

The Fiscal Year 2014 Budget:

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



Legislative Finance Division

www.legfin.state.ak.us

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

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

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

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Introduction

As required by law, the Governor released his FY14 budget proposal to the public and the legislature by December 15, 2012. The Legislative Finance Division prepared this overview of the Governor's proposal and "subcommittee books" for each agency in accordance with AS 24.20.211-.231.

Alaska's Fiscal Situation

Despite leaving a projected FY13 general fund surplus of \$490 million at the close of the 2012 session, the legislature now faces a FY13 deficit of \$410 million. A deficit situation is a new experience for legislators whose terms began after FY05.

For the past eight years, the typical situation was that higher-than-projected oil prices more than made up for lower-than-projected oil production, so that revenue exceeded expectations. More importantly, revenue exceeded expenditures. That meant legislators could use the current year surplus to supplement spending in the upcoming fiscal year. While some of the annual surpluses were spent, legislators also saved substantial amounts.

During FY13, oil production has been below FY12 levels by more than 8%. (For purposes of comparison, the year-to-year reductions in FY10, FY11 and FY12 were 7.2%, 6.4% and 4.1%, respectively.) Reduced production accounts for about \$490 million in "lost" revenue, which erased the surplus legislators thought they had left for use during the FY14 budget cycle.

Contrary to years in which higher-than-projected prices offset lagging production, FY13 prices are running \$2.85 per barrel lower than the \$110.45 that was projected. The result is another \$410 million in "lost" revenue. There will be no debating "spend versus save" during deliberation of the FY13 supplemental budget; there is likely to be a withdrawal from savings to fill the FY13 budget gap.

The Department of Revenue predicts that FY14 oil production will decline by 2.7% from FY13, and that oil prices will be about \$1 per barrel more than in FY13 (\$108.67 in FY13 and \$109.61 in FY14). The result is that projected FY14 unrestricted general fund revenue is \$510 million below projected FY13 revenue.

If spending in FY14 matched spending in FY13, there would be a FY14 deficit of \$920 million—\$410 million (as a repeat of FY13) plus \$510 million due to reduced unrestricted general fund revenue. The Department of Revenue expects oil production to fall by an average of 5.5% annually in the near future. The official forecast also shows oil price increases that offset a large portion of the "lost" revenue associated with declining production. Figure 1 shows the unrestricted general fund (UGF) revenue forecast to 2022, along with projections of UGF expenditures.

Projected expenditures are based on the following assumptions:

1. Agency operations increase at 1% annually. Based on the 6.5% annual growth that has occurred during the past 10 years, this will be a very difficult target to hit.
2. Statewide operations are flat, with the exception of increases for retirement costs.
3. The capital budget is held at \$875 million annually, which is the average capital budget during the past 10 years.

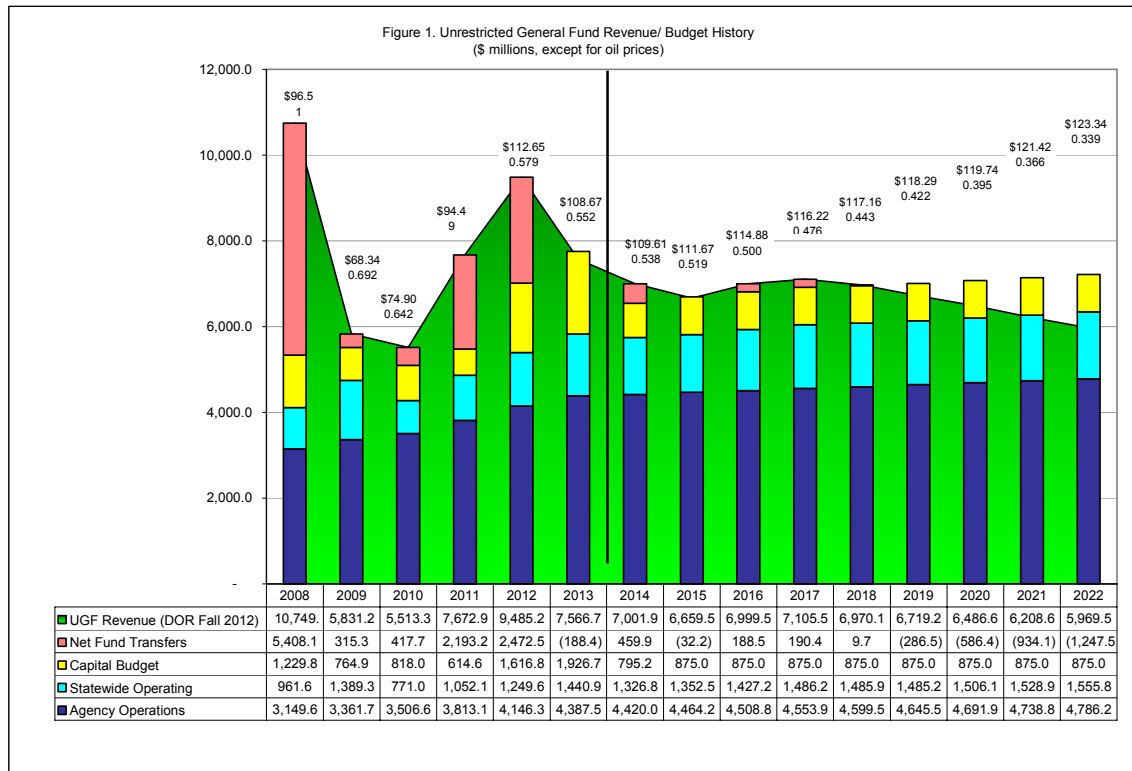


Figure 1 makes it easy to see why the Governor proposed reduced spending in FY14: continuing the historic rate of growth—or even remaining at the FY13 level of spending—could produce multi-billion dollar deficits in the near future. Even the hard-to-attain budget growth assumptions used to generate Figure 1 show that deficits will be difficult to avoid under current revenue projections.

The Governor's FY14 Budget

The following discussion is based on the fiscal summary that appears on page 8. Parenthetical references refer to line numbers on the summary. This review focuses on unrestricted general funds, not because other funds are unimportant, but because the difference between unrestricted general fund spending and unrestricted general fund revenue defines the fiscal surplus/gap.

1. **Agency Operations (line 8)** refers to money appropriated/requested to operate all public agencies. It may be the best expression of public perception of “the budget” and includes money for K-12 education (line 10) and other formula programs like Medicaid (line 11) as well as all non-formula operating costs (line 9). The Governor’s request is up \$52.3 million (1%) from FY13.

Issues

As part of the review process, fiscal analysts identify topics that legislators may want to address during the budget process.

1. **Medicaid.** At the 8% growth rate used in DHSS’s latest projections of Medicaid cost increases, an additional \$54 million of general funds would be needed in FY14—that is \$44 million less than the Governor requested. According to the Department, the FY14 request is lower because FY12 was a “pivotal year in Medicaid spending, the first year in which the impacts of implementation of various Medicaid cost savings measures were felt.”

Savings of this magnitude is great news, if the savings can be realized. The ability to move from an 8% projected growth rate to a 1.5% growth rate (saving \$44 million) is dramatic. To ensure that the Medicaid budget is adequately funded, subcommittees may want to review the Medicaid projection methodology and assumptions.

2. **K-12 Education.** The Governor’s budget contains a one-time \$25 million increase for K-12 education, which is sufficient to produce a general fund increase of \$9.4 million (0.8%). Given that most school districts throughout the state face fiscal challenges, there is certain to be pressure to increase education funding.
3. **Core Services.** The Governor’s budget includes increments totaling \$4 million to pay the cost of core services provided to agencies by the Department of Administration. Yet these costs are scheduled to increase by \$12.1 million (8%) in FY14. In addition, costs associated with the State Equipment Fleet are not fully covered by increments. If the Governor’s intent is to have agencies absorb these cost increases, the legislature may wish to discuss impacts with departments.
4. **Potential Supplemental Appropriations.** The legislature has indicated a strong desire to ensure that appropriations cover the full costs of agency operations. To the extent that the Governor’s budget requests understate full costs, legislative intent is undermined and there may be supplemental appropriations. The numbers driving this concern are large; the Governor reduced the traditional “placeholder” for supplemental operating appropriations to \$40 million, while the three-year average supplemental operating appropriation is \$85 million.

2. **Statewide Operations (line 17)** refers to appropriations that are typically not reviewed by operating budget subcommittees. The Governor’s request is down \$115.2 million (7.9%) from FY13. Most of these items—debt service,

retirement system costs and petroleum tax credits—are often considered to be nondiscretionary.

Issues

1. **Fund Capitalization.** The reduction is attributable to a FY13 deposit of \$125 million to a development fund created within the Alaska Industrial Development and Export Authority. The deposit is not repeated in FY14 (line 22).
2. **Debt Service.** The \$7.9 million increase in debt service (line 19) may not be required. The \$35 million estimate for debt service on 2013 series general obligation bonds may be overstated by about \$10 million.
3. **Capital Appropriations (line 28).** The Governor's \$795 million general fund request is \$1,109 million (56%) less than the FY13 capital budget adopted by the legislature.

Issues

1. **Legislative Additions.** The legislature typically adds a substantial amount to the Governor's capital request. Any projection of legislative additions would be purely speculative.
2. **AGIA Reimbursement.** Under the Alaska Gasline Inducement Act (AGIA), the state will reimburse the licensee (TC Alaska) for qualified expenditures incurred in development of a natural gas pipeline. To date, \$305 million has been appropriated to the fund, and \$223 million has been used to reimburse the licensee through 12/31/12. Projected reimbursements through FY14 total \$441 million. The Governor's proposed \$25 million capitalization for FY14 would bring the fund balance to \$330 million, \$111 million short of projected reimbursements through FY14.
3. **Phased Capital Projects.** Many recent capital projects have been funded in phases. While partial funding allows more projects to be included in a budget, the method may come back to haunt the Governor and future legislators. Partial funding can:
 - increase total project costs by adding uncertainty to project management and by splitting the bidding process; and
 - reduce discretion in preparing future capital budgets because a portion of the money available in any given year is earmarked for projects already underway.
4. **Transfers (line 39)** is the portion of the fiscal summary that requires the most explanation. The transfers section records money that passes from one fund to another without leaving the treasury. Although transfers are not considered spending—because money is transferred *within* the treasury—they affect the surplus/deficit because transfers of general funds change the amount that is available for other purposes.

A positive number indicates a deposit to a fund (typically *from* the general fund). A negative number (such as the \$120.2 million in the FY14 UGF column on line 46) indicates an effective transfer from a savings account *to* the general fund. In this case, the withdrawal from the Alaska Housing Capital Corporation account is spent directly in the capital and operating budgets. That is simply a short-cut for transferring the money back to the general fund, then using general funds for the projects funded directly from the savings account. The Governor's proposed FY14 transfers are far less complicated than those that occurred in FY13.

The Governor's proposed spending plan results in a projected FY14 surplus of \$508.1 million (line 51), including a \$120.2 million withdrawal from savings.

Projections involving oil revenue and the legislative appropriation process should be read with caution. Alaska's heavy reliance on oil revenue, and the difficulty in predicting price and production figures, is not news to anyone that pays attention to state fiscal matters. Nor is it news that the budget adopted by the legislature is typically higher than the Governor's request. Because projecting both oil revenue and general fund expenditures is so speculative, Legislative Finance prefers sensitivity charts to a revenue/surplus estimate based on a specific oil price.

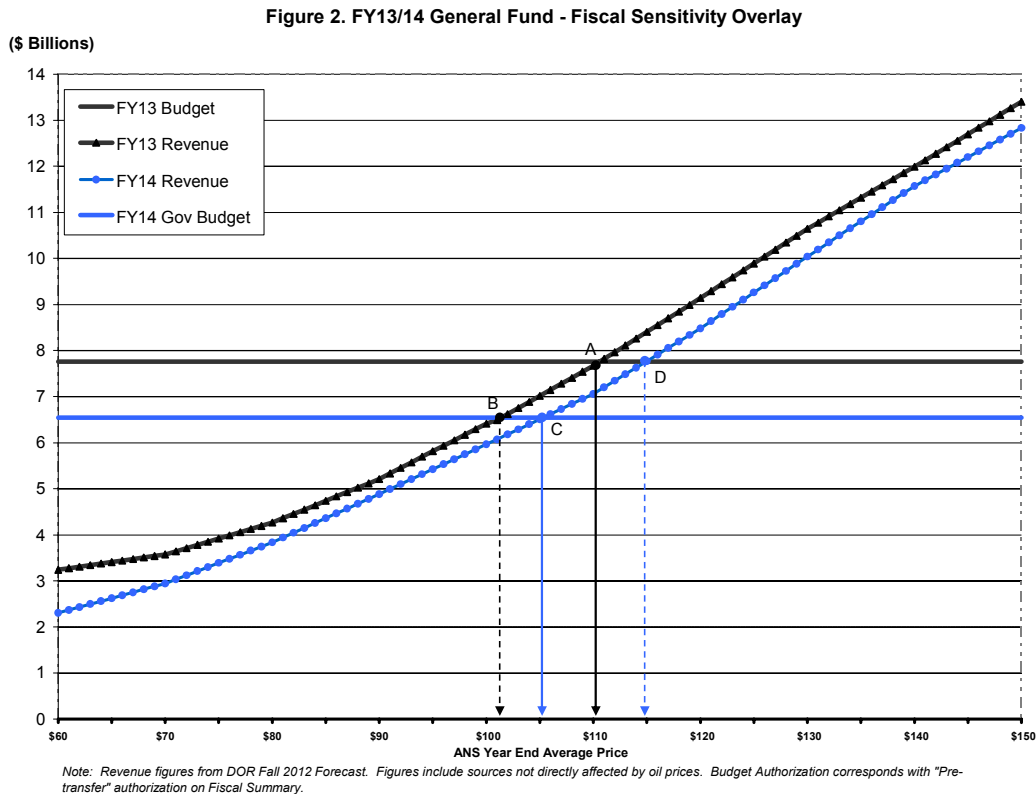
Figure 2 shows the sensitivity of revenue to changes in oil prices for FY13 and FY14. Point A is the intersection of FY13 expenditures and the FY13 revenue curve. The point indicates the FY13 budget would be balanced if oil sells for an average of just over \$110 per barrel. Figure 2 also indicates the surplus/deficit that would occur if oil prices move above/below the break-even point—just slide along the revenue curve.

As proposed by the Governor, the pre-transfer FY14 budget is \$1.17 billion below the FY13 budget. If the FY13 revenue curve applied to FY14, the Governor's FY14 budget would break-even at about \$102 per barrel (at point B).

Unfortunately, the revenue curve shifts downward in FY14. The downward shift pushes the FY14 break-even price of oil to about \$105 (at point C). If the final FY14 budget returns to the FY13 level, the break-even price will be about \$115 (at point D).

The downward shift in the revenue curve is caused by declining production—less oil to sell means less revenue—and by increasing production costs. As increasing production costs are spread over fewer barrels, per barrel costs rises and per barrel profit shrinks. As this chain of events continues, the revenue curve will continue to shift downward. The rapid increase in the break-even price of oil, \$64 in FY10, \$77 in FY11, \$94 in FY12 and \$110 in FY13 should be cause for concern. If the expenditure line continues to shift upward, the break-even price will soon exceed the market price and Alaska will have budget deficits.¹

¹ The break-even price is driven, in part, by the capital budget. If surpluses vanish, the capital budget can be expected to shrink. There would be a corresponding decrease in the break-even price.



Further Analysis

Although the fiscal summary provides a concise statement (and comparison) of projected revenue, appropriations and the size of the anticipated surplus or deficit, it has the limitation of being short on explanation. This *Overview* contains more detailed discussions of the proposed FY14 budget:

- Agency summaries (operating budget on pages 16 & 17 and capital budget beginning on page 75) provide a quick comparison of the Governor's proposed budget with FY13 spending.
- Narratives on individual agency operating budgets begin on page 86.
- Language sections of both operating and capital bills (with analysis) begin on pages 25 and 76, respectively.

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

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State of Alaska Fiscal Summary--FY13 and FY14 (Part 1)

(\$ millions)

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

January 11, 2013

		FY13 Management Plan					FY14 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)														
2	Unrestricted General Fund Revenue (Fall 2012) (2)														
3	Carryforward (3)														
4	Designated General Fund Revenue (4)														
5	Other State Funds and Federal Receipts														
		7,566.7	833.8	8,400.5	511.7	2,926.0	11,838.2	7,001.9	888.6	7,890.5	559.3	2,939.7	11,389.4	(510.1)	-6.1%
		7,511.7	-	7,511.7	-	-	7,511.7	7,001.9	-	7,001.9	-	-	7,001.9		
		55.0	0.1	55.1	0.3	10.9	66.4	-	-	-	-	-	888.6		
		-	833.7	833.7	-	-	833.7	-	888.6	888.6	-	2,939.7	3,499.0		
		-	-	-	511.4	2,915.1	3,426.4	-	-	559.3	-	-	-		
APPROPRIATIONS															
6	TOTAL OPERATING APPROPRIATIONS														
7	Agency Operations														
8	Current Fiscal Year Appropriations (Includes Fiscal Notes)														
9	Agency Operations (Non-Formula)														
10	K-12 Formula and Pupil Transportation														
11	Other Formula Programs														
12	Revised Programs Legislatively Approved														
13	Fiscal Notes (FY13 notes are included in Management Plan)														
14	Veetoes (non-additive)														
15	Duplicated Authorization (non-additive) (5)														
16	Supplemental Operating Appropriations														
		40.0	0.0	40.0	0.0	0.0	40.0	40.0	0.0	40.0	0.0	0.0	40.0	-	0.0%
		1,440.9	23.6	1,464.6	44.6	41.8	1,551.0	1,326.8	22.6	1,349.4	54.5	40.8	1,444.7	(115.2)	-7.9%
Statewide Operations															
Current Fiscal Year Appropriations															
18	Debt Service														
19	Local Government Support														
20	Oil & Gas Investment Tax Credits														
21	AIDEA Capitalization (Fiscal Note)														
22	Other Fund Capitalization														
23	Direct Appropriations to Retirement														
24	Judgments, Claims and Settlements														
25	Veetoes (non-additive)														
26	Duplicated Authorization (non-additive) (5)														
27															
		1,926.7	51.7	1,978.4	21.7	900.2	2,900.3	795.2	74.6	869.9	33.3	911.9	1,815.1	(1,108.5)	-56.0%
TOTAL CAPITAL APPROPRIATIONS															
Current Fiscal Year Appropriations															
29	Project Appropriations & RPLs (Revised Programs)														
30	Fund Capitalization														
31	Projects Funded with General Obligation Bonds (non-additive)														
32	Projects Funded with Other Debt Proceeds (non-additive)														
33	Capital Veetoes (non-additive)														
34	Duplicated Authorization (non-additive) (5)														
35	Money on the Street (includes all fund sources) (6)														
36															
		1,926.7	51.7	1,978.4	513.3	900.2	3,391.9	795.2	74.6	869.9	56.6	911.9	1,838.4	(1,108.5)	-56.0%
Pre-Transfers Authorization (unduplicated)															
37															
38	Pre-Transfers Surplus/(Deficit)														
		7,755.1	810.3	8,565.4	502.9	2,926.0	11,994.3	6,542.0	852.1	7,394.1	550.3	2,939.7	10,884.1	(1,171.3)	-13.7%

State of Alaska Fiscal Summary--FY13 and FY14 (Part 1)

(\$ millions)

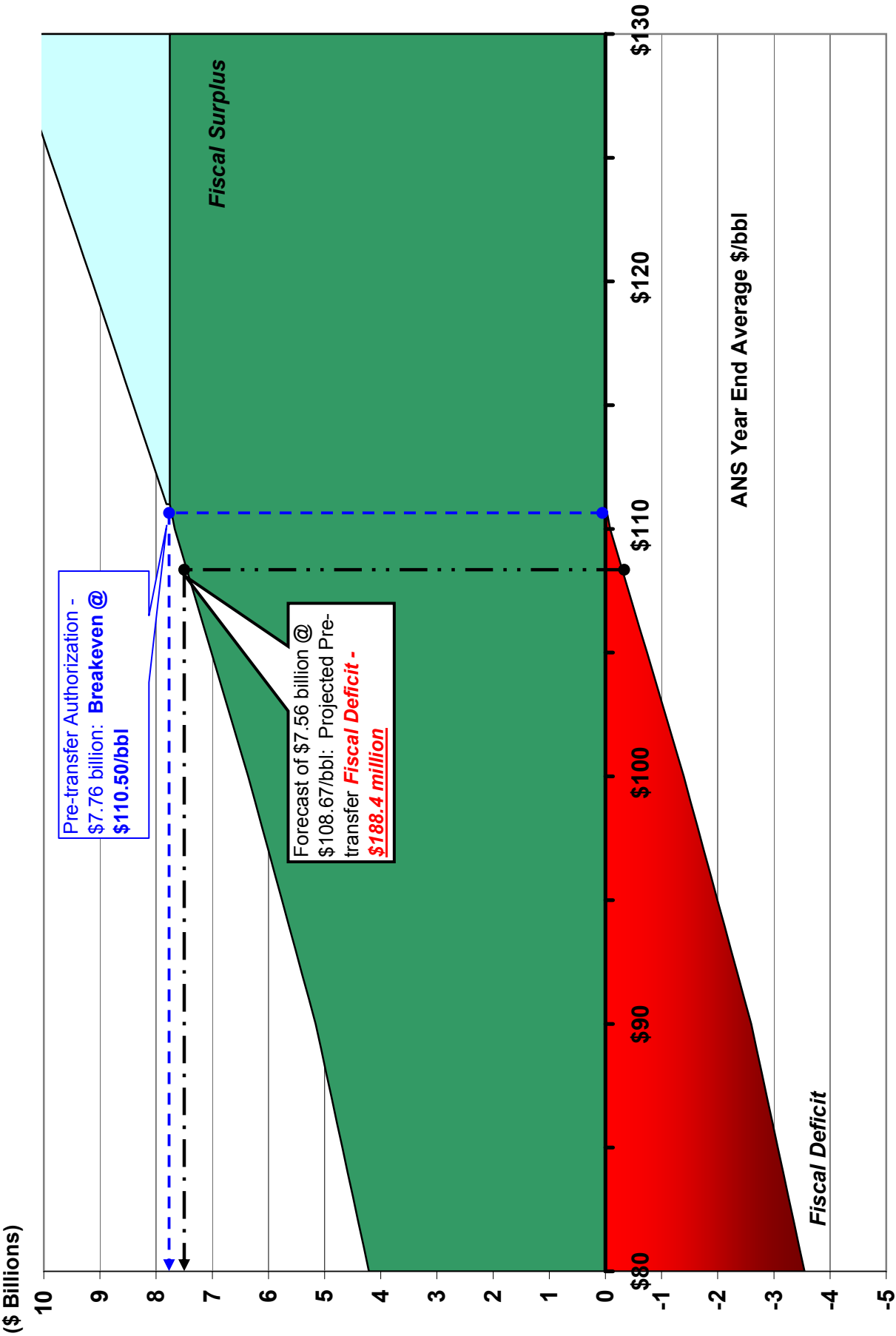
FY14 Governor's Request															Change in GF	
FY13 Management Plan																
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Notes:

- (1) 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 52-55 of the summary. Permanent Fund earnings and balance information is reported in part 2 of the fiscal summary.
- (2) The Department of Revenue's Fall 2012 oil forecast for FY13 is 0.553 mbd at \$108.67 per barrel; the FY14 forecast is 0.538 mbd at \$109.61 per barrel.
- (3) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations or reappropriations. Total carryforward into FY14 will be unknown until the close of FY13.
- (4) 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.
- (5) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. 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.
- (6) Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.
- (7) "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.
- (8) Amounts shown on line 55 can be considered duplicated appropriations--they are included in the operating or capital budgets above. The amounts in the Designated General Fund column includes earnings deposited in the Capital Income Fund and amounts associated with the dividend program. Amounts in the Other column reflect gross earnings of the Permanent Fund spent for purposes other than operation of the corporation.

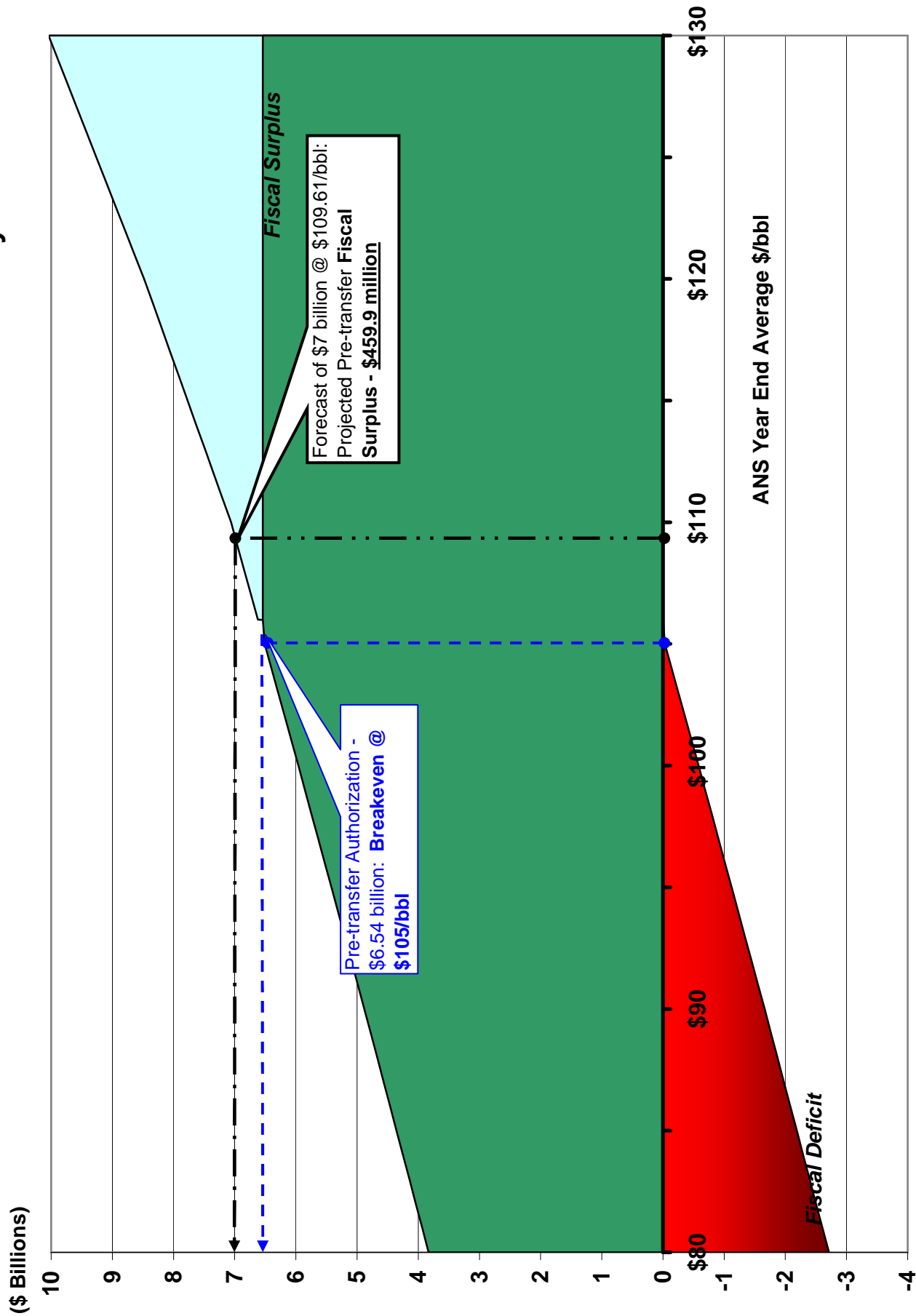
January 11, 2013

FY13 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue Figures are based on the DOR Fall 2012 forecast and adjusted for projected carry-forward authorization (\$55 million). Figures include revenue not directly affected by oil prices. Revenue values are based on fiscal year average prices and do not reflect monthly price volatility that affects total revenue .

FY14 Unrestricted General Fund Revenue - Fiscal Sensitivity



Note: Revenue figures are based on DOR Fall 2012 forecast and include revenue not directly affected by oil prices. Revenue values are based on fiscal year average prices and do not reflect monthly price volatility that affects total revenue.

State of Alaska Fiscal Summary-- FY13 and FY14 (Part 2)

(\$ millions)

Approximate Balances of Savings Accounts

	FY13				FY14			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund (no appropriations allowed)	35,033.0	1,691.0	0.0	36,724.0	36,724.0	1,772.0	0.0	38,496.0
Undesignated Savings	18,939.0	2,908.1	2,219.9	19,627.2	19,627.2	3,221.5	2,039.2	20,809.5
Other Undesignated Savings	16,857.9	1,166.1	834.9	17,189.1	17,189.1	968.5	120.2	18,037.4
Constitutional Budget Reserve Fund	10,642.4	886.7	0.0	11,529.1	11,529.1	442.9	0.0	11,972.0
Statutory Budget Reserve Fund	5,237.7	250.0	410.8	5,076.9	5,076.9	508.1	0.0	5,585.0
Alaska Housing Capital Corporation Fund	977.8	29.3	424.1	583.1	583.1	17.5	120.2	480.3
Permanent Fund Earnings Reserve Account	2,081.1	1,742.0	1,385.0	2,438.1	2,438.1	2,253.0	1,919.0	2,772.1
Designated Savings	2,230.4	1,690.9	1,267.5	2,653.7	2,653.7	1,349.1	1,296.1	2,706.7
Alaska Capital Income Fund	58.3	19.0	0.0	77.3	77.3	22.0	0.0	99.3
Alaska Higher Education Investment Fund	0.0	412.0	5.9	406.1	406.1	12.2	12.0	406.3
Public Education Fund	1,240.2	1,139.7	1,178.5	1,201.4	1,201.4	1,191.8	1,190.7	1,202.6
Revenue Sharing Fund	180.0	60.0	60.0	180.0	180.0	60.0	60.0	180.0
Power Cost Equalization Endowment	751.8	60.1	23.1	788.9	788.9	63.1	33.4	818.6
Reserves (Excluding Permanent Fund Principal)	21,169.4	4,598.9	3,487.4	22,280.9	22,280.9	4,570.6	3,335.3	23,516.2
Unrestricted General Fund Appropriations				7,566.7				6,493.8
Years of Reserves (Reserves/UGF Appropriations)				2.94				3.62

Operating Budget

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Agency Summary - FY14 Operating Budget - Total Funds										
Agency	12 Actual	13 CC	13 Auth	13 MgtPln	Adj Base	Gov	13 MgtPln to Gov	Adj Base to Gov		
Administration	300,888.5	326,804.2	326,804.2	326,804.2	325,293.6	336,160.6	9,356.4	2.9%	10,867.0	3.3%
Commerce, Community & Econ Dev	187,621.8	191,123.1	219,004.8	219,004.8	197,681.9	201,154.9	(17,849.9)	-8.2%	3,473.0	1.8%
Corrections	286,957.6	323,191.7	323,191.7	323,191.7	322,869.8	327,089.6	3,897.9	1.2%	4,219.8	1.3%
Education & Early Dev	1,511,588.9	1,484,722.5	1,559,514.4	1,559,514.4	1,525,476.7	1,569,296.2	9,781.8	0.6%	43,819.5	2.9%
Environmental Conservation	76,161.0	83,572.4	84,000.2	84,000.2	83,618.9	85,271.1	1,270.9	1.5%	1,652.2	2.0%
Fish and Game	181,311.7	211,813.3	211,813.3	211,813.3	211,045.8	214,949.7	3,136.4	1.5%	3,903.9	1.8%
Governor	143,368.9	33,134.2	34,689.2	34,689.2	26,548.4	29,606.5	(5,082.7)	-14.7%	3,058.1	11.5%
Health & Social Services	2,267,044.0	2,619,997.3	2,637,826.6	2,637,826.6	2,620,134.4	2,657,255.8	19,429.2	0.7%	37,121.4	1.4%
Labor & Workforce Dev	163,337.9	195,621.9	196,570.0	196,570.0	195,427.8	194,404.9	(2,165.1)	-1.1%	(1,022.9)	-0.5%
Law	100,673.8	95,100.7	100,284.7	100,284.7	87,717.9	96,233.3	(4,051.4)	-4.0%	8,515.4	9.7%
Military & Veterans Affairs	52,461.1	63,700.9	63,935.1	63,935.1	55,505.4	64,416.3	481.2	0.8%	8,910.9	16.1%
Natural Resources	155,058.9	165,730.0	167,522.5	167,522.5	162,646.1	169,952.3	2,429.8	1.5%	7,306.2	4.5%
Public Safety	181,931.9	201,213.6	203,863.3	203,863.3	201,693.0	208,833.9	4,970.6	2.4%	7,140.9	3.5%
Revenue	283,762.4	327,220.1	328,022.1	328,022.1	327,588.5	349,660.8	21,638.7	6.6%	22,072.3	6.7%
Transportation & Public Facilities	617,496.2	621,170.3	621,476.1	621,476.1	624,284.1	635,658.8	14,182.7	2.3%	11,374.7	1.8%
University of Alaska	834,635.7	925,829.0	925,828.0	925,828.0	939,730.7	947,610.8	21,782.8	2.4%	7,880.1	0.8%
Alaska Court System	103,695.3	110,791.0	110,791.0	110,791.0	110,607.4	115,369.0	4,578.0	4.1%	4,761.6	4.3%
Legislature	59,062.3	73,407.0	74,928.3	74,928.3	74,024.4	74,064.7	(863.6)	-1.2%	40.3	0.1%
Branch-wide Unallocated Approp	-	36,000.0	36,000.0	36,000.0	36,000.0	36,000.0	-	0.0%	-	0.0%
Agency Budgets Total	7,507,057.9	8,090,143.2	8,226,065.5	8,226,065.5	8,127,894.8	8,312,989.2	86,923.7	1.1%	185,094.4	2.3%
Statewide Items										
Debt Service	322,387.8	310,388.8	315,988.0	315,988.0	315,988.0	352,752.8	36,764.8	11.6%	36,764.8	11.6%
Fund Capitalization	465,097.7	496,555.1	621,555.1	621,555.1	496,555.1	495,633.6	(125,921.5)	-20.3%	(921.5)	-0.2%
Direct Approps to Retirement	479,471.8	613,865.2	613,865.2	613,865.2	613,865.2	633,780.6	19,915.4	3.2%	19,915.4	3.2%
Special Appropriations	22,771.3	-	18,000.0	18,000.0	-	-	-	-	-	-
Statewide Items Total	1,289,728.6	1,420,809.1	1,569,408.3	1,569,408.3	1,426,408.3	1,482,167.0	(87,241.3)	-5.6%	55,758.7	3.9%
Statewide Total										
Statewide Total	8,796,786.5	9,510,952.3	9,795,473.8	9,795,473.8	9,554,303.1	9,795,156.2	(317.6)	0.0%	240,853.1	2.5%
Unrestricted General (UGF)	5,180,504.6	5,528,242.8	5,788,434.6	5,788,434.6	5,562,526.5	5,706,798.1	(81,636.5)	-1.4%	144,271.6	2.6%
Designated General (DGF)	666,062.9	751,488.9	758,635.6	758,635.6	762,579.5	777,434.8	18,799.2	2.5%	14,855.3	1.9%
Other State Funds (Other)	1,077,835.5	1,219,365.1	1,225,302.0	1,225,302.0	1,214,611.3	1,283,210.0	57,908.0	4.7%	68,598.7	5.6%
Federal Receipts (Fed)	1,872,383.5	2,011,855.5	2,023,101.6	2,023,101.6	2,014,585.8	2,027,713.3	4,611.7	0.2%	13,127.5	0.7%
Fund Transfers (non-additive)										
Fund Transfers (non-additive)	3,565,452.3	1,616,111.1	1,186,022.6	1,186,022.6	1,186,022.6	1,838,080.1	652,057.5	55.0%	652,057.5	55.0%

Agency Summary - FY14 Operating Budget - General Funds									
Agency	12 Actual	13 CC	13 Auth	13 MgtPln	Adj Base	Gov	13 MgtPln to Gov	Adj Base to Gov	
Administration	103,056.0	108,490.3	108,490.3	108,490.3	107,096.5	110,046.9	1,556.6	2,950.4	2.8%
Commerce, Community & Econ Dev	125,894.5	131,527.9	158,339.8	158,339.8	140,791.4	139,780.2	(18,559.6)	(1,011.2)	-0.7%
Corrections	269,456.0	304,914.6	304,914.6	304,914.6	305,103.4	309,256.0	4,341.4	4,152.6	1.4%
Education & Early Dev	1,241,374.6	1,225,754.0	1,294,927.7	1,294,927.7	1,266,482.3	1,309,491.7	14,564.0	43,009.4	3.4%
Environmental Conservation	44,436.6	48,041.9	48,469.7	48,469.7	48,081.0	49,133.2	663.5	1,052.2	2.2%
Fish and Game	84,674.4	87,766.3	87,766.3	87,766.3	86,982.1	88,902.7	1,136.4	1,920.6	2.2%
Governor	29,336.5	32,417.8	33,972.8	33,972.8	25,828.5	28,886.6	(5,086.2)	3,058.1	11.8%
Health & Social Services	1,149,953.8	1,288,960.7	1,305,324.9	1,305,324.9	1,295,862.4	1,319,000.4	13,675.5	23,138.0	1.8%
Labor & Workforce Dev	61,393.8	68,162.4	68,619.2	68,619.2	67,918.6	69,059.4	440.2	1,140.8	1.7%
Law	73,896.5	65,635.0	70,819.0	70,819.0	58,191.6	65,834.2	(4,984.8)	7,642.6	13.1%
Military & Veterans Affairs	17,960.6	21,900.7	22,135.0	22,135.0	13,626.8	22,602.7	467.7	8,975.9	65.9%
Natural Resources	103,942.8	104,785.5	106,240.2	106,240.2	101,666.1	106,842.4	602.2	5,176.3	5.1%
Public Safety	159,762.6	170,420.6	170,468.6	170,468.6	170,860.3	182,683.7	12,215.1	11,823.4	6.9%
Revenue	40,903.8	41,122.3	41,924.3	41,924.3	41,250.5	42,178.7	254.4	928.2	2.3%
Transportation & Public Facilities	361,147.2	350,508.3	350,814.1	350,814.1	352,414.7	359,391.4	8,577.3	6,976.7	2.0%
University of Alaska	628,078.7	691,550.4	691,549.4	691,549.4	704,025.2	710,190.3	18,640.9	6,165.1	0.9%
Alaska Court System	100,807.2	107,200.9	107,200.9	107,200.9	107,735.1	111,891.5	4,690.6	4,156.4	3.9%
Legislature	58,684.4	73,004.0	74,525.3	74,525.3	73,621.4	73,661.7	(863.6)	40.3	0.1%
Branch-wide Unallocated Approp	-	36,000.0	36,000.0	36,000.0	36,000.0	36,000.0	-	-	0.0%
Agency Budgets Total	4,654,760.0	4,958,163.6	5,082,502.1	5,082,502.1	5,003,537.9	5,134,833.7	52,331.6	131,295.8	2.6%
Statewide Items									
Debt Service	259,379.5	238,877.8	238,877.8	238,877.8	238,877.8	246,792.8	7,915.0	7,915.0	3.3%
Fund Capitalization	430,184.9	468,825.1	593,825.1	593,825.1	468,825.1	468,825.8	(124,999.3)	0.7	0.0%
Direct Approps to Retirement	479,471.8	613,865.2	613,865.2	613,865.2	613,865.2	633,780.6	19,915.4	19,915.4	3.2%
Special Appropriations	22,771.3	-	18,000.0	18,000.0	-	-	(18,000.0)	-	-
Statewide Items Total	1,191,807.5	1,321,568.1	1,464,568.1	1,464,568.1	1,321,568.1	1,349,399.2	(115,168.9)	27,831.1	2.1%
Statewide Total									
Statewide Total	5,846,567.5	6,279,731.7	6,547,070.2	6,547,070.2	6,325,106.0	6,484,232.9	(62,837.3)	159,126.9	2.5%
Unrestricted General (UGF)	5,180,504.6	5,528,242.8	5,788,434.6	5,788,434.6	5,562,526.5	5,706,798.1	(81,636.5)	144,271.6	2.6%
Designated General (DGF)	666,062.9	751,488.9	758,635.6	758,635.6	762,579.5	777,434.8	18,799.2	14,855.3	1.9%
Fund Transfers (non-additive)	3,546,639.5	1,607,279.3	1,177,190.8	1,177,190.8	1,177,190.8	1,829,085.7	651,894.9	651,894.9	55.4%

Positions: Authorized Count, Vacancy Factors and Legislative Control

The Governor's FY14 operating budget request increases permanent full-time (PFT) positions by 203 from the FY13 Management Plan. Departments also added 95 PFTs (to the number authorized by the legislature) in FY13, so the total increase from the FY13 authorized level is 298. Overall, the Governor's FY14 statewide budget contains 25,002 total positions (full-time, part-time, and temporary).

