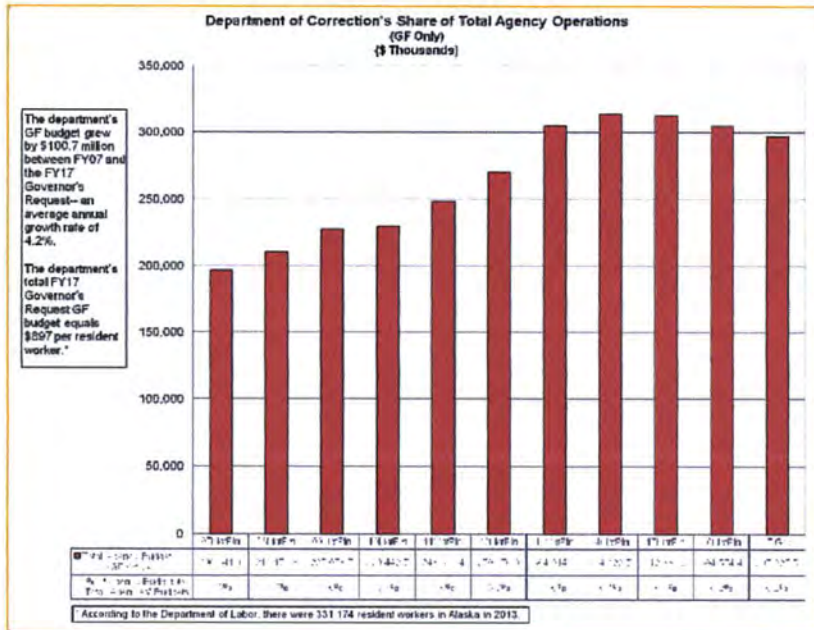
# FISCAL SUMMARY



# AGENCY OPERATIONS

AGENCY OPERATIONS													
2014 Inflation Adjusted \$													
(UGF Only)													
Departments	05MgtPln	06MgtPln	07MgtPln	08MgtPln	09MgtPln	10MgtPln	11MgtPln	12MgtPln	13MgtPln	14MgtPln	15MgtPln	16MgtPln	17Gov
Administration	55,821.0	65,482.6	73,481.7	74,051.6	82,441.2	83,221.4	85,058.4	85,264.0	88,763.1	88,861.8	88,178.3	77,558.4	69,136.2
Commerce, Community & Econ Dev	10,125.5	11,010.6	6,599.1	5,638.1	38,320.9	34,782.5	65,748.5	40,092.7	59,238.7	48,047.5	40,454.3	29,807.6	20,950.7
Corrections	200,823.2	214,090.4	226,607.7	236,512.6	242,480.3	241,016.3	255,803.4	265,264.3	297,527.5	303,346.4	297,654.4	271,184.8	258,566.7
Education & Early Dev	1,071,277.7	1,123,445.0	1,226,540.4	1,211,260.1	1,205,628.1	1,259,269.2	1,302,377.3	1,313,629.3	1,337,661.6	1,308,296.6	1,408,921.8	1,273,004.5	1,236,360.8
Environmental Conservation	14,834.2	16,372.8	18,226.1	19,465.7	19,839.8	19,626.1	20,893.2	21,276.1	22,663.0	24,319.1	22,472.1	19,651.1	16,950.5
Fish and Game	39,908.2	46,097.7	52,551.7	50,891.2	66,220.2	64,746.2	72,526.2	77,304.0	82,172.6	83,445.5	79,387.8	63,663.0	55,131.7
Governor	24,600.4	24,746.8	44,118.7	23,218.9	28,929.2	29,885.2	34,682.5	32,799.7	35,666.3	32,809.5	33,609.5	22,640.6	21,861.3
Health & Social Services	684,411.3	766,528.6	913,152.4	945,580.2	1,045,522.4	940,739.7	1,032,162.5	1,230,594.9	1,292,800.8	1,271,811.9	1,253,650.2	1,139,608.5	1,069,863.4
Labor & Workforce Dev	17,785.2	19,903.7	24,442.1	27,726.8	35,000.1	34,070.2	32,559.7	33,482.8	36,424.3	36,112.1	33,448.0	25,263.1	22,866.8
Law	40,079.1	53,014.0	48,700.7	46,000.0	62,602.2	62,869.6	65,783.8	74,110.4	71,530.2	64,644.0	61,275.3	53,529.8	48,010.7
Military & Veterans' Affairs	11,800.1	16,129.8	15,966.1	14,632.4	13,976.5	13,175.0	13,785.2	18,384.8	23,211.9	22,743.9	24,816.9	16,847.0	17,728.3
Natural Resources	62,217.0	78,974.4	77,129.4	76,519.3	85,619.9	80,296.2	79,932.5	81,576.8	84,223.1	84,704.2	88,072.8	68,743.9	96,370.4
Public Safety	108,606.3	118,143.4	128,410.5	127,204.5	135,155.7	144,570.6	151,808.9	165,721.3	172,788.0	176,003.8	171,553.2	157,138.1	149,374.7
Revenue	14,777.7	22,412.5	18,449.2	17,669.6	20,897.3	20,135.2	40,262.1	33,215.3	33,924.7	34,104.8	33,831.4	28,345.2	28,177.9
Transportation	127,560.6	213,841.4	244,854.2	243,622.9	278,988.3	272,243.4	294,590.1	299,022.9	295,848.8	288,831.8	278,604.6	238,644.9	221,240.1
University of Alaska	294,549.8	309,259.1	342,790.7	346,002.4	356,450.1	367,425.2	374,501.1	373,066.7	376,177.9	378,750.4	370,599.7	343,068.0	320,420.5
Branch-wide Unallocated Approp	-	-	-	14,280.0	-	20,340.0	16,095.0	13,910.0	37,800.0	36,720.0	27,000.0	-	-
Judiciary	75,874.2	80,641.1	90,406.9	92,061.3	96,313.8	98,548.8	105,273.8	108,165.9	112,017.0	112,785.8	111,866.3	107,973.5	101,908.2
Legislature	53,206.2	62,708.6	66,686.1	72,331.2	73,155.5	75,069.9	76,004.8	79,654.0	78,176.6	77,541.5	77,622.0	71,977.1	68,987.2
<b>TOTAL</b>	<b>2,908,257.8</b>	<b>3,242,742.4</b>	<b>3,619,073.8</b>	<b>3,644,668.5</b>	<b>3,887,541.4</b>	<b>3,862,030.7</b>	<b>4,119,849.2</b>	<b>4,346,535.9</b>	<b>4,538,616.2</b>	<b>4,473,880.4</b>	<b>4,508,018.6</b>	<b>4,008,649.2</b>	<b>3,823,906.3</b>
<b>Cost per Alaskan</b>	<b>\$ 4,409</b>	<b>\$ 4,807</b>	<b>\$ 5,365</b>	<b>\$ 5,358</b>	<b>\$ 5,660</b>	<b>\$ 5,534</b>	<b>\$ 5,770</b>	<b>\$ 6,011</b>	<b>\$ 6,203</b>	<b>\$ 6,074</b>	<b>\$ 6,107</b>	<b>\$ 5,435</b>	<b>\$ 5,158</b>
Alaska's Population (2015 and 2016 are Projections)	659,653	674,583	674,583	680,169	686,818	697,828	714,021	723,133	731,630	736,616	737,354	737,625	741,288
Value of one 2014 dollar in historical dollars (Per Dpt. of Labor's 2014 Anc CPI Data)	\$1.29	\$1.26	\$1.22	\$1.19	\$1.14	\$1.13	\$1.11	\$1.07	\$1.05	\$1.02	\$1.00	\$0.98	\$0.96