Permanent Full-time Positions Only					
Agency	FY13 Authorized	FY13 Mgt Plan	FY14 Governor	Positions Added by Agencies in FY13	Additional Positions Requested in FY14
Administration	1,087	1,051	1,051	(36)	-
Commerce, Community & Econ Dev	513	524	526	11	2
Corrections	1,698	1,708	1,860	10	152
Education & Early Dev	334	335	335	1	-
Environmental Conservation	541	551	552	10	1
Fish and Game	911	928	933	17	5
Governor	156	158	155	2	(3)
Health & Social Services	3,459	3,469	3,470	10	1
Labor & Workforce Dev	827	869	869	42	-
Law	570	571	576	1	5
Military & Veterans Affairs	338	339	339	1	-
Natural Resources	745	755	756	10	1
Public Safety	868	869	890	1	21
Revenue	881	884	892	3	8
Transportation	3,173	3,185	3,186	12	1
University of Alaska	4,727	4,727	4,727	-	-
Alaska Court System	764	764	773	-	9
Legislature	251	251	251	-	-
Agency Budgets Total	21,843	21,938	22,141	95	203

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. Positions (i.e., Position Control Numbers (PCNs)) do not necessarily equate to the number of actual employees. More than one person can fill a single PCN, and many PCNs are vacant at some time during the fiscal year.

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

- Funding requested for FY14 positions is about 26% of the total operating budget (\$2.5 billion). Perhaps more pertinent, personal services funding is 44% of the operating budget, excluding grants.
- Positions are difficult to delete. As former Representative Mike Kelly bluntly stated, "State employees have Velcro on their butts."

- Positions not authorized by the legislature are added every year (in Management Plan and beyond). As noted above, 95 positions added in the FY13 Management Plan were not authorized by the legislature.
- Legislators are often surprised when services cannot be performed because agencies hold “fully funded” positions vacant, claiming they have insufficient funding to fill the 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. 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 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; or
- in a reclassified PCN; or
- 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 will be passed to other divisions if the Commissioner's Office increases its collection of interagency 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, DCCED's Commissioner's Office contains a budget request for \$143.7 of 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 appears to be clean, meaning low vacancy rates, may "hide" a problem because budgeted funding sources may fail to materialize. For

example, excess federal authorization in the personal services line may mean that an agency does not have cash 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase.
 - **Vacancy factors** are discussed below.
5. **If an agency cannot afford to fill a position, why the reluctance to delete it?** There are a 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 must 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 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 contractual line may simply indicate that the department
- is having difficulty recruiting so will contract for the services, or
 - must use the funding to pay increased contractual costs for leases, IT services, outside vendor costs, etc.

But 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 August 2012 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 15th 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 vacant 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 Governor's Automated Budget System (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.

Debt Summary Table

(\$ thousands)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14Gov	FY13 to FY14	Comments
DEBT SERVICE/ REIMBURSEMENT											
ADRF Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	31,772.1	31,470.9	31,148.6	30,803.3	30,248.0	-	-	-	-	-	As requested by Legislative Finance, starting FY11, the budget does not capitalize the ADRF. Payments for debt service are appropriated directly, instead of through the ADRF.
GO Bonds - GARVEES (Series 2003B)	9,241.0	11,662.0	13,222.7	13,062.5	12,885.1	-	-	-	-	-	
GO Bonds - Transportation (Series 2009A)	-	-	-	-	5,589.0	-	-	-	-	-	
GO Bonds - Transportation (Series 2010A)	-	-	-	-	-	1,039.0	3,107.0	-	-	-	
Certificates of Participation (COPs)	13,782.1	13,147.6	11,170.1	8,061.3	8,036.3	-	-	-	-	-	
School Debt Reimbursement	59,463.5	66,935.0	70,497.0	73,621.2	77,045.3	-	-	-	-	-	
Administrative Systems Replacement	400.0	-	2,302.0	-	-	-	-	-	-	-	
AMHS Vessel Overhaul	764.0	-	-	-	-	-	-	-	-	-	
Subtotal	115,422.7	123,215.5	128,340.4	125,548.3	133,803.7	1,039.0	3,107.0	-	-	-	
Direct Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	96.8	44.5	11.4	13.6	221.5	30,199.9	29,927.9	27,581.2	20,212.0	(7,369.2)	GO Bond Premium, Interest & GF
GO Bonds - GARVEES (Series 2003B)	4,543.3	1,860.1	56.3	6.9	1.3	12,728.1	12,571.9	12,420.1	12,279.3	(140.8)	Interest & Federal Rcpts
GO Bonds - Transportation (Series 2009A)	-	-	-	-	-	10,832.1	12,878.3	12,905.0	12,932.2	27.2	GO Bond Premium, Interest & GF
GO Bonds - Educational Facilities (Series 2010A/B)	-	-	-	-	-	3,961.0	25,703.4	28,182.9	9,158.8	(19,024.1)	GF & Federal Rcpts
GO Bonds - Partial Refinanced Series 2003A (Series 2012A)	-	-	-	-	-	-	-	-	9,264.9	9,264.9	GF
GO Bonds - (Series 2013A/B/C/D); Trustee Fees; Arbitrage Rebate; Remarketing Costs	-	-	-	-	-	-	-	-	35,630.3	35,630.3	GF
Certificates of Participation (COPs)	-	-	-	-	-	8,009.5	6,943.5	6,982.5	1,795.8	(5,186.7)	GF
One-time Defeasance - COPs	-	-	-	-	-	-	24,000.0	-	-	-	GF
School Fund - School Debt Reimbursement	27,000.0	27,000.0	24,500.0	23,400.0	23,000.0	106,258.5	108,145.6	120,386.3	128,263.1	7,876.8	GF & School Fund
International Airport Revenue Bonds	33,125.9	45,426.3	49,085.7	50,027.4	50,028.7	50,047.9	41,571.5	41,208.4	42,212.1	1,003.7	IARF, PFC's, Fed
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	-	-	-	35,700.0	35,700.0	IARF, IACF
Clean Water Fund Bonds	1,630.0	1,539.3	831.8	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	(96.6)	ACWF Receipts
Drinking Water Fund Bonds	1,105.0	1,075.3	1,109.8	1,115.0	1,670.0	2,973.2	2,724.6	1,863.6	1,805.0	(58.6)	ADWF Receipts
Sport Fish Hatchery Revenue Bonds	-	8,219.0	7,000.0	7,500.0	8,900.0	7,500.0	7,500.0	7,500.0	7,500.0	-	Sport Fish License Surcharge
Capital Project Reimbursement (HB 528)	3,634.1	10,209.9	10,459.0	8,036.2	5,548.9	5,707.3	6,071.0	5,888.9	5,601.3	(287.6)	GF
DOA for Atwood Building	3,549.4	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1	3,467.0	3,467.0	3,467.0	-	GF
DOA for Limy Pacillo Parking Garage	-	-	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	-	GF
Anchorage Jail (Capital Lease)	5,275.1	5,091.8	5,102.0	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	7.5	GF
One-time Defeasance - Anchorage Jail	-	-	-	-	-	-	25,000.0	-	-	-	GF
Spring Creek Correctional Center	-	-	-	1,755.6	-	-	-	-	-	-	
Yukon-Kuskokwim Correctional Center	-	-	-	951.8	-	-	-	-	-	-	
Goose Creek Correctional Center	-	-	-	-	17,813.4	17,816.5	17,813.7	17,815.8	17,820.0	4.2	GF, includes Trustee Fees for FY14
AHFC State Capital Project Bonds	59,895.4	31,935.0	6,138.6	6,139.6	6,139.9	6,140.8	6,139.0	10,779.3	10,880.3	101.0	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	16,000.0	16,400.0	27,600.0	29,800.0	25,200.0	23,600.0	23,500.0	23,300.0	23,100.0	(200.0)	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	155,855.0	152,268.3	138,804.7	142,657.9	151,403.2	300,363.4	363,738.4	329,481.1	386,733.1	57,252.0	
TOTAL Debt Service/Reimbursement	271,277.6	275,483.8	267,145.1	268,206.2	285,206.9	301,402.4	366,845.4	329,481.1	386,733.1	57,252.0	
Debt Payments by Type											
GO Bonds	45,653.2	45,037.5	44,439.0	43,886.3	48,944.9	58,760.1	84,188.5	81,089.2	99,477.5	18,388.3	COP's, Atwood Building, Parking Garage, Anchorage Jail, Goose Creek Prison
Lease - Purchase Financing Revenue Bonds	22,606.6	21,706.5	23,182.2	22,630.5	37,724.2	37,704.6	84,556.3	35,670.0	30,495.0	(5,175.0)	Creek Prison
Debt Reimbursement	90,861.6	104,144.9	105,456.0	105,057.4	105,594.2	111,965.8	114,216.6	126,275.2	133,864.4	7,589.2	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	75,895.4	48,335.0	33,738.6	35,939.6	31,339.9	29,740.8	29,639.0	34,079.3	33,980.3	(99.0)	AHFC, NTSC
Short Term Financing	3,135.0	2,614.6	4,243.6	3,165.0	2,675.0	5,683.2	5,173.4	3,659.0	3,503.8	(155.2)	Clean and Drinking Water

Language Sections of the Governor's FY14 Operating Budget

Sec. 4. LEGISLATIVE INTENT. It is the intent of the legislature that the amounts appropriated by this Act are the full amounts that will be appropriated for those purposes for the fiscal year ending June 30, 2014.

In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The intent of this section was to emphasize that requests for supplemental operating appropriations are expected to be limited to needs that were unanticipated during the current budget process.

Sec. 5. COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services because of reclassification of job classes during the fiscal year ending June 30, 2014.

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

Sec. 6. PERSONAL SERVICES TRANSFERS. It is the intent of the legislature that agencies restrict transfers to and from the personal services line. It is the intent of the legislature that the office of management and budget submit a report to the legislature on January 15, 2014, that describes and justifies all transfers to and from the personal services line by executive branch agencies during the first half of the fiscal year ending June 30, 2014, and submit a report to the legislature on October 1, 2014, that describes and justifies all transfers to and from the personal services line by executive branch agencies for the entire fiscal year ending June 30, 2014.

A similar section was added by the legislature in FY09 and has appeared in operating budgets since then. It was added in response to some legislators' desire to gain a better understanding of personal services expenditures and the addition of positions that were not authorized by the legislature.

Sec. 7. ALASKA AEROSPACE CORPORATION. Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2014, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations for the fiscal year ending June 30, 2014.

This section is intended to maximize the Alaska Aerospace Corporation's (AAC) ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner.

Funding: The estimated impact of this section is zero. Historically, the appropriations to the corporation in section 1 have typically been sufficient to avoid application of this section. However, federal funds appropriated in section 1 are now zero, and corporate receipt authority is too small to absorb a launch contract. If a contract goes into effect during FY14, this language will allow the corporation to collect and spend money from private or federal sources.

Sec. 8. ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that \$10,620,232 of the adjusted net income from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2014.

Subsection (a) is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the state as a FY14 dividend payment. The amounts available for dividends in FY12 and FY13 were \$23.1 million and \$27.3 million, respectively.

Legislative Fiscal Analyst Comment: The statutory dividend is the lesser of \$103 million or 75% of the corporation's change in net assets in the most recently completed fiscal year (AS 18.56.089(c)). AHFC's net income declined precipitously due to a declining market share as federal mortgage programs offered mortgages at low rates. The situation persists, so that dividends are expected to be even lower in FY15 and may stay at historically low levels for several years.

Legislative Fiscal Analyst Recommendation: The language in subsection (a) refers to "net income" while the statute refers to "change in net assets." Although the terms may have the same meaning, use of the statutory language is preferable.

(b) A portion of the amount set out in (a) of this section for the fiscal year ending June 30, 2014, will be retained by the Alaska Housing Finance Corporation for the following purposes in the following estimated amounts:

- (1) \$1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;
- (2) \$7,331,262 for debt service on the bonds described under ch. 1, SSSLA 2002;
- (3) \$2,549,066 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection (b) makes no appropriation; it informs the legislature that the Alaska Housing Finance Corporation (AHFC) will retain the entire amount of the FY14 dividend in order to pay debt service on various AFHC-financed capital projects authorized by past legislatures. Debt service to be paid by AHFC for these projects in FY14 is \$10,880,328.

Legislative Fiscal Analyst Comment: At the request of the State, AHFC issued corporate debt in order to avoid higher interest rates that bonds with debt service subject to appropriation might command. This is the first year that debt service for these projects exceeds the amount of the dividend. The implications are that:

1. the state will receive no spendable AHFC dividend for FY14 and
2. AHFC will pay \$260,096 more in debt service than the corporation retains in dividends.

Legislative Fiscal Analyst Recommendation: Because debt service payments exceed the dividend calculation, the language of section (b) should be revised to clarify that AHFC will pay the full amount of debt service. Suggested language is:

(b) The Alaska Housing Finance Corporation shall retain the amount set out in (a) of this section for the purpose of paying debt service, in the following estimated amounts

for the following capital projects authorized by the legislature, for the fiscal year ending June 30, 2014:

Legislative Fiscal Analyst Comment: There are three bond issues cited in subsection (b), yet four are cited in statute. One issue has been fully repaid. Reference to the repaid bonds could be deleted from AS 18.56.089(c).

(c) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2014, is appropriated to the budget reserve fund (AS 37.05.540(a)).

Subsection (c) appropriates any “unused” portion of the dividend to the statutory budget reserve fund.

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

Legislative Fiscal Analyst Recommendation: Appropriate the “unused” balance of dividends to the Alaska Capital Income Fund (AS 37.05.565), as was done in the FY13 budget. This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.

Although subsection (c) is not expected to apply in FY14—because the dividend is zero—the language should be retained because the FY14 language serves as a starting point for the FY15 appropriation bill.

(d) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during the fiscal year ending June 30, 2014, and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under procedures adopted by the board of directors.

Subsection (d) appropriates certain FY14 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

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

(e) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2014, for housing loan programs not subsidized by the corporation.

(f) The sum of \$30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2014, for housing loan programs and projects subsidized by the corporation.

Subsections (e) and (f) appropriate bond proceeds and arbitrage earnings to various housing programs.

Legislative Fiscal Analyst Comment: Because AHFC has statutory authority to issue bonds and transfer arbitrage earnings to their loan programs, subsections (e) and (f) could be removed. However, they do no harm and are informative. The amounts are not reflected in reports prepared by the Legislative Finance Division.

Sec. 9. ALASKA PERMANENT FUND CORPORATION. (a) The amount authorized under AS 37.13.145(b) for transfer by the Alaska Permanent Fund Corporation on June 30, 2014, estimated to be \$943,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the dividend fund (AS 43.23.045(a)) for the payment of permanent fund dividends and for administrative and associated costs for the fiscal year ending June 30, 2014.

Subsection (a) appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and for administrative and associated costs. Earnings in FY14 (as calculated on the last day of the fiscal year) will be used to pay PFDs in October of 2014 and to pay administrative and associated costs throughout FY14.

Funding: The projected \$958 million dividend transfer includes funding for administrative and associated costs. Administrative and associated costs for FY14 are reflected in section 1 of the budget. They include the cost of operating the PFD Division, hold-harmless provisions that affect people served by the Department of Health & Social Services and "cost recovery" programs in various departments.

(b) After money is transferred to the dividend fund under (a) of this section, the amount calculated under AS 37.13.145(c) to offset the effect of inflation on the principal of the Alaska permanent fund during the fiscal year ending June 30, 2014, estimated to be \$958,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the principal of the Alaska permanent fund.

Subsection (b) is an "inflation proofing" provision. It transfers money from the Earnings Reserve Account to principal.

Legislative Fiscal Analyst Recommendation: *The estimated amounts for dividends and inflation proofing—subsections (a) and b, respectively—are transposed. The amounts should be modified near the end of session with the latest information available from the Permanent Fund Corporation.*

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during the fiscal year ending June 30, 2013, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

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

Funding: These deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports because the deposits are constitutionally dedicated rather than appropriated. The Permanent Fund projects that dedicated deposits will be \$891 million during FY14.

(d) The income earned during the fiscal year ending June 30, 2014, on revenue from the sources set out in AS 37.13.145(d), estimated to be \$22,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection (d) appropriates FY14 earnings associated with the *State vs. Amerada Hess* settlement (held within the Permanent Fund) to the Alaska Capital Income Fund. The Capital Income Fund was established in FY05 and is customarily appropriated for capital projects.

Funding: The *Amerada Hess* settlement refers to a portion of the Permanent Fund that is “fenced off” from the rest of the Permanent Fund principal. The earnings on this \$425 million portion are projected at \$22 million per year based on the expected rate of return on Permanent Fund investments.

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

Sec. 10. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. (a) The sum of \$20,745,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088 for appropriation as the dividend for the fiscal year ending June 30, 2014, from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

Subsection (a) informs the legislature that the anticipated annual Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the state will be \$20.7 million. Dividends for FY13 and FY12 were \$20.4 million and \$29.4 million, respectively. By statute (AS 44.88.088) the dividend made available should not be less than 25 percent and

not more than 50 percent of the base year statutory net income. This year's dividend is the maximum available by law.

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2014, is appropriated to the budget reserve fund (AS 37.05.540(a)).

Subsection (b) appropriates the “unused” portion of the dividend to the Statutory Budget Reserve Fund.

***Legislative Fiscal Analyst Recommendation:** Appropriate the “unused” balance of dividends to the Alaska Capital Income Fund (AS 37.05.565), as was done in the FY13 budget. This will ensure that all dividends are appropriated while furthering the tradition of making corporate dividends available for capital projects.*

Sec. 11. DEPARTMENT OF ADMINISTRATION. (a) The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2014.

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

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

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

Funding: This provision has no FY14 fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations.

(b) The amount necessary to fund the uses of the working reserve account described in AS 37.05.510(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2014.

Subsection (b) appropriates funds from the working reserve account to the Department of Administration to pay leave cash-out, terminal leave, unemployment insurance contributions and workers compensation and general liability claims.

Legislative Fiscal Analyst Comment: *This section re-emphasizes the state's authority to expend funds from the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.*

The working reserve account consists primarily of money appropriated to agencies (for the listed purposes) as a portion of personal services costs. The Department of Administration allocates money from each agency to the working reserve account as part of the payroll process. If the amount in the account is insufficient to cover expenses, the Department of Administration may sweep lapsing personal services appropriations in order to cover expenses.

Funding: The FY14 estimated amount required for working reserves is \$43.3 million, an increase of \$2.2 million from FY13. The Governor's FY14 budget does not request funding in agencies to pay additional working reserves costs. The implication is that the Department of Administration will use the "lapse sweep" provision of AS 37.05.510 as needed to meet expenses. This provision has no FY14 fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

A similar situation exists for risk management costs, which are projected to increase from \$26.1 million in FY13 to \$28.8 million in FY14. The additional costs of \$2.7 million do not appear in the Governor's FY14 budget request.

Legislative Fiscal Analyst Recommendation: *Although applying the "lapse sweep" provision to working reserves and risk management understates the FY14 operating budget by \$4.85 million relative to FY13, using lapsing balances for this purpose is not expected to endanger the fund balances. Legislators may want to address the issue if they are concerned that the proposed method of funding allocates all costs to the general fund. As an alternative, increasing the rates that apply to each payroll run would allocate a portion of costs to non-GF fund sources. Another alternative is to add intent language stating that FY15 risk management and working reserve rates should be set to fully recover anticipated costs.*

Sec. 12. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund on June 30, 2014, under AS 41.15.180(j) is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2014, to be allocated among the recipients of national forest income according to their pro rata share of the total amount distributed under AS 41.15.180(c) and (d) for the fiscal year ending June 30, 2014.

Subsection (a) appropriates any remaining balance of National Forest Receipts to be paid as grants to local governments in the unorganized borough.

Legislative Fiscal Analyst Comment: *National Forest receipts consist of national forest income received by DCCED for the portion of national forests located within the*

unorganized borough. By law, 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.

AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution has not been made.

Under AS 41.15.180(j) lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection (a) takes money that would otherwise be spent in unorganized areas within the unorganized borough and appropriates it to local governments within the unorganized borough.

Funding: Historically, the Department has submitted decrements to reduce Federal Receipt authorization based on declining National Forest Receipt revenue. The program was scheduled to sunset in FY08, but the \$700 billion Economic Rescue Package (H.R. 1424—signed into law on October 3, 2008) extended the program's funding through FY12. Historical National Forest Receipt revenue levels are:

- FY10 - \$18,760.5
- FY11 - \$15,857.6
- FY12 - \$15,381.8
- FY13 Estimated – \$600.0

The amount of estimated receipts for FY14 remains the same as for FY13.

(b) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2014.

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

Funding: The estimated impact of this section is zero. The \$600,000 appropriated in section 1 for this program is expected to be sufficient.

(c) If the amount necessary to make payments in lieu of taxes for cities in the unorganized borough under AS 44.33.020(a)(20) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make those payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2014.

Subsection (c) is intended to ensure that all federal funding received for the Payment in Lieu of Taxes (PILT) program is disbursed expeditiously to communities.

Funding: The estimated impact of this section is zero. The \$10.4 million appropriated in section 1 for this program should be sufficient.

(d) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2012 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2014, to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These "pass-through" amounts (estimated to be \$8.5 million) are excluded from Legislative Finance reports on the operating bill.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to include the pass-through amounts in subsections (d) and (e) in budget reports. Although the revenue from these sources is not counted as unrestricted general funds, the money flows into (and out of) the general fund. Inclusion would not affect surplus/deficit calculations; DOR now counts the money as "other" revenue and the appropriations are not counted at all (for a net zero impact on the general fund). If both revenue and appropriations were counted as designated general funds, the impact would remain a net zero. Alternatively—perhaps preferably—the estimated amount of the pass-through revenue could be included in the bill as a matter of full disclosure. Also see section 14 and section 29.*

(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2012 and deposited in the general fund under AS 43.76.380(d) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2014, to qualified regional seafood development associations.

Funding: These "pass-through" amounts (estimated to be \$1.6 million) are excluded from Legislative Finance reports on the operating bill.

(f) The sum of \$33,091,000 is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2014.

Subsection (f) is intended to appropriate seven percent of the 36-month average balance of the Power Cost Equalization Endowment to the Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As in the past, a seven percent payout is the maximum withdrawal that can occur under the statutory formula (AS 42.45.070-.085).

Funding: The calculated amount is an increase of \$10.2 from FY13. The increase in payout is attributable primarily to an FY11 deposit of \$400 million to the fund.

(g) If the amount appropriated in (f) of this section is not sufficient to pay power cost equalization program costs without proration, the amount necessary to pay power cost equalization program costs without proration, estimated to be \$7,260,000, is appropriated from the general fund to the Department of Commerce, Community, and Economic

Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2014.

Subsection (g) is an open-ended general fund appropriation to AEA for the PCE program. Combined with the appropriation in subsection (f), this appropriation will provide the amount required to fund the statutory formula for the PCE program. The projected program costs are based on a variety of factors; the key assumptions are that an increase in the base rate or “floor” (from 13.42 cents/kWh to 14.30 cents/kWh) will be more than offset by increases in the cost of fuel in participating communities.

Funding: The estimated impact of this section is \$7.3 million—which is \$8.1 million less than the estimated general fund appropriation for FY13. Total program cost is projected to be \$40.4 million, an increase of \$2.2 million from FY13.

***Legislative Fiscal Analyst Comment:** As a \$400 million deposit in FY11 is phased into the average fund balance calculations during FY14-FY16, the endowment payout will increase. The general fund subsidy for PCE is expected to be near zero in FY15 and to be zero for several years thereafter.*

(h) The following amounts are appropriated from the specified sources to the Alaska Seafood Marketing Institute for seafood marketing activities for the fiscal year ending June 30, 2014:

(1) the unexpended and unobligated balance, estimated to be \$15,562,600, of the program receipts from the seafood marketing assessment (AS 16.51.120) and other program receipts of the Alaska Seafood Marketing Institute on June 30, 2013;

(2) the sum of \$1,700,000 from the program receipts of the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2014, which is approximately equal to 20 percent of the program receipts of the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2014;

(3) the sum of \$7,772,200 from the general fund, for the purpose of matching industry contributions collected by the Alaska Seafood Marketing Institute for the fiscal year ending June 30, 2012;

(4) the sum of \$4,500,000 from federal receipts.

(i) It is the intent of the legislature

(1) that the Alaska Seafood Marketing Institute limit expenditure of the appropriation in (h)(1) of this section to 80 percent of the program receipts collected for the fiscal year ending June 30, 2013;

(2) to limit the amount appropriated from the general fund to the Alaska Seafood Marketing Institute for the purpose of matching industry contributions for seafood marketing activities to not more than \$9,000,000 in a fiscal year, regardless of the amount of industry contributions; and

(3) that the Alaska Seafood Marketing Institute evaluate and consider in-state advertising firms to provide advertising services before using an out-of-state advertising firm.

***Legislative Fiscal Analyst Comment:** The FY12 and FY13 operating bills included language that outlined a funding methodology for the Alaska Seafood Marketing Institute (ASMI). The methodology was designed to:*

- *Match (with general fund appropriations) contributions by the seafood industry in the most recently closed fiscal year, limited to \$9 million annually;*
- *Enhance planning efforts by limiting expenditures of current year program receipts to approximately 20% of receipts collected in the most recently closed fiscal year;*
- *Stabilize the funding stream by allowing all unspent program receipts to be carried forward; and*
- *Provide federal receipt authorization sufficient to use all available federal funding.*

Legislative Fiscal Analyst Comment: *The requested amount of GF match in subsection (3) (\$7.8 million) is less than the \$9 million envisioned by legislators who drafted the funding methodology. The amount requested is a policy decision; it meets the guidelines of subsection (i)(2). However, other amounts requested do not reconcile to the revenue projections provided by ASMI.*

Legislative Fiscal Analyst Recommendation: *Per revenue projections provided by ASMI, the following changes should be made:*

(h)(1): replace \$15,562,600 of GFPR with \$15,549,300; and

(h)(3): replace \$7,772,200 GF with \$7,785,500 if the legislature desires to fund FY14 salary/health increases with general funds.

Funding: *The language (including intent) allows an FY14 marketing campaign of \$23.5 million. ASMI's projections show planned expenditures of \$2 million less. ASMI intends to hold reserves to guard against a decline in future receipts.*

NEW SECTION

- (j) **The sum of \$500,000 is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for transfer to the Department of Administration, Alaska Land Mobile Radio component, as payment on behalf of political subdivisions that use the Alaska Land Mobile Radio system under the cost allocation methodology adopted by the Department of Administration in the fiscal year ending June 30, 2014.**

Legislative Fiscal Analyst Comment: *FY13 legislative intent language instructed the Department of Administration to develop a plan to fairly allocate costs of providing ALMR services. Some of those costs fall upon local governments, and DOA is concerned that some local governments may opt out of the ALMR system in order to avoid paying their allocated costs. DOA argues that the overarching public interest in having first responders participate in the ALMR system justifies state payments on behalf of local governments.*

To the extent that the legislature's intent was full cost recovery from all ALMR system participants, this appropriation is counter to legislative intent. However, because the intent language specified full cost recovery only from the federal government, the proposed appropriation is consistent with the stated intent.

Appropriating money to DCCED for transfer to DOA effectively short-cuts the normal grant process (in which money would flow from the general fund to DCCED to municipalities to DOA). From another perspective, the proposed transfer complicates the cost recovery

methodology by involving DCCED in the process; the money comes from the general fund and ends up in DOA.

Legislative Fiscal Analyst Recommendation: *If the legislature chooses to make payments on behalf of local governments, it may be better to appropriate the money directly to DOA. The current language has the appearance of a municipal grant program, but there does not appear to be any advantage to running the money through DCCED.*

NEW SECTION

Sec. 13. DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. The sum of \$25,000,000 is appropriated from the general fund to the Department of Education and Early Development to be distributed as state aid to districts according to the average daily membership for each district adjusted under AS 14.17.410(b)(1)(A) - (D) for the fiscal year ending June 30, 2014.

Legislative Fiscal Analyst Comment: In addition to formula changes that increased FY13 funding for K-12 education, there was a one-time increase of \$25 million appropriated by language similar to section 13. Proposing a repeat of the one-time funding in FY14 prevents a decline in K-12 funding.

NEW SECTION

Sec. 14. DEPARTMENT OF FISH AND GAME. An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.46.210 in fiscal year ending June 30, 2013, and deposited in the general fund is appropriated from the general fund to the Department of Fish and Game for payment in the fiscal year ending June 30, 2014, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

Legislative Fiscal Analyst Comment: This section was added in order to treat dive fishery development associations similarly to other regional seafood associations (see section 12(d) and (e))—assessments will now return to the associations without appearing in the department's budget.

Funding: These "pass-through" amounts, estimated to be \$700,000, are excluded from Legislative Finance reports on the operating bill.

Legislative Fiscal Analyst Recommendation: *The legislature should treat pass-through assessments consistently. If the appropriations are excluded from budget reports, the estimated amount of the pass-through revenue should be included in the bill as a matter of full disclosure. Also see sections 12 and 29.*

Sec. 15. DEPARTMENT OF HEALTH AND SOCIAL SERVICES. If the amount appropriated in sec. 1 of this Act is not sufficient to pay assistance payments under AS 47.25.621 - 47.25.626 without proration, the amount necessary to make payments under AS 47.25.621 - 47.25.626

without proration is appropriated from the general fund to the Department of Health and Social Services, public assistance, energy assistance program, for the purpose of making payments under AS 47.25.621 - 47.25.626, for the fiscal year ending June 30, 2014.

Section 15 is an open-ended general fund appropriation to DHSS for the low-income energy assistance program. The section ensures that formulas for determining energy assistance payments are fully funded.

Funding: The estimated impact of this section is zero, based on the assumption that a \$26.8 million appropriation requested by the Governor in section 1 will be sufficient to fully fund the program.

Based on a \$27.8 million cost in FY12 and an anticipated reduction in federal receipts in FY14, the amount appropriated in section 1 is likely to be insufficient to fully fund the formulas for determining energy assistance payments.

Sec. 16. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. (a) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amounts appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2014.

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

Funding: The estimated impact of this section is zero.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to make those benefit payments is appropriated for that purpose from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2014.

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

Funding: The estimated impact of this section is zero.

(c) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2014.

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

Funding: The estimated impact of this section is zero.

(d) If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2014, exceeds the amount appropriated for the Department of Labor and Workforce Development, Alaska Vocational Technical Center, in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the purpose of operating the center, for the fiscal year ending June 30, 2014.

Subsection (d) provides open-ended authority to spend program receipts, thereby eliminating all questions regarding AVTEC's ability to accept and spend receipts in a timely manner.

Funding: The estimated impact of this section is zero; the appropriation in section 1 is expected to be sufficient.

Sec. 17. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS. Five percent of the average ending market value in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2011, June 30, 2012, and June 30, 2013, estimated to be \$13,400, is appropriated from the Alaska veterans' memorial endowment fund to the Department of Military and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2014.

Section 17 appropriates the payout from the endowment to DMVA. The payout may be used for maintenance, repair and construction of monuments to the military.

Sec. 18. DEPARTMENT OF NATURAL RESOURCES. (a) The interest earned during the fiscal year ending June 30, 2014, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be \$250,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2014, June 30, 2015, and June 30, 2016.

Subsection (a) appropriates the interest earned on the bond posted by Cook Inlet Energy to DNR for the purpose of the bond.

Legislative Fiscal Analyst Comment: This situation is atypical for reclamation bonding. In 2009, Pacific Energy Resources Ltd. declared bankruptcy and abandoned the Redoubt Unit in Cook Inlet. Their bond was transferred to DNR for reclamation of the site. Cook Inlet Energy (CIE) then purchased the Redoubt Unit, which meant that DNR did not need to perform further site reclamation work and that the State was holding cash from the Pacific Energy Resources bond. That cash was applied to the reclamation bond requirements imposed on Cook Inlet Energy. As a cost saving measure, the proceeds from the Pacific Energy Resources bond were retained in the general fund. This section appropriates the earnings on the bond to DNR to cover potential reclamation activity in the future.

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2014, estimated to be \$75,000, is appropriated from the mine reclamation trust fund

operating account (AS 37.14.800(a)) to the Department of Natural Resources for those purposes for the fiscal year ending June 30, 2014.

Subsection (b) appropriates money from the Mine Reclamation Trust Fund operating account to DNR for the purposes specified in AS 37.14.820 (mine reclamation activities).

***Legislative Fiscal Analyst Comment:** This section is not required but does no harm; the appropriation contained in section 26(c)—an internal transfer of funds from the income account to the operating account—appears to satisfy the appropriation requirement of AS 37.14.800(b). Once that internal transfer occurs, expenditures require no further appropriation per AS 37.14.820.*

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

***Legislative Fiscal Analyst Recommendation:** Although this section is not required, it should be retained because the appropriation in section 26(c) is classified as a transfer within a fund (so does not appear as a budget transaction). Subsection (b) ensures that the use of earnings appears as an appropriation of new money in the allocation in which the money is spent.*

***Legislative Fiscal Analyst Recommendation:** The legislature should reduce the amount of the estimated appropriation to \$50,000, per discussion with the Department of Natural Resources.*

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be \$25,000, is appropriated to the agency secured by the bond for the fiscal year ending June 30, 2014, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

Subsection (c) appropriates receipts associated with bonds for land reclamation to the agencies that will direct the reclamation activities.

Funding: The Department of Natural Resources estimates the impact of this section to be \$50,000: \$25,000 for reclamation associated with land use permits and leases on state lands in the Mining, Land and Water allocation, and \$25,000 for reclamation bonds associated with timber sales on state lands in the Forest Management and Development allocation.

***Legislative Fiscal Analyst Recommendation:** The legislature should increase the estimated amount of the appropriation to \$50,000, per discussion with the Department of Natural Resources.*

(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2014, estimated to be \$8,500,000, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2014.

Subsection (a) appropriates an open-ended amount of federal receipts received for fire suppression to the Department of Natural Resources.

Funding: A \$2 million federal receipts estimate for fire suppression has been used for several years. This update to the anticipated amount of receipts is a more realistic estimate of FY14 receipts.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to consider an open-ended appropriation of general funds for fire suppression activities in order to avoid the supplemental appropriations and ratifications that are common for this purpose. Language in section 16 could serve as a model.*

Sec. 19. DEPARTMENT OF REVENUE. Program receipts collected as cost recovery for paternity testing administered by the child support services agency, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(f), estimated to be \$46,000, are appropriated to the Department of Revenue, child support services agency, for child support activities for the fiscal year ending June 30, 2014.

Funding: The estimated receipts under this section are \$46,000.

Sec. 20. OFFICE OF THE GOVERNOR. (a) If the 2014 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$64 a barrel on August 1, 2013, the amount of money corresponding to the 2014 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section, estimated to be \$18,000,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs for the fiscal year ending June 30, 2014.

(b) If the 2014 fiscal year-to-date average price of Alaska North Slope crude oil exceeds \$64 a barrel on December 1, 2013, the amount of money corresponding to the 2014 fiscal year-to-date average price, rounded to the nearest dollar, as set out in the table in (c) of this section, estimated to be \$18,000,000, is appropriated from the general fund to the Office of the Governor for distribution to state agencies to offset increased fuel and utility costs for the fiscal year ending June 30, 2014.

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

2014 FISCAL YEAR-TO-DATE AVERAGE PRICE OF ALASKA NORTH SLOPE CRUDE OIL	AMOUNT
\$100 or more	\$18,000,000
99	17,500,000
98	17,000,000

97	16,500,000
96	16,000,000
95	15,500,000
94	15,000,000
93	14,500,000
92	14,000,000
91	13,500,000
90	13,000,000
89	12,500,000
88	12,000,000
87	11,500,000
86	11,000,000
85	10,500,000
84	10,000,000
83	9,500,000
82	9,000,000
81	8,500,000
80	8,000,000
79	7,500,000
78	7,000,000
77	6,500,000
76	6,000,000
75	5,500,000
74	5,000,000
73	4,500,000
72	4,000,000
71	3,500,000
70	3,000,000
69	2,500,000
68	2,000,000
67	1,500,000
66	1,000,000
65	500,000
64	0

(d) It is the intent of the legislature that a payment under (a) or (b) of this section be used to offset the effects of higher fuel and utility costs for the fiscal year ending June 30, 2014.

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

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

(2) to the University of Alaska, 10 percent of the total plus or minus three percent;

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

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

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

Subsections (a) and (b) appropriate an estimated \$36 million—depending on the year-to-date average price of crude oil—to be distributed to agencies to offset increased fuel and utility costs.

Subsection (c) provides a table that determines, based on the price of oil, how much funding is appropriated in subsections (a) and (b).

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

Subsection (e) provides guidelines for allocating the money among agencies.

Funding: OMB included a \$36 million appropriation for fuel in its budget transmittal, which corresponds to a forecast oil price in excess of \$100/bbl.

***Legislative Fiscal Analyst Comment:** The Governor's proposed table is identical to the table used in FY13 and has an upper limit of \$100/bbl (at a cost of \$36 million), while the official revenue forecast uses a price of \$109.61/bbl. Extending the table to—or above—the official price projection would increase the estimated cost of the fuel trigger to \$45 million. As written, the table may leave agencies short of money to meet fuel cost increases in FY14. Among other options, the legislature may choose to follow the Governor's lead on this issue or bear the cost of updating the table.*

In FY13, the legislature adopted the Governor's language despite a projected oil price nearly \$9 per barrel above the table's upper limit. The Governor's FY13 supplemental requests are due on January 29, 2013. That request will give an indication of the need to extend the table in FY14.

Sec. 21. UNIVERSITY OF ALASKA. The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2013, for the issuance of special request university plates, less the cost of issuing the license plates, estimated to be \$2,000, is appropriated from the general fund to the University of Alaska for support of alumni programs at the campuses of the university for the fiscal year ending June 30, 2014.

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

Sec. 22. BANKCARD SERVICE FEES. (a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2014, is appropriated for that purpose for the fiscal year ending June 30, 2014, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

Subsection (a) allows the state to compensate vendors that collect fees on behalf of the state. The provision originally addressed Fish and Game fishing, hunting and trapping license sales in which the vendor retained a portion of the sales. It now applies to several programs in multiple departments.

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

(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2014, is appropriated for that purpose for the fiscal year ending June 30, 2014, to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

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

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

(c) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2014, is appropriated for that purpose for the fiscal year ending June 30, 2014, to the Department of Law for accepting payment of restitution in accordance with AS 12.55.051 and AS 47.12.170 by bankcard or credit card, from the funds and accounts in which the restitution payments received by the Department of Law are deposited.

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

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

Sec. 23. DEBT AND OTHER OBLIGATIONS. (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2014, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes for the fiscal year ending June 30, 2014.

Subsection (a) appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year. This is precautionary language; revenue anticipation notes have never been issued by the State,

Legislative Fiscal Analyst Comment: No notes are expected to be issued in FY14.

(b) The amount required to be paid by the state for principal and interest on all issued and outstanding state-guaranteed bonds is appropriated from the general fund to the Alaska Housing Finance Corporation for payment of principal and interest on those bonds for the fiscal year ending June 30, 2014.

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

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

(c) The sum of \$1,698,800 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2014.

(d) The sum of \$1,805,000 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2014.

Subsections (c) and (d) appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts and drinking and clean water bond receipts (see sections 25(i) and (j)). The federal receipts require a state match. Federal rules permit interest earnings of the loan funds to be used to pay debt service as well as making loans. These subsections take advantage of the ability to use earnings on the funds to pay debt service. Issuing short-term bonds (secured by the assets of the loan fund) allows the "restricted" earnings of the funds to be used to pay off the bonds. Essentially, the earnings of the funds are used to match federal receipts.

(e) The sum of \$5,601,255 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2014, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska Anchorage Community and Technical College Center Juneau Readiness Center/UAS Joint Facility	\$1,220,600
(2) Department of Transportation and Public Facilities	
(A) Matanuska-Susitna Borough (deep water port and road upgrade)	707,350
(B) Aleutians East Borough/False Pass (small boat harbor)	107,834
(C) Lake and Peninsula Borough/Chignik (dock project)	119,169
(D) City of Fairbanks (fire headquarters station replacement)	871,703
(E) City of Valdez (harbor renovations)	210,141
(F) Aleutians East Borough/Akutan (small boat harbor)	368,908
(G) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	332,699
(H) City of Unalaska (Little South America (LSA) Harbor)	367,995
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Copper Valley Electric Association (cogeneration projects)	351,180

Subsection (e) appropriates \$5.6 million to various state agencies for reimbursement to municipalities and public entities for debt service on projects authorized in Ch. 115, SLA 2002 (HB 528). The project list is identical to the FY13 list, but there is a net reduction in reimbursement from the FY13 cost of \$5.9 million due to refinancing during FY12.

(f) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2014, estimated to be \$1,795,800, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2014.

Subsection (f) appropriates \$1.8 million for trustee fees and to make payments on a COP for the Fairbanks Virology Lab.

***Legislative Fiscal Analyst Comment:** The legislature appropriated \$24 million in FY12 for defeasance of COPs. A veto allowed full defeasance only for the Alaska Psychiatric Institute and the Seafood and Food Safety Lab, with partial defeasance of the Fairbanks Virology Lab.*

(g) The sum of \$6,770,505 is appropriated from the general fund to the Department of Administration in the following amounts for the purpose of paying the following obligations to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2014:

- (1) \$3,467,005 for the Robert B. Atwood Building in Anchorage; and**
- (2) \$3,303,500 for the Linny Pacillo Parking Garage in Anchorage.**

Subsection (g) appropriates \$6.8 million for obligations associated with the Atwood Building and a downtown Anchorage parking garage. AHFC purchased the Robert B. Atwood Building for approximately \$39 million in cash and then issued corporate general obligation bonds with debt service offset by lease payments from the state. The state will own the building at the end of the lease.

The Linny Pacillo parking garage is a lease-purchase similar to the obligation for the Robert B. Atwood Building.

(h) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2014:

A total of \$82.4 million general funds and \$17 million federal funds is appropriated for debt service on general obligation bonds (see table below). Comparable FY13 numbers are \$77 million general funds and \$17.3 million federal receipts.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Authorization Year	Bond Issue	Subsection	GF Debt Service	Federal Debt Service	Total Debt Service	Authorized	Intend to Issue in years after FY 2013
2002	2003A	1	20,212.0	-	20,212.0	102,805.0	-
2002	2003B	2	-	12,279.3	12,279.3	360,720.0	-
2008	2009A	3,4	12,932.2	-	12,932.2	315,000.0	-
2010	2010A, B, C	5,6,7,8	4,394.0	4,764.8	9,158.8	397,200.0	-
2002	2012A	1	9,264.9	-	9,264.9	Refinanced 2003A	-
2010	2013A, B (planned FY13) \$200.7 million issue exhausts remaining 2010 authorization	9	35,000.0	-	35,000.0	Included in 2010	-
2012	2013C \$200 million issue scheduled for FY13. Series D planned for FY14.	9		-		453,499.2	253,499.2
	Trustee Fees	10	5.3	-	5.3		
	Arbitrage Rebate	11	325.0	-	325.0		
	Remarketing Costs	13	300.0	-	300.0		
	Total		82,433.4	17,044.1	99,477.5	1,629,224.2	253,499.2

Note: The \$315 million authorized in 2008 was reduced by \$150 million when the legislature appropriated cash for authorized projects in FY12.

- (1) the amount necessary, estimated to be \$29,476,900, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2003A and 2012A, from the general fund for that purpose;

Series 2003A general obligation bonds were authorized by voters in 2002 for construction of schools and university facilities.

- (2) the amount necessary for payment of debt service, accrued interest, and trustee fees on outstanding state-guaranteed transportation revenue anticipation bonds, series 2003B, estimated to be \$12,279,340, from federal receipts for that purpose;

Series 2003B general obligation bonds were authorized by voters in 2002 for road and harbor construction.

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

- (3) the sum of \$363,490 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;

- (4) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payment made in (3) of this subsection, estimated to be \$12,568,675, from the general fund for that purpose;

Series 2009A general obligation bonds were authorized by voters in 2008 for road construction projects.

Legislative Fiscal Analyst Comment: Of the \$315 million bond issue authorized by voters in 2008, approximately \$150 million was not issued. In FY12, the legislature changed the fund source for \$150 million of capital projects from GO bond proceeds to general funds. The authority to issue bonds was reduced by \$150 million at the same time.

(5) the sum of \$632,200 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2010A, 2010B, and 2010C general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B;

(6) the sum of \$2,364,229 from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bond credit payments due on the series 2010A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B;

(7) the sum of \$2,400,600 from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2010B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B;

(8) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B, after payment made in (5), (6), and (7) of this subsection, estimated to be \$3,761,820, from the general fund for that purpose.

Series 2010A, 2010B, and 2010C general obligation bonds were authorized by voters in 2010 for educational facilities.

Legislative Fiscal Analyst Comment: The 2010 general election authorized issuance of \$397 million in bonds to finance educational facilities. The Department of Revenue issued bonds in three series, taking advantage of federal stimulus debt programs. Series A were issued using Build America Bonds (receiving a 30% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds. All authorized bonds are not sold at the same time because IRS rules require complete expenditure of bond proceeds (for tax exempt status) within three years of bond issuance. Bonds are issued in specific series as cash is needed for projects. The remaining 2010 authorization of \$197 million will be used this year as 2013A and 2013B bonds are sold.

NEW SUBSECTION

(9) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A and 2013B, 2013C, and 2013D, estimated to be \$35,000,000, from the general fund for that purpose;

Series 2013A and 2013B general obligation bonds were authorized by voters in 2010 for educational facilities. The 2013 issues will exhaust the 2010 authorization.

In 2012, voters approved \$453.5 million in general obligation bonds for transportation infrastructure. Series 2013C and 2013D bonds will use \$200 million of that authorization.

***Legislative Fiscal Analyst Comment:** The \$35 million estimate for FY14 debt service on 2013 series bonds appears to be at least \$10 million higher than necessary. As always, debt service depends on how the debt is structured. Based on discussion at the December 14, 2012 meeting of the State Bond Committee, it appears the proposed amortization will be less than the \$35 million original estimate. DOR may revise the estimate of debt service when more is known about debt structure and interest rates.*

(10) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2003A, 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, 2013C, and 2013D, estimated to be \$5,300, from the general fund for that purpose;

Subsection 10 appropriates an estimated \$5,300 for trustee fees on all outstanding GO Bonds.

***Legislative Fiscal Analyst Comment:** These fees have previously been included in the debt service appropriation for each series of bonds. Trustee fees have been separated from other costs of issuing debt because they are annual costs that last for the life of the bonds. Most other costs of issuing debt are one-time costs paid at closing.*

NEW SUBSECTION

(11) the amount necessary for the purpose of authorizing payment to the United States Treasury for arbitrage rebate on outstanding State of Alaska general obligation bonds, estimated to be \$325,000, from the general fund for that purpose;

Subsection 11 appropriates money that must be remitted to the federal government when earnings on the proceeds of tax-exempt bonds exceed interest costs. The appropriation applies primarily to the heavily subsidized bonds issued in 2010. A similar provision is likely to be required for the 2010 bonds and the anticipated 2013 bonds until the bond proceeds are depleted.

NEW SUBSECTION

(12) if the proceeds of state general obligation bonds issued is temporarily insufficient to cover costs incurred on projects approved for funding with these proceeds, the amount necessary to prevent this cash deficiency is appropriated from the general fund, contingent upon repayment to the general fund as soon as additional state general obligation bond proceeds have been received by the state;

Subsection 12 is intended to prevent construction delays by permitting short-term borrowing from the general fund.

NEW SUBSECTION

(13) the amount necessary to pay remarketing costs on State of Alaska general obligation bonds, series 2013A, 2013B, 2013C, and 2013D, estimated to be \$300,000, from the general fund for that purpose; and

Subsection 13 is intended to cover costs associated with issuing general obligation bonds with a variable interest rate. Variable rate bonds incur additional fees (relative to the 20-year fixed rate bonds that Alaska typically issues) because of rate resets and requirements for annual ratings.

Legislative Fiscal Analyst Comment: These fees will be incurred only if the state bond committee decides to issue variable rate bonds. That decision has not yet been made. With interest rates at historic lows, the decision will hinge on whether the committee believes that lower initial rates will be offset by remarketing costs and by potentially higher rates in the future.

(14) if the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds exceeds the amounts appropriated in this subsection, the additional amount necessary to pay the obligations, from the general fund for that purpose.

Legislative Fiscal Analyst Comment: This is a safety measure to ensure that the State can meet its general obligation pledge if unforeseen circumstances or miscalculations leave the appropriations in this section short of debt service requirements.

(i) The sum of \$42,212,035 is appropriated to the state bond committee for payment of debt service and trustee fees on outstanding international airports revenue bonds for the fiscal year ending June 30, 2014, from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430(a))	\$36,582,272
Passenger facility charge	5,200,000
AIAS 2010D Build America Bonds federal interest subsidy	429,763

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

(j) The sum of \$21,928,625 is appropriated from the general fund to the Department of Administration for payment of obligations and fees for the following facilities for the fiscal year ending June 30, 2014:

FACILITY AND FEES	ALLOCATION
(1) Anchorage Jail	\$ 4,108,650
(2) Goose Creek Correctional Center	17,815,775
(3) Fees	4,200

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

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

(k) The sum of \$128,263,143 is appropriated to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 for the fiscal year ending June 30, 2014, from the following sources:

General fund	\$107,463,143
School Fund (AS 43.50.140)	20,800,000

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

Funding: Anticipated FY14 cigarette tax collections (School Fund) are down from FY13's \$21.8 million to \$20.8 million. As those tax revenues decrease, the general fund portion of school debt reimbursement increases.

(l) The sum of \$7,500,000 is appropriated from the Alaska fish and game revenue bond redemption fund (AS 37.15.770) to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2014. It is the intent of the legislature that up to \$2,400,000 of the amount appropriated may be used for early redemption of the bonds.

Subsection (l) appropriates the majority of the surcharge levied on sport fish licenses authorized under Ch 94, SLA 2005—and transferred to the bond redemption fund in Section 26(i) of this bill—for payment of debt service on bonds issued for sport fish hatchery development. The appropriation exceeds the debt service due on the bonds, allowing the bonds to be paid off ahead of schedule as the surcharge collections are expected to be greater than annual debt service.

NEW SUBSECTION

(m) The sum of \$35,700,000 is appropriated to the state bond committee for payment of principal and interest, redemption premium, and trustee fees, if any, associated with the early redemption of international airport revenue bonds authorized by AS 37.15.410 - 37.15.550, from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430(a))	\$12,700,000
International Airports Construction Fund (AS 37.15.420(c))	23,000,000

Subsection (m) appropriates \$35.7 million for the early redemption of airport revenue bonds as part of the master debt management plan for the AIAS.

Sec. 24. FEDERAL AND OTHER PROGRAM RECEIPTS. (a) Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as described in AS 44.21.045(b), Exxon Valdez oil spill trust receipts described in AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund described in AS 19.65.060(a), and receipts of the University of Alaska as described in AS 37.05.146(b)(2) that are received during the fiscal year ending June 30, 2014, and that exceed the amounts appropriated by this Act, are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

(b) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2014, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

(c) If federal or other program receipts as defined in AS 37.05.146 and in AS 44.21.045(b) that are received during the fiscal year ending June 30, 2014, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

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

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

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

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

Sec. 25. FUND TRANSFERS.

Legislative Fiscal Analyst Recommendation: *This section should be titled Fund Capitalization rather than Fund Transfers (which are grouped in section 26). There is a substantial difference in terminology. Capitalization refers to money that can leave the treasury with no further appropriation. Appropriations in this section are counted as expenditures in all Legislative Finance budget reports. Transfers refer to money appropriated from one fund to another, within the treasury. Transfers are not counted as expenditures.*

(a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2014, estimated to be \$25,000, are appropriated to the Alaska children's trust grant account (AS 37.14.205(a)):

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

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

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

Subsection (a) appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY14 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates. Before FY12, these receipts were deposited to principal; the Children's Trust board may now spend from the grant account without further appropriation.

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

(b) The sum of \$1,790,800 is appropriated from that portion of the dividend fund (AS 43.23.045(a)) that would have been paid to individuals who are not eligible to receive a permanent fund dividend because of a conviction or incarceration under AS 43.23.005(d) to the crime victim compensation fund (AS 18.67.162) for the purposes of the crime victim compensation fund (AS 18.67.162).

Subsection (b) capitalizes the Crime Victim Compensation Fund (CVCF) with a portion of what is commonly known as "PFD Criminal Funds." The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: *Beginning in FY12, PFD Criminal Funds were*

concentrated in only two appropriations—the Crime Victim Compensation Fund and Inmate Health Care in the Department of Corrections. The intent was to minimize the many confusing fund source changes (swapping GF and PFD Criminal Funds) caused by year-to-year volatility in the amount of funding available. The Department of Corrections was intended to be the only agency with a variable amount of PFD Criminal Funds.

PFD Criminal Funds are exchanged dollar-for-dollar with general funds in the Department of Corrections. Every dollar appropriated to the Crime Victim Compensation Fund reduces the amount of PFD Criminal Funds that is available to the Department of Corrections, thereby increasing the general fund appropriation to the Department of Corrections.

The legislature has discretion in choosing an amount to appropriate to the CVCF; there is no statutory direction. The amount appropriated for this purpose in FY13 was \$1,798,000. The amount requested in FY14 was reduced due to higher anticipated levels of restitutions, recoveries and donations.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to change the amount to match the FY13 appropriation of \$1,798,000. As noted above, the legislature has discretion in choosing an amount to appropriate to the CVCF. If the amount is modified, a transaction exchanging GF for PFD Criminal Funds must be added to section 1 (in the DOC subcommittee process).*

(c) The amount received under AS 18.67.162 as program receipts, estimated to be \$35,000, including donations and recoveries of or reimbursement for awards made from the crime victim compensation fund, during the fiscal year ending June 30, 2014, is appropriated to the crime victim compensation fund (AS 18.67.162).

Subsection (c) capitalizes the Crime Victim Compensation Fund with money from donations and recoveries of or reimbursements for awards made from the fund. The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: *Chapter 112, SLA 2008 (HB 414) added language to the effect that money appropriated to the fund “may include donations, recoveries of or reimbursements for awards made by the fund, income from the fund, and other program receipts.” The language of subsection (c) does not appropriate income from the fund, so income will remain in the general fund.*

(d) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2014, estimated to be \$9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

Subsection (d) appropriates federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money deposited in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

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

(e) The sum of \$5,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

Subsection (e) capitalizes the Disaster Relief Fund with \$5 million of general funds. The FY12 capitalization of the fund was \$7.5 million of general funds and \$8.2 million was spent. FY13 general fund capitalization was \$5 million.

***Legislative Fiscal Analyst Comment:** Disasters—and their costs—are unpredictable. There is no right or wrong amount to deposit to the fund. Note, however, that appropriating too little to the fund will prompt a supplemental funding request in the future.*

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

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

***Legislative Fiscal Analyst Comment:** The revenue sharing fund was established with an FY08 supplemental appropriation of \$180 million. Each year since then, \$60 million (1/3 of the prior year balance, per AS 29.60.850) has been distributed to communities. Each year, the amount distributed was replaced by \$60 million of revenue from the progressive portion of the oil and gas production tax. The FY14 distribution to communities will be \$60 million (1/3 of the balance).*

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

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

(g) If the balance of the oil and gas tax credit fund (AS 43.55.028) is insufficient to purchase transferable tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceed the balance of the fund, estimated to be \$400,000,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

Oil and gas tax credit claims have proven difficult to forecast; actual claims have exceeded projected claims by a wide margin in some years. This appropriation to purchase tax credits is open-ended to ensure that the fund balance is sufficient to purchase all claims presented.

Funding: The estimated impact of a similar provision in the FY13 budget was \$400 million. The Department of Revenue has requested transfers totaling \$360 million through December 6, 2012. The Department claims that \$400 million remains the best estimate for FY14.

(h) The sum of \$2,000,000 is appropriated from the general fund to the trauma care fund (AS 18.08.085(a)).

The trauma fund was created in FY11. The purpose of the fund is to make grant awards to certified trauma centers in the state. The Commissioner of the Department of Health and Social Services may make awards from the fund without further appropriation.

Funding: Appropriations to the fund are discretionary, with no statutory guidelines. The legislature appropriated \$2.5 million to the fund in FY11, skipped an appropriation in FY12, and appropriated \$2.0 million in FY13.

(i) The sum of \$9,795,040 is appropriated to the Alaska clean water fund (AS 46.03.032(a)) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$1,688,800
Federal receipts	8,106,240

(j) The sum of \$7,987,750 is appropriated to the Alaska drinking water fund (AS 46.03.036(a)) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$1,795,000
Federal receipts	6,192,750

Subsections (i) and (j) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The state typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See section 23(d) for further discussion.

(k) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act is appropriated to the election fund for use in accordance with 42 U.S.C. 15404(b)(2).

Subsection (j) capitalizes the elections fund, which is intended to provide states with money for election administration improvements (primarily equipment and accessibility aids). The Governor did not submit a FY14 capital project using money from the election fund. Money in the fund does not lapse.

Sec. 26. FUND TRANSFERS. (a) The federal funds received by the state under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 not appropriated for grants under AS 37.05.530(d) are appropriated as follows:

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

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

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

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

Legislative Fiscal Analyst Recommendation: *Remaining balances should be appropriated to a fund other than the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer used because the Power Cost Equalization program is funded with an open-ended appropriation of general funds. AS 37.05.530(g) should also be revised.*

(b) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2014, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

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

Funding: The amount of the loan origination fee is capped by regulation at 5% and set by the corporation. For FY14, the Alaska Commission on Postsecondary Education has indicated that the fee will be set at the maximum allowed of 5% and that it will remain there until further action is taken by the Board. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

(c) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2013, and money deposited in that account during the fiscal year ending June 30, 2014, estimated to be \$50,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).

Subsection (c) authorizes a transfer of funds from the income account to the operating account (both within the Mine Reclamation Trust Fund), where it is available to DNR for mine reclamation activity under AS 37.14.820.

Funding: The agency projects a transfer of approximately \$50,000. The authorization to spend will go to the Mining, Land and Water allocation (see section 18(b)).

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

Subsection (d) provides a moral obligation pledge of general funds if a default causes a draw on reserves of the bank. The intent of this section is to increase the credit rating of the bank and reduce the cost of borrowing money.

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

(e) The sum of \$1,191,774,400 is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsection (e) appropriates \$1.19 billion to the Public Education Fund (PEF).

Legislative Fiscal Analyst Comment: The amount appropriated is the projected amount of K-12 funding required for FY15. Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. The projected amount needed for FY15 is the same as for FY14, based on an assumption of no changes to the formula or to the student count.

The effective date of subsection (e) is December 1, 2013. The delayed date was chosen for cash-flow purposes.

(f) An amount equal to the bulk fuel revolving loan fund fees established under AS 42.45.250(j) and collected under AS 42.45.250(k) during the fiscal year ending June 30, 2013, estimated to be \$70,000, is appropriated from the general fund to the bulk fuel revolving loan fund (AS 42.45.250(a)).

Subsection (f) appropriates (to the bulk fuel revolving loan fund) an amount of general funds equal to service fees collected in FY13.

Legislative Fiscal Analyst Comment: The bulk fuel revolving loan fund was modified significantly effective January 1, 2013. Modifications include the repeal of AS 42.45.250(j) and (k), so that fees established under (j) were collected for only the first half of FY13. The estimated amount of fees collected during all of FY12 was \$57,000, making the \$70,000 estimate for half of FY13 appear to be overstated. This issue is not critical; the appropriation applies to actual fee collections rather than to the estimated amount stated.

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

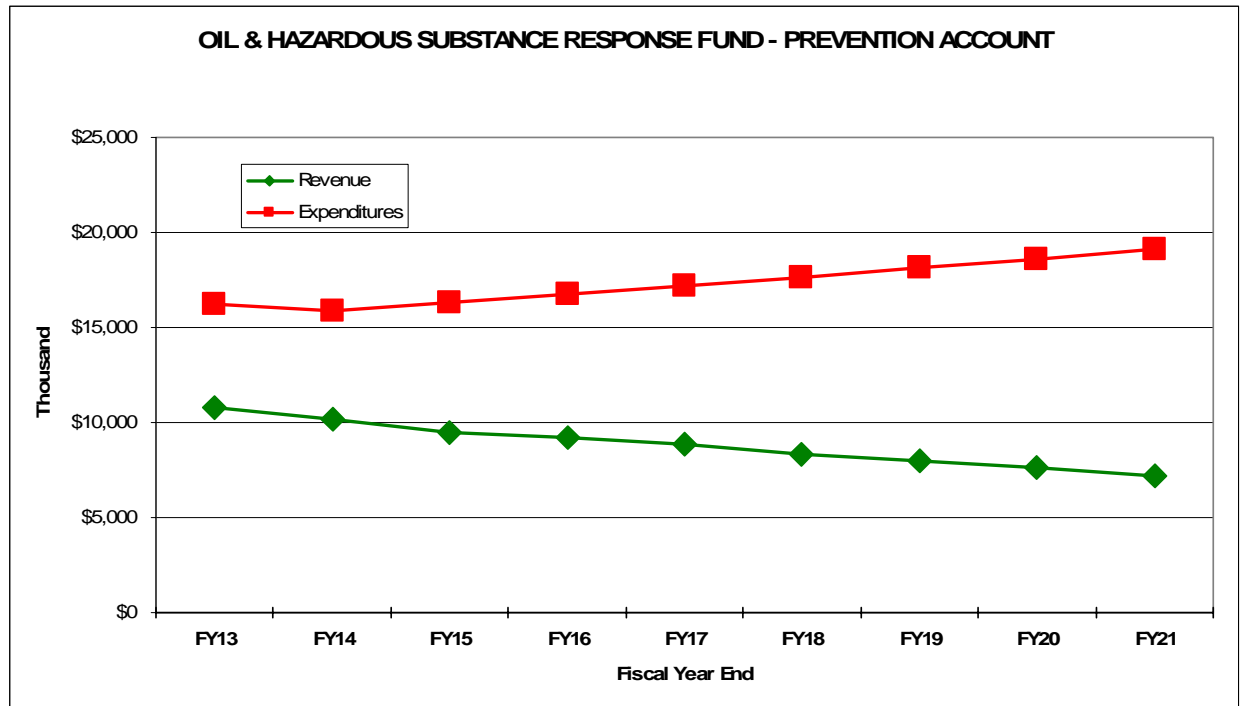
(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2013, estimated to be \$12,800,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2013, estimated to be \$7,600,000, from the surcharge levied under AS 43.55.300.

Subsection (g) appropriates (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY13 collections from the four cent per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.03 to \$0.04.

Legislative Fiscal Analyst Comment: The balance of this fund has been declining for years, and is projected to reach zero in FY14. As shown in the graph below, projected expenditures exceed projected revenue into the foreseeable future. Unless the surcharge revenue is increased or spill prevention expenditures are reduced, the likely outcome is that appropriations from the prevention account will need to be replaced with general funds.

Doing so will add about \$6 million to the FY15 general fund budget, and the amount of GF needed is expected to exceed \$12 million annually by FY21.



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

- (1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2013, estimated to be \$800,000, not otherwise appropriated by this Act;
- (2) the amount collected for the fiscal year ending June 30, 2013, from the surcharge levied under AS 43.55.201, estimated to be \$1,900,000.

Subsection (h) appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY13 collections from the \$0.01 per barrel surcharge on oil produced in the state. Amendments effective April 1, 2006 changed the per barrel surcharge from \$0.02 to \$0.01.

Legislative Fiscal Analyst Comment: Per AS 43.55.221(d), the surcharge is suspended when the balance of the response account exceeds \$50 million. The Commissioner of Revenue reported that the surcharge was suspended effective January 1, 2013.

Legislative Fiscal Analyst Recommendation: The legislature may wish to revise the estimated amount of surcharge revenue to \$950,000 because the surcharge will be in effect for only the first half of FY13.

(i) An amount equal to the federal receipts deposited in the Alaska sport fishing enterprise account (AS 16.05.130(e)), not to exceed \$1,944,375, as reimbursement for the federally allowable portion of the principal balance payment on sport fishing revenue bonds is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) to the fish and game fund (AS 16.05.100).

Subsection (i) clarifies that the Department chooses to use up to \$1.9 million of current federal funding as reimbursement for debt service payments on sport fish revenue bonds. The Department may use federal operating receipts as reimbursement for a portion of debt service payments on the "Sportfish Bonds" issued in 2006 (see Section 23(l)).

***Legislative Fiscal Analyst Comment:** The Department's action increases flexibility in the use of existing federal receipts by placing federal money in the sport fishing enterprise account. Once there, the money can be used for sport fishing facilities intended to directly benefit license purchasers. On the downside, using money for debt service reimbursement precludes its use for other purposes more traditionally associated with the Fish and Game Fund.*

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

(j) Fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement authorized under AS 16.05.050(a)(6), during the fiscal year ending June 30, 2014, estimated to be \$450,000, are appropriated to the fish and game fund (AS 16.05.100).

***Legislative Fiscal Analyst Comment:** Because these facilities were constructed with F&G funds, the federal government has indicated that facility user fees must be appropriated to the F&G Fund.*

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

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

(l) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2013, estimated to be \$50,000, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

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

Funding: Expectations for FY13 earnings are relatively low due to the low short-term interest rate environment.

(m) The interest earned during the fiscal year ending June 30, 2014, by the Alaska marine highway system fund (AS 19.65.060(a)), estimated to be \$795,800, is appropriated to the Alaska marine highway system fund (AS 19.65.060(a)). It is the intent of the legislature that the interest earned on the balance of the Alaska marine highway system fund (AS 19.65.060(a)) be accounted for separately from the program receipts from vessel operations.

Subsection (m) appropriates interest earned on the AMHS fund to the fund. Until FY13, these earnings accumulated in the general fund.

Legislative Fiscal Analyst Comment: The reason for separation of interest and revenue is to simplify tracking of ferry operating revenue and operating expenses.

(n) The interest earned during the fiscal year ending on June 30, 2014, by the regional educational attendance area school fund (AS 14.11.030(a)), estimated to be \$350,000, is appropriated to the regional educational attendance area school fund (AS 14.11.020(a)).

Subsection (n) appropriates interest earned on the regional educational attendance area school fund to the fund. The fund was established in FY11 as a mechanism for funding rural schools. By statute, interest does not accumulate in the fund; it must be appropriated to it.

NEW SECTION

(o) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2014, is appropriated to the fish and game fund (AS 16.05.100);

(1) range fees collected at shooting ranges operating by the Department of Fish and Game (AS 16.05.050(a)(15)), estimated to be \$303,900;

(2) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)), estimated to be \$5,000;

(3) fees collected for sanctuary access permits (AS 16.05.050(a)(15)), estimated to be \$87,400.

Legislative Fiscal Analyst Comment: A federal audit found the Department in violation of federal rules that require program receipts from projects that used F&G funds to flow into the F&G fund. In the FY13 budget, the revenues cited in subsection (o) are used by the programs that generate the receipts, but the receipts do not flow through the F&G fund.

Section 1 includes fund source transactions that replace general fund program receipts with F&G funds. These transactions, in conjunction with the appropriations in this subsection, have a net zero impact on the budget.

Legislative Fiscal Analyst Recommendation: Similar fund source changes and appropriations should be added to a supplemental appropriations bill in order to fix the audit exception in FY13.

Sec. 27. RETIREMENT SYSTEM FUNDING. (a) The sum of \$312,472,952 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2014.

(b) The sum of \$316,847,291 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2014.

The appropriations in **subsections (a) and (b)** are amounts determined by the state's actuaries for the public employees (PERS) and teachers (TRS) retirement systems.

Legislative Fiscal Analyst Comment: During recent years, Alaska's public retirement systems accrued a multi-billion dollar unfunded liability due to a combination of investment losses, escalating health care costs, modification of actuarial assumptions and capped contribution rates. Beginning in FY08, the State began making direct contributions to retirement systems in order to stabilize employer contribution rates while repaying that unfunded liability.

Despite the State's efforts to pay down the unfunded liability, it has continued to grow (due to revised actuarial assumptions and to additional investment losses). The actuarial unfunded liability of the PERS and TRS systems is now \$7.9 billion and \$4.7 billion for PERS and TRS, respectively. That is an increase of \$520 million from the prior year.

Because the State caps employer contribution rates—and makes direct contributions to retirement accounts to bring total contributions to the actuarially required amount—the cost of paying off the unfunded liability is substantial, and is increasing rapidly. The FY14 direct State contribution to retirement systems is about \$26 million higher than it was in FY13, and projected annual increases are significant, reaching \$1.2 billion per year in about ten years.

(c) The sum of \$4,460,321 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2014.

A \$49 million FY08 supplemental appropriation to the judicial retirement fund was designed to eliminate the accumulated unfunded liability of the system. Large investment losses in FY09 re-opened the unfunded liability gap. The unfunded liability is now estimated to be \$58.3 million.

Legislative Fiscal Analyst Comment: Last session, the legislature appropriated \$50 million to eliminate the unfunded liability of the judicial retirement system. Doing so would have eliminated the need to make annual payments (for 25 years) to pay down the unfunded liability. The Governor vetoed the appropriation.

Sec. 28. SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2014, of the following ongoing collective bargaining agreements:

- (1) Alaska Vocational Technical Center Teachers' Association, National Education Association, representing the employees of the Alaska Vocational Technical Center;
- (2) International Organization of Masters, Mates, and Pilots, for the masters, mates, and pilots unit;
- (3) Inlandboatmen's Union of the Pacific, Alaska Region, for the unlicensed marine unit;
- (4) Marine Engineers' Beneficial Association; representing licensed engineers employed by the Alaska marine highway system;
- (5) Public Safety Employees Association, representing the regularly commissioned public safety officers unit;
- (6) Public Employees Local 71, for the labor, trades and crafts union;
- (7) Teachers' Education Association of Mt. Edgecumbe.

Subsection (a) appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2014, for university employees who are not members of a collective bargaining unit and to implement the terms for the fiscal year ending June 30, 2014, of the following collective bargaining agreements:

- (1) University of Alaska Federation of Teachers;
- (2) United Academics-American Association of University Professors, American Federation of Teachers;
- (3) United Academics-Adjuncts;
- (4) Fairbanks Firefighters Association, IAFF Local 1324.

Subsection (b) appropriates no money; it specifies that various salary adjustments are funded with money appropriated in section 1.

Legislative Fiscal Analyst Comment: The language in subsection (b) differs slightly from that used in FY13. Following "collective bargaining unit" on line 3, the FY13 language read "...and for the terms of the current agreements for the fiscal year ending June 30, 2013, providing for the staff benefits for university employees represented by the following entities." The reason for the change is to make the language consistent with that used in subsection (a).

(c) If a collective bargaining agreement listed in (a) of this section is not ratified by the membership of the respective collective bargaining unit, the appropriations made by this Act applicable to the collective bargaining unit's agreement are reduced proportionately by the

amount for the collective bargaining agreement, and the corresponding funding source amounts are reduced accordingly.

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

Subsections (a) and (b) are routinely amended as various bargaining units reach agreement.

Sec. 29. SHARED TAXES AND FEES. (a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated to the Department of Revenue from the general fund for payment to local governments and other entities in the fiscal year ending June 30, 2014:

REVENUE SOURCE	FISCAL YEAR COLLECTED
Fisheries business tax (AS 43.75)	2013
Fishery resource landing tax (AS 43.77)	2013
Aviation fuel tax (AS 43.40.010)	2014
Electric and telephone cooperative tax (AS 10.25.570)	2014
Liquor license fee (AS 04.11)	2014
Cost recovery fisheries (AS 16.10.455)	2014

Subsection (a) ensures that the Department of Revenue has the authorization to disburse taxes and fees collected on the behalf of local governments to those entities. The concept applies equally to prior year collections (fisheries receipts) and to current year receipts.

Funding: These “pass-through” taxes are excluded from Legislative Finance operating budget reports.

Legislative Fiscal Analyst Recommendation: *The legislature may wish to insert estimated amounts for the various taxes.*

(b) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2013 according to AS 43.52.230(b), estimated to be \$15,400,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2014.

Subsection (b) appropriates \$5 of the \$34.50 Commercial Vessel Passenger “Head” Tax to the first seven ports of call.

Funding: Revenue distributed to the ports totaled \$9.1 million for FY11 and is expected to be about \$14.2 million in FY12 and FY13. These “pass-through” taxes are excluded from Legislative Finance reports on the operating bill.

Legislative Fiscal Analyst Comment: *The legislature amended the statutes for the Commercial Vessel Passenger Head Tax effective October 31, 2010. The head tax was reduced from \$46 to \$34.50, with \$5 shared with the first 7 ports of call (previously 5 ports) and the Regional Impact Fund was eliminated.*

The impacts to the state are a decrease in total available revenue (due to the reduction in the overall tax rate), coupled with an increased level of revenue sharing (5 ports to 7 ports), leaving less revenue available for funding port and harbor projects. All of the \$13.3 million (with carryforward) available for funding ports and harbors was appropriated for that purpose in FY12. None of the \$1.6 million available for funding ports and harbors in FY13 was appropriated. The amount available for funding capital projects is expected to be about \$2.6 million (with carryforward) in FY14.

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

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

Sec. 30. AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009. (a) The unexpended and unobligated balance on June 30, 2013, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Education and Early Development is reappropriated to the Department of Education and Early Development for the administration and operation of departmental programs, for the fiscal year ending June 30, 2014.

(b) The unexpended and unobligated balance on June 30, 2013, of federal funding available under P.L. 111-5 (American Recovery and Reinvestment Act of 2009) and appropriated to the Department of Health and Social Services is reappropriated to the Department of Health and Social Services for the administration and operation of departmental programs, for the fiscal year ending June 30, 2014.

Section 30 extends the lapse date—through the end of FY14—of FY13 operating authorization associated with the American Recovery and Reinvestment Act of 2009. There is no new ARRA money included in the Governor's FY14 request.

Sec. 31. RATIFICATIONS OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM. The appropriation to each department under this Act for the fiscal year ending June 30, 2014, is reduced to reverse negative account balances for the department in the state accounting system in amounts of \$1,000 or less for each prior fiscal year in which a negative account balance of \$1,000 or less exists.

Section 31 allows departments to use money appropriated for FY14 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

Sec. 32. BUDGET RESERVE FUND. If the unrestricted state revenue available for appropriation in the fiscal year ending June 30, 2014, is insufficient to cover general fund appropriations made for the fiscal year ending June 30, 2014, the amount necessary to balance revenue and general fund appropriations or to prevent a cash deficiency in the general fund is appropriated from the budget reserve fund (AS 37.05.540(a)) to the general fund.

Section 32 allows the state to cover any shortfall in unrestricted revenues with transfers from the Statutory Budget Reserve Fund (SBR) to the general fund. In FY08, the legislature appropriated \$1 billion of general funds to the SBR (Sec. 21(c), Ch. 11, SLA 2008). Additional appropriations brought the balance to about \$5.5 billion, and a projected \$410 million draw from savings in FY13 leaves a balance of about \$5.1 billion. Unlike the Constitutional Budget Reserve Fund (CBRF), the SBR can be accessed with a simple majority vote.

Funding: The estimated value of this appropriation is zero.

Legislative Fiscal Analyst Comment: The Governor's FY14 budget request leaves about \$460 million unappropriated, before transfers. Unless the legislature increases the capital and operating budgets by more than that amount—or unless the revenue forecast is revised downward—section 32 will not be required to balance the budget in FY14.

Sec. 33. LAPSE OF APPROPRIATIONS. The appropriations made by secs. 8(c), 9, 10(b), and 25 - 27 of this Act are for the capitalization of funds and do not lapse.

Legislative Fiscal Analyst Comment: This language ensures that money deposited into various funds will not lapse if not expended during FY14.

Sec. 34. RETROACTIVITY. The appropriation made in sec. 12(h)(1) and those portions of the appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2013 program receipts or the unexpended and unobligated balance on June 30, 2013, of a specified account are retroactive to June 30, 2013, solely for the purpose of carrying forward a prior fiscal year balance.

Section 34 ensures that unexpended receipts and balances carry forward into FY14 before they lapse.

Sec. 35. Section 26(e) of this Act takes effect December 1, 2013.

Section 35 refers to the deposit to the Public Education Fund intended to fund FY15 K-12 formula costs. The delayed date was chosen for cash-flow purposes.

Sec. 36. Except as provided in sec. 35 of this Act, this Act takes effect July 1, 2013.