# AGENCY LOOK-BACK GRAPHS



# SUBCOMMITTEE PROCESS



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# BUDGET RESOURCES

The following slides provide information on

- Budget resources available to legislators and the public
- The types of information you can extract from these resources

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# Alaska Legislative Budget Handbook – The Swiss Army Knife (SAK)

This publication is designed to be a step-by-step guide to assist new legislators and staff in developing agencies' budgets. Some of the information included in the SAK are:

- ❑ LFD analyst contact information
- ❑ Tips for running effective subcommittee meetings
- ❑ Budget analysis questions
- ❑ Budget closeout procedures
- ❑ Conference Committee process
- ❑ Fund code and fund group information
- ❑ Appropriation law
- ❑ Glossary of budget terms
- ❑ Other Budget resources

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## Legislative Fiscal Analyst's Overview of the Governor's Request (or the Overview)

This is typically Legislative Finance's 1<sup>st</sup> publication in the budget process. It includes:

- ❑ A Fiscal Summary
- ❑ A summary analysis of the Governor's December 15<sup>th</sup> operating and capital budget requests, including revenue measures and bills like the Permanent Fund Protection Act
- ❑ Discussion of each agency's top issues as identified by Legislative Finance analysts
- ❑ Analysis of the language sections in each appropriation bill

This publication is typically available on the first day of session.

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# Subcommittee Books

## How to read a Subcommittee Book

- ❑ Column Definitions
- ❑ Blue pages contain Legislative Fiscal Analyst's Overview of the Agency's budget request
- ❑ Goldenrod reports (contain summary reports)
  - Agency Summary
  - Agency Summary (General Funds & UGF Only)
  - Agency Totals
- ❑ White pages (contain detail reports by allocation)
  - Allocation Totals
  - Transaction Change Detail
- ❑ Wordage Report
- ❑ Transaction Type Definitions



# Guide to OMB Budget Reports

([https://www.omb.alaska.gov/ombfiles/Guide\\_to\\_OMB\\_Budget\\_Reports.pdf](https://www.omb.alaska.gov/ombfiles/Guide_to_OMB_Budget_Reports.pdf))

## Introduction to the Office of Management and Budget's Reports

<b>Operating Budget Bill</b> Annual appropriations covering ongoing operations. Appropriations are typically made for a fiscal year, with funds lapsing at the end of the fiscal year.	<b>Capital Budget Bill</b> Appropriations for items exceeding one year and that usually cost more than \$25,000. Appropriations lapse only if funds remain after the project is completed.	<b>Mental Health Budget Bill</b> Operating and Capital appropriations related to the state's integrated comprehensive mental health program under AS 37.14.003(a).
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**What the Columns Mean – the Annual Operating Budget Cycle**  
 The following stages of the operating budget cycle are displayed in various combinations to show incremental changes or comparisons.

Conference Committee (Enacted)	Authorized	Management Plan	Governor Prior Year Actuals	Governor's Amended Supplemental
Final budget passed by the Legislature. Governor has 20 days after it is sent to exercise line item veto power.	Includes impacts of legislative actions not included in Conf. Committee such as new legislation and votes.  Released publicly Dec 15 <sup>th</sup>	Implementation plan done part-way into the fiscal year which may include changes that do not require legislative approval. Used as a base for the next year's budget development.  Released publicly Dec 15 <sup>th</sup>	Governor's proposed budget for the next fiscal year.  Actuals for the last completed fiscal year represent money spent during the fiscal year.	Governor's Amended reflects final decisions and changes to the budget proposed by the Governor.  The Supplemental budget provides additional funds or changes to appropriations in the current fiscal year budget.
May/June	July	August	December 15 <sup>th</sup>	February

**How the Operating Budget is Organized**  
 The operating budget is presented in one of two ways. Departments, Result Delivery Units, and Components are used in management reports. Departments, Appropriations, and Allocations are used in the budget bills. Agencies generally cannot move money between appropriations but they do have discretion across allocations.

Department	Results Delivery Unit (RDU)	Component
Highest level of the budget structure	Second level of the budget structure. May relate to divisions and usually is equivalent to appropriations in the budget bill.	Lowest level of the budget structure. May relate to divisions and usually is equivalent to allocations in the budget bill.

**How the Capital Budget is Organized**  
 The capital budget is presented as projects within departments. Each project is classified as either an appropriation or allocation. Agencies generally cannot move money between appropriations but they do have discretion across allocations.

**Where the Money is Spent**  
 The following line item accounts are used to track categories of expenditure and correspond to accounts used in the state's accounting system.

Line 1000	Line 2000	Line 3000	Line 4000	Line 5000	Line 7000	Line 9000
Personal Services – state staffing costs. Positions counts are classified on reports as Full-time (PFT), Part-time (PPT) or Non-permanent (NP).	Travel – transportation and per diem expenditures	Services – contractual services by 3 <sup>rd</sup> parties	Commodities – items consumed within year or equipment under \$5,000.	Capital Outlay – for durable items valued between \$5,000 and \$25,000.	Grants/Benefits – Funds disbursed by the state to units of local government and to individuals in payment of various benefits and claims.	Miscellaneous – Expenditures not specifically covered by other line items.