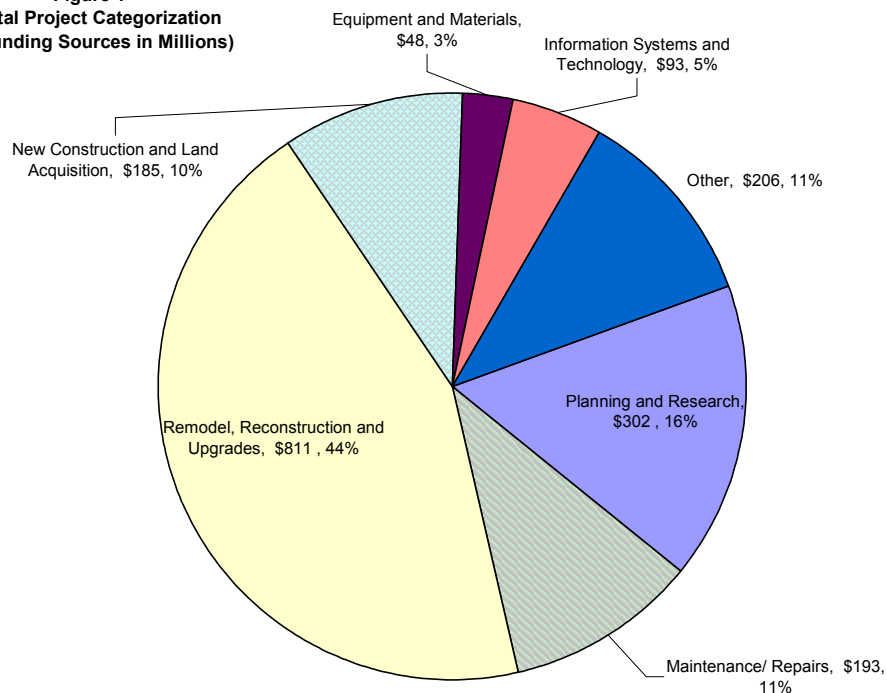
Capital Budget

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Capital Budget

The Governor has proposed capital projects of \$1.84 billion (\$1.82 billion of non-duplicated funds) for FY14. The budget includes \$869.9 million in general funds, \$56.6 million of other state funds and \$911.9 million of federal funds. The pie chart below provides a categorical breakdown of the proposed capital spending plan.

Figure 1
Capital Project Categorization
(All Funding Sources in Millions)



Construction - \$996 million

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

As might be expected, the DOT&PF budget contains the majority of the construction projects. The Surface Transportation Program and the Airport Improvement Program (along with associated state match) total \$566.8 million. Other substantial construction projects include:

- \$46 million for Nightmute and Kuinerramiut School Renovations/Additions
- \$51.5 million for AHFC Weatherization and Home Energy Rebates
- \$20 million for State Library, Archives and Museum Facility

- \$15 million for Alaska Geologic Materials Center Replacement
- \$10.6 million for Bethel Youth Facility Renovation Final Phase
- \$6.1 million for Anchorage Campus Court Renovation
- \$7 million for Blood Bank of Alaska Facilities Expansion

Other significant construction programs include the Village Safe Water Program and the Municipal Water Sewer Matching Grants Program in the Department of Environmental Conservation:

- \$30.9 million for Village Safe Water Projects (New First Time Service)
- \$21 million for Village Safe Water Expansion/ Upgrades (Existing Service)
- \$34 million for Municipal Water, Sewage, and Solid Waste Facilities

Maintenance/Repairs - \$193 million

This category includes deferred, scheduled and preventative maintenance or repair projects for agency facilities, state parks, harbors, highways, bridges, rural airports, aircraft and vessels. The category accounts for 11% of the total capital budget.

In January of 2007, The Legislative Finance Division compiled a list that showed a deferred maintenance backlog of \$954 million. By January of 2012, the backlog totaled approximately \$2.3 billion. The Governor announced a plan in the FY11 budget proposal to reduce the backlog by spending \$100 million of general funds each year for five years. The legislature fully funded the first three years of the plan, yet **most recent estimates continue to show a backlog totaling \$2.2 billion**. The Governor's FY14 bill again contains \$100 million to address the issue.

The current backlog, as reported by OMB, follows:

Deferred Maintenance by Agency (millions)			
	Jan-12	Jan-13	Difference
Administration	50.3	48.7	(1.60)
Corrections	102.9	87.4	(15.50)
Court System	9.8	8.1	(1.70)
Education & Early Development	20.5	12.6	(7.90)
Environmental Conservation	0.2	0	(0.20)
Fish and Game	3.1	2	(1.10)
Health & Social Services	19.2	17.1	(2.10)
Labor & Workforce Development	49.0	31.5	(17.50)
Military & Veterans Affairs	50.0	27.9	(22.10)
Natural Resources	69.1	74.1	5.00
Public Safety	6.7	6.7	-
Transportation & Public Facilities	751.4	673.8	(77.60)
Airports	54.7	49.2	(5.50)
Harbors	15.5	16	0.50
Facilities	39.4	33.1	(6.30)
Highways	624.9	558.7	(66.20)
AMHS Vessels/Terminals	16.9	16.8	(0.10)
University of Alaska	1,185.8	1200.7	14.90
Total	2,318.0	2,190.6	(127.40)

The numbers on the previous page should be considered gross approximations. Unless and until the State adopts a definition for deferred maintenance, estimates of the deferred maintenance backlog will remain rough. The Federal Accounting Standards Advisory Board (FASAB) provides a model definition for “maintenance” that could be utilized.

FASAB definition:

“Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventative maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.”

For purposes of categorizing the Governor’s capital budget request, all projects labeled “deferred maintenance” have been assigned to the “Maintenance and Repairs” category.

Why does it matter? A clear accounting of the state “maintenance” backlog could lead to a better understanding of the funding that needs to be applied to the backlog and to current and preventative maintenance plans. Without proper measurement, it will be difficult to determine whether improvements are being made.

Planning/Research - \$302 million

Another 16% of the budget falls into the planning and research category. The Governor has proposed a \$25 million deposit to the Alaska Gasline Inducement Act (AGIA) Reimbursement Fund. Under AGIA, the State provides matching contributions in the form of reimbursements to the licensee (TC Alaska) in an amount not to exceed \$500 million of the qualified expenditures incurred in development of a natural gas pipeline (see capital language analysis on page 76 for more information). Also included is \$25 million to the Alaska Gasline Development Corporation for the intra-state gas pipeline project. This is the fourth year of funding for the corporation which, with this proposal, would total \$89.9 million.

\$95.2 million is included for the Susitna-Watana Hydroelectric Project. Current projections estimate a need of \$342.7 million to complete licensing, engineering and design for the project through FY17 (the current total project cost is \$4.76 billion). \$65.7 million was also appropriated to begin this project in the FY12 capital budget.

Other significant planning appropriations include the federal highway and airport pre-construction appropriations. At \$60 million and \$18 million, respectively, these highway and airport projects fund the preliminary design, engineering, environmental analysis, right-of-way and utility work for the federal Airport Improvement Program and Surface Transportation Program.

Information Systems/Technology - \$93 million

Information technology projects make up 5% of the budget. Spread throughout state agencies, projects include network upgrades/replacements, security projects, document

imaging projects, database development and various communication projects. Also included are several Intelligent Transportation Systems (ITS) projects within DOT&PF. These projects utilize special funding from the Federal Highway Administration for improving transportation safety and efficiency. Examples include variable speed limit signs, traffic monitoring and incident detection systems, and weather and pavement sensors.

Equipment/Materials - \$48 million

This category, totaling 3% of the request, contains recurring projects for State Equipment Fleet replacement (\$15 million), various rural and international airport snow removal and safety equipment (\$5 million), and other agency equipment and materials as such:

- DNR Wildland Fire Engine Replacement - \$800.0;
- DPS Trooper and VPSO Equipment - \$1.2 million;
- DOT&PF Anchorage and Fairbanks International Airport Equipment - \$6 million;
- DOT&PF Federal Transit Administration Grants (buses) - \$9 million; and
- DOT&PF Aggregate Surfacing Materials - \$2 million

Other - \$206 million

The “Other” category, at 11% of the budget, is comprised of projects that do not fit well in any of the other project categories. This category includes projects that provide economic assistance, training, safety grants/programs, and similar miscellaneous items. This category has often contained appropriations that may be more appropriately placed in an agency operating budget. The legislature has taken steps during the last few years to remove operating items from the capital budget. This budget again appears improved in this regard.

Notable projects in the “Other” category include:

- DCCED Natural Gas Treatment and Distribution - \$50 million;
- DOT&PF Knik Arm Bridge and Toll Authority Project Reserve - \$10 million;
- DEC Clean and Drinking Water Subsidy Funding - \$3.4 million;
- DMVA State Homeland Security Grants - \$9.5 million;
- AHFC Homeless Assistance Program - \$8 million;
- DOT&PF Statewide Safety Program - \$21.5 million; and
- DOT&PF Whittier Tunnel Maintenance and Operations - \$2.5 million.

Project Categorization Methodology

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

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

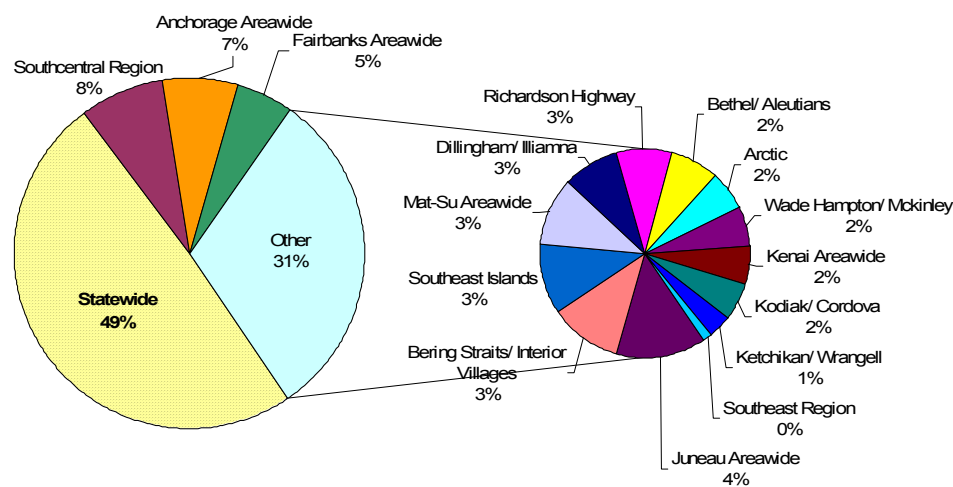
Project Group	Description
Planning and Research	Projects involving planning, design, engineering, research, or studies
Maintenance and Repairs	Projects involving the repair of deteriorated conditions, restoration to previous condition, and preventative maintenance
Remodel, Reconstruction and Upgrades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

Distribution by House District

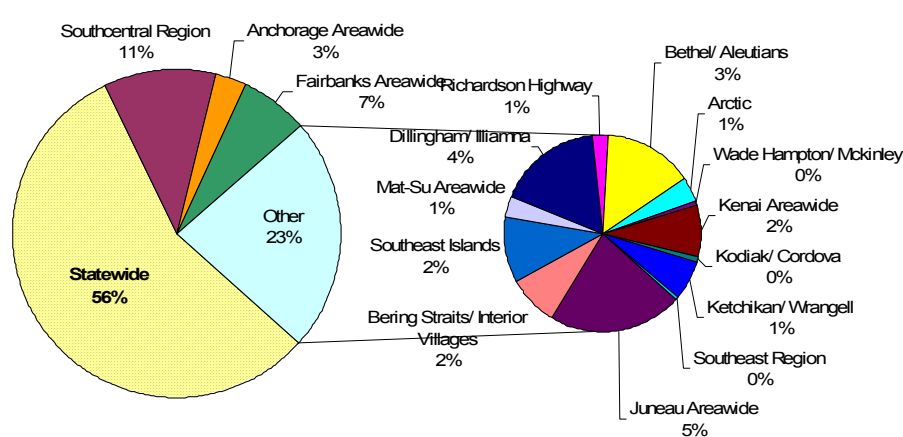
Figures 2 and 3 (next page) show the proportional breakdown of the Governor's capital request by house district on an "impact" basis.¹ Figure 2 contains all funding sources, while Figure 3 is state funds only. As can be seen, the majority of projects are assigned to the "Statewide" House District. Projects falling under this assignment are generally broad appropriations that span multiple regions of the state. The types of projects included are large deferred maintenance projects, information technology projects, and federal grant programs. The Capital Budget Summary table on page 75 breaks out the funding sources by fund group (general funds (UGF & DGF), Other State, and Federal funds) for each house district. Project detail reports by House District (along with project back-up) can be found on the Legislative Finance website.

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

House District Impact (All Funding Sources) Figure 2



House District Impact (State Funding Sources) Figure 3



Capital Budget Summary									
(thousands)									
Agency Comparison - All Funds (Includes MH)				FY14 Governor's Budget by House District					
Agency	FY13 Budget (1)	FY14 Gov	Change FY13-FY14	House District	HD #	General Funds	Other State Funds	Federal Funds	
Administration	38,313.0	49,975.9	11,662.9	Fairbanks Areawide	1-5	59,178.7	2,005.8	33,832.2	
Commerce, Community & Econ Dev	1,113,921.5	240,225.0	(873,696.5)	Richardson Highway	6	5,293.2	-	43,300.0	
Corrections	11,720.0	6,065.0	(5,655.0)	Mat-Su Areawide	7-11	7,020.0	-	53,700.0	
Education and Early Development	135,909.7	91,780.5	(44,129.2)	Anchorage Areawide	11-27	18,410.6	8,408.9	101,577.6	
Environmental Conservation	95,680.8	96,905.8	1,225.0	Kenai Areawide	28-30	18,516.6	-	15,125.0	
Fish and Game	27,655.3	16,630.0	(11,025.3)	Southcentral Region	7-30	105,200.0	-	35,450.0	
Office of the Governor	100.0	-	(100.0)	Juneau Areawide	31-32	47,307.3	-	31,050.0	
Health and Social Services	41,217.6	62,402.7	21,185.1	Ketchikan/ Wrangell	33	13,824.4	-	7,400.0	
Labor and Workforce Development	24,031.5	9,143.0	(14,888.5)	Southeast Islands	34	23,135.2	-	38,625.0	
Law	250.0	2,200.0	1,950.0	Southeast Region	31-34	1,225.0	-	6,440.0	
Military and Veterans Affairs	28,927.5	30,907.9	1,980.4	Kodiak/ Cordova	35	1,390.4	-	30,600.0	
Natural Resources	36,161.3	28,782.0	(7,379.3)	Dillingham/ Iliamna	36	36,893.2	-	11,775.0	
Public Safety	22,256.8	6,982.0	(15,274.8)	Bethel/ Aleutians	37	31,842.1	-	11,632.0	
Revenue	123,749.4	129,753.0	6,003.6	Wade Hampton/ McKinley	38	1,608.6	-	32,700.0	
Transportation & Public Facilities	1,359,009.4	984,113.5	(374,895.9)	Bering Straits/ Interior Villages	39	17,761.8	-	45,210.0	
University of Alaska	172,890.0	38,800.0	(134,090.0)	Arctic	40	8,580.0	-	26,065.0	
Alaska Court System	11,085.0	16,718.6	5,633.6	Statewide	1-40	472,667.9	46,166.2	387,467.1	
Fund Capitalization (2)	61,700.0	27,000.0	(34,700.0)						
Total Capital - "Money on the Street" (3)	3,304,578.8	1,838,384.9	(1,466,193.9)	Total		869,855.0	56,580.9	911,948.9	
Unrestricted General Funds	1,926,706.1	795,237.7	(1,131,468.4)	Unrestricted General Funds		795,237.7	-	-	
Designated General Funds	51,659.7	74,617.4	22,957.7	Designated General Funds		74,617.4	-	-	
Other State Funds	512,174.4	56,580.9	(455,593.5)	Other State Funds		-	56,580.9	-	
Federal Funds	814,038.8	911,948.9	97,910.1	Federal Funds		-	-	911,948.9	
Fund Transfers - Non-Additive (4)	25,870.7	60,200.0	34,329.3						

Notes:

1) The FY13 Budget figure includes approved RPL's through the 12/13/2012 meeting of the Legislative Budget and Audit Committee.

2) Fund Capitalization refers to funding appropriated to a program not requiring further appropriation for expenditure (e.g. - AGIA Reimbursement Fund).

3) "Money on the Street" is the total amount of funding for capital projects, net of fund transfers. Duplicated fund sources are not removed because doing so would understate the amount of funding going toward capital projects.

4) Fund Transfers are appropriations that move money from one "fund" to another "fund," not actually placing any new capital projects "on the street."

Language Sections of the Governor's FY14 Capital Budget

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

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

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

Subsection (a) provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the Governor can increase authorization for listed fund sources without the approval of the Committee. Similar language in the operating budget applies only to operating authorizations.

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

Subsection (b) permits state funding authorization to be reduced if unanticipated non-state funding is received for projects funded by state funds. There is no formal process for tracking potential reductions.

Subsection (c) automatically limits authorization of federal and other receipts to the amount actually received. The language applies to all appropriations in the Act, not merely to appropriations subject to LB&A review.

Sec. 5. FUND CAPITALIZATION. (a) The sum of \$25,000,000 is appropriated from the general fund to the Alaska Gasline Inducement Act reimbursement fund (AS 43.90.400(a)) for the natural gas pipeline project construction inducement under AS 43.90.110(a)(1).

Section (a) capitalizes the AGIA Reimbursement Fund with \$25 million from the general fund. Under AGIA, the state will provide matching contributions in the form of reimbursements (not to exceed \$500 million) to the licensee (TC Alaska) for qualified expenditures incurred in development of a natural gas pipeline. No appropriation is required to disburse money from the fund.

Funding: To date, \$305 million has been appropriated to the fund, and \$223 million has been used to reimburse the licensee through 12/31/12. Projected reimbursements through FY14 total \$441 million. The Governor's proposed \$25 million capitalization for FY14 would bring the fund balance to \$330 million, \$111 million short of projected reimbursements through FY14.

(b) The sum of \$2,000,000 is appropriated from the general fund to the emerging energy technology fund (AS 42.45.375).

Section (b) capitalizes the Emerging Energy Technology Fund, which was created in SLA 2010 for the purpose of promoting the expansion of energy sources available to Alaskans via grants for demonstration energy projects. The Governor's proposed FY14 deposit of \$2 million can be awarded as grants without further appropriation. The fund was capitalized in FY11 with \$2.4 million general funds. In FY12, \$2.4 million of federal funding was secured from the Denali Commission and the legislature provided \$2.4 million of general funds as a "good faith" match to the Denali Commission funding. In FY13, no general funds were appropriated to the fund.

Funding: Deposits of \$2.4 million of general funds in FY11 and FY12, plus deposits of \$4.1 million of federal funds from the Denali Commission give a fund balance of \$8.9 million. The Alaska Energy Authority (AEA) recently completed "round one" of grant awards and has obligated the entire balance. The FY14 deposit would go toward a second round of grant awards.

Sec. 6. FUND TRANSFERS. (a) The sum of \$25,000,000 is appropriated from the general fund to the renewable energy grant fund (AS 42.45.045(a)).

Subsection (a) appropriates \$25 million from the general funds to the renewable energy grant fund for energy grant appropriations.

Funding: To date, \$202.5 million has been appropriated to and from the Renewable Energy Fund for projects.

***Legislative Fiscal Analyst Comment:** Funds established for the purpose of making grants typically require an appropriation to the fund, and grants may then be disbursed with no further appropriation. Appropriations to grant funds are, therefore, typically classified as fund capitalizations. Because enabling legislation stated that money is to be appropriated from the Renewable Energy Fund as well as to it, deposits are classified as fund transfers. Recent capital bills contained a list of grantees and projects to be funded. The Governor's bill appropriates (in*

Section 1) \$25 million from the fund to the Alaska Energy Authority, but does not specify grantees or projects.

Legislative Fiscal Analyst Recommendation: *To comply with enabling statutes, the legislature should add a list of grantees to the appropriation bill. Compiling the list of grantees has typically required coordination with the Alaska Energy Authority.*

(b) The sum of \$35,200,000 is appropriated from the general fund to the regional educational attendance area school fund (AS 14.11.030(a)).

Subsection (b) appropriates \$35.2 million to the REAA School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of *Kasayulie vs. State of Alaska*, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 remedy perceived constitutional violations.

Legislative Fiscal Analyst Comment: *Although created in Ch.93, SLA 2010, this fund did not become effective until July 1, 2012 (FY13). The enabling language is identical to that of the School Construction Fund (AS 14.11.005) and the Major Maintenance Grant Fund (AS 14.11.007), with the exception that guidelines establish the minimum amount to be appropriated for REAA school construction.*

The distinction may be important. Because the legislature's practice is to limit fund transfers as much as possible in order to encourage budget clarity, the appropriations for school maintenance and construction appear as direct general fund appropriations for projects rather than as appropriations to a fund and then from a fund. The unique position of the REAA fund as a court remedy may make that simplification less than ideal for funding rural school construction. Ideally, there should be a way to identify a fund balance if appropriations for REAA school construction in any year are less than guidelines suggest.

*An unused balance of the REAA fund is not a pressing issue at this time. The consent decree for the *Kasayulie vs. State* case required the Governor to include funding for two REAA schools in his FY13 capital budget. Both the Emmonak school (\$36.1 million) and the Koliganek school (\$24.9 million) were included. Both appropriations eventually used general funds and showed as allocations under the school construction grant fund. Clearly, FY13 appropriations for rural school construction exceeded the \$35.5 million that met the guidelines of AS 14.11.025.*

The Governor proposes appropriating money from the REAA fund for FY14 school construction in Nightmute (\$33 million) and Kuinerramiut (\$13.2 million). Once again, those appropriations exceed the \$35.2 million the Governor proposes to deposit into the fund (in keeping with AS 14.11.025).

Legislative Fiscal Analyst Recommendation: *The legislature may wish to:*

- 1. verify that the amount stated in subsection (b) meets the guidelines of AS 14.11.025.*
- 2. revise the fund sources for the Nightmute and Kuinerramiut schools (in section 1) to ensure that appropriations from the REAA fund equal the amount deposited into the fund (with the remainder coming from the general fund). Alternately, the deposit to the REAA fund could be increased to cover the full cost of constructing the two schools.*
- 3. consolidate subsection (b) with other fund transfers in the operating budget in order to facilitate tracking of transfers.*

Sec. 7. INSURANCE CLAIMS. The amounts to be received in settlement of insurance claims for losses and the amounts to be received as recovery for losses are appropriated from the general fund to the

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

Section 7 allows an agency to receive insurance claim settlement payments directly from a third party. Without this provision, settlements would remain in the general fund and would not be available to offset an agency's loss without a specific appropriation.

Sec. 8. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM. The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 by August 31, 2013, estimated to be \$3,945,018, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for grants for capital projects under the National Petroleum Reserve - Alaska impact grant program.

Section 8 appropriates the entire amount received (estimated at \$3.9 million for FY14) from the revenue shared by the federal government from sales, rentals, bonuses, and royalties on leases issued within the NPR-A to the NPR-A Impact Grant Program. Grants are awarded to municipalities impacted by oil and gas development in the NPR-A. AS 37.05.530(g) states that receipts not appropriated as grants are to be distributed as follows: 25% to Permanent Fund Principal, ½% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

Legislative Fiscal Analyst Comment: *Recent capital bills contained a list of grantees and the projects to be funded. Providing this information allows it to be*

entered into the budget system so that it is available for future queries regarding grants.

***Legislative Fiscal Analyst Recommendation:** Grantees and a short description of projects should appear in the bill. Grantees are typically selected during the session and a list is often submitted as part of the amendment process.*

Remaining balances should be appropriated to a fund other than the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer used because the Power Cost Equalization Program is funded with an open-ended appropriation of general funds. AS 37.05.530(g) should also be revised.

NEW SECTION

Sec. 9. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. The sum of \$1,750,000 of the unexpended and unobligated balance of the appropriation made in sec. 4, ch. 5, FSSLA 2011, page 136, lines 31 - 33 (AEA - Akiak Community Electrical Generation System Upgrade - \$4,000,000) is reappropriated to Alaska Energy Authority for payment as a grant to Village of Atmautluak for rural power systems upgrades.

Sec. 10. DEPARTMENT OF ENVIRONMENTAL CONSERVATION. The unexpended and unobligated balances, estimated to be a total of \$359,541, of the appropriations made in sec. 1, ch. 82, SLA 2006, page 66, lines 24 - 26 (Anchorage Loop Water Transmission Main Phase 4 Matching Grant (HB 17-32) - \$2,807,318), sec. 1, ch. 82, SLA 2006, page 67, lines 24 - 26 (Homer Water Treatment Plant Upgrades Matching Grant (HD 33-35) - \$1,062,727), sec. 1, ch. 82, SLA 2006, page 69, lines 25 - 27 (Sitka Kimsham Landfill Closure Matching Grant (HD 2) - \$1,220,356), sec. 4, ch. 30, SLA 2007, page 90, lines 12 - 14 (Anchorage - Loop Water Transmission Main, Phase IV (HD 17-32) - \$3,060,000), sec. 4, ch. 30, SLA 2007, page 90, lines 15 - 16 (Anchorage - Pump Station 10 Upgrade (HD 17-32) - \$1,545,000), sec. 4, ch. 30, SLA 2007, page 91, lines 3 - 5 (Homer - Water Treatment Plant Upgrade, Phase III (HD 33-35) - \$1,310,160), sec. 4, ch. 30, SLA 2007, page 91, lines 20 - 23 (Kodiak - Aleutian Home Water and Sewer Replacement, Phase II (HD 36) - \$1,525,400), sec. 4, ch. 30, SLA 2007, page 92, lines 10 - 12 (Sitka - Japonski Island Submarine Water Crossing (HD 2) - \$776,300), sec. 13, ch. 29, SLA 2008, page 139, lines 21 - 22 (Homer: Water Treatment Plant Upgrade (HD 33-35) - \$1,236,000), sec. 13, ch. 29, SLA 2008, page 140, lines 5 - 8 (Kodiak: Aleutian Homes Water and Sewer Replacement Phase IV (HD 36) - \$1,297,800), and sec. 13, ch. 29, SLA 2008, page 140, lines 21 - 24 (Palmer: Wastewater Treatment Plant Improvements Design (HD 13-16) - \$148,781) are reappropriated to the Department of Environmental Conservation for project administration of water quality enhancement, water supply, sewage, and solid waste facilities grants to municipalities.

Sec. 11. DEPARTMENT OF FISH AND GAME. The unexpended and unobligated balance of the appropriation made in sec. 10, ch. 29, SLA 2008, page 67, lines 17-18, (Kodiak Near Island Facility (HD 36) - \$2,000,000), estimated to be \$2,000,000, is reappropriated to the Department of Fish and Game for capital project for a licensing system.

Legislative Fiscal Analyst Comment: Sections 9, 10 and 11 reappropriate funding for capital projects. By tradition, money available from legislative additions to the capital budget is often reappropriated within an election district with little scrutiny. Executive branch reappropriations are sometimes requested, though the reason for reappropriation—as opposed to a request for new money—is less clear because there is little reason to protect “district money.”

The Legislative Finance Division’s guidelines for capital reappropriations include the following points:

The reappropriation process should not extend beyond legislative additions. All other extinguishable capital projects should be administratively terminated and the money returned to the original funding source. (OMB should provide a list of terminated projects. The legislature may wish to force termination of “old” projects.)

Money made available by project termination will appear as revenue in the fiscal summary but will not appear in the budget system.

Advantages of this approach include:

- 1. A cleaner, simpler capital bill—there is no need to reference administratively-terminated projects as the funding source for new projects.*
- 2. Improved information because all projects will be added to the database. (Currently, there is no back-up for capital reappropriations.)*
- 3. A fiscal gap calculation that adjusts for the termination of capital projects.*
- 4. Enhanced scrutiny of projects—all projects compete equally instead of some escaping scrutiny because they are “just reappropriations.”*

Sec. 12. LAPSE. (a) The appropriations made in secs. 8 - 11 of this Act are for capital projects and lapse under AS 37.25.020.

(b) The appropriations made in secs. 5, 6, and 7(1) of this Act are for the capitalization of funds and do not lapse.

Under AS 37.25.020, a capital appropriation is for the life of the project. In addition, an Attorney General’s Opinion states that exclusion of a capital

appropriation from a capital lapse provision (such as subsection (a)) does not prevent the appropriation from lapsing under AS 37.25.020 as long as the appropriation is “clearly a capital improvement.”

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

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

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

Proposed New Subsection

Legislative Fiscal Analyst Recommendation: *Add the following subsection: “A grant awarded in this Act to a named recipient under AS 37.05.316 is for a capital project, unless specifically identified in the Act as an operating grant, and lapses under AS 37.25.020 unless otherwise stated.”*

Legislative Fiscal Analyst Comment: *Similar language was unintentionally omitted from the FY13 capital bill. The language is required to clarify that grants to named recipients under AS 37.05.316 are to be counted as capital grants. There has been confusion in the past when grants with a one-year lapse were booked as operating grants.*

Sec. 13. Sections 9 - 11 of this Act take effect June 30, 2013.

Sec. 14. Except as provided in sec. 13 of this Act, this Act takes effect July 1, 2013.

Agency Narratives and Funding Summaries

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Administration				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY14 Conference Committee (GF Only)	\$108,490.3			
<i>FY14 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Veto</i>	-			
FY14 Management Plan (GF only)	\$108,490.3	\$0.0	0.0%	
<i>One-time Items removed</i>	(1,568.1)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	174.3			
FY14 Adjusted Base Budget (GF only)	\$107,096.5	(\$1,393.8)	-1.3%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	2,950.4			
FY14 Governor's Agency Request (GF only)	\$110,046.9	\$2,950.4	2.8%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$2,950.4	
Administrative Services	121.1	846.5	725.4	7
Alaska Land Mobile Radio	1,150.0	3,250.0	2,100.0	6
Alaska Oil and Gas Conservation Commission	6,321.5	6,446.5	125.0	5
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	213,203.4	222,820.0	9,616.6	1,2,3,4,6,8
Federal Funds (all allocations)	4,993.7	3,293.7	(1,700.0)	3
Total Non-General Funds (all allocations)	\$218,197.1	\$226,113.7	\$7,916.6	
Position Changes (From FY13 Authorized to Gov)	1,145	1,131	(14)	
PFT	1,087	1,051	(36)	9
PPT	18	19	1	
Temp	40	61	21	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	7,017.0	-	7,017.0	
Remodel, Reconstruction and Upgrades	30,044.5	-	30,044.5	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	12,914.4	-	12,914.4	
Other	-	-	-	
TOTAL CAPITAL	\$49,975.9	\$0.0	\$49,975.9	

Department of Administration

The mission of the Department of Administration (DOA) is to provide consistent and efficient support services to state agencies so that they may better serve Alaskans. DOA establishes policies and coordinates services among departments and provides statewide leadership and policy direction in the following areas:

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

Direct public services are provided through the Division of Motor Vehicles; by legal and advocacy services through the Public Defender Agency and the Office of Public Advocacy; and through the Office of Administrative Hearings which provides for adjudication services in a broad range of administrative appeals and alternative dispute resolution processes. The Department also oversees administrative functions of four independent boards and commissions (the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, the Alaska Oil and Gas Conservation Commission, and the Violent Crimes Compensation Board).

The FY14 Department of Administration general fund operating budget submitted by the Governor is \$2,950.4 above the FY14 Adjusted Base [\$2,825.4 Unrestricted General Funds (UGF) and \$125.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Risk Management – Rising Medical and Legal Costs of Insurance Premiums: \$4,224.2 I/A Receipts (Other).** During the past four years, Risk Management has seen a dramatic increase in property insurance premiums (66%), medical costs for workers compensation (56%), and litigation costs (22%). Division insurance brokers advise that property premiums will continue to rise due to recent worldwide disasters. Workers compensation medical costs are expected to increase significantly with the new fee schedule adopted by the Alaska Workers' Compensation Board (HB 13—Ch. 32, SLA 2011) plus the Department of Law's Tort Section annual increase of four- to five-percent. Each year from FY09-FY12, Risk Management has exceeded its budget authorization and needed the Catastrophe Fund to cover the increased claims costs. With the approval of this increment, the Department hopes to avoid the use of that fund.

This increment represents a core service increase that will be charged to user agencies at each payroll run. Because agency increments do not fully cover these increased costs, the increased charges (projected to total at least \$2.7 million) may act as budget cuts to the agencies.

2. Health Plans Administration – Third Party Administrator Contract Increase for New Health Contract: \$1.5 million Group Health and Life Benefits Fund (Other).

The AlaskaCare contract with the third party administrator (TPA), HealthSmart, Inc. will expire on June 30, 2013. A Request for Proposals is in process which separates the current TPA services into four separate components. Although final costs for each contract in each component will not be known until contracts have been awarded, provider costs for the new health contracts include an anticipated increase in the number of covered individuals. The Governor's FY14 budget includes an anticipated \$1.5 million increase in the overall contract.

3. Enterprise Technology Services

- **Additional Receipt Authority to Accurately Charge User Agencies for Legacy Systems: \$1.2 million Information Services Fund (Other).** The Department has maintained flat ETS rates during the past several years. This increment will allow for more accurate charges to agencies for IT services. The added authority will be used for mandated operations, increased security, audit requirements and compliance and other cost center resources to keep the IT systems in good working order. This increment represents a core service increase that will be charged to user agencies. Agency requests typically cover a portion of these increased costs, leaving a portion of the increased charges acting as budget cuts to the agencies.
- **Decrement to Eliminate Uncollectible Federal Receipt Authority – (\$1.7 million) Federal Receipts.** The Department is eliminating “hollow” authority from ETS. No Federal Receipts have been collected for several years and none are anticipated for FY14 or in future years.

4. Retirement and Benefits – Consolidation and Automation of Division Processes: \$875.0 Various Other Funds.

The Division's actuary projects a 62% increase in the number of retirees during the next decade. To meet the demanding workload that this increase will bring, the Governor has requested an increment to allow for consolidation and automation of both external and internal processes.

Legislative Fiscal Analyst Recommendation: If the consolidation and automation processes are temporary, a temporary increment (IncT) with a set term date, a multi-year appropriation or a one-time increment (IncOTI) may be better options. In a discussion, the Department stated that these funds are needed for annual maintenance and operating costs.

5. Alaska Oil and Gas Conservation Commission (AOGCC) – Increased Overtime for 24/7, On-Sight Regulatory Supervision by Petroleum Inspectors: \$125.0 AOGCC Receipts (DGF).

The AOGCC has six Petroleum Inspector positions located in Anchorage, Nikiski, Kasilof, and Ninilchik. The inspectors are responsible for traveling statewide and providing on-site regulatory oversight and on-site inspections. In FY13, the Governor's budget included a 20% increase in AOGCC travel to allow for more inspections and to witness and verify the accuracy of function and pressure tests on blowout prevention equipment on every rig that is in use for oil, gas, and geothermal drilling. In FY14, the Commission is requesting additional personal services funding due to the fact that each inspector incurs inevitable overtime because of the 24/7 nature of their work.

MAINTENANCE OF SERVICES

6. Alaska Land Mobile Radio (ALMR)

- **Restore ALMR Equipment, Maintenance and Training: \$1.5 million UGF.** On July 1, 2012, the State of Alaska assumed full responsibility for 41 ALMR sites from the Department of Defense. State telecommunications staff and contractors are now responsible for maintenance of those sites. For FY13, an additional \$1.5 million was added to the ALMR budget as one-time

funding, bringing the total budget for the allocation to \$2,650.0. The FY14 request would maintain that funding level as the ongoing base.

- **ALMR Maintenance Costs and Receipt Authority: \$1.6 million Total (\$600.0 UGF/ \$500.0 I/A Receipts and \$500.0 Statutory Designated Program Receipts (Other)).** Per legislative intent, the Department of Administration is developing a new chargeback methodology. In FY14, a new rate structure will replace the historical cost sharing methodology that has been in place since 2007. The stated purpose of the Governor's requested increment is to keep ALMR a viable system while allowing the State of Alaska to charge its users.
 - The additional UGF is for increased costs for site maintenance, including annual hardware replacement and maintenance, on-site preventative maintenance inspections (PMI), and system repairs.
 - Municipalities' charges will not be paid by municipalities, but with general funds appropriated to the Department of Commerce, Community and Economic Development (funds will be transferred to DOA via I/A Receipts).
 - Participating non-federal agencies and the U.S. Department of Defense agencies will be charged; those funds will be collected through statutory designated program receipt authority.

Legislative Fiscal Analyst Comment: The legislature should consider the following:

- The addition of \$600.0 of general funds is counter to implied legislative intent that the ALMR system be a full cost-recovery system;
- The costs allocated to municipalities is actually being paid with general funds, bringing the effective amount of general funds in this increment to \$1.1 million, and the effective amount of general funds in the allocation to \$3.6 million. Passing money through the DCCED in the manner suggested should be avoided as doing so obfuscates the budget;
- Although the increment states that General Fund/Program Receipt authority is being requested in order to collect and spend money from non-federal agencies and the DOD, the request is actually for Statutory Designated Program Receipt authority. This fund source cannot be used for collections from federal sources.

Legislative Fiscal Analyst Recommendation: The increment should request General Fund/Program Receipt authority (as is currently authorized in this allocation).

7. Department of Administration's "Core Services" Increases: \$725.4 UGF.

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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Administration is \$866.2, leaving \$140.8 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

8. General Services – Interagency Receipts: \$663.6 Total Other (\$465.9 I/A Receipts and \$197.7 Public Building Fund).

Several increments for services and space costs will affect user agencies. Agencies will absorb these increases in their FY14 operating budgets (except for the UGF increments included as part of the "Core Services").

- **Leases – Lease Costs: \$100.0 I/A Repts.** The leases program encompasses approximately 500 active leases. Early estimates are projected to total more than the amount authorized for

collection. Factors contributing to the cost increases include: consumer price index provisions of many lease contracts, expiring leases being replaced at higher cost, and new lease awards;

- **Lease Administration – Maintain Services: \$265.9 I/A Rcpts.** This increment will partially fund a full-time Accounting Clerk in Juneau, add travel for site inspections to ensure that lessors are in compliance with lease terms and conditions, purchase third-party legal services to manage ongoing litigation, and retain the services of a certified industrial hygienist to address employee health concerns in leased office space;
- **Facilities – Facilities Operation and Maintenance Costs: \$100.0 I/A Rcpts.** Increased costs of \$100.0 for operation and maintenance of the eleven facilities currently included in the Public Building Fund group is projected in FY14.

Legislative Fiscal Analyst Note: The facilities in the Public Building Fund group are—the Robert B. Atwood Building, the Fairbanks Regional Office Building, the Juneau State Office Building, the Dimond Court House, the Linny Pacillo Parking Garage, the Palmer State Office Building, the Alaska Office Building, the Douglas Island Building, the Court Plaza, the Juneau Public Safety Building, and the Juneau Community Building.

- **Facilities Administration – Funding for Two New PFT Positions: \$197.7 Public Building Fund.** An increment is requested to fully fund a new Contracting Officer I/II/III in Anchorage, and to partially fund a new Accounting Clerk in Juneau. These positions will be initially assigned responsibilities for the Nome State Office Building and the Alaska Geologic Materials Center.

OTHER ISSUES

9. **Continuation of Human Resources Decentralization from the Department of Administration Personnel Division: Transfer 43 PFT Positions Back to Agencies for Recruitment and Management Services.** Prior to 2003, the State of Alaska had a decentralized Human Resource (HR) structure. Policy and procedures for HR services were developed and administered by DOA, Division of Personnel and Labor Relations (DOPLR), but the implementation of those HR services and day-to-day operations were handled by each department Personnel Office. In 2003, the decision was made to centralize all HR Operations in order to improve consistency, increase efficiency, and reduce administrative costs. During the last few years, that centralized effort has been reviewed and discussed with Commissioners in each department. The consensus was that the HR services needed a stronger presence at the agency level to identify and address concerns as they arise. Beginning in November 2011, the Division of Personnel began a pilot program to return certain HR functions to the Department of Labor and Workforce Development. This phasing back of positions and responsibilities continued with other agencies through 2012.

The FY14 Governor's request reflects Agency Transfers (ATRINS) to move positions back to 13 different agencies for Recruitment and Management Services. A total of 43 positions (most agencies have both an HR Lead and a recruitment technician) are transferred out of DOPLR to various departments. Classification, Payroll, Labor Relations, Training and Development and Equal Employment Opportunity services are retained in the central Division of Personnel and Labor Relations. According to the Department of Administration, in order to maintain consistency in administering statewide policies and procedures, bargaining contract interpretations as well as recruitment processes, DOPLR has initiated monthly videoconference meetings for all HR and Recruitment Leads.

10. **Legal & Advocacy Appropriation.** Steady workload increases each year for the last 25 years have generated incremental and supplemental funding needs for the Office of Public Advocacy and the Public Defender Agency. No additional increases related to workload have been requested

in the initial FY14 Governor's request. Amendments may follow; as stated by the Department, "due to the inherently unpredictable nature of the caseload, it is a significant challenge for the Office of Public Advocacy to maintain and provide the core services to clients as efficiently as possible while operating within budgetary parameters." As a "down flow" agency, it reacts to the actions of the other state agencies and systems (including the Office of Children's Services, Adult Protective Services, the Attorney General Human Services Section, the District Attorney's Office, the Court System, and other public and private entities). The Public Defender Agency is in a similar circumstance as they continue to experience increases in court appointments across the state. "The increase in caseload continues to present substantial challenges regarding document processing, client communication, and case review and preparation."

11. Bargaining Unit Negotiations. According to the Department, the state expects to reach agreement with three bargaining units in FY13 which will be implemented in FY14. Funding for these agreements will be requested later in the legislative session. These units are as follows:

- **Alaska State Employees Association (ASEA);**
- **Alaska Public Employees Association (APEA);**
- **Supervisory Unit (SU); and**
- **The Confidential Employees Association (CEA).**

Negotiations for successor agreements for other bargaining unit contracts will occur in FY14 with implementation in FY15.

ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested. As part of the decentralization of Human Resources from Centralized Administrative Services/Personnel, however, two PFT positions in Juneau are transferred back to the Administrative Services allocation.

CAPITAL REQUEST

The Governor's FY14 Department of Administration capital budget includes thirteen projects and totals almost \$50 million of State funds (\$44.86 million UGF and \$5.1 million Other funds). Significant projects are highlighted below:

- **\$9,600,000 UGF – General Services, Douglas Island Building Year 2 of 2** for renovations to the curtain wall assembly and building components to extend the life of the building for an additional thirty years (this building was originally built in 1961 and houses offices for the Departments of Corrections and Fish & Game);
- **\$2,000,000 UGF – General Services Repair Juneau State Office Building Parking Garage Phase 2 of 3** to repair the 38-year-old SOB North Garage and the 41-year-old SOB South Garage structures;
- **\$3,252,170 – General Services Nome State Office Building and Courthouse** for major renovations to that building. The occupying agency offices include Elections, Fish & Game, Health and Social Services, Law, Corrections, and the Legislative Information Office;
- **\$15,000,000 UGF – Alaska Geologic Materials Center Replacement Facility Phase 2 of 4** to pursue potential options for a replacement center. The current building in Eagle River is 70% over capacity and has become inadequate for proper storage and access to the current collection which represents geologic resource exploration activity in Alaska during the past 70 years;

- **\$500,000 UGF – Enterprise Technology Services Virtual Tape Systems Replacement** for the Virtual Tape Systems (VTSs) and Automated Tape Libraries (ATLs) located in the Juneau Data Center. This project upgrades the existing mainframe environment by replacing older technology and is also an enhancement to the mainframe disaster recovery process;
- **\$192,300 UGF – General Services American’s with Disabilities Act (ADA) Improvements – Multiple Locations** to address the ongoing Department of Administration facilities obligations to comply with federal ADA Regulations and Standards;
- **\$5,300,000 UGF – Alaska Rural Communication System – Digital Conversion** to upgrade the current Alaska Rural Communication System (ARCS) from an analog system to a digital system. According to the Federal Communications Commission, by September 1, 2015, all low-power television services must be converted from analog to digital. The State owns ARCS and has operated it in partnership with rural village community organizations for over three decades;
- **\$2,000,000 UGF – Capital Asset Management System Phase 1 of 2** to implement a Capital Asset Management System for state-owned and operated facilities. Funds will be used to secure a vendor to conduct facility condition audits and develop a capital asset management system to maintain consistent and accurate facility data for all state-owned facilities throughout Alaska; and
- **\$7,017.0 UGF plus \$3,000,000 Public Building Fund (Other) – Statewide Deferred Maintenance, Renewal, Repair and Equipment Projects** managed by the Department of Administration for Public Building Fund and non-Public Building Fund facilities as well as projects for the State of Alaska Telecommunication System (SATS) infrastructure and ETS facilities.

In addition to the \$3 million noted above in Public Building Fund deferred maintenance, the Governor’s Department of Administration capital request includes **a little over \$2 million in non-GF projects related to the Division of Retirement and Benefits.**

RETIREMENT APPROPRIATIONS

DIRECT APPROPRIATIONS TO RETIREMENT: \$633.8 million UGF. As in previous years, direct appropriations for costs associated with public employees’ retirement systems are segregated from the department’s budget in order to avoid overstating the Department of Administration’s budget. A total of \$633,780.6 in direct appropriations for retirement includes:

- **\$312,473.0 UGF for the public employees’ retirement system** defined benefit plan account;
- **\$316,847.3 UGF for the teachers’ retirement system** defined benefit plan account; and
- **\$4,460.3 UGF for the judicial retirement system** defined benefit plan account.

A contribution to the military retirement system (Department of Military and Veterans’ Affairs AK National Guard and Alaska Naval Militia defined benefit plan account) is not included in the Governor’s FY14 request. No contribution is required.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$131,527.9			
<i>FY13 Fiscal Notes</i>	712.4			
<i>CarryForward</i>	26,099.5			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$158,339.8	\$26,811.9	20.4%	
<i>One-time Items removed</i>	(17,779.5)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	150.0			
<i>FY14 Contractual Salary and Health Increases</i>	81.1			
FY14 Adjusted Base Budget (GF only)	\$140,791.4	(\$17,548.4)	-11.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(83,520.9)			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	82,509.7			
FY14 Governor's Agency Request (GF only)	\$139,780.2	(\$1,011.2)	-0.7%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			(1,011.2)	
Commissioner's Office	108.2	109.1	0.9	5
Administrative Services	1,449.0	1,576.7	127.7	5
Community & Regional Affairs	33,257.3	8,764.6	(24,492.7)	1, 8
Corporations, Business & Professional Licensing	11,143.6	11,208.6	65.0	
Economic Development	3,487.1	19,499.1	16,012.0	4, 5
Investments	5,261.0	5,266.7	5.7	
Serve Alaska	256.7	257.1	0.4	5
Alcoholic Beverage Control Board	1,420.2	1,709.7	289.5	2, 9
Alaska Energy Authority Rural Energy Operations	2,087.5	2,187.5	100.0	
Alaska Energy Authority Power Cost Equalization	38,190.0	40,351.0	2,161.0	6
Statewide Project Development, Alternative Energy & Efficiency	3,027.1	3,032.3	5.2	5
Alaska Industrial Development and Export Authority	-	9.3	9.3	5
Alaska Seafood Marketing Institute	20,344.2	25,034.8	4,690.6	7
DCCED State Facilities Rent	585.0	599.2	14.2	5
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	34,877.2	39,831.0	4,953.8	2, 3, 4
Federal Funds (all allocations)	22,013.3	21,543.7	(469.6)	8
Total Non-General Funds (all allocations)	\$56,890.5	\$61,374.7	\$4,484.2	
Position Changes (From FY13 Authorized to Gov)	530	539	9	
PFT	513	526	13	3
PPT	2	1	(1)	8
Temp	15	12	(3)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	120,400.0	-	120,400.0	
Maintenance and Repairs	330.0	-	330.0	
Remodel, Reconstruction and Upgrades	16,100.0	5,000.0	21,100.0	
New Construction and Land Acquisition	7,000.0	3,945.0	10,945.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	600.0	-	600.0	
Other	80,850.0	6,000.0	86,850.0	
TOTAL CAPITAL	\$225,280.0	\$14,945.0	\$240,225.0	

Department of Commerce, Community, and Economic Development

The mission of the Department of Commerce, Community, and Economic Development (DCCED) is to promote a healthy economy, strong communities, and protect consumers in Alaska. To accomplish this, the Department implements programs to

- coordinate, develop, and promote programs for sustainable economic growth;
- regulate and enforce consumer protection and provide a stable business climate;
- assist in the development of sustainable energy systems and reduce the cost of energy in rural Alaska; and
- assist communities with achieving maximum local self-government and foster volunteerism statewide.

The Department consists of core agencies including the Divisions of: Banking & Securities, Corporations, Business and Professional Licensing, Community and Regional Affairs, Insurance, and Economic Development. Various corporate agencies are also part of the Department, including: Alaska Industrial Development and Export Authority, Alaska Energy Authority, Alaska Railroad Corporation, Alcoholic Beverage Control Board, Alaska Seafood Marketing Institute, Regulatory Commission of Alaska, and the Serve Alaska Commission.

The FY14 Department of Commerce, Community, and Economic Development general fund operating budget submitted by the Governor is \$1 million below the FY14 Adjusted Base [a *decrease* of \$16.5 million Unrestricted General Funds (UGF) and an increase of \$15.5 million in Designated General Funds (DGF)].

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

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Community and Regional Affairs – Payment to the Department of Administration for Municipalities & Local Governments Alaska Land Mobile Radio (ALMR) Cost Share: \$500.00 UGF.** The FY14 Governor's budget request includes language appropriating general funds to DCCED for transfer to the Department of Administration (DOA), Alaska Land Mobile Radio allocation as payment on behalf of political subdivisions that use the ALMR system. The payments are to be based on a cost allocation methodology developed by DOA.

Legislative Fiscal Analyst Comment: FY13 legislative intent language instructed the Department of Administration to develop a plan to fairly allocate costs of providing ALMR services. Some of those costs fall upon local governments, and DOA is concerned that some local governments may opt out of the ALMR system in order to avoid paying their allocated costs. DOA argues that the overarching public interest in having first responders participate in the ALMR system justifies state payments on behalf of local governments.

To the extent that the legislature's intent was full cost recovery from all ALMR system participants, this appropriation is counter to legislative intent. However, because the intent language specified full cost recovery only from the federal government, the proposed appropriation is consistent with the stated intent.

Appropriating money to DCCED for transfer to DOA effectively short-cuts the normal grant process (in which money would flow from the general fund to DCCED to municipalities to DOA).

From another perspective, the proposed transfer complicates the cost recovery methodology by involving DCCED in the process.

Legislative Fiscal Analyst Recommendation: If the legislature chooses to make payments on behalf of local governments, it may be better to appropriate the money directly to DOA. The current language has the appearance of a municipal grant program, but there does not appear to be any advantage to running the money through DCCED.

2. Alcoholic Beverage Control Board – Funding to Continue the Underage Drinking Enforcement Program: \$100.0 UGF / (\$100.0) Inter-agency (I/A) Receipts (Other).

The Department is requesting the replacement of uncollectible I/A Receipt authority with Unrestricted General Funds for the Underage Drinking Enforcement program. This program was previously funded by a reimbursable services agreement (RSA) with the Department of Health and Social Services, Division of Juvenile Justice; however, the federal funding for this program will be ending on December 31, 2012.

The Underage Drinking Enforcement program has been in place for over ten years, checks approximately 800 alcoholic beverage retailers for compliance in refusing to sell alcohol to underage persons each year and has an 87% rate of compliance. In a recent study, Alaska was shown to have a low percentage of sales by retailers to underage persons. Although other programs share in the credit for this low rate, the Alcoholic Beverage Control Board believes the compliance check program is an important factor.

3. Commissioner's Office & Administrative Services – Increase Authorization for a New Deputy Commissioner Position and to Meet Vacancy Factor Guidelines: \$333.7 Inter-agency (I/A) Receipts (Other).

The Department is requesting additional authorization (\$143.7) within the Commissioner's Office allocation to fund a new exempt Deputy Commissioner position added during FY13. Additional authorization (\$190.0) is also being requested within the Administrative Services allocation for department-wide projects and to meet vacancy factor guidelines.

Legislative Fiscal Analyst Comment: Although the I/A Receipt authorization for the Commissioner's Office and for Administrative Services increased considerably in FY13 (and in FY14, with this request) the only increase in programs' budgets (so they can pay the increased charges) occurs in the ABC Board (see item #9). For other programs, these increases (see details below) must be absorbed within existing budgets.

If this request is not approved, the Department can implement its plans using unbudgeted I/A Receipt authority.

• Commissioner's Office:

- **FY13:** \$135.0 increase (15.3%) from the FY13 Adjusted Base.
- **FY14:** \$143.7 increase (14.1%) for a new Deputy Commissioner position.

• Administrative Services

- **FY13:** \$448.7 increase (12.5%) from the FY13 Adjusted Base.
- **FY14:** \$190.0 increase (4.7%) for department-wide projects and to meet vacancy factor guidelines.

MAINTENANCE OF SERVICES

4. **Economic Development – Tourism Marketing Program: \$16 million UGF / \$2.7 million Statutory Designated Program Receipts (Other).** This increment will provide operating funds in the Division of Economic Development's base budget for an on-going Tourism Marketing Campaign. This campaign will include a multi-media program intended to create awareness and demand among prospective visitors in North America and several international markets. It will also provide travel planning information designed to encourage Alaska bookings. Key program elements include: printing and distribution of the Official Alaska State Vacation Planner, development and promotion of the TravelAlaska.com website, advertising (including print, television, and internet), direct mail, media and travel/trade programs, and market research.

5. **Department of Administration's Increases for Core Services: \$169.1 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Commerce, Community and Economic Development is \$285.3, leaving \$116.2 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

6. **Alaska Energy Authority Power Cost Equalization (PCE): \$2,161.0 [(\$8,054.2) UGF/ \$10,215.2 Power Cost Equalization Endowment (DGF)].** The Alaska Energy Authority (AEA) is requesting a total of \$40.4 million for the PCE program in FY14. The projected program costs are based of a variety of factors; the key assumptions are that an increase in the base rate or "floor" (from 13.42 cents/kWh to 14.30 cents/kWh) will be more than offset by increases in the cost of fuel in participating communities.

The amount available from the PCE Endowment for FY14 is \$33,091.0 – an increase of \$10,215.2 over the amount available in FY13. The estimated amount of general funds required to subsidize the PCE Program is \$7,260.0 – a *decrease* of \$8,054.2 over the amount budgeted in FY13. The increase in available funding from the PCE Endowment is a result of a \$400 million dollar fund capitalization effective June 30, 2011. This is the first year the deposit will affect the three-year average balance computation specified in statute.

Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates general funds in the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 12(g) in the discussion of operating language in the FY14 Overview book.

7. **Alaska Seafood Marketing Institute (ASMI) Funding.** The FY12 and FY13 operating bills included language that outlined a funding methodology for the Alaska Seafood Marketing Institute (ASMI). The methodology was designed to:

- Match (with UGF appropriations) contributions by the seafood industry in the most recently closed fiscal year, limited to \$9 million annually;
- Enhance planning efforts by limiting expenditures of current year program receipts to approximately 20 percent of receipts collected in the most recently closed fiscal year;
- Stabilize the funding stream by allowing all unspent program receipts to be carried forward; and
- Provide federal receipt authorization sufficient to use all available federal funding.

Legislative Fiscal Analyst Comment: The requested amount of General Fund Match (\$7.8 million) is less than the \$9 million envisioned by legislators who drafted the funding methodology. The amount requested is a policy decision and it meets the guidelines. However, other amounts requested do not reconcile to the revenue projections provided by ASMI. Per revenue projections the total collection of G/F Program Receipts is anticipated to be \$15,549.3. Total authorization requested in the FY14 Governor's Request exceeds this amount by \$13.3. If the legislature desires to fund FY14 salary/health increases, additional general fund authorization may be necessary. See additional comments under section 12(i)(3) in the discussion of operating language in the FY14 Overview book.

8. Community and Regional Affairs – Rural Utility Business Advisory (RUBA) Program Changes: \$194.6 UGF / (\$194.6) General Fund Match (UGF) / (\$582.8) Federal Receipts.

Because the Division of Community and Regional Affairs anticipates a 30 percent reduction to the federal RUBA grant, two positions (one in Bethel and one in Kotzebue) are being deleted. The requested fund change from GF/Match to UGF indicates that DCRA wishes to continue to develop the management capacities of communities despite the loss of federal funds and the termination of a match requirement.

9. Alcoholic Beverage Control Board – Maintain Allocated Cost Allocation Plan Costs and Department of Law Legal Assistance: \$189.5 G/F Program Receipts (DGF). Chapter 55, SLA 2012 (HB 125) transferred the Alcoholic Beverage Control (ABC) Board from the Department of Public Safety (DPS) to DCCED. Because the cost allocation methodology differs between DPS and DCCED, the ABC Board is requesting additional authorization for the following:

- a) \$127.0 for the cost of services provided by the Commissioner's Office and Administrative Services. The ABC Board has \$23.0 of existing authorization in its budget and the anticipated allocation for FY14 is \$150.0.

Legislative Fiscal Analyst Comment: The topic of allocated costs was debated as part of the fiscal note process. This large increase in costs was not brought forward at that time. DPS's budget for the Commissioner's Office and Administrative Services support costs was \$23.0, based on a position count allocation. DCCED allocates costs based on services provided. DCCED received the \$62.8 they requested in the fiscal note for internal support costs. This request brings support costs to \$150.0 compared to \$23.0 when the Board was in DPS.

- b) \$62.5 to maintain the same level of legal services provided by the Department of Law. Under DPS, the ABC Board's portion of legal services was \$2.3. That amount was allocated per a department-wide position count. At DCCED, the Board's costs will be based on the workload associated with legal services provided to the Board. Legal assistance is needed to:
- analyze and make recommendations on issues including prohibited financial interests and local option elections;
 - prepare for administrative hearings and defend the actions of the Board in Superior Court; and
 - respond to Board questions that arise at meetings.

OTHER

10. Corporations, Business & Professional Licensing – License Fees. Per statute [AS 08.01.065(c)], DCCED is required to set professional boards' license fees approximately equal to the cost of regulation. In FY13, \$3.4 million of UGF was appropriated to CBPL to reimburse various professional licensing boards for historical indirect cost overpayments that were associated

with the Business License and Corporations Program. This supplemental appropriation was to ensure that carryforward balances were made whole as of June 30, 2012 and would serve as a starting point for the following fiscal year and beyond.

The need for this appropriation highlighted a long-term deficiency in CBPL's accounting practices. To ensure that the fiscal accounting for the boards improves, FY13 legislative intent language instructed DCCED to follow the statute and directed the Department to submit a six-year report annually to the legislature that includes at least the following information for each licensing board:

- revenues from license fees;
- revenues from other sources;
- expenditures by line item, including separate reporting for investigative costs, administrative costs, departmental and other cost allocation plans;
- number of licensees;
- carryforward balance; and
- potential license fee changes based on statistical analysis.

This intent language was included to allow the legislature the ability to analyze each of the forty boards in detail and verify that each board was setting fees according to cost of regulation.

Legislative Fiscal Analyst Comment: The Department has stated that five boards are scheduled to renew licenses in June or August 2013 and a review process is underway for each of these boards. Given the documented imbalance between revenue and expenditures of some boards, the legislature may wish to obtain more detail on this topic. Information provided to date (to the Legislative Finance Division) does not facilitate analysis.

11. Economic Development – Film Production Promotion Program. Per Chapter 51, SLA 2012 (SB 23) a Film Office and the Alaska Film Incentive Review Commission were created within the Department of Revenue (DOR) to administer the Alaska film production incentive program. SB 23 directed DCCED to transfer existing positions in the Film Office to DOR. Two positions (an Administrative Assistant II and a Development Specialist II) were transferred from the DCCED's Division of Economic Development to DOR in the FY14 Adjusted Base. However, because SB 23 also established a new film production promotion program in DCCED, the Department retained the funding for the two positions and is requesting two new positions.

12. Commissioner's Office – Effects of Climate Change Carryforward. In FY10, the legislature re-appropriated \$1.5 million UGF to the Department of Commerce, Community and Economic Development, Commissioner's Office from the following sources:

- \$750.0 from Legislative Council for addressing the effects of climate and environmental change on the state (section 37(a)(3), Chapter 15, SLA 2009); and
- \$750.0 from Legislative Council for the Alaska Conference on State and Federal Responsibility Related to Economic Impacts of ESA Listings (section 37(3), Chapter 15, SLA 2009).

The funding was made originally made available for FY10 and FY11 and then extended through FY12 and FY13. \$799.5 was carried forward into FY13. It is unknown if the funding will be fully expended in FY13 or if another lapse extension will be requested into FY14.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY14 Department of Commerce, Community and Economic Development capital budget totals \$240.2 million—\$200.2 million UGF/ \$25.1 DGF/ \$14.9 million Federal Receipts. The budget consists of a diverse mix of grants and capital projects, most of which are more clearly described as *passing through DCCED* rather than *going to DCCED*. Projects requested by DCCED include:

- **Alaska Energy Authority – Susitna-Watana Hydroelectric Project:** \$95.2 million withdrawal from savings held in the Alaska Housing Capital Corporation (UGF);
- **Alaska Industrial Development and Export Authority – Natural Gas Treatment and Distribution:** \$50 million UGF;
- **Alaska Energy Authority – Renewable Energy Project Round Six:** \$25 million Renewable Energy Fund (DGF);
- **Alaska Energy Authority – Bradley Lake Transmission Upgrade:** \$13.7 million UGF;
- **Alaska Energy Authority – Rural Power System Upgrade:** \$12.6 million (\$9.6 million UGF/ \$3 million Federal Receipts);
- **Alaska Industrial Development and Export Authority – Ambler Mining District Access:** \$8.5 million AIDEA Dividend (UGF);
- **Alaska Energy Authority – Bulk Fuel Upgrades:** \$8.5 million (\$6.5 million UGF/ \$2 million Federal Receipts); and
- **Blood Bank of Alaska – Facilities and Services Expansion:** \$7 million UGF.

Legislative Fiscal Analyst Comment: Two projects included in the Governor's Capital Request appear to be operating in nature. The following projects should be evaluated for inclusion in the language section of the operating bill:

- \$400.0 UGF - Economic Development Marketing Initiative. Funding to continue a multi-faceted, multi-agency marketing initiative started in FY13 to promote the State of Alaska as a place to visit, invest, grow and innovate; and
- \$290.0 UGF – Community Development and Assistance.
 - \$200.0 to hire a contractor to modify an existing Computer Assisted Mass Appraisal system for use by medium-sized municipalities, assist the municipalities in installation and integrating the program into their existing programs, and provide maintenance and technical support for three years.
 - \$90.0 for the Department of Law to review the Division of Community and Regional Affairs' base grant agreement and policies. This review will also include the development of a third-party agreement template.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$304,914.6			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$304,914.6	\$0.0	0.0%	
<i>One-time Items removed</i>	-			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	188.8			
FY14 Adjusted Base Budget (GF only)	\$305,103.4	\$188.8	0.1%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	4,152.6			
FY14 Governor's Agency Request (GF only)	\$309,256.0	\$4,152.6	1.4%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$4,152.6	
Administrative Services	3,073.7	3,955.7	882.0	2
Institution Director's Office	1,264.1	1,505.3	241.2	2
Regional Community Jails	8,203.4	10,203.4	2,000.0	1
Community Residential Centers	24,321.5	25,164.5	843.0	3
Behavioral Health Care	7,280.5	7,444.5	164.0	5
Physical Health Care	32,692.7	32,715.1	22.4	2, 4
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	14,513.4	14,580.6	67.2	
Federal Funds (all allocations)	3,253.0	3,253.0	0.0	
Total Non-General Funds (all allocations)	\$17,766.4	\$17,833.6	\$67.2	
Position Changes (From FY13 Authorized to Gov)	1,699	1,861	162	
PFT	1,698	1,860	162	6
PPT	1	1	0	
Temp	-	-	0	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	5,840.0	-	5,840.0	
Remodel, Reconstruction and Upgrades	225.0	-	225.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$6,065.0	\$0.0	\$6,065.0	

Department of Corrections

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

- provides secure confinement;
- provides supervised release; and
- provides reformative programs,

The FY14 Department of Corrections general fund operating budget as submitted by the Governor is \$4,152.6 above the FY14 Adjusted Base [\$9,670.0 Unrestricted General Funds (UGF) and a reduction of \$5,517.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES

- 1. Regional Community Jails – Increases Primarily Associated with Personal Services: \$2 million UGF.** The Regional and Community Jails Program provides funding to 15 communities for the short-term confinement of persons detained under state law. In April 2007, the Division of Legislative Audit (DLA) completed an audit on the Community Jails program that reviewed and assessed the equity of funding allocated through the Regional and Community Jails Program. DLA recommended that the Department restructure the program by identifying and funding core operating functions.

Based on these recommendations, DOC developed an equitable funding methodology for participating communities and identified allowable activities and costs associated with operating the community jails. The DOC recommended full funding of these core operating functions in two phases. Phase I addressed expenditures (minus personal services) required to support the core operating functions jails and was funded in FY12 (\$1.9 million UGF) and FY13 (\$600.0 UGF). Phase II (\$2 million UGF included in this request) addresses the personal services expenditures to complete full funding of the program. The FY12-FY14 increments are all additions to the base budget.

- 2. Department of Administration's Increases for Core Services: \$1,145.6 million UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Corrections is \$1,202.4, leaving \$56.9 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs. The Department's share of these increments is broken down by the following allocations:

- Administrative Services, \$882.0;
- Institution Director's Office, \$241.2; and
- Physical Health Care, \$22.4.

3. **Community Residential Centers (CRC): \$843.0 UGF.** The Department currently contracts for 839 CRC beds throughout the state (731 regular and 108 per diem) and these contracts allow for an annual Consumer Price Index (CPI) rate increase. Of the funding requested, \$688.5 would cover the anticipated regular bed CPI rate increases and \$154.5 would fund the per-diem bed CPI rate increases. This increase affects all six of the Department's CRC contracts (Tundra, Seaside, Gastineau, Glendale, NorthStar, and Anchorage Consolidated).
4. **Fund Change/Inmate Physical Health Care: \$5,517.4 UGF from PFD Criminal Funds (DGF).** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation due to the number of convicted felons and third time misdemeanants who are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of available PFD Criminal funds is volatile. For FY14, the Department of Revenue calculated the amount available for appropriation to be \$11.2 million (\$5.5 million less than in FY13).
5. **Inmate Health Care/ Behavioral Health Care – Dis Justice – Corrections Mental Health Clinical Positions: \$164.0 GF/MH (UGF).** The Department is requesting the replacement of \$164.0 of MHTAAR funding (for a mental health clinical position) with general funds. In recent years, the Department's mental health staff has struggled to keep pace with the increasing demand for mental health services throughout the state. Because MHTAAR funding for this position is going away, GF/MH replacement funding is needed to continue providing mental health services at Hiland Mountain Correctional Center and the three institutions in the Mat-Su valley (Palmer Correctional Center (PCC), MatSu PreTrial (MSPT), and Pt. McKenzie (PTMC)).

OTHER

6. **Goose Creek Correctional Center (GCCC) – Transfer Funding from Out-of-State Contractual (and add 152 Positions) to Fully Fund the FY14 Operating Costs of the GCCC: \$19,469.9 UGF.** The additional positions and transfer of funding authority fulfills the current operational needs for the facility. Full operations in FY14 will increase the general offender capacity at GCCC to 1,480, allowing most of the remaining offenders held in out-of-state facilities to be brought back to Alaska. This final phase completes recruitment and training of the remaining GCCC staff.

Transition into GCCC is on track. As of December 31, 2012 the inmate count stood at 440 (128 in the Special Management Unit (SMU), 56 in Segregation, and 256 inmates occupying the General Housing (GH) Module). Over the next two quarters this count is expected to increase by 579 (GH) bringing the total inmate population to 1,019 by the end of FY13.

Legislative Fiscal Analyst Comment: Although the final group of Colorado prisoners will be transferred back to Alaska during the 1st quarter of FY14, a small percentage of inmates will continue to remain out of state either for their own protection or due to medical needs. As a result, the Out-of-State Contractual allocation retains \$4 million dollars in FY14 to manage this population.

Furniture, Fixtures, and Equipment (FF&E) expenses have been funded with a \$5 million UGF FY13 capital appropriation as well as \$6.5 million in interest proceeds from the GCCC bond package (see table on next page):

Goose Creek Correctional Center Bond Status:

<u>Goose Creek Correctional Center Bonds - Final Status</u>		
Project Fund/Total Bonds		\$ 240,073.2
Bond Interest Proceeds Available to DOC		\$ 6,523.4
	TOTAL	\$ 246,596.6
Neeser Construction Contract Award & Change Orders		\$(223,468.0)
Water Treatment Facility Land Transfer		\$ (4,476.0)
Honorarium Bid Loser		\$ (400.0)
Permits, Inspections, Fees		\$ (1,000.0)
RISE Alaska Project Mgmt. Contract		\$ (5,000.0)
Alaska Planning & Architect		\$ (4,271.2)
MSB Project Admin & Fees (misc. professional fees)		\$ (1,458.0)
FF& Expenditures to Offset Future Capital (from bond interest)		\$ (6,523.4)
	Balance	\$ -

ORGANIZATIONAL CHANGES

There are no changes requested.

CAPITAL REQUEST

The Agency's \$6,065.0 UGF capital budget is comprised of:

- Deferred maintenance, \$4,840.0 UGF, for the following institutions:
 - Seward - Spring Creek Correctional Center, \$1,525.0 UGF;
 - Ketchikan - Ketchikan Correctional Center, \$1,090.0 UGF;
 - Bethel – Yukon-Kuskokwim Correctional Center, \$1,000.0 UGF;
 - Juneau - Lemon Creek Correctional Center, \$775.0 UGF;
 - Palmer - Matanuska-Susitna Pre-Trial Facility, \$250.0 UGF; and
 - Sutton - Palmer Correctional Center, \$200.0 UGF.
- Annual Facilities Maintenance and Repairs, \$1 million UGF; and
- Regional and Community Jails Repairs, Renovations, and Equipment, \$225.0 UGF.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Education and Early Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$1,225,754.0			
<i>FY13 Fiscal Notes</i>	9,347.8			
<i>CarryForward</i>	85.0			
<i>Special Appropriations, Multi-Years & Contingents</i>	25,000.0			7
<i>Misc Adjustments</i>	38,800.9			
<i>Vetoed</i>	(4,060.0)			
FY13 Management Plan (GF only)	\$1,294,927.7	\$69,173.7	5.6%	
<i>One-time Items removed</i>	(28,455.0)			
<i>Miscellaneous Adjustments</i>	-			
<i>Short-Term Increments</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	9.6			
FY14 Adjusted Base Budget (GF only)	\$1,266,482.3	(\$28,445.4)	-2.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	12,133.9			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	30,875.5			
FY14 Governor's Agency Request (GF only)	\$1,309,491.7	\$43,009.4	3.4%	

FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$43,009.4	
Foundation Program	1,117,971.0	1,151,248.0	33,277.0	6, 7
Pupil Transportation	73,795.9	74,902.8	1,106.9	6
Special Schools	3,314.7	3,316.9	2.2	
Alaska Challenge Youth Academy	4,958.4	4,791.4	(167.0)	11
Administrative Services	639.3	751.7	112.4	10
School Finance & Facilities	1,783.5	1,829.5	46.0	10
Student and School Achievement	11,751.1	19,865.6	8,114.5	1,2,3,4,8
Pre-Kindergarten Grants	2,000.0	2,480.0	480.0	9
Mt. Edgecumbe Boarding School	4,279.5	4,334.5	55.0	
EED State Facilities Rent	2,115.8	2,098.2	(17.6)	10
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	25,196.4	26,006.5	810.1	5
Federal Funds (all allocations)	233,798.0	233,798.0	0.0	
Total Non-General Funds (all allocations)	\$258,994.4	\$259,804.5	\$810.1	
Position Changes (From FY13 Authorized to Gov)	356	367	11	
PFT	334	335	1	
PPT	14	14	-	
Temp	8	18	10	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	1,845.0	-	1,845.0	
Remodel, Reconstruction and Upgrades	23,763.1	-	23,763.1	
New Construction and Land Acquisition	66,172.4	-	66,172.4	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$91,780.5	\$0.0	\$91,780.5	

Department of Education and Early Development

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

- provide and evaluate a Comprehensive Student and School Standards, Assessment and Accountability System for all students and schools in Alaska that is based on student, school, educator, and culturally responsive standards and state and federal requirements;
- provide and support standards-based professional development and mentoring for Alaska's educators to ensure high quality instruction and growth in student achievement;
- provide a statewide program to ensure all students have the foundational skills required for a successful transition to college and/or the workforce after high school;
- secure and award state, federal, and private educational funding to school districts and other educational organizations to result in higher student achievement; and
- provide high quality data to school districts and stakeholders through the use of the Alaska Statewide K-12 Longitudinal Data System.

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

The FY14 Department of Education and Early Development general fund operating budget submitted by the Governor is \$43 million above the FY14 Adjusted Base [\$39,664.9 Unrestricted General Funds (UGF) and \$3,344.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Student and School Achievement – Digitizing Education in Alaska: \$5.9 million UGF. This distance learning proposal has the following three components:

- **The Alaska Learning Network (AKLN) - \$1,100.0.**
The AKLN is a consortium of all 53 school districts in Alaska. It offers a variety of online opportunities from outside vendors to students, including opportunities for credit recovery, dual credit with the University of Alaska and access to courses that qualify for the Alaska Performance Scholarship (44 classes in this area alone). The network is seeking to provide:
 - a gateway to the Alaska Performance Scholarship Awards for rural students (by offering distance courses designed to help meet curriculum requirements);
 - a greater choice in courses for smaller high schools;
 - highly qualified Alaska teachers to teach distance courses to students;
 - a network for teachers and students to collaborate and share artifacts, resources, ideas and tools in a digital repository; and
 - professional development coaching, including training specifically designed for those teachers wishing to participate in on-line education.

Legislative Fiscal Analyst Comment: A similar \$1.2 million UGF increment for AKLN was requested by the Governor in FY13. That increment was denied by the legislature on

grounds that it was replacing ARRA funding—a short-term funding source that was not intended to be used for continuing programs.

- **Increased Support and Strengthening of Broadband Capabilities - \$900.0** includes the following two programs:
 - **Online With Libraries (OWL program) - \$761.8.** The OWL project specifically supports local libraries and communities by supplying bandwidth, or improved bandwidth, that allows access to state and federal support services, licenses, trainings, and educational opportunities; and
 - **Live Homework Help - \$138.2.** This component allows students to access help via chat-line from a live tutor. Assistance is available to any Alaskan student at any level, including college, from 1 pm until midnight. Examples of subject help available are Algebra I and II, trigonometry, statistics, geometry, calculus, physics, chemistry, biology, and writing assistance. The demand for Live Homework Help has continually increased, from 5,073 tutoring sessions in 2008 to 18,065 sessions in 2012.
- **Statewide Technology Roll Out - \$3.9 million.** The third element of digitizing education in Alaska is the implementation of one-to-one access to technology for all students, plus implementation training for teachers and staff. The plan will also support on-line assessments for immediate feedback regarding student performance. Specific devices are not mandated, rather each school district chooses those tools most appropriate for different grades and/or schools. Full implementation is expected in four years and a 60% state/40% school district split is proposed.

2. **Student and School Achievement – Jobs for America’s Graduates Program (JAG): \$800.0 UGF.** This initiative, currently active in 33 other states, is set up as a cooperative effort between public and private entities to make a direct, intentional impact on the graduation rate and subsequent success of students as they leave high school and enter the work force or seek additional training. The focus is on students who are in danger of not graduating. The partnership in Alaska initially involves the Departments of Education & Early Development and Labor & Workforce Development, plus Anchorage United for Youth (AUY), a group under the United Way. The program will have a statewide focus and be operated and monitored by AUY to maximize connections with employers. This increment request will allow for the hiring of nine graduation specialists to connect with principals and superintendents statewide to impact approximately 360 at-risk students.
3. **Student and School Achievement – Alaska Comprehensive System of Statewide Assessments Contract Increases: \$500.0 UGF.** The Department of Education and Early Development has a statutory responsibility to maintain a system for assessing student and school achievement. Given the adoption of new educational standards, test questions are subject to revision for Standards Based Assessments, the High School Graduation Qualifying Examination, HSGQE Retest exams, and interim assessments in reading, writing, mathematics, and science. As part of the contract in place, the state must provide an annual increase to the contractor based on the scope of work required by the agency. In FY14, additional field testing for test items based on the new, more rigorous standards will also be required. The Governor’s increment will fund these contractual obligations.
4. **Student and School Achievement – Kindergarten through Third Grade Literacy Project: \$320.0 UGF.** The FY14 Governor’s budget includes a request for \$320.0 in funding for implementation of a literacy project designed to provide for pre- and post-screening assessments for students in kindergarten through third grade (approximately 40,000 students). The effort is designed to provide intervention direction for educators, parents, and

agencies that work with children to improve literacy for all learners. The data will be entered into a department-hosted, statewide system available to teachers and schools even if students move from one community to another.

5. **Alaska State Council on the Arts (ASCA) – Rasmuson Foundation Harper Arts Touring Program: \$80.0 Statutory Designated Program Receipts (Other).** Previously approved as an FY13 RPL on June 27, 2012, the Governor's request includes FY14 base funding to allow for management and administration of the Harper Arts Touring Program sponsored by the Rasmuson Foundation. This program helps to provide access to high quality performing arts in communities throughout Alaska, including traveling arts and cultural exhibits. The Rasmuson Foundation has notified the Alaska State Council on the Arts of its interest in renewing ASCA's services for the Harper Arts Touring grant administration for the foreseeable future.

MAINTENANCE OF SERVICES

6. **K-12 Education Formula Funding.** Because education funding changes are likely to come through legislation rather than subcommittee action, the discussion here is brief and general. The \$1,115,748.0 UGF for the Foundation Program and \$74,902.8 UGF for Pupil Transportation reflect the statutory formula. Total funding for K-12 education formula programs is increasing by \$9.4 million from FY13 due to the projected Average Daily Membership (ADM) plus legislative changes passed in SB 182 (Ch 19, SLA2012) for (a) the new FY13 Career and Technical/Vocational Education factor of 1.015 in the Public School Funding formula, and for (b) increased state aid, which also began in FY13, based on a 2.65 mill rate on required local effort.

Beginning in FY09, the legislature adopted a multi-year education plan presented by an Education Task Force. The recommendations (adopted in HB 273 (Ch. 9, SLA 2008)):

- increased the Base Student Allocation (BSA) by \$100/student/year for FY09, FY10, and FY11;
- increased the geographic differential paid to school districts with high operating costs; and
- increased the amount paid to school districts for approximately 2,000 intensive-needs students who experience health conditions and disabilities requiring daily monitoring and assistance with their school day activities.

The Governor's request reflects the same Base Student Allocation for FY14 (\$5,680) that applied in FY11 through FY13.

Section 26(e) of the Governor's operating budget bill appropriates \$1.19 billion from the general fund to the Public Education Fund (PEF). The appropriation to the PEF is to fully fund FY15 K-12 Foundation Program and Pupil Transportation costs.

Legislative Fiscal Analyst Comment: Under the concept of forward funding, the amount appropriated in a given year is the amount projected to be needed in the following year. A continuation of the concept of forward funding requires an appropriation of projected FY15 costs to the Public Education Fund while withdrawing FY14 costs from the fund.