**Where the Money is Coming From**  
 4-digit fund codes specify funding sources for an appropriation. Each fund code is classified as one of four types: UGF, DGF, Other, or Federal.

Unrestricted General Fund (UGF)	Designated General Fund (DGF)	Other	Federal (Fed)
Money with no statutory restrictions on its use.	Money designated by the legislature for a specific purpose.	Money the legislature has limited discretion over. Includes "duplicated" funds such as interagency receipts where one state agency pays another.	Money received from the federal government.

For a more detailed look at the budget process, refer to the *Alaska Legislative Budget Handbook* available from the State of Alaska Division of Legislative Finance website at [www.lafin.state.ak.us](http://www.lafin.state.ak.us).

Last updated December 10, 2015

Office of Management and Budget  
 State of Alaska

# Legislative Finance Division's Website

[\(http://www.legfin.akleg.gov/\)](http://www.legfin.akleg.gov/)

In addition to the standard operating, capital, and supplemental reports, the following information can be found on the LFD website:

- LFD analyst contact information
- Operating Budget Reports
  - Current reports
  - Appropriation bills that are still in Committees (that haven't yet been posted on BASIS)
  - Historical Reports
  - Budget Amendment Forms
- Capital Budget Reports
  - Current Reports
  - "Custom" historical capital budget reports:
    - Summary reports (by HD, Agency, or Statewide)
    - Project detail reports by House District or Agency
    - Export to Excel of all projects
  - Project Search
  - Appropriation bills that are still in Committees (that haven't yet been posted on BASIS)
  - Budget Amendment Forms
  - CAPSIS
- Supplemental Budget Reports
- Fiscal Note System
- LB&A's RPLs (Revised Program-Legislative)
- LFD Publications – Fiscal Summaries, Yearly Publications, Informational Papers & Other
- Analysis Tools – Look-back Graphs, Highlights, Transaction Detail, Increment Status
- Links – To other websites such as Office of Management & Budget (OMB)

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## Office of Management & Budget's Website

[\(http://omb.alaska.gov/\)](http://omb.alaska.gov/)

In addition to standard budget reports, other information on OMB's website includes:

- ❑ Personal Services Reports
- ❑ Performance Measures
- ❑ 10 Year Plans
- ❑ Comprehensive Annual Financial Reports (CAFR)
- ❑ Budget Terminology
- ❑ Capital Appropriation Status Reports
- ❑ Fee Reports
- ❑ Personal Services Transfer Reports
- ❑ Revenue Forecast
- ❑ Guide to OMB Budget Reports

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## GOVERNOR'S DETAIL BUDGET BOOKS

These books are published by each agency and include detailed information on agencies' budgets.

- ❑ Performance Measures
- ❑ Organization Charts
- ❑ Personal Services Detail (pcns, location, cost of salary & benefits, vacancy factors, and the amount of UGF budgeted for each position)
- ❑ Line Item Detail
- ❑ Revenue Detail
- ❑ Interagency Services

**Personal Services Expenditure Detail**  
**Department of Commerce, Community, and Economic Development**

Scenario: FY2017 Governor (12995)  
 Component: Community and Regional Affairs (2879)  
 RDU: Community and Regional Affairs (405)

PCN	Job Class Title	Time Status	Retire Code	Barg Unit	Location	Salary Sched	Range / Step	Comp Months	Split / Count	Annual Salaries	COLA	Premium Pay	Annual Benefits	Total Costs	UGF Amount
21-6054	Local Govt Spec IV	FT	A	SS	Anchorage	200	19B / C	12.0		67,818	0	0	39,464	107,282	67,051
21-6055	Local Govt Spec III	FT	A	GP	Bethel	250	17F / G	12.0		97,114	0	0	49,930	147,044	64,332
21-6056	Research Analyst IV	FT	A	SS	Anchorage	200	21D / E	12.0		82,345	0	0	44,417	126,762	126,762
21-6057	Local Govt Spec III	FT	A	GP	Kotzebue	260	17Q / R	12.0		143,840	0	0	64,310	208,150	130,094
21-6058	Local Govt Spec III	FT	A	GP	Fairbanks	203	17E / F	12.0		64,974	0	0	38,970	103,944	64,965
21-6060	Local Govt Spec V	FT	A	SS	Anchorage	200	21J	12.0		89,316	0	0	46,795	136,111	136,111
21-6066	Planner III	FT	A	GP	Anchorage	200	19J / K	12.0		79,074	0	0	43,778	122,852	24,570
21-6069	Office Assistant II	FT	A	GP	Anchorage	200	10B / C	12.0		35,179	0	0	28,810	63,989	56,790
21-6070	Administrative Assistant II	FT	A	GP	Juneau	205	14F / G	12.0		54,289	0	0	35,326	89,615	89,615
21-6077	Local Govt Spec II	FT	A	GP	Dillingham	237	15A	12.0		63,456	0	0	38,452	101,908	63,693
21-6080	Grants Administrator III	FT	A	SS	Fairbanks	203	19L / M	12.0		89,139	0	0	46,734	135,873	27,175
21-6081	Local Govt Spec IV	FT	A	SS	Anchorage	200	19M / N	12.0		89,102	0	0	46,722	135,824	135,824
21-6085	Division Operations Manager	FT	A	SS	Anchorage	200	24E / F	12.0		105,348	0	0	52,261	157,609	110,326
21-6091	Local Govt Spec IV	FT	A	SS	Anchorage	200	19K / L	12.0		84,047	0	0	44,998	129,045	58,070
21-6092	Local Govt Spec IV	FT	A	SS	Anchorage	200	19D / E	12.0		72,855	0	0	41,181	114,036	111,755
21-6093	Audit & Review Analyst II	FT	A	GP	Juneau	205	21F / G	12.0		0	0	0	0	0	0
21-6101	Research Analyst III	FT	A	GP	Juneau	205	18A / B	12.0		62,162	0	0	38,011	100,173	100,173
21-6104	Research Analyst III	FT	A	GP	Anchorage	200	18A	12.0		57,336	0	0	36,365	93,701	93,701
21-6109	Local Govt Spec III	FT	A	GP	Anchorage	200	17C / D	12.0		57,761	0	0	36,510	94,271	58,919
21-6110	Local Govt Spec III	FT	A	GP	Fairbanks	203	17K / L	12.0		75,449	0	0	42,542	117,991	51,621
21-6111	Local Govt Spec IV	FT	A	SS	Anchorage	200	19J / K	12.0		79,287	0	0	43,375	122,662	76,664
21-6112	Local Govt Spec I	FT	A	GP	Nome	237	13A	12.0		55,632	0	0	35,784	91,416	57,135
21-6113	Local Govt Spec III	FT	A	GP	Bethel	250	17E / F	12.0		94,623	0	0	49,080	143,703	62,870
<b>Total Positions</b>														<b>Total Salary Costs:</b>	4,344,246
<b>Full Time Positions:</b>														<b>Total COLA:</b>	0
<b>Part Time Positions:</b>														<b>Total Premium Pay:</b>	0
<b>Non Permanent Positions:</b>														<b>Total Benefits:</b>	2,427,733
<b>Positions in Component:</b>														<b>Total Pre-Vacancy:</b>	6,771,979
														<b>Minus Vacancy Adjustment of 8.45%:</b>	(572,379)
<b>Total Component Months:</b> 684.0														<b>Total Post-Vacancy:</b>	6,199,600
														<b>Plus Lump Sum Premium Pay:</b>	0
														<b>Personal Services Line 100:</b>	6,199,600