7. **K-12 Foundation Program – Additional State Aid to School Districts for Fixed Cost Increases: \$25 million UGF.** For FY14, the Governor has requested a third year of funding outside the Foundation formula to provide additional resources for school districts to manage high energy costs and rising expenditures related to fixed costs such as shipping, transportation, and other expenses. This will help school districts maintain services at the current level. As with previous appropriations, the requested funding would be disbursed in the same manner as state foundation formula aid to districts.

- 8. Student and School Achievement – Theme-Based Learning Program for Iditarod School District Pilot Program: \$500.0 UGF.** The legislature adopted an increase to the operating budget by way of a fiscal note attached to Senate Bill 84 (Chapter 7, FSSLA 2011) to create and develop a theme-based learning pilot program for the Iditarod School District. The Governor's increment for \$500.0 matches the fiscal note for the third and final year of this pilot program. The school district has determined that this program should include culturally relevant and theme-based curriculum materials and strategies for students who are enrolled in the Iditarod School District in grades K-12. Once completed, these materials will be shared with other Alaska school districts upon request.

Legislative Fiscal Analyst Comment: The FY12 and FY13 appropriations of \$500.0 each applied to all three years of the pilot program. Any unspent balance of the FY12-FY13 appropriations will be carried forward into FY14.

- 9. Pre-Kindergarten Grants – Pre-Kindergarten Program Grants: \$480.0 UGF.** The request partially restores the Pre-Kindergarten grant program for FY14 (\$800.0 in one-time funds were added to the \$2 million base funding in FY13). The FY13 program currently serves eight school districts and approximately 350 students in 15 communities. According to the Department, this preschool program provides a voluntary, comprehensive, half-day for four-year olds and early five-year olds based on the standards set forth in the Alaska Early Learning Guidelines. Participating school districts are funded through a competitive grant process. The FY14 program, totaling \$2,480.0 UGF, will focus on connections across classroom, school, and communities systems. Eventually, it is anticipated that this project will provide the framework and guidance for the creation of local programs in a variety of urban, rural, and remote sites.

- 10. Department of Administration's "Core Services" Increases: \$140.8 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Education and Early Development is \$162.5, leaving \$21.7 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

- 11. Alaska Challenge Youth Academy (ACYA) – Formula Decrease: (\$167.0 UGF).** The academy is operated by the Department of Military and Veterans Affairs (DMVA) and is funded through a Reimbursable Services Agreement with DEED in accordance with AS 14.30.740. The total FY14 general fund budget for the ACYA (also referred to as the Alaska Military Youth Academy [AMYA]) will be \$4,791.4 with 480 total students (189 in residence and 291 in the non-residential program). Due to a student count change, federal grant receipts, and a base student allocation amount of \$5,680, the DEED FY14 Request shows a UGF *decrease* of \$167.0 from the FY13 authorized level.

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

12. Fund Changes to the Alaska Higher Education Investment Fund—\$6.1 Million Total.

- **Alaska Commission on Postsecondary Education / Program Administration & Operations: (\$3 Million UGF) switched to the Alaska Higher Education Investment Fund**
- **Alaska Performance Scholarship Awards: (\$3.1 Million Alaska Housing Capital Corporation Receipts [AHCC]) switched to the Alaska Higher Education Investment Fund**

HB 104 (Ch. 74, SLA2012) established the Alaska Higher Education Investment Fund, the earnings of which will pay for Alaska Performance Scholarships (APS) and AlaskAdvantage Education Grants (AEG). In addition to establishing the fund, AS 37.14.750 delineates that two-thirds of each year's appropriation be allocated for Alaska Performance Scholarship Awards and one-third of the appropriation be allocated for AlaskAdvantage Education Grants. In FY13, those amounts were \$8 million and \$4 million, respectively, but the overall funding was a mix of AHCC Receipts, UGF, and the Higher Education Investment Fund (all GF fund sources). Although the amount appropriated in FY14 is identical to the FY13 appropriation, the Governor's FY14 budget request uses only the Alaska Higher Education Investment Fund. The request is based on FY13 eligibility and utilization rates plus estimated participation levels.

- **AlaskAdvantage Education Grant** recipients receive an average award of \$1,580. The awards are made relative to the pool of applicants specific to a given academic year. The applicant pool is ranked in order of greatest to least financial need and AlaskAdvantage Education Grants are awarded until available funds are exhausted or all eligible applicants are awarded, whichever occurs first.
- **Alaska Performance Scholarship Award** assumptions are based on an average award level of \$3,419 for each recipient, with student eligibility rates increasing over time from 28% to 44% of high school graduates. It is further assumed that utilization rates will increase over time from 36% to 50%.

Legislative Fiscal Analyst Comment: On September 1, 2012, the Alaska Higher Education Investment Fund was capitalized with a \$400 million deposit from receipts of the Alaska Housing Capital Corporation. (SB 46—Ch. 5, FSSLA 2011, Sec. 20, p. 159). With increased eligibility of new graduates and with payments to continuing students, the rate of withdrawal may erode the principal of the fund.

ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested.

CAPITAL REQUEST

In addition to school district major maintenance grants totaling \$22.3 million, the Department of Education and Early Development's FY14 capital budget includes \$69.5 million in general funds for the following projects:

- **Alaska State Library, Archives and Museum Facility Construction Funding: \$20 million UGF.** This request is for partial funding to continue with the construction phase of the new Alaska State Library, Archives and Museum combined facility. A total of \$82.95 million has been appropriated in past years. This \$20 million appropriation, plus the \$30 million that will be needed to complete the project, will bring the total cost of this project to \$133 million.

- **Mt. Edgecumbe High School Heating Plant – Boilers and Utilidor Piping Replacement: \$1.5 million UGF.** This campus heating systems replacement includes renovation and upgrade of the Heating Plant building, total replacement of the boilers, major renovation of the building interior and mechanical systems, and installation of hot water generators and circulating pumps in each of the upper campus buildings;
- **Nightmute School Renovation/Addition: \$33 million REAA Funding (DGF).** This project is #1 on the November 5, 2012 School Construction list. It would complete the design and the construction of a new 16,263 square foot addition plus renovate the existing 13,263 square foot school that was built in 1980, 1984, and 1997;
- **Kuinerramiut Elitnaurviat K-12 Renovation/ Addition, Quinhagak: \$13.2 million UGF.** This request is #3 on the November 5, 2012 School Construction list. It would provide construction of a 32,245 square foot addition plus renovation of the existing 20,520 square foot school, built in 1981 and 1986. This project was funded in FY12 at \$28.5 million, but additional funding is required due to construction cost increases that exceed the original cost estimates; and
- **Mt. Edgecumbe High School (MEHS) Deferred Maintenance: \$1.8 million UGF.** Deferred maintenance is an ongoing necessity at MEHS, which was constructed in 1940 as a boarding school and includes 13 buildings covering 100,000 square feet. Projects will be addressed according to the Capital Improvement Projects (CIP) Master Plan, or as MEHS facility management identifies health and safety priorities. The remaining deferred maintenance projects on the current MEHS CIP Master Plan are estimated to cost \$27.8 million, which is approximately \$4 million each year from FY14 through FY20, not including cost escalation factors that are experienced as a result of inflation.

SCHOOL DEBT REIMBURSEMENT

The school debt reimbursement program is shown in a separate section of the FY14 Overview book that addresses debt obligations.

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Department of Environmental Conservation

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$48,041.9			
<i>FY13 Fiscal Notes</i>	27.8			7
<i>CarryForward</i>	400.0			6
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$48,469.7	\$427.8	0.9%	
<i>One-time Items removed</i>	(400.0)			6
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	11.3			
FY14 Adjusted Base Budget (GF only)	\$48,081.0	(\$388.7)	-0.8%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	1,052.2			
FY14 Governor's Agency Request (GF only)	\$49,133.2	\$1,052.2	2.2%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$1,052.2	
State Support Services	1,890.4	2,035.6	145.2	3
Drinking Water	2,441.6	2,791.6	350.0	2
Water Quality	10,966.5	11,523.5	557.0	1
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	11,299.2	11,199.2	(100.0)	5
Federal Funds (all allocations)	24,238.7	24,938.7	700.0	4
Total Non-General Funds (all allocations)	\$35,537.9	\$36,137.9	\$600.0	
Position Changes (From FY13 Authorized to Gov)	552	559	7	
PFT	541	552	11	1
PPT	0	0	-	
Temp	11	7	(4)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	5,000.0	-	5,000.0	
Maintenance and Repairs	3,000.0	-	3,000.0	
Remodel, Reconstruction and Upgrades	32,724.9	16,900.0	49,624.9	
New Construction and Land Acquisition	10,534.2	25,350.0	35,884.2	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	3,396.8	-	3,396.8	
TOTAL CAPITAL	\$54,655.9	\$42,250.0	\$96,905.9	

Department of Environmental Conservation

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

- develop regulatory standards and other requirements for protection of human health and the environment;
- issue permits and other authorizations for emissions, discharges and disposal – and monitor compliance with those authorizations;
- provide financial assistance in the form of grants or low-interest loans for public drinking water, wastewater and solid waste facilities;
- oversee oil discharge prevention and contingency planning and conduct drills to lower the probability and severity of spills;
- respond to oil spills, other releases of hazardous substances and contaminated sites;
- operate the State Environmental Health Lab providing testing not available through commercial laboratories;
- safeguard the quality of food and seafood offered to the public;
- house the Office of the State Veterinarian which regulates the import and export of domestic animals and responds to animal disease outbreaks;
- regulate pesticides and certain types of use;
- monitor and report on the quality of the environment and changes that could impact human health;
- educate and assist the public, communities, businesses and industry on all forms of environmental matters;
- interact with federal agency counterparts at the Environmental Protection Agency (EPA), the Food & Drug Administration (FDA), the United States Department of Agriculture (USDA), the Pipeline and Hazardous Materials Safety Administration (PHMSA), the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), and others on federal environmental law and how it is applied in Alaska; and
- investigate violations and enforce state environmental law.

The FY14 Department of Environmental Conservation general fund operating budget submitted by the Governor is \$1,052.2 above the FY14 Adjusted Base [\$1,038.2 Unrestricted General Funds (UGF)/ \$14.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES

- 1. Water Quality – Additional Permitting Needs for Oil and Gas Development: \$543.0 UGF/ \$14.0 GF/PR (DGF) plus one PFT position.** On October 31, 2012, the Department assumed responsibility for the final and most complex phase of oil and gas wastewater discharge permitting from the Environmental Protection Agency. New responsibilities include oil and gas, cooling water intake structures, munitions, and other previously unregulated discharges (e.g., pesticides). With this transfer of authority for the Alaska Pollutant Discharge Elimination System (APDES) program, the state will have assumed full responsibility for

all permitting activities. In FY13, the Department received an increment of \$372.1 to support preparation for this final phase and to start addressing increased oil and gas activities. Even with the FY14 Governor's increment request, the Department is projecting that elimination of the backlog will take until FY17.

2. **Drinking Water – Adoption of Two Drinking Water Rules Under the Safe Drinking Water Act: \$350.0 UGF.** The Department is ready to adopt and implement two new drinking water rules required under the Safe Drinking Water Act. Currently, Alaska has primacy for 19 of the 21 promulgated federal drinking water rules required by the Environmental Protection Agency (EPA). The new rules (Reduction of Lead in Drinking Water Act and the Revised Total Coliform Rule) will become effective in January 2014. Leading up to this point, the Department requires additional review, regulations updates, engineering plan reviews, compliance monitoring, and technical assistance. If these rules are not adopted, the EPA will revoke approvals already given and withdraw primacy. This funding will also support increased travel and overtime pay for staff to provide monitoring and technical assistance to rural communities that may be challenged by the new federal rules.

3. **Department of Administration's "Core Services" Increases: \$145.2 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Environmental Conservation is \$221.7, leaving \$76.6 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

4. **Federal Receipts**

- **Administrative Services – Increased Indirect Revenues Related to Federal Grants: \$400.0 Federal Receipts.** The number of federal grants in the Department has increased by 53% since FY07 and has generated a growing demand on central DEC accounting and information technology services to fulfill federal reporting requirements. The Division of Administrative Services applies an administrative or indirect cost to billable services paid out of those grants for services rendered. The Governor's request for \$400.0 in increased Federal Receipt authority will allow the Department to pay for managing increased federal awards and for human resource positions recently transferred in from the Department of Administration. Funds will also be used for information technology development contracts critical for the efficient and responsible management of federal awards.
- **Laboratory Services – Increased Federal Grants and Reimbursements: \$300.0 Federal Receipts.** The Governor is requesting additional Federal Receipt Authority to enable Laboratory Services to fully expend grant funds available for FY14 work as well as future years. For example, in FY13, the Division received a five-year \$1.5 million grant from the Food and Drug Administration for the Accreditation for State Food Testing Laboratories Cooperative Agreement Program which is expected to continue into FY14. Other existing federal funding received in FY13 (including tsunami marine debris removal grants and federal reimbursement for a position on loan to the EPA) is also expected to be available in FY14. The current level of federal receipt authority (\$818.9) is not sufficient to complete these tasks.

5. **Air Quality – Decrement for the Anchorage Vehicle Inspection and Maintenance Program: (\$100.0) Statutory Designated Program Receipts (Other).** The Governor has included this decrement due to the March 2012 suspension of the vehicle inspection and maintenance (I/M) program in Anchorage, for which receipt authority is no longer needed.

OTHER ISSUES

6. **Laboratory Services – Carryforward funds for the Recreational Shellfish Beach Monitoring Pilot Program (SB 46 [Ch. 5, FSSLA2011] FY12-FY15).** \$400.0 UGF is available between FY13-FY15 for this pilot program to collaborate with four communities to monitor recreational shellfish harvesting areas for paralytic shellfish poison (PSP). This multi-year project was authorized to begin in FY12, but as of June 30, 2012, no expenditures had been made. All four communities have signed a Memorandum of Agreement and three of the communities have now begun sampling. It is likely that partial funding will carryover into FY14, but the amount will not be known until the beginning of that fiscal year. This project was initiated after several occurrences of Alaskans eating recreational and subsistence harvested shellfish became ill or died from shellfish-related pathogens.
7. **Air Quality – Fiscal Note addition for HB 258 (Ch. 13, SLA2012): \$27.8 UGF.** Funds have been added to the base budget, beginning with FY13, to develop standards and operating procedures to allow the use of gravel or aggregate material that contains naturally occurring asbestos in transportation and public facilities construction projects. DEC is working with the Department of Transportation and Public Facilities on this project. Funds continue into FY14 for this purpose.
8. **Declining Balance of the Oil and Hazardous Substance Release Prevention and Response Fund.** The Department has noted in their detail budget submission that managing this fund as a viable, long-term funding source for the state's core spill prevention and response initiatives is critical. Departmental projections show that revenues collected from the four-cent per barrel conservation surcharge are not adequate to fund spill prevention and response programs. The surcharge revenue is the primary funding source for the prevention account and that revenue is not sufficient to sustain Alaska's core spill prevention and response program over the long term. Beginning with FY15, annual funding available from this account will be at least \$5 million less than will be required to continue the current level of service. The Governor's budget submission does not address this issue.

ORGANIZATIONAL CHANGES

There are no significant organizational or structural changes requested. As part of the decentralization of Human Resources from the Division of Personnel in the Department of Administration, two PFT positions in Juneau are transferred back to the Department of Environmental Conservation.

CAPITAL REQUEST

The agency's \$96.9 million capital budget, of which \$50.8 million is UGF, includes the following:

- **Village Safe Water and Wastewater Infrastructure Projects: \$51.5 million Total (\$8,750.0 G/F Match/ \$500.0 Statutory Designated Program Receipts (Other)/ \$42,250.0 Federal Receipts).** This request provides financial and technical assistance to rural communities to plan, design and construct water and sewer system improvements. Of the total amount, 60% will

provide first-time service to communities and 40% will be used for expansions, upgrades, and replacements of existing service.

- **Municipal Water, Sewage, and Solid Waste Facilities Grants: \$34,009.0 UGF.** This request provides grant funding to communities to plan, design and construct drinking water and sanitation facilities and the associated operating costs of the Facility Construction component within the Division of Water.
- **Drinking Water Capitalization Grant – Subsidy Funding: \$2,692.8 Alaska Drinking Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue 30% of the funding as subsidies (a loan forgiveness process).
- **Clean Water Capitalization Grant – Subsidy Funding: \$704.0 Alaska Clean Water Fund (Other).** The federal Clean Water Capitalization Grant requires states to issue subsidies (a loan forgiveness process). The subsidy amount required was identified under grant terms the Environmental Protection Agency has identified for Alaska.
- **Statewide Contaminated Sites Cleanup: \$3 million UGF.** This project will provide funding for assessment, cleanup and monitoring of activities at high-risk contaminated sites, state-owned sites and sites where the responsible party is unknown or has refused to take appropriate action.
- **Village Safe Water Service and Infrastructure Protection Projects and New Technology Approaches: \$5 million UGF.** Given the decline in available funding for rural sanitation projects during the last ten years and the steady increase in construction costs, the Governor is requesting \$5 million to research and develop innovative sanitation technologies and to initiate several longevity-enhancement (“band-aid”) projects. These initiatives are designed to stretch limited rural sanitation funds and will assist DEC in protecting public health. The FY13 Budget included \$1 million to begin these efforts. The FY14 project will allow the Department to continue this undertaking and support the efforts of selected research and development teams to design, construct, pilot test, and refine prototypes of their proposed technology.
- **Reappropriation for Water Quality Enhancement, Water Supply, Sewage, and Solid Waste Facilities Grants to Municipalities: \$0.** This project is a reappropriation of the remaining Engineering Management and Travel (EMT) funds (estimated to be a total of \$359.5) from closed Municipal Matching Grant (MMG) projects to active projects where EMT was not included or was not sufficient. Reappropriated funds will be used to close out projects that lack sufficient EMT funding to be completed.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$87,766.3			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$87,766.3	\$0.0	0.0%	
<i>One-time Items removed</i>	(2,494.0)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	1,674.0			
<i>FY14 Contractual Salary and Health Increases</i>	35.8			
FY14 Adjusted Base Budget (GF only)	\$86,982.1	(\$784.2)	-0.9%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	1,920.6			
FY14 Governor's Agency Request (GF only)	\$88,902.7	\$1,920.6	2.2%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$1,920.6	
Southeast Region Fisheries Management	8,962.7	9,512.7	550.0	1
Central Region Fisheries Management	9,225.2	9,380.2	155.0	7
AYK Region Fisheries Management	8,001.1	8,476.1	475.0	4, 6
Westward Region Fisheries Management	9,332.7	10,132.7	800.0	3, 5, 8
Commercial Fisheries Special Projects	5,090.4	4,084.7	(1,005.7)	
Sport Fisheries	6,624.7	7,194.7	570.0	9
Wildlife Conservation	7,095.4	7,503.0	407.6	2, 12
Hunter Education Public Shooting Ranges	303.9	-	(303.9)	12
Administrative Services	3,222.2	3,309.8	87.6	11
Habitat	4,020.3	4,205.3	185.0	10
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	61,695.9	62,709.2	1,013.3	9, 12
Federal Funds (all allocations)	62,367.8	63,337.8	970.0	2, 9
Total Non-General Funds (all allocations)	\$124,063.7	\$126,047.0	\$1,983.3	
Position Changes (From FY13 Authorized to Gov)	1,690	1,719	29	
PFT	911	933	22	
PPT	711	718	7	7
Temp	68	68	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	10,250.0	-	10,250.0	
Maintenance and Repairs	1,855.0	-	1,855.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	
Equipment and Materials	750.0	-	750.0	
Information Systems and Technology	775.0	-	775.0	
Other	-	-	-	
TOTAL CAPITAL	\$14,380.0	\$2,250.0	\$16,630.0	

Department of Fish and Game

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

Core Services:

- provide opportunity to utilize fish and wildlife resources;
- ensure sustainable and harvestable surplus of fish and wildlife resources;
- provide information to all customers;
- involve the public in management of fish and wildlife resources;
- protect the state's sovereignty to manage fish and wildlife resources; and
- protect important fish and wildlife habitat during permit and project review.

The FY14 Department of Fish & Game general fund operating budget as submitted by the Governor is \$1,920.6 above the FY14 Adjusted Base [an increase of \$3,022.6 Unrestricted General Funds (UGF) and a *decrease* of \$1,102.0 Designated General Funds (DGF)] Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Commercial Fisheries Southeast Region Fisheries Mgmt – Continue Salmon Stock Identification Projects: \$550.0 UGF. The Department is requesting general funds to continue a Sockeye Salmon Stock Identification project and continue to fund a biometrician working on Chinook salmon issues with the Pacific Salmon Treaty. These projects were previously funded by expiring federal Alaska Sustainable Salmon Fishery grants and were reflected in the operating budget as Capital Improvement Project (CIP) Receipts. The Department is maintaining the same level of CIP Receipts in the FY14 operating budget due to a \$10 million UGF project for Chinook Salmon Research Initiative that is included in the FY14 Governor's capital request.

2. Wildlife Conservation – Population Assessment and Species Research: \$2 million Federal Receipts / \$500.0 UGF. The Department anticipates an increase in available federal funding from the Pittman-Robertson Wildlife Restoration program. The program derives its receipts from federal excise taxes on the manufacture of guns, firearms, archery equipment, and ammunition. The federal excise taxes collected are distributed to states annually for propagation and management of wildlife. The State of Alaska receives the maximum allocation of five percent of national tax receipts and the required match ratio is 75 percent federal / 25 percent from non-federal sources. States have two to three years to obligate the funds; if a state does not spend its allocation within the specified timeframe, it will be re-allocated to other states.

The purpose of Wildlife Restoration projects is the restoration, conservation, management, and enhancement of wild birds and wild mammals, and the provision for public use of and benefits from these resources. The Division is requesting additional Federal Receipts and UGF to do the following:

- Staff three additional biometricians to concentrate on the scientific merit of the Division's research programs;
- Monitor wildlife diseases to insure baseline data is maintained;

- Fund an existing vacant position in the Mat-Su region for wildlife education support; and
- Establish a lead data manager position and enhance the data management capacity for harvest information.

Legislative Fiscal Analyst Comment: The legislature should be concerned that the recent flow of federal funds associated with national sales of firearms and ammunition has more to do with political events than with a permanent increase in hunting/sporting activities. If that is the case, then the legislature should be concerned that the program enhancements requested by the Department are unsustainable unless federal funding is eventually replaced with general funds.

Until FY06, Wildlife Conservation was funded primarily with federal funds and the Fish & Game Fund. Increased program activities along with declining Fish & Game Fund revenue (due to declining sales of non-resident licenses and tags) resulted in requests for UGF. Since FY06, general funds have increased from \$1.4 million (4% of the budget) to \$8.4 million (19% of the budget). Spending a temporary bulge in receipts on ongoing programs may start another round of requests for general funds.

3. Commercial Fisheries Westward Region Fisheries Mgmt – Maintenance and Operation Costs for the New Kodiak Office Building: \$350.0 UGF.

The new Kodiak Office Building will house the Westward Region Management staff beginning about March 2013. General funds are requested for on-going operating and maintenance costs such as power, fuel oil, water, sewer, telephones, snow removal, and janitorial services. Funding for one maintenance position transferred from the Division of Administrative Services is also included in this request.

4. Commercial Fisheries AYK Region Fisheries Mgmt – Assessments of Annual Salmon Escapement: \$300.0 UGF. The Department is requesting additional funding to allow the Division of Commercial Fisheries to resume escapement enumeration in the Aniak River drainage and maintain the Sheenjek River sonar project. Increased operational costs have reduced the Division's capacity to maintain these baseline projects, which assess annual escapements for management purposes and provide information necessary for run reconstruction and forecasting of subsequent salmon runs.

Legislative Fiscal Analyst Comment: The legislature may wish to ask the Department about their priorities, including questions such as “Why is the request to maintain baseline projects rather than to cover increased operational costs elsewhere?” and “Which takes priority—baseline projects or other operational costs?”

5. Commercial Fisheries Westward Region Fisheries Mgmt – Training Observers and Crab Pot Survey Travel Increases: \$300.0 Test Fisheries Receipts (DGF). The Department is requesting additional Test Fisheries Receipt authority to spend revenue generated from the sale of fish and shellfish taken during test fisheries. This receipt authority will be used to fully fund the following:

- \$75.0 for training at-sea observers in the Bering Sea/Aleutian Island crab fisheries. Observer training supports data collection in Bering Sea/Aleutian Islands crab fisheries and is mandated by the Magnuson-Stevens fishery Conservation and Management Act. Without at-sea observer data, total removals (an estimate of the quantity of crab that die during fishing operations but are not commercially delivered or sold) for assessing federal overfishing determinations will not be available. Training of at-sea observers was formerly funded by the National Marine Fisheries Service (NMFS).
- \$225.0 for crab pot survey increased travel costs. The crab pot survey requires extended travel to and from the remote survey areas for about a five week period and it is anticipated that the lowest bid for a vessel charter will be approximately 20 percent greater than in the past.

6. **Commercial Fisheries AYK Region Fisheries Mgmt – Fully Fund Operational Costs of the Tanana River Sonar Project: \$175.0 UGF.** In FY13, the Department received a temporary increment of \$200.0 UGF for partial year operational costs of the Tanana River sonar project (FY13 through FY15). The Department is requesting an additional \$175.0 UGF as a temporary increment in the FY14 Governor's Request to support a full year of operational costs. This project will allow for daily estimates of king, chum, and coho salmon entering the Tanana River for in-season and post-season use to manage Tanana River fisheries, and by extension, provide additional information toward managing overall Yukon River salmon fisheries.
7. **Commercial Fisheries Central Region Fisheries Mgmt – Susitna River Drainage Sockeye Project: \$155.0 UGF.** The Department is requesting funding for eight new, part-time fish and wildlife technician positions who will continue assessment of salmon escapements in the Susitna River drainage. Previously this project was operated by Cook Inlet Aquaculture Association, but funding from that source is no longer available for this project. The goal of the Susitna River sockeye salmon project is to maintain desired escapements to this system while allowing orderly harvests of surplus production. This will be accomplished by counting weirs at three of the major sockeye salmon producing lakes within the drainage.
8. **Commercial Fisheries Westward Region Fisheries Mgmt – Salmon Assessment Project Support and Historical Aerial Surveys: \$150.0 UGF.** Funding is being requested to support salmon assessment projects within the Westward Region. Funding will be allocated for Karluk River, Chignik River, Nelson River, and Bear River weirs and to resume complete historical aerial survey coverage in the region. Aerial survey coverage has been scaled back over the years due to rising fuel costs. This increase would allow for in-season enumeration and a level of aerial survey work required to maximize fishing opportunity on surplus pink and chum salmon.
9. **Sport Fisheries – Fund Source Changes to Maintain the Aquatic Resources Project: \$570.0 UGF / (\$430.0) Federal Receipts / (\$140.0) Fish & Game Funds).** The Department is requesting the replacement of \$430.0 Federal (Dingell-Johnson) Receipt authority and \$140.0 Fish and Game fund (fishing license sales) authority with Unrestricted General Funds to maintain the Aquatic Resources project (\$570.0; AS 46.15-Water Use Act). The fund source change from Fish and Game funds will enhance sustainability of the fund while maintaining services. According to the Department, this project ensures adequate amounts of freshwaters are left within natural systems to support both fish and wildlife species. This program has been operated and funded by the Division of Sport Fish since the 1980's using recreational angler funds. The Division of Sport Fish has experienced a substantial decline in federal funds and fishing license sale revenue.

MAINTENANCE OF SERVICES

10. **Habitat – Continue Title 16 & Title 41 Pre-Project Review, Permitting, Monitoring and Compliance: \$185.0 UGF.** Habitat provides pre-project review, permitting, monitoring and compliance for a variety of projects, including mining, public works, oil and gas and transportation. Some of these Title 16 & Title 41 activities were previously federally funded by Alaska Coastal Management Program funds (\$100.0) and Forest Resources and Practices Act funds (\$85.0) which are no longer available. These federal funds were previously received as Inter-agency Receipts and the Department is requesting additional general funds to continue the current permit workload.

Legislative Fiscal Analyst Comment: In FY13, the Department received one-time funding for Title 16 & Title 41 Pre-Project Review, Permitting, Monitoring and Compliance and is requesting to maintain the funding in the base budget.

- 11. Department of Administration's Increases for Core Services: \$87.6 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Fish and Game is \$379.8, leaving \$292.1 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.
- 12. Fund Source Change to Comply with Federal Regulations: \$396.3 Fish and Game Funds (Other) / (\$396.3) GF/Program Receipts (DGF).** Federal regulations require states participating in Wildlife Restoration and Sport Fish Restoration programs to use income generated with license revenues exclusively for fish and wildlife purposes (50 CFR 80). Currently receipts collected from patrons of the Hunter Education Public Shooting Ranges, sanctuaries and from the sale of water fowl prints are being deposited in the general fund as program receipts. The Department received a federal audit finding regarding the shooting range fees and is requesting two fund source changes (\$92.4 in Wildlife Conservation and \$303.9 in Hunter Education Public Shooting Ranges) from General Fund Program Receipts to Fish and Game funds to address the audit finding and meet federal regulations.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY14 Department of Fish and Game capital budget totals \$16.6 million (\$14.4 million UGF/ \$2.25 million Federal Receipts). Projects requested include:

- **Chinook Salmon Research Initiative:** \$10 million UGF;
- **Statewide Facility Deferred Maintenance Projects:** \$1,355.0 UGF;
- **Fish and Game Licensing Modernization:** \$775.0 UGF;
- **Aerial Photocensus Capability to Monitor Wildlife Population:** \$750.0 UGF;
- **Sport Fish Recreational Boating Access:** \$3 million [\$2,250.0 Federal Receipts/ \$750.0 GF Match (UGF)]; and
- **Facilities, Vessels, and Aircraft Maintenance, Repair and Upgrades:** \$500.0 UGF.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Office of the Governor

All Dollars in Thousands

		(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)		\$32,417.8			
	<i>FY13 Fiscal Notes</i>	-			
	<i>CarryForward</i>	1,555.0			
	<i>Special Appropriations, Multi-Years & Contingents</i>	-			
	<i>Misc Adjustments</i>	-			
	<i>Vetoed</i>	-			
FY13 Management Plan (GF only)		\$33,972.8	\$1,555.0	4.8%	
	<i>One-time Items removed</i>	(8,248.8)			
	<i>Miscellaneous Adjustments</i>	-			
	<i>Temporary Increments (IncTs)</i>	-			
	<i>FY14 Contractual Salary and Health Increases</i>	104.5			
FY14 Adjusted Base Budget (GF only)		\$25,828.5	(\$8,144.3)	-24.0%	
	<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
	<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	3,058.1			
FY14 Governor's Agency Request (GF only)		\$28,886.6	\$3,058.1	11.8%	
FY14 Governor's Increments, Decrements, Fund Changes and Language		FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation				\$3,058.1	
	Human Rights Commission	2,363.4	2,369.4	6.0	2
	Executive Office	13,096.6	13,127.7	31.1	2
	Governor's House	742.1	743.8	1.7	2
	Lieutenant Governor	1,179.8	1,182.6	2.8	2
	Domestic Violence and Sexual Assault	-	3,000.0	3,000.0	1
	Office of Management and Budget	2,763.5	2,770.0	6.5	2
	Elections	3,661.3	3,671.3	10.0	2
Non-General Fund Agency Summary		FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)		521.7	521.7	-	
Federal Funds (all allocations)		198.2	198.2	-	
Total Non-General Funds (all allocations)		\$719.9	\$719.9	\$0.0	
Position Changes (From FY13 Authorized to Gov)		175	175	0	
	PFT	155	155	-	
	PPT	-	-	-	
	Temp	20	20	0	
Governor's Capital Request		State Funds (GF + Other)	Federal Funds	Total	See Note:
	Planning and Research	-	-	-	
	Maintenance and Repairs	-	-	-	
	Remodel, Reconstruction and Upgrades	-	-	-	
	New Construction and Land Acquisition	-	-	-	
	Equipment and Materials	-	-	-	
	Information Systems and Technology	-	-	-	
	Other	-	-	-	
TOTAL CAPITAL		\$0.0	\$0.0	\$0.0	

Office of the Governor

The Governor's Office is responsible for the operation of the executive branch of Alaska State government, with fiscal and policy duties conferred by the Alaska Constitution and statutes. The Governor's Office oversees the Office of Management and Budget and the Division of Elections. The Alaska State Commission for Human Rights and the Redistricting Board are included in the Governor's Office for budgetary purposes.

BUDGET SUMMARY INFORMATION

The FY14 Office of the Governor general fund operating budget is \$3,058.1 above the FY14 Adjusted Base. This increase is due primarily to the traditional treatment of certain appropriations as one-time items; an FY13 one-time appropriation of \$3 million to address domestic violence does not appear in the base despite the fact that the domestic violence initiative is a continuing program. The remaining \$58.1 requested is associated with increased costs of core services provided by the Department of Administration.

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

NEW PROGRAMS/PROGRAM EXPANSION

The Governor did not request funding for new programs or to expand existing programs.

MAINTENANCE OF SERVICES

- 1. Domestic Violence and Sexual Assault: \$3,000.0 UGF.** This increment replaces \$3 million of UGF that was appropriated as a one-time-item in FY13. The appropriation to the Governor's Office is intended to ensure that agency efforts to combat domestic violence and sexual assault are coordinated—\$2.95 million of the money is earmarked for transfer to various agency programs.
- 2. Department of Administration's "Core Services" Increases: \$58.1 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Office of the Governor is \$59.4, leaving \$1.2 to be absorbed.

OTHER ISSUES

There are no significant organizational changes requested.

The Governor's Office has no projects in the FY14 capital budget.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Health and Social Services				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$1,288,960.7			
<i>FY12 Fiscal Notes</i>	7,364.2			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	19,300.4			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	(10,300.4)			
FY13 Management Plan (GF only)	\$1,305,324.9	\$16,364.2	1.3%	
<i>One-time Items removed</i>	(10,058.8)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	360.0			
<i>FY14 Contractual Salary and Health Increases</i>	236.3			
FY14 Adjusted Base Budget (GF only)	\$1,295,862.4	(\$9,462.5)	-0.7%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(8,385.8)			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	31,523.8			
FY14 Governor's Agency Request (GF only)	\$1,319,000.4	\$23,138.0	1.8%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Appropriation			\$23,138.0	
Alaska Pioneer Homes	52,006.9	51,804.7	(202.2)	
Behavioral Health	93,820.7	94,790.7	965.0	7
Children's Services	85,796.9	90,431.9	4,635.0	2
Health Care Services	13,704.7	14,101.7	397.0	6
Juvenile Justice	55,091.8	55,566.8	475.0	
Public Assistance	179,290.4	183,567.6	4,277.2	3
Public Health	71,343.9	71,418.9	75.0	
Senior and Disabilities Services	40,698.9	41,403.9	705.0	
Departmental Support Services	23,612.2	24,971.8	1,359.6	4,5
Human Services Community Matching Grant	1,785.3	1,785.3	0.0	
Community Initiative Matching Grants	881.9	881.9	0.0	
Medicaid Services	677,823.8	688,275.2	10,451.4	1
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	95,455.7	94,225.2	(1,230.5)	
Federal Funds (all allocations)	1,228,816.3	1,244,030.2	15,213.9	2,3,5
Total Non-General Funds (all allocations)	\$1,324,272.0	\$1,338,255.4	\$13,983.4	
Position Changes (From FY13 Authorized to Gov)	3,627	3,647	20	
PFT	3,459	3,470	11	
PPT	65	64	(1)	
Temp	103	113	10	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	6,774.0	-	6,774.0	
Remodel, Reconstruction and Upgrades	12,650.0	-	12,650.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,535.5	-	1,535.5	
Information Systems and Technology	6,045.0	35,398.2	41,443.2	
Other	-	-	-	
TOTAL CAPITAL	\$27,004.5	\$35,398.2	\$62,402.7	

Department of Health and Social Services

The Department of Health and Social Services (DHSS) promotes and protects the health and well-being of Alaskans through the following core services:

- Protect and promote the health of Alaskans;
- Provide quality of life in a safe living environment for Alaskans;
- Manage health care coverage for Alaskans in need;
- Facilitate access to affordable health care for Alaskans;
- Strengthen Alaskan families;
- Protect vulnerable Alaskans; and
- Promote personal responsibility and accountable decisions by Alaskans.

The FY14 Department of Health and Social Services general fund operating budget submitted by the Governor is \$23 million (1.8%) above the FY14 Adjusted Base. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

- 1. Medicaid Services are \$10.45 million UGF (1.5%) above the FY14 Adjusted Base.** According to the *January 2011 Long-term Forecast of Medicaid Enrollment and Spending in Alaska*—the latest such document available, the “average annual rate of growth in spending is projected to be between 6% and 7% for the overall program; however, state spending for Medicaid is projected to grow at a little more than 8% due to anticipated reductions in federal financial participation.” At an 8% growth in state spending, an additional \$54 million would be needed in FY14—that is \$44 million less than the Governor requested. According to the Department, the FY14 request is lower because FY12 was a “pivotal year in Medicaid spending, the first year in which the impacts of implementation of various Medicaid cost savings measures were felt.”

Legislative Fiscal Analyst Comment: The ability to move from an 8% projected growth rate to a 1.5% growth rate (saving \$44 million) is dramatic. To ensure that the Medicaid budget is adequately funded, the subcommittee may want to review the Medicaid projection methodology and assumptions.

- 2. Children’s Services**

- **Infant Learning Program Grants: \$1.9 million UGF (a 26% increase).**

The Department requested the following GF increments:

- **Abuse Prevention and Treatment Act Integration: \$1.5 million GF/MH (UGF).** New federal regulations now require that all children under the age of three with substantiated reports of harm be referred to the Infant Learning Program for evaluation and therapeutic and/or educational services. The state can be sued if services are not provided to eligible children.

This increment, according to the Department, will cover the costs of 625 evaluations of children between the ages of birth to three where an incident of substantiated maltreatment has occurred. The funding will also cover the cost of therapeutic and educational services for 500 children identified through multi-disciplinary evaluations, who meet the eligibility criteria (120 currently being serviced plus an additional 380 in FY14). ***This increment is part of the Governor’s Domestic Violence/Sexual Assault Initiative.***

Legislative Fiscal Analyst Comment: The Department estimates that this funding should be sufficient to cover all eligible children.

- **MH Trust Request: Bring the Kids Home Grant for Early Intervention for Young Children: \$400.0 GF/MH (UGF).** This requested increment to expand early intervention efforts for young children includes the following:

1. Eight additional Social Emotional Pyramid Model sites (21 total sites across Alaska). The Pyramid Model builds upon a tiered public health approach to providing universal support to all children to promote wellness, targeted services to those who need more support, and intensive services to those who need them.
2. A Family Preservation project focused on preventing young children in the child protection system from being removed from their homes; the program would provide crisis intervention and support services to families.
3. Two additional Early Childhood Mental Health (ECMH) Consultation/Learning Network pilot projects (five total). In addition to professional development, case consultation and Reflective Facilitation Groups, these Networks will build a “system of care” with coordinated efforts from Community Mental Health, Infant Learning, OCS Child Protective Services, Head Start/Early Head Start, family support agencies, early care and learning programs, medical providers and other community partners.

- **Foster Care Base Rate – Social Security Income for Children in State Custody: \$900.0 GF/Prgm Rcpts (DGF).** According to the Department, available Social Security Income (SSI) and child support payments must be used in place of Title IV-E federal funding for the cost of caring for children in protective custody. This increment of \$900.0 GF/Prgm Receipts is requested to ensure that the Department has the authorization needed to comply with this federal requirement.