Note: If a position is split, an asterisk (\*) will appear in the Split/Count column. If the split position is also counted in the component, two asterisks (\*\*) will appear in this column. [No valid job title] appearing in the Job Class Title indicates that the PCN has an invalid class code or invalid range for the class code effective date of this scenario.

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## Personal Services

- Informational Paper 16-3 Positions, Vacancy Factors and Legislative Control – includes information regarding:
  - Governor's authority to create and appoint positions within the Executive Branch
  - Legislative control over positions
  - Funding positions authorized by the legislature
  - Transfers to and from the Personal Services line
  - Vacancy factor

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## WRAP-UP

- Questions and Comments

# Subcommittee Binders

Minimum information to be included

- Instruction memo to subcommittee chairs from the HFC operating budget co-chair
- Department pages from the Legislative Fiscal Analyst's Overview of Governor's Budget Request
- Other information from Legislative Finance Division (LFD) (the first three items are on LFD's website under the Analysis Tools tab)
  - 10-year look back graphs,
  - 10-year budget highlights,
  - Increment status sheets (a current year update that includes decrements)
  - Subcommittee book
  - Alaska Legislative Budget Handbook (aka The Swiss Army Knife)
- Five LFD statewide budget charts (attached)
- Guide to OMB Budget Reports (on OMB's website)
- OMB-provided department FY2015 - FY2016 comparison (attached)
- Legislative Audit recommendations and departmental response, if applicable
- Heads Up meeting documents, if any were provided (most departments do not)
- Any other communication/documentation provided by the department
- Department-level operating budget detail from OMB's website or the detail budget books that includes
  - Mission,
  - Core services,
  - Major accomplishments,
  - Key challenges, and
  - Significant changes in results to be delivered.
- 10-Year Plan pages that pertain to the department (OMB's website under the Information tab)
- Your department's portion of the statewide fee report (OMB website)
- Capital budget project list and detail
- Tabs for each of the meetings that will include information provided by the department for their presentations

ALASKA STATE LEGISLATURE  
HOUSE FINANCE COMMITTEE

Representative Mark Neuman  
Co-Chairman  
(907) 465-2679  
Rep.Mark.Neuman@akleg.gov



Representative Steve Thompson  
Co-Chairman  
(907) 465-3004  
Rep.Steve.Thompson@akleg.gov

Alaska State Capitol Building, Rm 505

Alaska State Capitol Building, Rm 511

MEMORANDUM

TO: House Finance Subcommittee Chairs  
FROM: Representative Neuman, Co-Chair  
House Finance Committee  
DATE: January 26, 2016  
RE: FY17 Operating Budget Subcommittees

A handwritten signature in black ink, appearing to be "MN", enclosed in a large, loopy oval.

This memo attempts to provide a fairly high level framework for reviewing the operating budget by the House Finance Operating Budget Subcommittees. This process is meant to increase subcommittee members' understanding of the responsibilities and challenges facing the departments and to prompt policy discussion.

We are facing unprecedented projected budget deficits in FY16 of \$3.8 billion and in FY17 of \$3.5 billion. These deficits are calculated based on 0.500 mbd at \$48.58 per barrel for FY16 and 0.505 mbd at \$56.03 per barrel for FY17. The price of ANS West Coast on January 22 was **\$29.95**.

Please be sure to read the Legislative Fiscal Analyst's Overview of the Governor's Request as soon as possible. The chart and accompanying description on page 22 is particularly illustrative of the budget challenge we face.

Our task is to help chart a course for state government that strikes a balance between the level of government Alaskans need and can afford given the recent volatility of oil prices and the fact that we cannot deplete 100% of our budget reserves.

## **Subcommittee Budget Review Process**

There are six parts to the budget review process:

1. Missions/Core Services/Measures/Results
2. 10-Year Financial Look Back
3. 10-Year Plan
4. Legislative Audit Review
5. Status of Current Year Budget Changes
6. Evaluation of FY17 Budget

These six areas allow a subcommittee to understand:

1. services the department provides, what it costs, and the results Alaskans receive for their investment;
2. budget growth that has occurred over the past ten years;
3. changes the department anticipates in the future;
4. whether there are any outstanding issues identified by Legislative Audit; and
5. how the current year budget changes have been implemented.

Once the subcommittee has looked at the past, looked forward, and looked at the current year, the subcommittee will have gained a solid understanding of the department which will help in their evaluation of the proposed budget.

## **Results Based Budgeting**

Subcommittees are to review each agency's mission, departmental-level core services and measures and look for alignment between them.

In addition to looking for alignment, look for measures that are useful and should be kept, measures that are useful but can be made even more so, measures that aren't useful and should be discarded, and missing measures that should be added. As time allows, review one or more divisions or program areas in our results-based format.

The following are examples of questions to ask of department leadership:

- What is your mission?
- How do agency core services contribute to the mission?
- Who are the beneficiaries/customers of your core services?
- What are your core service outcome performance measures?
- Do you have a balanced set of measures (effectiveness and efficiency) to validate and monitor the state's investment?
- How do you use your results information in your management and/or budget decision-making process?
- How do your program managers utilize their results information?

Departments should be able to provide a minimum of one efficiency measure and one effectiveness measure per department-level core service. Be mindful that only a balanced set of measures provide a clear picture of the results of our investments in government.