- **Front Line Social Workers – Social Worker Class Study Implementation: \$1.5 million (\$315.0 Fed Rcpts & \$1,185.0 UGF).** At the request of the Alaska State Employees Association (ASEA), a job classification study of the social worker job class was conducted to identify and correct inequities in like-pay for like-work. Effective July 1, 2012, implementation of a new job class series resulted in a substantial number of positions being assigned either a one-range or a two-range increase.

Legislative Fiscal Analyst Comment: The Social Worker Class Study was completed in June 2012 and implemented in July. An identical FY13 supplemental request has been submitted to OMB.

- **Family Preservation – Expand Services at Ten Existing Child Advocacy Centers (CACs) due to Growing Caseloads: \$400.0 UGF.** According to the Department, as referrals increase and the needs of those served become increasingly complex, Child Advocacy Centers are struggling to provide the needed level of services. This funding would support the ten centers’ existing level of service and allow them to expand to address the increasing demands for services. *This increment is part of the Governor’s Domestic Violence/Sexual Assault Initiative.*

Legislative Fiscal Analyst Comment: Although funding for this program has increased by 195 percent since FY03 (see the table below), the Department states that funding for each existing Child Advocacy Center has been level since inception.

Increments for Child Advocacy Centers				
FY	GF	Fed	Total	Description
FY03	-	1,000.0	1,000.0	Federal funding for Child Advocacy Centers
FY09	1,300.0	-	1,300.0	Continued support for Child Advocacy Centers
FY10	1,123.8	(1,123.8)	-	Replace federal funding with UGF
FY12	250.0	-	250.0	Sustain operations of the Kodiak Child Advocacy Center
FY14	400.0	-	400.0	Provide additional funding for ten existing Child Advocacy Centers to reflect growing caseloads
TOTAL	3,073.8	(123.8)	2,950.0	

3. Public Assistance

- Alaska Temporary Assistance Program (ATAP) Growth: \$3.85 million Fed Rcpts.** ATAP provides temporary financial assistance to needy families with children. The costs associated with this program are supported by the federal Temporary Assistance for Needy Families block grant (TANF). This increment reflects an increased demand for financial assistance.
- Adult Public Assistance (APA) Program Growth: \$2.3 million UGF (3.8% increase from FY13).** Enrollment in the APA Program is increasing, particularly in the Aid to the Disabled & Blind category. As the population in Alaska ages, the Department expects an overall increase in the number of individuals served by the program to continue to increase by more than 5% per year.
- General Relief Assistance (GRA): General Relief Growth: \$1.14 million UGF (59.8 % increase).** Although General Relief Assistance is designed to meet basic needs (such as shelter, utilities, food and clothing), approximately 90% of GRA expenditures are for funeral and burial expenses for indigent people.

Legislative Fiscal Analyst Comment: If this funding is approved, the GRA allocation will have grown by 103% since FY05. The Department has indicated that the consistent double-digit growth in the GRA program over recent years is likely to continue.

- Permanent Fund Dividend Hold Harmless Program Growth: \$650.0 PFD Fund (DGF) (3.9% increase).** State law mandates that recipients of public assistance programs not lose benefits due to receipt of the Alaska Permanent Fund Dividend. This request reflects the funding needed to cover an expected caseload growth in various public assistance programs.
- Public Assistance: Energy Assistance Program: \$243.2 UGF (1.8% increase).** According to the Department, the FY14 funding request for the Energy Assistance Program is expected to fully fund the program in FY14.

Legislative Fiscal Analyst Comment. If the appropriation in section 1 is not sufficient to fully fund the program, the Governor included an open-ended appropriation that ensures that energy assistance payments are fully funded. Although the state may be facing a possible decline of about \$1 million in federal funding if sequestration occurs, the actual cost of this section is unknown. (See the analysis for section 15 in the “Language Sections of the Governor’s Operating Budget” in this publication.)

- ### 4. Department of Administration’s “Core Services” Increases: \$764.6 UGF.
- 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Health and Social Services is \$1,234.3, leaving \$469.6 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

5. Departmental Support Services/Information Technology Services: Health Information Security/Privacy Compliance and Remediation: \$850.0 (\$595.0 UGF and \$255.0 Fed Rcpts) (6.3% increase).

The theft of a portable USB storage device containing protected health information from the vehicle of a DHSS computer technician in October 2009 highlighted IT security issues in DHSS. Due to this incident, the Office of Civil Rights (OCR) sanctioned DHSS for insufficient compliance with the safeguarding of protected health information, imposed a \$1.7 million penalty and required that DHSS implement a Corrective Action Plan (CAP). This plan includes a Risk Assessment and Remediation Plan that must be completed by March 20, 2013. OCR will expect the Department to begin rectifying each item on an approved, prioritized timeline in the first quarter of FY14.

Although the Department expended one-time capital funding for a three-year Monitor Contract (\$500.0) and a Risk Assessment (\$250.0), it claims that ongoing funding for security is insufficient to adequately address HIPAA Security and Privacy compliance.

Legislative Fiscal Analyst Comment: Because the security remediation work is expected to begin in FY13, the legislature may see a FY13 supplemental request.

6. Health Care Services/Health Facilities Licensing and Certification (HFLC) – Funding for Staff to Perform Residential Living Facilities’ Inspections: \$457.0 G/F Match (UGF) (61.9% increase).

Health Care Licensing and Certification is responsible for ensuring the health, welfare and safety of over 5,000 Alaskans receiving services in approximately 686 residential living facilities. In addition to background checks, HFLC inspects all residential living facilities and is responsible for conducting investigations on an increasing number of complaints.

The Department contends that additional funding is needed because the number of complaints increased by 67% from FY11 to FY12. According to the Department, complaints have increased for a number of reasons (see below).

- With complaint hotline numbers posted in every healthcare facility and easy access to the internet, the general public is increasingly able to voice their concerns. Although the majority of complaints are unsubstantiated, all complaints must be investigated.
- There is a nationwide focus on neglect and abuse awareness and, if a staff member is thought to have raised his/her voice at a resident, it may be viewed as abuse and the facility is required to report it to the state.
- Nursing facilities are required to self-report any incidences that may have caused harm (e.g., unwitnessed falls, resident-to-resident abuse, staff-to-resident abuse, medication errors, abusive language used by staff, etc.).
- An increase in the long-term care population.
- An increasingly litigious society.

Legislative Fiscal Analyst Comment: Although the entire increment is requested in personal services, HFLC will use existing vacant positions if the increment is approved.

The subcommittee may wish to obtain more details about the matching requirements of the federal programs this increment addresses. Match rates vary from 0% to 50% (depending on the use of the federal funds). A \$457.0 GF/Match increment implies that additional federal funding (up to \$1.8 million) will be received. The Governor's FY14 request does not include additional federal funding. This implies that:

1. the increment is not required to match federal funds;
2. the federal authorization in this allocation will be insufficient; or
3. "excess" federal authorization will be transferred and applied to this program.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

OTHER ISSUES

- 7. Behavioral Health Grants** – A one-time, multi-year appropriation of \$9 million GF was appropriated for Behavioral Health Grants for FY13 through FY15.

Although the entire amount is available in FY13, shortly after the 2012 legislative session the Department indicated that it was developing a plan to expend this funding in three equal, annual allocations of \$3 million. The funding will be used to try new programs over the three-year period and to purchase extra capacity in programs that work.

Legislative Fiscal Analyst Comment: Because all one-time funding is removed from the base budget, the legislature may not realize that an unspecified portion of this appropriation will be available to the Department in FY14. If only \$3 million were expended per year, this equates to a 30 percent increase in funding over FY12. The legislature may wish to ask DHSS for an update on plans and expenditures for this program.

CAPITAL BUDGET

DHSS has proposed a total capital budget of \$62.4 million, which is comprised of \$27 million of state funds and \$35.4 million in federal funds. A variety of projects are being requested. The largest projects and categories of projects are listed below:

- **Electronic Health Record Incentive Payments: \$30.2 million Federal Receipts.** As part of the American Recovery and Reinvestment Act (ARRA), an Electronic Health Record (EHR) incentive program was established to provide financial support for providers to adopt, implement or upgrade certified Electronic Health Record technology.

Legislative Fiscal Analyst Comment: Appropriations in FY12 and FY13 were \$36.5 million and \$9.5 million, respectively, and the legislature can expect to see requests for \$35.5 million of federal funds in FY15 and FY16. Current appropriations and requests total approximately \$147.2 million. This program will sunset in FY21.

- **Bethel Youth Facility Expansion – Phase 2 of 2: \$10.6 million UGF:** The Governor is requesting the funding needed to complete the Bethel Youth Facility Renovation project. This request will provide funding for:
 - building four new detention beds (for a total of twelve detention beds);
 - upgrading the existing treatment beds;
 - providing additional probation space and expanded medical space; and
 - constructing a vehicle sally port, a small gymnasium and a secure outdoor recreation area.

Legislative Fiscal Analyst Comment: \$10 million UGF was appropriated for Phase 1 of this project in FY13. According to the Phase 1 backup provided by the Department in FY13, \$9,025.4 was expected to be needed in FY14, but costs have increased because the project was approved in phases.

- **Master Client Index, State Interface Improvements to the Health Information and Direct Secure Messaging Gateway (HD 1-40): \$5,749.7 (\$3,338.7 Fed Rcpts and \$2,411.0 G/F Match).** This project covers the post-implementation services required to operate the Health Information Gateway or Exchange. This project also includes the prioritization, updating and modifications needed for state systems, such as the Master Client Index, to successfully integrate data to the Health Information Gateway to meet the Centers for Medicare and Medicaid Services' and the Office of National Coordinator's meaningful use and security requirements.

Legislative Fiscal Analyst Comment: If this request is approved, a total of \$37.7 million will have been appropriated for this purpose. Please see the table below for more detail.

FY	Capital Project Description	GF	FF	Total
FY05	Comprehensive Client Database		500.0	500.0
FY06	Master Client Index	150.0	350.0	500.0
FY09	Statewide Electronic Health Information Exchange System	2,727.5	24,547.5	27,275.0
FY13	State Improvements to Health Information Gateway	364.1	3,277.3	3,641.4
FY14	Master Client Index, State Interface Improvements to the Health Information and Direct Secure Messaging Gateway	2,411.0	3,338.7	5,749.7
TOTAL		5,652.6	32,013.5	37,666.1

- **Electronic Vital Record Registration System – Phase 2 of 2 (HD 1-40): \$1,785.0 UGF.** This project will fund a new electronic information system that will:
 - receive and store records of births, deaths, marriages and divorces in Alaska;
 - create vital records certificates that meet all applicable government standards;
 - allow web-based data entry by authorized individuals to speed the reporting of vital events and issuance of certificates; and
 - bring the State of Alaska into compliance with the Federal Intelligence Reform and Terrorism Prevention Act of 2004.

The information system currently supporting registration of births, deaths, marriages and divorces in Alaska is more than 20 years old and is based on computer technologies no longer supported by modern operating systems.

Legislative Fiscal Analyst Comment: In FY09, when \$3,724.5 of UGF was appropriated for this purpose, there was no indication that additional funding would be needed. According to the Department, the estimated cost of the project was based on the best estimates at that time. Beginning in October 2009, funds from this capital project were used to hire a vendor to help the Bureau develop the technical specifications and write the Request for Proposal for procuring a new Electronic Vital Records System. One task in this contract called for developing cost estimates for the replacement of the system. Preliminary estimates put the cost of replacing just

the birth, death and issuance components of the existing system at \$5,250.0. This will require an additional \$1,785.0 above the FY09 appropriation.

- **Deferred Maintenance for the Anchorage, Fairbanks, Juneau, and the Alaska Veterans and Pioneer Homes: \$3,871.2 UGF.**
- **Non-Pioneer Homes Deferred Maintenance, Renewal, Repair and Equipment: \$2,902.8 UGF.** The bulk of the funding is requested for the McLaughlin Youth Center (\$1,249.3) and for the Assets Building Deferred Maintenance (\$750.0).

Department of Labor and Workforce Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$68,162.4			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	456.8			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$68,619.2	\$456.8	0.7%	
<i>One-time Items removed</i>	(1,133.6)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	326.8			
<i>FY14 Contractual Salary and Health Increases</i>	106.2			
FY14 Adjusted Base Budget (GF only)	\$67,918.6	(\$700.6)	-1.0%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	1,140.8			
FY14 Governor's Agency Request (GF only)	\$69,059.4	\$1,140.8	1.7%	
↓				
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Appropriation			\$1,140.8	
Commissioner and Administrative Services	7,296.5	8,346.0	1,049.5	2,3
Labor Standards and Safety	7,317.7	7,334.4	16.7	
Employment Security	4,009.8	4,004.6	(5.2)	5,6
Business Partnerships	19,954.3	19,912.6	(41.7)	5
Vocational Rehabilitation	5,918.2	6,018.2	100.0	1,7
AVTEC	10,817.2	10,838.7	21.5	4,5
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	26,518.0	26,566.7	48.7	4
Federal Funds (all allocations)	100,991.2	98,778.8	(2,212.4)	
Total Non-General Funds (all allocations)	\$127,509.2	\$125,345.5	(\$2,163.7)	
Position Changes (From FY13 Authorized to Gov)	989	960	(29)	
PFT	827	869	42	
PPT	118	77	(41)	
Temp	44	14	(30)	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	968.0	-	968.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	6,000.0	-	6,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	2,175.0	-	2,175.0	
Other	-	-	-	
TOTAL CAPITAL	\$9,143.0	\$0.0	\$9,143.0	

Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DOLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities. To accomplish these goals the Department provides the following core services:

- statutory and regulatory assistance and enforcement to protect Alaska's workers;
- workforce development to support Alaska hire and economic development; and
- income replacement for injured, unemployed, and permanently disabled workers.

The FY14 Department of Labor and Workforce Development general fund operating budget submitted by the Governor is \$1,140.8 above the FY14 Adjusted Base [\$1,385.4 Unrestricted General Funds (UGF)/(\$244.6) Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Vocational Rehabilitation/Independent Living Rehabilitation – Independent Living Service Expansion Costs for Several Underserved Rural Alaskan Communities: \$100.0 UGF.** The Department is requesting general funds for grants to nonprofit Centers for Independent Living (CILs) who will then partner with community members to expand Independent Living services. Independent Living services assist individuals with remaining in their own homes, engaging with their communities, and positioning themselves for employment.

Currently Alaska has four CILs: Access Alaska, Southeast Alaska Independent Living (SAIL), Independent Living Center, Inc. (ILC), and Arctic Access. These organizations serve individuals in Anchorage, Fairbanks, Haines, Homer, Juneau, Ketchikan, Kotzebue, Seward, Soldotna, and Wasilla. Through collaboration, it is anticipated that an additional 30 people will be served and at least seven new community partnerships established during FY14.

Legislative Fiscal Analyst Comment: This increment gives this allocation an 8.4 percent increase over the FY13 Management Plan. The legislature appropriated \$200.0 in FY13 to expand the Independent Living Service program.

MAINTENANCE OF SERVICES and DECREMENTED FUNDING

- 2. Commissioner and Administrative Services/Leasing – Funding for Lease Cost Increases: \$984.5 UGF.** The majority of the Department has been housed in the Eagle Street facility in Anchorage and the 8th Street facility in Juneau. As a result of renegotiated leases for both buildings during the past year, lease costs increased by about 34 percent (\$934.5). The renegotiated 8th Street lease in Juneau will cost \$707,266.80 more per year (from \$1,950,276.72 to \$2,657,543.52) and the renegotiated lease agreement for the Eagle Street facility in Anchorage increased by \$277,248/year (from \$933,888 to \$1,211,136). According to the Department, the increased lease costs cannot be absorbed without significantly impacting services.

Legislative Fiscal Analyst Comment: Considering that the Department's funding is about 18 percent unrestricted general funds, the legislature may wish to explore allocating a portion of the lease cost increase to other fund sources.

3. Department of Administration's "Core Services" Increases: \$65.0 UGF.

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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Labor is \$232.1, leaving \$167.1 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

4. Alaska Vocational Technical Center (AVTEC)

- **Add One-Time FY13 Funding to Support AVTEC's Operating Costs to the FY14 Base: \$200.0 UGF.** In FY13, AVTEC received a one-time UGF increment of \$200.0 to help cover operating costs with a recommendation by the legislature to find other funding sources in future fiscal years. According to the Department, AVTEC's leadership, with the assistance of the grant writer position, has solicited and secured tax credit donations and obtained federal and other grants, but many of these fund sources are one-time and cannot be relied upon to support ongoing operational expenses. AVTEC is expecting declines in I/A Receipts from RSAs due to reduced funding in other state agencies and is receiving a decrement of \$23.5 in TVEP funds.

To ensure that AVTEC's expenditures do not exceed revenue in FY13, AVTEC implemented several cost cutting measures such as:

- renegotiating reimbursable services agreements (RSAs);
- renegotiating provider services agreements (PSAs) or contract training;
- improving the mechanical systems on AVTEC's campus to reduce the cost of utilities (impacts have not yet been fully measured because completion occurred in April 2012);
- changing information technology support services and long-distance phone services;
- holding some custodial and maintenance staff positions vacant;
- reducing the center's vehicle fleet;
- reducing instructional program length and amending the schedule to close the school five days early; and
- keeping three full-time equivalent instructional program and support services staff positions vacant.

According to AVTEC, even with the above efforts, AVTEC will be unable to maintain the current level of services if the UGF support for operating expenses is not continued in FY14.

Legislative Fiscal Analyst Comment: One of the reasons for the one-time UGF appropriation was to give AVTEC time to adjust tuition rates for FY14. The subcommittee may wish to again discuss the potential for tuition increase .

- **Reduce Excess General Fund Program Receipt Authority: (\$178.5) GF/Prgrm (DGF).** AVTEC's general fund program receipt authority has exceeded actual revenue in recent years. This request reduces some of the excess authority to more accurately align the budget with anticipated expenditures.

Legislative Fiscal Analyst Comment: The actual expenditure of GF/Prgrm Receipts in FY12 was \$457.1 below the amount that was authorized.

- **Additional Statutory Designated Program Receipts (SDPR) Authorization: \$112.8 Stat Desig (Other).** Increased SDPR authorization is requested to fully utilize anticipated revenue increases. According to the Department, SDPR revenue has increased for two reasons
 - First, AVTEC's leadership, with the assistance of their grant writer position, has effectively negotiated more provider services agreements (PSAs) for contract training and solicited and secured more tax credit donations.
 - Second, AVTEC has changed the methodology used to record the revenue collected for PSAs. In prior years, this revenue was collected as general fund program receipts (GF/Prgm); starting in FY12, this revenue was recorded as SDPR.

5. Technical Vocational Education Program (TVEP) Receipts (DGF). The Technical Vocational Education Program is a set-aside of employee contributions to unemployment insurance. The receipts are transferred to a separate account in the general fund and, subject to appropriation, are used to support vocational training centers around the state. Legislative appropriations have been based on a formula set out in statute (AS 23.15.820 – 23.15.850). For FY14, the estimated available receipts of the Alaska Technical and Vocational Education Program total \$10,760.0 (\$138.0 *less* than the amount available in FY13). To reflect the decrease in available funding, the following Department of Labor and Workforce Development allocations include FY14 decrements that reduce authorization to the anticipated amount of receipts:

- Alaska Vocational Technical Center: (\$23.5);
- Kotzebue Technical Center Operations Grant: (\$12.4);
- Southwest Alaska Vocational and Education Center Operations Grant: (\$4.1);
- Yuut Elitnaurviat, Inc. People's Learning Center Operations Grant: (\$12.4);
- Northwest Alaska Career and Technical Center: (\$4.1);
- Delta Career Advancement Center: (\$4.1); and
- New Frontier Vocational Technical Center: (\$2.8)

ORGANIZATIONAL CHANGES

6. A New Work Services Allocation was created: \$3,686.9 I/A Rcpts (Other) and 32 PCNs transferred from Employment Security/Employment and Training Services. The Work Services program is 100 percent supported by a reimbursable services agreement (RSA) with the Department of Health and Social Services. The RSA is funded by the federal Temporary Assistance to Needy Families (TANF) grant. This structure change will provide clarity on the positions and expenses related to the program.

Legislative Fiscal Analyst Comment: This transfer does not change the program's funding level. It is simply a transfer of funding and positions.

7. Transfer the Entire Assistive Technology Allocation into the Special Projects Allocation: \$579.9 (\$483.9 Fed Rcpts and \$96.0 I/A Rcpts). To streamline the division's allocations, the Department is requesting a structure change that moves all funding from Vocational Rehabilitation's Assistive Technology allocation into the Special Projects allocation.

Legislative Fiscal Analyst Comment: This transfer does not change the program's funding level. It is simply a transfer of funding.

CAPITAL REQUEST

The Department of Labor and Workforce Development is requesting \$9.1 million UGF in the capital budget for the following four projects:

- **Heavy Equipment Shop/Diesel Shop/Pipe Welding Relocation – Phase 1 of 3: \$6 million UGF.** This request will fund the first of three phases of the Alaska Vocational Technical Center's (AVTEC) Heavy Equipment Shop/Diesel Shop/Pipe Welding Relocation project. Funds will be used to construct an 8,000 square foot steel fabricated heavy equipment shop, including site preparation and utility hook-ups.

Costs for future phases are: \$8 million UGF in FY15 for phase two and \$1 million UGF in FY16 for phase three;

- **Mobile Mine Machine Simulator: \$1.8 million UGF.** The Department of Labor will enter into an agreement with the University of Alaska to purchase a mobile mine machine simulator and appropriate machine inserts. The University's Mining and Petroleum Training Service program will use the simulator to provide mechanized mining job training to prospective Alaskan miners in rural and other regions of the state;
- **AVTEC Deferred Maintenance: \$968.0 UGF.** This annual request is to pay for deferred maintenance needs at 16 state-owned buildings in Seward;
- **AVTEC Maritime Simulator Ice Navigation Upgrade – Phase 1 of 3: \$375.0 UGF.** This appropriation will fund the phase one upgrade of the AVTEC maritime simulator to provide ice navigation and arctic operations training to mariners.

Costs for future phases are: \$350.0 in FY15 for phase 2 and \$325.0 in FY16 for phase 3.

Legislative Fiscal Analyst Comment: In FY12 \$210.0 was appropriated to upgrade the simulator's outdated projection system. In FY13, an appropriation of \$39.0 will be used to purchase software to update AVTEC's southeast simulations.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Law				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$65,635.0			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	5,184.0			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$70,819.0	\$5,184.0	7.9%	
<i>One-time Items removed</i>	(12,784.0)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	156.6			
FY14 Adjusted Base Budget (GF only)	\$58,191.6	(\$12,627.4)	-17.8%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	7,642.6			
FY14 Governor's Agency Request (GF only)	\$65,834.2	\$7,642.6	13.1%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Appropriation			\$7,642.6	
Criminal Division	29,209.8	30,553.2	1,343.4	1,2,3,5,6,10,11
Civil Division	26,169.0	32,360.9	6,191.9	4,7,8,11
Administration and Support	2,812.8	2,920.1	107.3	9
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	27,559.9	28,432.7	872.8	1,7,11
Federal Funds (all allocations)	1,966.4	1,966.4	0.0	
Total Non-General Funds (all allocations)	\$29,526.3	\$30,399.1	\$872.8	
Position Changes (From FY13 Authorized to Gov)	573	579	6	
PFT	570	576	6	1,2,3,4
PPT	3	3	0	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	2,200.0	-	2,200.0	
Other	-	-	-	
TOTAL CAPITAL	\$2,200.0	\$0.0	\$2,200.0	

Department of Law

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

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

The Criminal Division protects the public by prosecuting all violations of state criminal law committed by adults and juveniles, and by placing them under appropriate controls. The Civil Division serves the interest of Alaska's citizens by providing legal counsel to the executive branch in all civil actions. The Administrative Services Division provides the core administrative services that are essential to the day-to-day operation and to managing the resources of the Department.

The FY14 Department of Law general fund operating budget as submitted by the Governor is \$7,642.6 above the FY14 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. First Judicial District – Fund Two Attorneys, Juneau: \$475.0 UGF, and a Decrease of \$250.0 I/A Rcpts (Other).** The Juneau District Attorney's Office handles all criminal matters in the northern Southeast panhandle. For at least a quarter of a century the office had three attorneys to cover nine judicial officers in six court locations: Juneau, Haines, Hoonah, Petersburg, Skagway and Yakutat. According to the Department, there has been a significant caseload increase during this time as well as an increase in the number of judges. These factors are driving this request to fund two PFT attorneys as follows:

- **\$250.0 UGF** - In the last year, because of concerns about attorney capacity, the Attorney General moved a position from Criminal Appeals/Special Litigation to work in the Juneau District Attorney's Office. This position is the one for which law is seeking a \$250.0 fund change (from uncollectible I/A to UGF). Of the funding requested, \$225.0 will be used for personal services and \$25.0 will be used for travel - primarily to cover the Petersburg calendar.
- **\$225.0 UGF** - A new attorney will specialize in sexual assault, sexual abuse of minors and domestic violence litigation in support of the Governor's initiative against these offenses.

Legislative Fiscal Analyst Comment: The Department transferred \$123.3 of I/A Receipts from the 3rd Judicial District before requesting general funds to replace \$250.0 of “uncollectible” I/A Receipt authority previously collected from the Department of Public Safety for the Project Safe Neighborhoods grant. The legislature may wish to view the requested fund change as an increment of UGF plus an incidental decrement of uncollectible I/A Receipt authority.

- 2. Fourth Judicial District – Prosecuting Attorney and Victim/Witness Paralegal, Bethel: \$365.0 UGF.** The Bethel District Attorney's Office handles all criminal matters in the Yukon-Kuskokwim Delta and has seven attorneys who cover ten judicial offices in seven court locations: Bethel, Aniak, Chevak, Emmonak, Hooper Bay, McGrath, and Saint Mary's. The high percentage of sexual assault and sexual abuse of minor cases, along with the highest felony

referral rate in the state, intensify the work required to prepare for and process these cases. Additionally, communication issues arising from language barriers frequently occur in the Bethel office. The Department contends that an additional attorney would alleviate the caseload pressure in the Bethel office (currently 396 cases per attorney) and the addition of a Victim/Witness Paralegal would facilitate better witness contact and victim communications.

3. Fourth Judicial District – Prosecuting Attorney, Fairbanks: \$225.0 UGF.

The Fairbanks District Attorney's Office handles all criminal matters in the interior and has fourteen attorneys who cover seventeen judicial officers in six court locations: Fairbanks, Delta Junction, Fort Yukon, Galena, Nenana, and Tok. The caseloads in all of these offices exceed 300 cases per attorney and the additional position is requested to reduce the caseload.

4. Child Protection – Child Protection Paralegal, Fairbanks: \$140.0 UGF.

The Fairbanks office has been experiencing insufficient paralegal support in the Child in Need of Aid (CINA) section. Currently one paralegal supports three full-time attorneys, however, the increased CINA caseload has forced the Department to utilize paralegal staff from other geographic areas. This approach not only increases costs but drains resources from other busy offices. According to the Department, a second Child Protection Paralegal in Fairbanks will alleviate this pressure and assist with timelier case processing.

5. Criminal Justice Litigation – Mitochondria and Y-Chromosome DNA Testing along with Expert Testimony: \$100.0 UGF.

The Department of Law requires DNA testing and expert testimony services for criminal prosecution. Currently, the state crime lab performs only nuclear DNA testing. Because certain criminal cases require mitochondrial or y-chromosome DNA testing (both of which can be extremely useful in long-term, unsolved cases), it is occasionally necessary for the Department to contract for these services. \$75.0 would cover the external lab costs and \$25.0 is requested for the associated expert testimony.

Legislative Fiscal Analyst Comment: The state crime lab is currently in the certification process to perform y-chromosome testing (which could take about a year). The legislature may wish to consider appropriating a portion of this request as one-time funding as these services might be available in-state next year.

6. Criminal Justice Litigation – Implement Victim Information and Notification (VINE) System: \$80.0 UGF.

The VINE system is a computer-based service that provides prisoner custody status information to victims and other subscribers. Currently in Alaska, this information is personally being provided to victims by the victim witness paralegal. This process can take up a significant amount of time. By implementing the VINE system, the Department would be able to provide automatic notification to the victims while at the same time freeing up the paralegal's time to prepare individuals for court.

7. Commercial and Fair Business – Investigative Services for Consumer Protection Program: \$200.0 Statutory Designated Program Receipts [SDPR (Other)].

Consumer fraud is becoming more sophisticated and prevalent, especially in times of economic distress. While some consumer fraud occurs locally, most fraud occurs on a national level. Scammers from outside Alaska—most in other countries—victimize Alaskans using the internet, telephone, and national media to disseminate a variety of scams. Companies also commit fraud through unfair or deceptive advertisements that impact consumers across the nation. Social media and other internet sites can violate consumer privacy expectations by unlawfully sharing personal information. These are just a few examples of the types of cases that are addressed through multi-state consumer protection investigations.

The department's involvement in these coordinated efforts not only protects Alaskans but can provide significant returns to the state. For example, Alaskan Attorney General Michael Geraghty recently joined 37 other attorneys general in announcing a \$90 million settlement with GlaxoSmithKline LLC (GSK) resolving allegations that the company unlawfully promoted its diabetes drug, Avandia. Under the settlement, Alaska will receive \$1.2 million (in addition to \$1.4 million received in a previous settlement with GSK). A portion of this and other settlement funds from multi-state and national cases are restricted for consumer protection, education, and enforcement as SDPR. Increased SDPR authority is requested to contract for additional investigative services to support the efforts of the Consumer Protection Unit.

MAINTENANCE OF SERVICES

8. Oil, Gas and Mining: \$6 million UGF. The Department is requesting funds to continue its role in one of the Governor's top priority projects: the construction of a gas pipeline bringing natural gas to market. Additionally, the Department has a number of major oil and gas projects underway that continue to require outside counsel and experts beyond the funding included in the Department's base budget.

- **\$4 Million UGF** base funding is requested for ongoing oil and gas matters including Pt. Thomson litigation, proceedings before the Federal Energy Regulatory Commission (FERC), TransAlaska Pipeline Service (TAPS) tariff issues, and TAPS property tax matters.
- **\$2 Million UGF** base funding is requested for work related to the state gas pipeline and to bring North Slope gas to market.

Legislative Fiscal Analyst Comment: Although the Department is requesting both oil & gas increments as base additions, the legislature has consistently funded these activities with one-time appropriations to promote annual legislative review of what may be varying external costs. (See the table below.)

Department of Law's Oil & Gas Related Funding FY10-FY14

Oil & Gas Related Funding Base and Non-Base FY10-FY14	FY10 Budget		FY11 Budget		FY12 Budget		FY13 Budget		FY14 Request	
	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE	BASE	NON-BASE
(Non-Gasline) Outside Counsel and Experts for Oil & Gas Matters (Including Pt. Thomson Litigation, FERC on TAPS Tariffs, and TAPS property tax matters)		\$6.1 million UGF		\$3 million UGF		\$2 million UGF FY11 Supplemental Multi-Year Lapsed 6/30/12		\$5 million UGF	\$4 million UGF	
				\$3.87 million UGF FY11 Supplemental		\$3 million UGF FY12 Capital Multi-Year Lapses 6/30/13	Of this \$3 million, \$1,453.7 was carried forward into FY13			
Gasline - Preparation of Legislation and Implementation of a Comprehensive Plan to Commercialize North Slope Gas				\$2.5 million UGF		\$2 million UGF		\$2 million UGF	\$2 million UGF	

- 9. Department of Administration's Increases for Core Services: \$107.3 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Law is \$148.1, leaving \$40.8 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs. The Department's share of these increments is in the Administration and Support appropriation/Administrative Services allocation.
- 10. Various Criminal Division Allocations – Fully Fund Items Added in FY13: \$91.2 UGF.** Two of the agency's FY13 increments were funded at three-quarters of the requested GF levels to allow time for recruitment. The following increments represent the amounts needed to annualize the program or position:
- Third Judicial District: Anchorage – Language Interpreter Services for victims and witnesses of domestic violence: \$35.0 UGF; and
 - Criminal Appeals/Special Litigation - Cold Case Prosecutor: \$56.2 UGF.
- 11. Various Allocations – Add Inter-Agency (I/A) Receipt Authority for Unbudgeted RSAs: \$906.9 I/A (Other).** In an effort to establish authorization for previously unbudgeted Reimbursable Service Agreements (RSAs), the Department of Law is requesting additional I/A Receipt authority for existing RSAs with the following departments:
- Health & Social Services, \$461.4;
 - Public Safety, \$233.0;
 - Revenue, \$47.5;
 - Commerce, Community, & Economic Development, \$15.9; and
 - Administration, \$14.1.
- Additionally, the Department requests \$135.0 I/A for *anticipated* FY14 RSAs with other (unspecified at this time) state agencies.

OTHER ISSUES

- 12. State of Alaska vs. BP Exploration Update:** On October 31st, 2012, the BP Corrosion lawsuit (filed in April of 2009) was resolved. Following a four-week hearing in May and June of 2012, the three-arbitrator panel issued a unanimous decision in favor of the State of Alaska. The award is final, binding, and non-appealable. After adjustment for previously agreed upon credits, the final award with prejudgment interest is \$245 million, and BP will also pay \$10 million to settle civil assessments for the spills. In total, BP will pay the State \$255 million for the 2006 spills and pipeline shutdowns.

Legislative Fiscal Analyst Comment: The Department of Law received \$25.7 million UGF between FY09 and FY13 for work on the BP Corrosion case. The remaining balance of the \$3.7 million that was available for BP Corrosion casework in FY13 should return to the general fund when the post-hearing casework is closed out.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL BUDGET

- **New Case Management System: \$1.8 million UGF.** Because there is no longer vendor support for the current criminal case management system infrastructure, the Department of Law is requesting funding to acquire and implement a new criminal case management system.
- **Electronic Data Sharing: \$400.0 UGF.** This funding will be used to implement an electronic data sharing system to interface with other criminal justice entities and allow the transfer of criminal justice data between the Departments of Law, Public Safety, Revenue, Health and Social Services, Corrections, Administration, and the Alaska Court System.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$21,900.7			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	234.3			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$22,135.0	\$234.3	1.1%	
<i>One-time Items removed</i>	(8,555.7)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	47.5			
FY14 Adjusted Base Budget (GF only)	\$13,626.8	(\$8,508.2)	-38.4%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	8,975.9			
FY14 Governor's Agency Request (GF only)	\$22,602.7	\$8,975.9	65.9%	

FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$8,975.9	
Office of the Commissioner	2,573.9	2,910.4	336.5	3, 6
Homeland Security & Emergency Management	2,500.8	2,670.8	170.0	4
National Guard Military Headquarters	721.7	725.5	3.8	6
Army Guard Facilities Maintenance	3,033.2	3,136.8	103.6	6, 7
Alaska Military Youth Academy	55.7	57.8	2.1	6
Veterans' Services	1,657.7	2,003.2	345.5	1, 5, 6
Retirement Benefits	739.1	740.1	1.0	
Alaska Aerospace Corporation	1,736.1	3292.9	1,556.8	2
Alaska Aerospace Corporation Facilities Maintenance	(1,668.2)	4788.4	6,456.6	2
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	16,612.8	16,612.8	0.0	
Federal Funds (all allocations)	25,265.8	25,200.8	(65.0)	7
Total Non-General Funds (all allocations)	\$41,878.6	\$41,813.6	(\$65.0)	
Position Changes (From FY13 Authorized to Gov)	342	342	0	
PFT	338	339	1	
PPT	2	2	-	
Temp	2	1	(1)	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	760.0	-	760.0	
Maintenance and Repairs	4,772.0	7,140.5	11,912.5	
Remodel, Reconstruction and Upgrades	1,960.0	1,881.0	3,841.0	
New Construction and Land Acquisition	4,794.4	-	4,794.4	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	9,600.0	9,600.0	
TOTAL CAPITAL	\$12,286.4	\$18,621.5	\$30,907.9	

Department of Military and Veterans' Affairs

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

The FY14 Department of Military and Veterans' Affairs general fund operating budget as submitted by the Governor is \$9 million above the FY14 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Expansion of Veterans' Services: \$225.0 UGF. The Department is requesting funding to expand services to veterans:

- **Veterans Outreach Expansion: \$150.0 UGF.** Funding is requested for increased site visits to remote locations in Alaska to provide one-on-one assistance to help Alaska's veterans obtain earned benefits from the U.S. Department of Veterans Affairs. Veteran Service Officers (VSOs), Veteran's Affairs Liaisons, Counselors from the National Guard Family Programs, Transition Assistance Advisors and staff will participate in site visits to community hospitals, veteran organization events, town hall meetings and other appropriate venues.

Legislative Fiscal Analyst Comment: In FY13, the Department received one-time funding of \$100.0 UGF for Veterans outreach services and is now requesting an addition to the base budget (see item #5). With this additional increment request of \$150.0 UGF, the total level of funding for Veterans outreach services would be \$250.0 UGF.

- **Interior Alaska Cemetery Operational Costs: \$75.0 UGF.** Funding is requested for a partial year (one quarter) of operational and maintenance costs of the Interior Alaska Cemetery. The state and the U.S. Department of Veterans Affairs are working to plan, design, and build a certified cemetery in the Fairbanks region. The state will assume the contractual costs of managing, operating, and maintaining the cemetery when construction is completed in FY14. In FY15, the Department will request an additional \$225.0 UGF for the total annual estimated operating costs of \$300.0 UGF.

Legislative Fiscal Analyst Comment: The legislature appropriated the following funding to the Department:

- FY11 - \$5 million Federal Receipts, \$750.0 GF Match (UGF) and \$250.0 UGF for design and construction costs of the Interior Alaska Veterans Cemetery; and
- FY13 - \$2 million Federal Receipts for increased project costs.

In addition, the Department is requesting \$2.5 million UGF in the FY14 Governor's Request to continue the acquisition of land for a veterans cemetery in interior Alaska.

MAINTENANCE OF SERVICES

2. Alaska Aerospace Corporation (AAC) Operations and Maintenance: \$8.0 million UGF. Operating and maintenance costs for the Alaska Aerospace Corporation have historically come from federal contracts. Because these contracts have been substantially reduced, the legislature has appropriated short-term general funds while AAC pursues launch contracts. The

FY14 budget request adds general funds to the base budget to meet the operation and maintenance costs of the Kodiak Launch Complex.

Legislative Fiscal Analyst Comment: The legislature appropriated the following one-time funding to AAC:

- FY11 - \$4 million UGF for Kodiak Launch Complex Sustainability (in the capital budget);
- FY12 - \$4 million UGF for on-going operating and maintenance costs; and
- FY13 - \$8 million UGF for on-going operating and maintenance costs.

Legislative Fiscal Analyst Recommendation: Because the AAC is pursuing launch contracts that may result in a reduced need for future state funding, the legislature may wish to consider this request on an annual basis (i.e., approve this request as a one-time increment). The legislature may also wish to take note of an associated capital project request of \$900.0 for deferred maintenance.

3. Office of the Commissioner – Base Realignment and Closure Impact

Assistance: \$300.0 UGF. The Department is requesting the addition of \$300.0 UGF to the base budget in order to continue the development of a strategic plan addressing potential attempts to close, shrink, or realign Alaska's military installations through the federal Base Realignment and Closure Act (BRAC). Because the Department of Defense is expected to receive a higher proportion of federal cuts than other departments, DMVA is currently working to identify how the state's installations would be evaluated according to the likely BRAC criteria. Alaska's strategic plan is part of a multi-year effort to identify the strengths and weaknesses associated with the United States military as an economic industry, assess potential impacts of BRAC on Alaskan communities, fight any erosion of the military in the state, and illustrate the strategic importance of expansion of Pacific Theater installations for the overall defense of our nation.