As well as the results information your subcommittee will cover, remember to consider how you are going to incorporate the **departmental narratives** into your subcommittee process. Please consider the following:

- For instance, you may want to address **Key Challenges** in conjunction with the FY17 budget changes.
- **Significant Changes in Results to be Delivered in FY17** may make sense to address just before you take up the FY16 budget changes.
- You may want to weave **Major Accomplishments in 2015** into the results presentations.
- As you look at the **Core Services (in priority order)**, think about whether they are appropriate and whether our investment in them is measured accordingly.

As mentioned earlier, by looking at the mission, core services, and measures of each department, subcommittee members should get a good feel for what services the departments provide, what it costs, and what results Alaskans receive for their investment.

### **10-Year Look-Back**

Legislative Finance will prepare and provide to you statewide and departmental graphs that look at historical budget changes since FY2007. (Note: LFD has data going back to 2005 on their website.)

The graphs were designed to give a 'drill down' approach to each agency. They were meant to be a starting point for discussion, with subcommittee chairs having the ability to have further graphs produced to drill down into whatever budget areas so desired. Legislative Finance will produce system generated graphs that show FY17 budget information received from the Office of Management and Budget (OMB).

These graphs and other data are (or will be) available on Legislative Finance's website under the Analysis Tools tab: <http://www.legfin.akleg.gov/BudgetAnalysisTools/LY2016/DisplayReports.php>

### **10-Year Plan**

OMB has posted an Executive Summary of the 10-Year Plan and department-level details on their website. <https://www.omb.alaska.gov/html/budget-report/fy2017-budget/proposed.html>

### **Accountability Check**

Subcommittee chairs should work with the Legislative Audit Division to review audit findings their departments may have had in the past few years. The website below lists the audits released during 2015 and prior years. Each subcommittee chair should review the State of Alaska Single Audit for FY14, to determine if their departments have new or outstanding recommendations made by Legislative Audit. Look to see if the department agreed or disagreed with the audit recommendations and whether or not they have complied or are in the process of complying. Contact Kris Curtis (465-3830) to schedule a subcommittee presentation on any new or outstanding recommendations.

Keep in mind that Legislative Audit is very busy with the newly implemented agency performance review process, so make sure that you use their time judiciously. Only request them to attend a subcommittee meeting when you have specific questions or concerns about an audit. <http://legaudit.akleg.gov/audits/>

### **Status of Current Year Changes**

Legislative Finance will soon provide each subcommittee with an updated status of current year increments, decrements, and fiscal notes. Subcommittees should look to see if the agencies have followed through with what they said they were going to do concerning any current year budget changes. If you find something that seems out of line, please bring it to the attention of the Co-Chair.

In addition, each subcommittee should review the soon-to-be-available Legislative Finance memorandum on Agency Responses to FY16 Legislative Intent Language.

Both items will be posted on the Legislative Finance website under the Analysis Tools tab.

### **Evaluate FY17 Budget**

After completing the first five budget review topics, subcommittee members should have a broader, more complete understanding of what agencies do, why they do it, how much it costs, and the results of our investments. You'll get a good look at past investments, challenges the agencies see ahead, have an accountability check and get an update on current year changes before discussing any new investment or reduction in agency programs.

Increments should also be viewed in our results-based format. Have past investments in the programs looking for new increments provided Alaskans with the desired results? If not, why not? Is there a different method to get a better return on our investment?

All new requested programs/initiatives should be coded as a One-Time Increment (IncOTI) or as a Temporary Increment (IncT); exceptions must be discussed in advance with the Co-Chair. The Legislative Finance Division usually re-categorizes increment requests, but subcommittee chairs should be sure to review.

In addition to the proposed departmental unallocated reductions, be aware that departments are absorbing significant costs that may not be easily identified. For example, departments generally do not include funding requests for merit increases for staff though there are usually a few program exceptions. For example, the statewide estimate of the merit increases absorbed in the FY15 budget was \$32.7 million. Departments may also be planning to absorb various core services costs such as risk management, lease costs, and other charges.

Subcommittees should be asking themselves what are the core agency programs/functions, and what level of service can Alaskans afford? Departments have been requested to provide a list of programs with position counts, budget (UGF and Total Funds), and statutory or regulatory authorization.

In addition, subcommittees should review regulations proposed by the agency for necessity and cost implications on those regulated. Any concerns should be brought to the agency's attention prior to adoption of the regulatory proposal.

## Subcommittee Administration and Operation

1. Subcommittee chairs will establish the time and location of their subcommittee meetings. Notices of each meeting must be provided to the Chief Clerk by 4:00 p.m. Thursday for the following week and to my office (Pete Ecklund and Joan Brown). You will need to reserve a committee room for subcommittee meetings. If you want to reserve the House Finance Committee room, contact Darrell Breese in my office at 465-2679. Each chair shall establish their subcommittee's procedures, quorum, and meeting requirements.
2. Each subcommittee chair is responsible for contacting departments and establishing the agenda and implementing the Subcommittee Budget Review Process described in this document for each agency. Subcommittee chairs are encouraged to work cooperatively with agency staff and their legislative finance budget analysts while planning the number of and the agenda for each meeting. Coordinate your meeting schedule with the Administrative Services Director of each of your assigned department budgets to take advantage of when agency staff will be in Juneau on other business and be available for subcommittee purposes. Avoid having a department incur travel expenses solely for subcommittee business.
3. The subcommittee process described in this document should be the minimum or base covered. Subcommittees should delve into program and other areas of interest more deeply to ensure members have a good understanding of department programs, functions, and results as time allows.
4. A fiscal analyst from the Legislative Finance Division is assigned to each subcommittee to assist in crafting the department's budget. Please include your respective fiscal analyst in the budget process as much as possible and in any emails sent to the subcommittee and/or department. It is also helpful to include the OMB analyst assigned to your department in any budget-related emails.
5. The primary resource document for subcommittee work is the budget 'short form' or 'subcommittee' book prepared by Legislative Finance. The books are all available in the HFC 5<sup>th</sup> floor copier room.
6. Other legislative branch resources at your disposal are Legislative Research, Legislative Legal Services and Legislative Audit. In addition, the Legislative Finance and OMB websites offer a wealth of information related to the proposed budget as well as archives of budget history that may be relevant to subcommittee work.
7. Please post subcommittee documents on BASIS, whether prepared by members, the agency or the Legislative Finance Division staff.
8. Please use the teleconference network when possible for testimony from out- of-town witnesses. Use this form to schedule a teleconference:  
[http://intranet.akleg.gov/lio/teleconference\\_form.php](http://intranet.akleg.gov/lio/teleconference_form.php)
  - It can be helpful to keep a copy of the teleconference confirmation email for your records.
  - Call the Juneau L.I.O. at 465-4648 for assistance.

- Subcommittee meetings are not generally taped or transcribed. Please note that if you have a meeting teleconferenced, there is an audio recording. You may contact the Juneau L.I.O. to access those recordings.
  - Also note that committee rooms are equipped with webcams. When you have a meeting teleconferenced, your meeting will be streamed live over the Internet - unless you request otherwise on the teleconference form.
9. If you are having any problems in/with your subcommittee, please bring them to my attention as soon as possible so any issues can be resolved.
  10. The House Finance Committee staff will provide coffee in the House Finance Committee room during regular working hours. Contact Helen Phillips at 465-6258 if you would like coffee available for weekend, evening or early morning meetings.

### **Subcommittee Requirements and Work Product**

1. After completing the first five topics of the subcommittee budget review process, subcommittees should then examine both the monetary details and the intent language specific to the operating budget of their assigned departments.
2. Subcommittees should review all transactions between the Adjusted Base and the Governor's budget request.
3. Subcommittees should also consider each agency from a programmatic view. Be cognizant of programs that may be related to those in another agency.
4. The Governor's budget amendments are due on the 30<sup>th</sup> legislative day, February 17<sup>th</sup>. Subcommittees are to evaluate those amendments with the same level of scrutiny as other requests and **keep me advised of which amendments the subcommittee intends to adopt.**
5. Subcommittees that encounter an issue of particular controversy or other difficulty should bring the matter to my attention possible removal from the subcommittee's evaluation and for examination by the Finance Committee as a whole.
6. Operating budget bill language items are not under the purview of subcommittees. Any suggestions for changes to appropriations in the language sections of the operating budget bill should be brought to my attention prior to subcommittee close-out.
7. The agency budgets should be reported out of the subcommittee at a date to be negotiated with leadership. In the meantime, the preliminary plan is to have subcommittees closed no later than 5:00 p.m., February 26, 2016.
8. Subcommittee chairs should use the Budget Action (BA) sheets provided by Legislative Finance to communicate the subcommittee's intentions regarding budget items to Legislative Finance. Legislative Finance will use the BA sheets to prepare the reports and documents necessary for subcommittee close-out.

9. In addition to the BA sheets and the associated reports that you will need as you close-out your subcommittee, you will also need to prepare a subcommittee narrative that outlines the highlights of action taken in subcommittee. The narratives will be posted on Legislative Finance's website to help the public understand the subcommittee's decisions and the reasons for those decisions.

### **Budget Evaluation**

1. Budgets should always be founded on the principle of 'truth in budgeting'. Agencies should ask for what they need and live within the budget they are appropriated. Planned supplemental budgets are inappropriate in all but a few particular circumstances approved by the Co-Chair.
2. Fuel cost increases are not appropriate at the agency level. If necessary, those budget changes are handled through an operating budget language appropriation to the Governor's office for reallocation among the various agencies.
3. New positions should be closely examined. While it is the executive branch's prerogative to create new positions, funding of new positions must be justified to the subcommittee's satisfaction.
4. We anticipate personal services reductions in the Governor's budget. Subcommittees should review the budgets to identify any additional chronically unfilled positions and determine the reason why those positions are vacant. These positions should be monitored and/or possibly eliminated depending upon the circumstances.
5. The Executive Branch is required to report transfers to and from the personal services line item. The Personal Services Transfer Reports for FY09 - FY14, and the first six-month report for FY15 are available on the OMB website under the "Information" tab. However, OMB has not yet posted the most current data. You may need to ask your agency to provide their transfer information. <https://omb.alaska.gov/html/information/personal-services-transfer-reports.html>
6. Supplanting federal or other funds with general funds is discouraged. Reviews should consider whether it is appropriate to continue a program with general funds if a federal program is expiring or being reduced.
7. All Increment transactions (Inc, IncM, IncOTI, IncT) should be carefully examined to determine if the request:
  - a. is absolutely essential to the program as the overall budget will be lower in FY17;
  - b. can be accomplished with existing department resources; or
  - c. is starting a new government function that will not be sustainable in the future.
8. Net-zero fund source changes that use general funds should be given the same consideration as any general fund increment.
9. Items funded with Designated General Funds (DGF) should also be closely examined as unspent DGF lapses into the general fund.

10. New increments should NOT originate from the subcommittee. The subcommittee can recommend increments to me for possible consideration by the full Finance Committee.
11. Subcommittee chairs must receive my prior approval to add statements of Legislative Intent to a department's budget.
12. Fund source changes to supplant "unrealizable" fund sources should be presumed to be problematic. If the original fund source is no longer available, the activity should be considered for curtailment before being supplanted with general funds. There may, however, be exceptions.
13. Agency budgets should not include increases or decreases for anything that requires statutory change. Those increases or decreases should be included in the fiscal notes related to the legislation addressing the statutory change.
14. Any amendments proposed by subcommittee chairs that involve Mental Health Trust Authority Authorized Receipts (MHTAAR) require pre-approval by the Chair of the Department of Health and Social Services subcommittee, Representative Saddler.
15. All state programs have vocal constituencies who are strong advocates for continued and increased state funding of their particular program. Keep in mind the rapid rise in the price of oil needed to balance the budget (\$64 in FY10, \$77 in FY11, \$94 in FY12, \$110 in FY13, \$128 in FY14, \$122 in FY15, \$109 for FY16, and \$113 for the Governor's FY17 budget request) when you are evaluating the budget. Just because a program is popular and has vocal advocates for it, does not mean it is justified to be included in the budget. No core service, program or government function is exempt from an efficiency or reduction review.
16. **At the end of the subcommittee process, please provide a copy of the subcommittee's entire work file to Pete Ecklund in my office.**

### **Supplemental Budget Request**

1. The Governor's FY16 supplemental budget request is due on the 15<sup>th</sup> legislative day, February 2, 2016.
2. Legislative Finance will update the "status of current year changes" spreadsheet to include Section 1 (numbers section) operating supplemental items for each department.
3. The Governor's supplemental request will be considered by the Finance Committee as a whole in a format and at a time determined by the Co-Chair. Subcommittee chairs, however, should be prepared to discuss agency supplemental requests with the Co-Chair and before the full Finance Committee, but do not take official subcommittee action on supplemental requests.

We have a lot of work to do in a very short period of time. February 26, the preliminary subcommittee close-out deadline, is only Day 39 of this legislative session. I strongly encourage you to follow the Subcommittee Budget Review Process as closely as you can. Doing so will help us review every corner of state government and produce a budget that includes the services Alaskans need and can afford.

Please feel free to contact me or my staff, Pete Ecklund at 465-6867 or Joan Brown at 465-6587, if you have questions or suggestions.

cc: David Teal, Director  
Legislative Finance Division

Pat Pitney, Director  
Office of Management and Budget

# Positions, Vacancy Factors and Legislative Control

AS 39.25 (The 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. A count of positions [i.e., Position Control Numbers (PCNs)] does not necessarily equate to a head count of actual employees. More than one person can fill a single PCN, and many PCNs are vacant at some time during the fiscal year.

Legislators frequently express concern over the "unauthorized" addition of positions, as well as confusion regarding how positions are funded. There are a variety of reasons for both concern and confusion.

- Positions are difficult to delete.
- Positions not authorized by the legislature are added or deleted every year (in Management Plan and beyond).
- Legislators are often surprised when agencies claim that services cannot be performed because they have insufficient funding to fill "fully funded" vacant positions.

The following discussion addresses these issues. The intent is to give legislators (and staff) information so they can better understand budgetary issues involving positions. Before delving into a discussion of positions, the reader will need to be familiar with the following definitions.

- **Position Control Number (PCN)** - A PCN is a six- to eight-character code identifying a position. PCNs for authorized positions are assigned by the Division of Personnel and Labor Relations (henceforth referred to as the "Division of Personnel"). Exempt positions usually contain an "X" and exempt temporary positions usually contain a "T" in the third character of the PCN. The Personal Services Module of the executive branch budget system identifies new position requests (and positions which are not authorized) by using a non-numeric character "#" as the first character of a PCN, and assigns a sequential number, e.g., #123. If the position is authorized by the legislature, the Division of Personnel will assign an authorized number at the time the position is allocated to a job classification. Occasionally, a position will contain a "?" as the first character. This identifies a new position that has not been established through the Division of Personnel but has been authorized by the legislature.
- **Vacancy Factor** – The percentage by which personal services are purposely underfunded. In theory, a vacancy factor should account for savings attributable to employee turnover, and the budget should include sufficient funds to fill all positions listed in the budget (less the savings attributable to turnover). In reality, high vacancy factors, in combination with other complications, often force agencies to leave positions unfilled in the long-term. Minimum and maximum vacancy factors are suggested by the Office of Management and Budget (OMB) and increase with the number of full-time positions.

## LEGISLATIVE CONTROL OVER POSITIONS

### 1. Can positions be created that have not been authorized by the legislature?

The short answer is "Yes". According to the Alaska Administrative Manual (AAM 250.020), the following should occur to create positions:

- A requesting agency needs to obtain budgetary approval from OMB;
- The Division of Personnel must establish the position by assigning a position control number (PCN), job classification title, location, salary range, bargaining unit, overtime indicator, position type, and the agency that will pay the salary; and

- An agency may not appoint an individual to a position until the position has been authorized by the legislature or by OMB.

2. **Can the legislature force a department to lay off a person by cutting a PCN and/or its associated funding?**

Although the specific PCN will be deleted, the *person* in the position may be unaffected. Instead of a lay off, the department may choose, or be required by collective bargaining agreement, to place the person:

- in an existing, vacant PCN;
- in a reclassified PCN;
- in another PCN after “bumping” that PCN’s incumbent; or
- in a newly-created PCN.

Cutting funding for a position forces an agency to make choices: should cuts be made elsewhere, in other line items, in other allocations, or to other positions, so the person can be retained? Sometimes an agency can shift the impact of a cut by forcing others to pay. For example, cuts to a Commissioner’s Office can be passed to other divisions if the Commissioner’s Office increases its collection of Inter-Agency Receipts.

3. **Can the legislature gain more control over the creation of positions?**

The legislature could adopt a bill preventing agencies from creating positions not authorized in the budget. However, the undesirable consequences may far outweigh the perceived advantages.

- **Funded services may not be provided.** The legislature may appropriate funding for a purpose but an agency may have insufficient staff to conduct business.
- **Costs may increase** because agencies may have to contract for services instead of being able to do them in-house or may have to pay overtime to existing employees.
- **More legislative time could be needed** to approve the addition of “emergency” positions. (Budgets are prepared long in advance; unforeseen circumstances would almost certainly require a process for adding unbudgeted positions.)
- **Appropriations bills would need to be restructured** to include positions. This would not be technically difficult, but would bring up issues such as the ability to move positions across appropriation and agency lines.

## FUNDING POSITIONS AUTHORIZED BY THE LEGISLATURE

4. **Why does cutting funding for a vacant PCN affect the level of service an agency can provide? Conversely, how can a department have insufficient funding to fill positions that are listed in the budget?**

There are a variety of reasons an agency may have insufficient funding for budgeted positions, including:

- **Increased non-personal services expenditures.** Unfunded fixed costs offer a clear example of a situation in which an agency may have to use personal services money for a different purpose. Other situations are less clear, but occur frequently. For example, a Commissioner’s Office contains a budget request for Inter-Agency (I/A) receipts to fund a new Deputy Commissioner position. The funding source indicates that funding for this position will come from outside the Commissioner’s Office. Unless additional funding is approved in the divisions from which the funding comes, those divisions must absorb the cost of the position—essentially, the divisions receive an unallocated reduction that may leave them with insufficient funding to fill their own positions. This problem arises in a number of ways, including paying the Department of Administration for core services, Law for legal

assistance, or the State Equipment Fleet for vehicle costs. This situation is not always easy to spot; I/A receipts may not always be budgeted.

- **Step increases for existing employees.** While pay increases due to bargaining unit agreements are typically built into the base budget, departments are generally expected to absorb the cost of merit increases. The theory is that replacing a stepped-out employee with a low-step employee provides the money to pay the step increases for several other employees. The theory works if departing workers are replaced by workers with far less experience, but it doesn't work when turnover is low or when replacements come in at advanced steps. Generally speaking, agencies frequently must absorb much of the cost of merit increases.
  - **Hollow authorization.** A personal services report that shows a low vacancy rate may "hide" a problem if budgeted funding sources fail to materialize. For example, excess federal authorization overstates the amount of cash available to fill positions.
  - **Reclassifications** may increase the cost for existing employees. Sometimes the legislature approves an increment to pay for job reclassifications. Sometimes agencies must absorb these costs.
  - **Geographic Differentials** change the cost of a position. For example, moving a position from Anchorage to Kotzebue can increase the cost of the position by more than 50%.
  - **Increased charges for DOA's "core services".** Charges for core services provided by the Department of Administration—including Risk Management, Personnel, Information Technology Services, the Public Building Fund and the Working Reserve Account—vary, and increases may have to be absorbed by departments.
  - **Vacancy factors** (discussed below).
5. **If an agency cannot afford to fill a position, why the reluctance to delete it?** There are several reasons an agency may not delete an unfilled PCN.
- Gaining legislative and OMB approval to add a PCN is not a painless process.
  - The manager may believe there is a need for the PCN and hope to eventually be able to afford it. For instance, if one-time costs decrease (such as one-time legal fees), the manager may be able to hire a person in the next fiscal year.
  - An agency may want to carry extra positions so that it can transfer personal services funding to other line items.

## TRANSFERS TO AND FROM THE PERSONAL SERVICES LINE

6. **Why is funding transferred between the personal services line and other lines?** If an agency needs funding to pay for non-personal services costs, funding may be transferred from the personal services line to other line items by Revised Program (RP). This can occur in Management Plan or can occur after the Management Plan has been submitted.
7. **Why is it important to analyze personal services transfers in the budget?** Transfers to and from the personal services line can signal "vacancy games" in an allocation. Funding moved from the personal services line to the services line may simply indicate that the department
- is having difficulty recruiting and will contract for the services, or
  - must use the funding to pay increased contractual costs for leases, IT services, outside vendor costs, etc.

Some transfers, particularly those that are reversed before submitting the budget to the legislature, may indicate a lack of intent to follow the budget as submitted. When an agency consistently moves funding to and from the personal services line, it may be done to avoid

deleting vacant positions. This may be important to those who place great importance on position counts and/or those who believe that the budget should be the best possible representation of how an agency expects to spend the money appropriated to it.

## VACANCY FACTOR EXPLANATION

### 8. What is a vacancy factor?

A vacancy factor is the percentage by which personal services are purposely underfunded.

### 9. Why are vacancy factors used in agency budgets?

Vacancy factors reflect the expectation that the process of filling vacated positions is not instantaneous.

All positions cannot be filled 100% of the time during the fiscal year, so personal services do not need to be 100% funded.

### 10. What would happen if vacancy factors were not included in the budget?

Full funding may give an agency more money than is needed to pay for budgeted positions.

### 11. Who determines allowable vacancy factors?

The Office of Management and Budget (OMB) provides the following suggested minimum and maximum vacancy factor guidelines:

Number of Full Time Positions	Minimum Vacancy Factor *	Maximum Vacancy Factor
10 or less	0%	3%
11 to 20	1%	4%
21 to 30	2%	5%
31 to 50	3%	6%
51 plus	4%	7%

\*Per OMB's 2015 Operating Instructions, the minimum vacancy factor is optional.

### 12. Where do I find the vacancy factor for an allocation?

The vacancy factor for each allocation can be found in the personal services report in the Governor's Budget Detail books and on OMB's website.

### 13. When is the vacancy factor calculated?

Departments reconcile (or balance) personal services in the Automated Budget System (ABS) three times a year.

- Management Plan reflects the anticipated position costs in the current fiscal year and may include new positions which were added with OMB approval after the authorized budget.
- The Governor's December 15<sup>th</sup> request reflects the projected position costs for the next fiscal year and may include future position requests.
- Vacancy factors are also reconciled when the Governor's Amended budget is submitted.

### 14. Why do vacancy factors differ so much? Reasons include the following:

- **Allocation size.** Typically, larger allocations have higher vacancy factors. A zero percent vacancy factor may be appropriate for an allocation with few employees, but one can reasonably expect an allocation with 100 employees to experience turnover that is equivalent

(in terms of cost) to having several vacant positions throughout the year. Forcing an allocation with three employees to maintain a 5% vacancy factor may mean that funding from another line item will need to be transferred to the personal services line to pay the full costs of the three positions.

- **High turnover and recruitment difficulties.** Some allocations experience higher turnover and/or more difficulty recruiting than other allocations (frequently where there are highly specialized positions). These allocations may be able to carry a higher vacancy factor than allocations that typically have little turnover and/or fill positions quickly.
- **Anticipated increase in another expenditure line.** It is also common for a department to choose to hold a position vacant for a portion of the year to meet anticipated increases in another expenditure line. For example, a position may be held vacant to meet increased lease costs.
- **A vacancy factor is, to a large extent, an arbitrary number,** as discussed in the following paragraph.

15. **How is a vacancy factor determined for an allocation?** The personal services module within the ABS details each budgeted position and the associated cost (salary and benefits) by allocation. Each position is reconciled for position status, bargaining unit, job class title, range, step, location, retirement, funding sources and other factors.

Once the reconciliation process is complete, a department will know the total personal services cost for each allocation, assuming that every position was filled for the full year. This amount is referred to as the pre-vacancy amount.

The agency then reviews how much money is available to each allocation, and how much of that money is required for nonpersonal services. Subtracting projected nonpersonal service costs from available funding gives an amount that is available for personal services. Alternately, the agency simply uses the amount appropriated to an allocation's personal services line. The amount available for personal services is the post-vacancy amount. In either case, the agency balances personal services by reducing the pre-vacancy amount so it equals the post-vacancy amount. The percentage reduction is the vacancy factor.

A key point: a vacancy factor reduces the amount available to pay for the positions within an allocation; it does not reduce the amount of funding appropriated to an allocation.

16. **What happens when an allocation can't balance within the vacancy factor guidelines?**

If an allocation has a vacancy factor that does not meet guidelines, the department may

- submit a line item transfer to/from another expenditure line (services, commodities, capital outlay) so that the guidelines are met,
- move personal services authorization from one allocation to another, within an appropriation, or
- submit an increment in the Governor's request to increase authorization or a decrement to remove excess authorization to balance personal services. Typically, an agency will attempt to transfer money within the agency rather than asking for a decrement.