Legislative Fiscal Analyst Comment: The legislature appropriated \$300.0 UGF (as a multi-year appropriation for FY12 and FY13) to the Department to begin work on the BRAC impact to the state. The FY14 request adds \$300.0 to the base budget. The legislature may wish to consider alternatives to an increment to the base budget.

4. Homeland Security & Emergency Management – Catastrophic Disaster Response Equipment Maintenance Costs: \$170.0 UGF.

In FY12, the Division of Homeland Security and Emergency Management received a capital appropriation of \$4.98 million UGF for Catastrophic Disaster Response Planning and Equipment. This included funding to purchase emergency cold weather generators for immediate response to a catastrophic disaster event. In FY13, the Department received one-time funding of \$170.0 UGF to reimburse the Alaska Energy Authority for operating, maintenance and storage costs for the generators. This request will add this funding to the FY14 base budget.

5. Veterans Outreach Services: \$100.0 UGF.

In FY13, the Department received one-time funding of \$100.0 UGF for increased site visits to remote locations in Alaska. The Department's request will maintain this funding in the base budget. This funding will continue to provide one-on-one assistance to help Alaska's veterans obtain earned benefits from the U.S. Department of Veterans Affairs. Veteran Service Officers (VSOs), Veteran's Affairs Liaisons, Counselors from the National Guard Family Programs, Transition Assistance Advisors and staff will participate in site visits to community hospitals, veteran organization events, town hall meetings and other appropriate venues.

Legislative Fiscal Analyst Comment: The Department's request also includes \$150.0 UGF to expand Veterans outreach services (see item #1). With this maintenance increment of \$100.0 UGF, the total level of funding for Veterans' outreach services would be \$250.0 UGF.

- 6. Department of Administration's Increases for Core Services: \$114.9 UGF.**
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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Military and Veterans' Affairs is \$257.5, leaving \$142.6 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.
- 7. Army Guard Facilities Maintenance - State Match Requirement Change at the Valdez and Sitka Armories: \$65.0 UGF / (\$65.0) Federal Receipts.**
The Department is requesting the replacement of Federal Receipt authority with UGF due to changing funding ratios for armory operations in Valdez and Sitka. Match ratios are based on the mission, status, and use of Army National Guard facilities. The ratios have changed from 75 percent federal / 25 percent state to 50/50 due to the buildings change of status from a federal Scout Readiness Center to a State Armory. This change of status was driven by the transformation of the Alaska Army National Guard from the Scout mission to a Battlefield Surveillance Brigade mission which reduces the federal support to state-owned armories.

OTHER ISSUES

- 8. Alaska Challenge Youth Academy (ACYA).** The academy is operated by the Department of Military and Veterans' Affairs (DMVA) and is funded through a Reimbursable Services Agreement with DEED in accordance with AS 14.30.740. The total FY14 general fund budget for the ACYA [also referred to as the Alaska Military Youth Academy (AMYA)] will be \$4,791.4 with 480 total students (189 in residence and 291 in the non-residential program) as of October 2, 2012. The prior year student count was 497 (192 in residence and 305 in the non-residential program) as of October 1, 2011. Due to student count adjustments, DEED's FY14 request shows a UGF *decrease* of \$167.0 from the original FY13 authorized level.

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

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL REQUEST

The Governor's FY14 Department of Military and Veterans' Affairs capital budget totals \$30.9 million (\$12.3 million UGF/ \$18.6 million Federal Receipts). Projects requested include:

- **Interior Alaska Veterans Cemetery:** \$2,500.0 UGF;
- **Army Guard Facilities Projects:** \$6,730.0 [\$4,369.0 UGF/ \$1,881.0 Federal Receipts/ \$480.0 GF Match (UGF)];

- **Deferred Maintenance, Renewal, Repair and Equipment Projects:** \$11,012.5 [\$7,140.5 Federal Receipts/ \$2,429.5 GF Match (UGF)/ \$1,442.5 UGF];
- **Alaska Aerospace Corporation Maintenance:** \$900.0 UGF;
- **Alaska Aerospace Corporation Kodiak Launch Complex Modernization:** \$165.4 UGF;
- **State Homeland Security Grant Programs:** \$9,500.0 Federal Receipts; and
- **National Guard Counterdrug Support:** \$100.0 Federal Receipts.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Natural Resources				
All Dollars in Thousands				
	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$104,785.5			
<i>FY13 Fiscal Notes</i>	211.4			
<i>CarryForward</i>	1,243.3			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$106,240.2	\$1,454.7	1.4%	
<i>One-time Items removed</i>	(4,646.3)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	72.2			
FY14 Adjusted Base Budget (GF only)	\$101,666.1	(\$4,574.1)	-4.3%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	5,176.3			
FY14 Governor's Agency Request (GF only)	\$106,842.4	\$5,176.3	5.1%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$5,176.3	
Commissioner's Office	1,345.3	1,408.7	63.4	
Gas Pipeline Project Office	554.1	2,997.8	2,443.7	6
State Pipeline Coordinator's Office	485.2	570.2	85.0	
Project Management & Permitting	927.6	933.9	6.3	
Administrative Services	2,272.1	2,292.8	20.7	5
Information Resource Management	3,254.3	3,267.6	13.3	5
Citizen's Advisory Commission	282.6	283.3	0.7	
Public Information Center	95.9	97.0	1.1	5
Oil and Gas	10,591.2	11,533.5	942.3	4,6
Petroleum Systems Integrity	840.7	843.0	2.3	
Mining, Land & Water	23,357.9	24,494.1	1,136.2	1,8
Forest Management & Development	4,643.4	4,658.7	15.3	
Geological and Geophysical Surveys	4,759.0	4,777.5	18.5	
Agricultural Development	1,539.3	1,726.4	187.1	
North Latitude Plant Material Center	2,061.4	2,067.4	6.0	
Parks Management & Access	9,007.8	9,204.8	197.0	
Office of History and Archaeology	476.2	482.1	5.9	
Fire Suppression Preparedness	16,919.9	16,951.4	31.5	
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	38,422.5	40,675.8	2,253.3	2,3
Federal Funds (all allocations)	22,557.5	22,434.1	(123.4)	
Total Non-General Funds (all allocations)	\$60,980.0	\$63,109.9	\$2,129.9	
Position Changes (From FY13 Authorized to Gov)	1,084	1,108	24	
PFT	745	756	11	
PPT	243	240	(3)	
Temp	96	112	16	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	6,745.0	-	6,745.0	11
Maintenance and Repairs	3,872.0	5,600.0	9,472.0	
Remodel, Reconstruction and Upgrades	2,615.0	-	2,615.0	
New Construction and Land Acquisition	3,050.0	-	3,050.0	12
Equipment and Materials	800.0	-	800.0	
Information Systems and Technology	3,300.0	-	3,300.0	10
Other	650.0	2,150.0	2,800.0	
TOTAL CAPITAL	\$21,032.0	\$7,750.0	\$28,782.0	

Department of Natural Resources

The Department of Natural Resources (DNR) develops Alaska's resources by making them available for maximum use and benefit consistent with the public interest. Core Services include:

- Fostering responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment;
- Providing access to state lands for public and private use, settlement, and recreation;
- Ensuring sufficient data acquisition and assessment of land and resources to foster responsible resource development; and
- Mitigating threats to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geological hazards.

The FY14 Department of Natural Resources general fund operating budget submitted by the Governor is \$5,176.3 above the FY14 Adjusted Base [\$5,461.5 Unrestricted General Funds (UGF)/ (\$285.2) Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Mining, Land & Water – Guide Concession Area Program Development: \$575.0 UGF.** The Guide Concession Area Program has been under development since FY11, with \$485.0 having been appropriated for this purpose through FY13. Last session, \$125.0 was added as an IncOTI to be coupled with \$120.0 added to the base budget in FY12 (a total of \$245.0 for FY13). The FY14 increment of \$575.0 includes adding both the \$125.0 one-time FY13 appropriation and \$450.0 in new money to the base, for a total of \$695.0 for this purpose.

The increase of \$450.0 would provide for nine new non-permanent, long-term positions to finalize the program for implementation in the 2nd half of FY14 (should the program gain the necessary political acceptance). These new positions would finalize all remaining components of the program (forms, regulations, processes and procedures) for application release on January 1, 2014. Thereafter, they will be tasked with pre-screening extensive applications (prior to evaluation and scoring by an evaluation panel) for the proposed 300 guide areas (from approximately 570 guides).

Legislative Fiscal Analyst Comment: Some portion of these positions would likely become permanent full-time upon full commencement of the program. It is also anticipated that the program would be at least partially self-sustaining through the generation of program receipts after a year or two of operation.

Given the short-term requirement for the initial funding and eventual switch to a self-sustaining fund source, the subcommittee may wish to use a transaction type of IncT (Temporary Increment) or IncOTI (One-time Increment) if this increment is approved.

- 2. Office of Project Management and Permitting (OPMP) – Large Project Receipt Authority: \$1,000.0 Statutory Designated Program Receipts (SDPR) (Other).** This request would allow OPMP to collect additional SDPR revenue to provide the necessary permitting services for projects coming online in FY14 and for existing projects. New or increased project coordination is anticipated with companies such as Kiska Metals, Zazu Metals, Repsol, and Apache. The FY13 budget included an increment of \$2 million SDPR for this same purpose.

3. **Mental Health Trust Lands Office (MHTLO): \$382.5 MHTAAR (Other).**

The FY14 MHTLO budget has increased a net of \$382.5 from FY13 as follows:

- At the June 27, 2012 LB&A meeting, a RPL was passed for the FY13 budget. The RPL was for “Real Estate Portfolio Development” and included \$160.3 for a long-term, non-permanent position and \$200.0 for term contracts. This funding was approved by the MH Trust at its May 10, 2012 board meeting to provide increased due diligence and development opportunities for its land assets. Of the \$360.3 total RPL amount, **\$347.6** is included in the FY14 budget (the full amount for the position [\$160.3] and a reduced amount for term contracts [\$187.3]).
- A vacant Trust Resource Manager position has been transferred to the Long-term care Ombudsman’s Office. Personal Services funding (**\$160.3**) for this position has been decremented.
- Miscellaneous adjustments for salaries (\$152.2), travel (\$32.2) and commodities (\$10.8) totaling **\$195.2**.

Legislative Fiscal Analyst Comment: The budget for the Trust Lands Office again followed the MH Trust’s zero-based budget methodology. Legislative Finance made minimal adjustments to reflect the increase over FY13. However, had an incremental budgeting method been applied, the increase for salaries (\$152.2) would have been reflected at the FY14 Adjusted Base level.

MAINTENANCE OF SERVICES

4. **Oil and Gas Royalty Arbitration: \$300.0 UGF.** As can be seen in the table below, significant funding has been appropriated for oil and gas royalty arbitration in recent years. This funding allows DNR to contract with the Department of Law for legal counsel necessary for royalty audit disputes, and to provide any necessary economic analysis to support the state’s position.

History of O&G Arbitration and Royalty Issues Appropriations		
FY	Budget	Notes
FY07	\$1,000.0	Capital Appropriation
FY08	\$500.0	Capital Appropriation
FY09	\$700.0	Moved to Operating Budget as IncOTI
FY10	\$700.0	Continued IncOTI
FY11	\$200.0	Reduced IncOTI by \$500.0 (for a total of \$200.0)
FY12	\$500.0	\$200.0 added to the base budget and \$300.0 IncOTI
FY13	\$500.0	\$300.0 added to the base budget
FY14 Gov	\$1,300.0	\$300.0 Base Inc bringing base to \$800.0; Capital Budget also includes \$500.0

Beginning in FY09, funding for this purpose was moved from the capital budget to the operating budget in an effort to accurately reflect operating appropriations. With this increment, DNR would have \$800.0 in their base operating budget. In addition, DNR also included a \$500.0 capital budget request as an added “cushion” for any unexpected costs beyond the operating budget level of funding.

Legislative Fiscal Analyst Comment: Considering the impact to the treasury of these arbitration settlements, the legislature may wish to continue to ensure that DNR has the resources necessary to represent the state’s best interest. However, arbitration activity does not qualify as a capital project and the request for funding should be removed from the capital bill.

The legislature may wish to consider options that provide necessary funding without the use of a capital appropriation. Options include:

1. using open-ended language that provides “the amount necessary to represent the state’s best interests in royalty arbitrations,”
2. creating a separate appropriation for arbitration (with a funding cushion) so that money not necessary for arbitration could not be spent on other activities, or
3. adding a section to the bill that appropriates a specific amount for arbitration (which accomplishes the same goal as creating a separate appropriation.

5. Land Disposal Income Fund Funding Source Change: \$555.7 UGF/ (\$555.7) DGF. The FY14 budget includes several Fund Source Change transactions affecting the State Land Disposal Income Fund (LDIF). Analysis in FY12 revealed unsustainable use of the fund. In the FY13 budget process, measures were taken to begin curtailing its use, including appropriating \$1.3 million to replace requested appropriations from the fund. The Governor’s FY14 budget replaces another \$555.7 with UGF, which eliminates use of the funding source for agency administrative functions.

Even if the proposed fund source change transactions are adopted, the Governor’s FY14 LDIF appropriations exceed projected revenue (projected revenue is \$5.4 million and operating appropriations from the fund are \$5.9 million). When combined with projected CIP expenditures of \$600.0 (that will be charged to the fund) for subdivision development (a necessary step for revenue generation), proposed FY14 expenditures will bring the balance of the fund below zero.

Legislative Fiscal Analyst Comment: The FY13 budget included intent language asking DNR to develop a plan to stabilize the fund and provide a report detailing the effects of utilizing the fund solely to enhance land disposal efforts. The Governor’s FY14 budget does not provide fund sustainability.

The agency has reduced capital spending from the fund. The five-year average from FY05-FY09 is \$1.5 million; for the most recent 5 years it is \$1.1 million. This contrasts with the planned \$600.0 for FY14.

Further analysis of projections and use of the fund should be undertaken. Additional general funds may need to replace LDIF funding in the operating budget. Similarly, general funds could replace existing CIP authority which could stimulate revenue generation (as land development work could return to a more historical level).

6. Alaska Gasline Inducement Act (AGIA): \$3,040.0 UGF. Since AGIA was passed, the road to a gas pipeline has shifted from a line ending at the hub in Alberta, Canada (for distribution to Lower 48 users), to that of an all-Alaska pipeline from the North Slope to tidewater (Valdez) for in-state use, liquefaction and export. Funding for AGIA implementation has historically been added as multi-year and one-time items, with limited amounts added to the base budget (see table below).

DNR AGIA Appropriations	FY08	FY09	FY10	FY11	FY12	FY13	FY14 Gov
Op Base Funding	-	681.7	681.7	709.1	745.8	579.2	3,026.2
Op One-Time Items	-	5,500.0	3,200.0	3,967.5	3,240.0	3,040.0	600.0
Op Multi-year/Carryforward (Lapses 6/30/13)	7,919.8	5,516.4	3,801.1	2,929.8	1,284.4	1,218.3	584.0
Op Supplemental	-	-	537.6	(283.1)	-	-	-
Capital/Carryforward	7,075.0	1,306.3	760.9	1,189.8	816.3	702.5	351.3
Total Available	14,994.8	13,004.4	8,981.3	8,513.1	6,086.5	5,540.0	4,561.5
Actuals	8,772.1	4,153.5	5,059.0	5,039.1	3,028.9	n/a	n/a

This has been done primarily because work related to AGIA has been deemed relatively short-term and because the specific amount of funding necessary each year (by agency and statewide) has been difficult to predict. As a result, legislators have annually revisited the issues (and the requests).

- **Gas Pipeline Project Office (GPPO) – Staff/ Contract Consultants: \$2,440.0 UGF.** The FY11 budget included an increment totaling \$1,440.0 for four new positions and associated travel and office expenses (essentially creating the GPPO). The Conference Committee agreed upon an IncOTI and reduced the request by \$150.0 to \$1,290.0. That funding level was approved again for FY12 and FY13 on a one-time basis. The FY14 budget again includes the same level of funding (**\$1,290.0 - for staff and staff related operating costs**) as a base budget increment.

The remainder of the request (**\$1,150.0**) is for **contract consultants**. Funding will be used to retain outside experts for continued analysis for items such as pipeline engineering, gas treatment plant design, audit support, etc. This level of funding has been in the budget as a one-time item each year since FY12, and is again requested as an addition to the base budget.

- **Division of Oil and Gas (DOG) – Commercial Contractors: \$600.0 UGF.** Since FY12, DOG has received funding for expert contractor support to ensure that any changes to commercial terms comply with the AGIA license and to provide general state support in negotiations with producers. This funding had previously been requested by the agency for the base budget, but this year is requested as an IncOTI.

7. Department of Administration's Increases for Core Services: \$284.8 UGF.

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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Natural Resources is \$561.2, leaving \$276.4 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.

OTHER ISSUES

- 8. Mining, Land, and Water – Service Improvements:** During the 2011 session, the legislature provided funding to the Division of Mining, Land and Water to address a less-than-desirable level of service in several critical division functions. A detailed memorandum (Permit Backlog Plan - 2/22/11) outlined the problem and the work plan for service level improvements. The FY12 appropriation included intent language calling for adherence to this memorandum. One-time increments (totaling \$2,999.1) were approved with the intent that they be revisited the following session to ascertain agency effectiveness. Those increments were requested again by the agency and included as part of their FY13 base budget by the legislature. Also requested and approved was an additional \$950.0 as a result of the successful hiring of long vacant positions. For the FY14 budget, the entire increased funding level (\$3,949.1) is continued.

Legislative Fiscal Analyst Comment: A recent update provided by the agency indicates success on several fronts including a reduction of the permit backlog by 1,015 authorizations (from the 2,658 identified in 2011). Details can be provided to subcommittees and a hearing on the general progress of the effort may be beneficial.

ORGANIZATIONAL CHANGES

The budget structure of the agency was significantly revised during the FY12 budget process. The number of appropriations increased from four to six, and the number of allocations were reduced from thirty-five to twenty-six. A crosswalk table of the changes can be found in the FY12 Conference Committee book for the agency. The Governor's FY14 budget retains this revised structure.

CAPITAL BUDGET

The DNR capital budget totals \$28.8 million (\$18.5 million GF, \$2.5 million Other State Funds, and \$7.8 million Federal). The budget consists of a diverse mix of projects from mine reclamation to snowmobile trail development and includes \$3.9 million for parks deferred maintenance. A few highlights from the agency's capital budget are described below:

- 9. Geologic Materials Center: \$15,000.0 UGF.** Although not included in the DNR capital budget, \$15 million is included in the Governor's capital budget (in the Department of Administration) for a new DNR Geologic Materials Center (GMC). While plans are not definite, an existing building has been identified for purchase and remodel to meet the needs of the GMC. \$4 million was appropriated in FY13 to DOA to identify and evaluate potential options for replacement of the current sub-standard facility.
- 10. Unified Permit Project and Document Management: \$3,300.0 UGF.** This capital appropriation will allow for continued development of new business information management systems and provide integration with existing agency systems to automate key business processes. The agency has received annual appropriations for information systems development since 2004. The intended end result will be a streamlined permitting processing system for state land and water permits.
- 11. Strategic and Critical Minerals Assessment: \$2,745.0 UGF.** This appropriation would fund the continued assessment of strategic and critical minerals potential in Alaska. This five-year project received \$498.0 startup funding in FY12 and \$2.7 million for Phase One in FY13. \$2.7 million is planned for FY14-FY17 to complete the assessment.
- 12. Public Access and User Facilities Improvements at the Mouth of the Kasilof River Phase One: \$1,400.0 UGF.** This project would fund facilities improvements at the mouth of the Kasilof River where high user demand has created very negative impacts. The project is broken into two phases. Phase one improvements include parking for 120 vehicles, drop-off and turn around lanes, two double toilets, staging areas for portable toilets and dumpsters, and informational kiosks and signage. Phase two, planned for FY15, will add parking for 93 more vehicles, add camping area and RV sites, additional staging areas, and repair existing facilities.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Public Safety

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$170,420.6			
<i>FY13 Fiscal Notes</i>	48.0			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$170,468.6	\$48.0	0.0%	
<i>One-time Items removed</i>	(514.7)			8
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	906.4			
FY14 Adjusted Base Budget (GF only)	\$170,860.3	\$391.7	0.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	11,823.4			
FY14 Governor's Agency Request (GF only)	\$182,683.7	\$11,823.4	6.9%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Appropriation			\$11,823.4	
Alaska State Troopers	119,477.7	128,152.1	8,674.4	2,3,4,5,7, 8,9,10
Village Public Safety Officers	16,083.5	18,345.0	2,261.5	1
Domestic Violence/Sexual Assault	11,225.3	12,112.8	887.5	6, 11
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	19,850.8	15,306.7	(4,544.1)	
Federal Funds (all allocations)	10,981.9	10,843.5	(138.4)	
Total Non-General Funds (all allocations)	\$30,832.7	\$26,150.2	(\$4,682.5)	
Position Changes (From FY13 Authorized to Gov)	898	925	27	
PFT	868	890	22	2,3,4,5
PPT	16	18	2	
Temp	14	17	3	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	3,107.0	-	3,107.0	
Remodel, Reconstruction and Upgrades	300.0	-	300.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,400.0	-	1,400.0	
Information Systems and Technology	975.0	-	975.0	
Other	-	1,200.0	1,200.0	
TOTAL CAPITAL	\$5,782.0	\$1,200.0	\$6,982.0	

Department of Public Safety

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

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

The FY14 Department of Public Safety general fund operating budget as submitted by the Governor is \$11,823.4 above the FY14 Adjusted Base [\$11,823.3 Unrestricted General Funds (UGF) and \$0.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Village Public Safety Officers (VPSO) Program – Add 15 VPSOs: \$2.7 Million UGF.** The Department has dramatically increased its rural law enforcement recruiting efforts during the past six years. This FY14 increment would bring the total authorized VPSO count to 131.

- **\$2,269.8 UGF** for personal services, supplies, liability insurance and travel (base increment); and
- **\$409.5 UGF** for initial training and equipment costs (one-time funding).

If approved, the FY14 request will be the sixth consecutive year the Department has added 15 new officers—bringing the total of *new VPSOs* to 90. As of December 31, 2012, 93 of the 116 FY13 authorized positions were filled. Allocation of the added positions will be based on the geographic need identified in the grantees' FY14 applications. In FY13, 105 VPSOs were allocated to the following 10 grantee entities:

- Aleutian/Pribilof Islands Association, 6 (6 filled);
- Association of Village Council Presidents, 31 (29 filled);

- Bristol Bay Native Association, 16 (15 filled) ;
- Central Council of Tlingit/Haida, 11 (9 filled);
- Chugachmiut, 2 (2 filled);
- Copper River Native Association, 4 (3 filled);
- Kodiak Area Native Association, 6 (6 filled);
- Kawerak, 11 (8 filled);
- Northwest Arctic Borough, 5 (4 filled); and
- Tanana Chiefs Conference, 13 (11 filled).

The Governor has indicated a desire to add 15 positions every year until FY20.

Legislative Fiscal Analyst Comment: Since FY09, when the legislature began adding 15 new VPSO positions each year, the Department and grantees have done an outstanding job of recruiting and filling the positions. However, it appears the program may have reached a threshold where positions are being created faster than they can be filled. The program currently has 23 vacant positions and 93 filled positions (the same number of filled positions at this time last year). The legislature may wish to consider:

- reducing the number of additional officers created until there are fewer vacancies and/or
- recovering (during the grant review process or the supplemental budget process) money that is unspent on VPSOs.

Discussion with the Department clarified the situation: Grant awards are based on the number of assigned positions for the specific grantee. DPS monitors grant expenditures throughout the year and amends grant awards as needed or upon request of the grantee. Projected excess/unexpended funds may be used for unmet year-end needs of the grantees (e.g., equipment, supplies, construction, etc.). DPS increased its monitoring oversight and made grant process changes in FY13. DPS now holds back monies from grantees with vacant VPSO positions. Also, through grant amendments, DPS will keep tighter control on funding allocated for staff and on non-personal service costs. These grant process changes should control and improve the filling of VPSO positions. In essence, if a grantee is not filling VPSO positions and holding personal service funding, then DPS will pull the funding back and reallocate the monies to another grantee.

2. Alaska Bureau of Investigation – Three New Troopers for Sex Trafficking Investigations: \$827.2 UGF. The Department seeks to hire three new Alaska State Troopers (investigators) located in Anchorage to collaborate with municipal and federal task force partners and address the growing concern of sex trafficking within the state. The mission of these investigators will be to assist in the identification of victims and facilitate reporting of crimes with the ultimate goal of identification, investigation, prosecution and convictions of the suspects who are acting in this predatory role. Two increments are requested:

- \$594.4 UGF for ongoing funding to cover personal services, travel, training, and supplies (base increment); and
- \$232.8 UGF to cover training at the academy, IT equipment, portable radios, office equipment, firearms and vehicles (one-time funding).

Legislative Fiscal Analyst Comment: As an alternative to the request for full-year funding for personnel plus one-time costs, the legislature may wish to consider funding only the base increment. This would allow one-time costs to be covered by savings attributable to partial-year filling of the positions. The comment also applies to other requests for additional positions (See items 1-4).

3. **Alaska State Trooper Detachments – Establish Trooper Post and Add Two Troopers in Hooper Bay: \$823.7 UGF.** Hooper Bay serves as a hub community for the western coast of the Yukon-Kuskokwim Delta region. It is located near the villages of Chevak and Scammon Bay which are currently served by the Bethel AST post. Due to distance and occasional inclement weather, Trooper response is frequently delayed, particularly in the winter. Placing a post in Hooper Bay eliminates the need for air transportation to Chevak and Scammon Bay and will significantly improve response times to those villages. This post will be staffed in the same fashion as the communities of Emmonak and Selawik (a two-week on, two-week off schedule). Funding is requested as follows:
 - \$585.1 UGF for ongoing funding to cover personal services, travel, training, and supplies (base increment); and
 - \$238.6 UGF to cover training at the academy, IT equipment, portable radios, office equipment, firearms and vehicles (one-time funding).
4. **Alaska State Trooper Detachments – One New Trooper in Juneau for VPSO Oversight: \$293.3 UGF.** The over 100% increase in statewide VPSO presence during the past six years necessitates additional oversight by the Alaska State Troopers. Three new positions (located in Kotzebue, Bethel, and Fairbanks) were added in FY12 and one was added in FY13 (originally requested for Juneau but transferred to Anchorage). Funding for this Juneau position is split into two increment requests:
 - \$215.7 UGF for ongoing funding to cover personal services, travel, training, and supplies (base increment); and
 - \$77.6 UGF to cover training at the academy, IT equipment, portable radios, office equipment, firearms and vehicles (one-time funding).
5. **Alaska State Trooper (AST) Detachments – Initial Half-Year Funding for Increased Trooper Coverage in Fairbanks, Mat-Su Valley, and Kenai Peninsula: \$2,833.4 UGF.** The U.S. Census Bureau indicates that the Alaska population has grown 80% over the past 32 years. Two of the fastest growing boroughs, Matanuska-Susitna and Fairbanks North Star, are anticipated to grow at 30.65% and 15.59%, respectively, over the next 10 years. Overall staffing levels for the AST have remained relatively stagnant since 1983 and, with an 80% increase in the state's population, this has generated significant increases in workload. As a result, the Department requests initial half-year funding for five additional troopers in each of the aforementioned areas as follows:
 - \$1,669.4 UGF for the initial half-year of personal services and other ongoing operational costs (base increment). Partial year funding provides for the Troopers' intensive recruitment process with full funding to be requested in FY15; and
 - \$1,164.0 UGF for training and equipment (one-time funding).
6. **Council on Domestic Violence and Sexual Assault (CDVSA) – Domestic Violence and Sexual Assault Prevention: \$600.0 UGF.** In early December of 2009, the Governor announced his initiative to “eliminate the epidemic of domestic violence and sexual assault (DVSA) within a decade.” The Governor’s comprehensive approach has included concentrated coordination between the DVSA Initiative Coordinator (within the Governor’s Office) and other state agencies.

UGF funding increases for DVSA programs within DPS include:

- **Non-residential Services to Victims of Domestic Violence and Sexual Assault: \$250.0 UGF.** CDVSA will provide grants to non-profit organizations for non-residential services such as hotlines, safety planning, medical accompaniments and legal advocacy to victims in remote areas;
- **Community Domestic Violence and Sexual Assault Prevention Coordination: \$300.0 UGF.** Funding for community prevention coordinators will allow more communities to focus prevention efforts and develop comprehensive approaches to changing social norms; and
- **Coaching Boys Into Men (CBIM) Violence Prevention Curriculum: \$50.0 UGF.** This curriculum melds coaches' status as role models with athletes' influence among their peers into a collective effort to end violence. Funding will provide regional training for coaches, CBIM toolkits, materials, and curriculum development at a university level.

MAINTENANCE OF SERVICES

7. **Alaska State Trooper Detachments – Offset Increased Dispatch Service Costs in Mat-Su and Kenai Regions: \$400.0 UGF.** The City of Wasilla has exercised a non-renewal clause in the existing dispatch center contract, requiring immediate department action to avoid disruption of services to the public. Currently, the Department pays the City of Wasilla about \$1.5 million for contracted dispatch services. This contract is scheduled to end June 30, 2013. DPS also provides direct dispatch center services (8 positions) in the Kenai region and participates in partnership with the Kenai Peninsula Borough. DPS incurs costs of about \$675.0 annually for this location. DPS expects the dispatch center costs to increase for both regions and is continuing to negotiate with the City of Wasilla and Kenai Peninsula Borough.
8. **Alaska State Trooper Detachments – Restore and Annualize Funding for Interior Helicopter Pilot: \$296.8 UGF.** To allow for delays in recruitment, the legislature partially funded the Governor's FY13 request for a turbine helicopter pilot based in Fairbanks (one-time funding of \$222.6 UGF). This request restores the one-time appropriation as well as annualizes the position for FY14 with an additional \$74.2 UGF.
9. **Alaska Wildlife Troopers Aircraft Section – Department of Administration Core Services Rate Reduction: (\$1,026.1) UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. Unlike other departments receiving increases, Public Safety is receiving a *decrease* of \$1,026.1 UGF. This reduction is attributable to lower risk management rates and is based on a recent analysis of aircraft insurance costs.

10. Various Allocations within the Alaska State Trooper's Appropriation – Replace Unavailable Funding with UGF. The following fund changes/increments are requested, primarily due to reduced federal and federal pass-through funding:

Allocation within AST Appropriation and Transaction Description	Trans. Type	GF Increase	Reduction	Comment
Special Projects				
Replace Unavailable CIP Receipts due to Termination of Federal Pass-Through Money	Fund Change	\$20.7	(\$20.7) CIP Receipts	The Alaska State Troopers will no longer receive federal pass-through funds from a capital reimbursable services agreement with the Department of Transportation and Public Facilities for the Bureau of Highway Patrol due to the National Highway Traffic Safety Administration denial of further federal funds for the program.
	Fund Change	\$2,937.4	(\$2,937.4) CIP Receipts	
Replace Federal Funds for Expired Methamphetamine Initiative Grant	Fund Change	\$131.6	(\$131.6) Federal Receipts	GF Replacement funding to continue a Criminal Justice Technician position who supports the Statewide Drug and Alcohol Enforcement Unit.
Statewide Drug & Alcohol Unit (formerly the Narcotics Task Force)				
Replace expiring ARRA funds	Fund Change	\$13.5	(\$6.7) GF Match (\$6.8) Stimulus	ARRA Funding within the Statewide Drug & Alcohol Unit (formerly the Narcotics Task Force) expires February 28, 2013.
Alaska Bureau of Investigation (ABI)				
Replace expiring ARRA funds for the Internet Crimes Against Children Program (This program was originally established in the Narcotics Task Force allocation and transferred to the ABI in FY14)	Inc	\$914.2	(\$914.2) Stimulus (all ARRA reductions occurred in the Narcotics Task Force allocation prior to consolidation into the ABI)	The Department received partial-year replacement funding of \$332.8 UGF in FY13 for these efforts. \$914.2 represents Public Safety's portion to continue the program. The actual ARRA reduction for the Narcotics Task Force totaled \$2.6 million, which included pass-through funding to the Municipality of Anchorage no longer in the Department's budget.
Alaska Wildlife Troopers				
Replace Unavailable CIP Receipts for Personal Services	Fund Change	\$2.4	(\$2.4) CIP Receipts	Future funding through the department's Joint Enforcement Agreements (JEA) with the National Oceanic & Atmospheric Administration (NOAA) and National Marine Fisheries Service is uncertain at this time.
Replace Federal Funding for Three Public Safety Technicians	Fund Change	\$213.0	(\$213.0) CIP Receipts	For several years, the National Marine Fisheries Service (NMFS) has provided funding for 13 Public Safety Technician positions to assist the Department with patrols of coastal communities. The NMFS is reducing its support in FY14 by \$300.0. The Department requests a portion of this reduction to avoid laying off three technicians.
TOTAL GF REPLACEMENT REQUESTED		\$ 4,232.8		

- 11. Council on Domestic Violence and Sexual Assault (CDVSA) – Maintain Existing Services to Victims of DVSA: \$287.5 UGF.** While grantees have received small increases over the last three years, funding has not kept pace with grantee requests. During the FY13-FY14 grant process, grantees requested over \$14 million to maintain services and only \$11.4 million was available for distribution. The requested 2.5% increase would narrow this funding gap and increase options for programs working to stabilize service availability. This funding will cover basic costs such as utilities, telephone coverage, insurance and food for shelter residents. Rural programs will also use funding to cover emergency transportation—getting adult victims and their children out of villages to safe shelters in a regional hub.

Legislative Fiscal Analyst Comment: Although not directly appropriated to the Department of Public Safety, the Governor has requested \$3 million UGF to fund various Sexual Assault and Domestic Violence Prevention programs through his DVSA Office. FY14 marks the fourth year in a row of this request to appropriate money directly to the Governor's Office for centralized disbursement of funds via reimbursable service agreements with the departments of Public Safety, Health and Social Services, and Education and Early Development. The amount to be transferred to DPS is \$910.0 UGF.

ORGANIZATIONAL CHANGES

The Department's request includes transactions that consolidate the following allocations:

- In the Fire and Life Safety appropriation, the Training and Education Bureau allocation was consolidated into the Fire and Life Safety allocation;
- In the Alaska State Troopers appropriation, to simplify management of the programs, the Narcotics Task Force and Alaska Bureau of Alcohol and Drug Enforcement allocations were consolidated into the newly created Statewide Drug and Alcohol Enforcement Unit allocation;
- In the Village Public Safety Officer (VPSO) Program appropriation, the VPSO Contracts and VPSO Support allocations were consolidated into one new VPSO Program appropriation; and
- In the Statewide Support appropriation, the APSIN and Alaska Criminal Records and Identification allocations were consolidated into one new Statewide Information Technology Services allocation.

CAPITAL REQUEST

The agency's \$7 million capital budget (\$5.8 million GF and \$1.2 million Federal Receipts) can be categorized as follows:

MAINTENANCE AND REPAIRS: \$3.1 million UGF

- Statewide Facilities Maintenance, Repairs, and Improvements: \$1.3 million UGF
- Aircraft and Vessel Repair and Maintenance: \$1.8 million UGF

REMODEL, RECONSTRUCTION, AND UPGRADES: \$300.0 UGF

- Bethel Public Safety Hangar Repair and Renovation: \$ 300.0 UGF

EQUIPMENT and MATERIALS: \$1.4 million GF

- Alaska State Trooper Law Enforcement Equipment: \$400.0 UGF
- Alaska Wildlife Trooper Law Enforcement Equipment Replacement: \$400.0 UGF
- VPSO Equipment Replacement: \$400.0 UGF
- Alaska Wildlife Troopers Enforcement Activities: \$200.0 DGF

Legislative Fiscal Analyst Comment: Equipment replacement for the VPSOs, and particularly the State Troopers and Wildlife Troopers, has become an annual capital budget fixture.

INFORMATION SYSTEMS AND TECHNOLOGY: \$975.0 UGF

- Alaska Public Safety Information Network (APSIN) Contractor Support: \$975.0 UGF

OTHER: \$1.2 million Federal Receipts

- Marine Fisheries Patrol Improvements: \$1.2 million Federal Receipts

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Revenue

All Dollars in Thousands

		(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)		\$41,122.3			
	<i>FY13 Fiscal Notes</i>	113.2			
	<i>CarryForward</i>	688.8			
	<i>Special Appropriations, Multi-Years & Contingents</i>	-			
	<i>Misc Adjustments</i>	-			
	<i>Vetoed</i>	-			
FY13 Management Plan (GF only)		\$41,924.3	\$802.0	2.0%	
	<i>One-time Items removed</i>	(688.8)			
	<i>Miscellaneous Adjustments</i>	-			
	<i>Temporary Increments (IncTs)</i>	-			
	<i>FY14 Contractual Salary and Health Increases</i>	15.0			
FY14 Adjusted Base Budget (GF only)		\$41,250.5	(\$673.8)	-1.6%	
	<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(46.0)			
	<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	974.2			
FY14 Governor's Agency Request (GF only)		\$42,178.7	\$928.2	2.3%	
FY14 Governor's Increments, Decrements, Fund Changes and Language		FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation				\$928.2	
	Tax Division	15,500.2	16,020.2	520.0	1, 2
	Treasury Division	5,729.7	5,917.7	188.0	6, 7
	Administrative Services	409.5	522.3	112.8	5
	Office of the Long Term Care Ombudsman	300.0	407.4	107.4	3
Non-General Fund Agency Summary		FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)		211,368.5	230,531.5	19,163.0	4, 8, 9
Federal Funds (all allocations)		74,969.5	76,950.6	1,981.1	
Total Non-General Funds (all allocations)		\$74,969.5	\$76,950.6	\$1,981.1	
Position Changes (From FY13 Authorized to Gov)		936	944	8	
	PFT	881	892	11	1, 2, 3
	PPT	36	34	(2)	
	Temp	19	18	(1)	
Governor's Capital Request		State Funds (GF + Other)	Federal Funds	Total	See Note:
	Planning and Research	26,000.0	-	26,000.0	
	Maintenance and Repairs	4,200.0	-	4,200.0	
	Remodel, Reconstruction and Upgrades	52,500.0	4,700.0	57,200.0	
	New Construction and Land Acquisition	19,250.0	-	19,250.0	
	Equipment and Materials	-	-	-	
	Information Systems and Technology	1,759.1	143.9	1,903.0	
	Other	12,100.0	9,100.0	21,200.0	
TOTAL CAPITAL		\$115,809.1	\$13,943.9	\$129,753.0	

Department of Revenue

The Department of Revenue's responsibilities include:

- administration and enforcement of Alaska's tax laws;
- management of the treasury;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support; and
- administrative support to the following independent boards and corporations:
 - Alaska Permanent Fund Corporation;
 - Alaska Housing Finance Corporation;
 - Alaska Municipal Bond Bank Authority;
 - Alaska Retirement Management Board; and
 - the Alaska Mental Health Trust Authority.

The FY14 Department of Revenue (DOR) general fund operating budget submitted by the Governor is \$928.3 above the FY14 Adjusted Base [\$848.2 Unrestricted General Funds (UGF) and \$80.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

- 1. Tax Division – Establish an Executive Director Position for the Film Office: \$148.0 UGF.** The Department is requesting funding to establish an Executive Director position to support the work of the Alaska Film Incentive Review Commission and oversee the Film Office. Per Chapter 51, SLA 2012 (SB 23) a Film Office was created within the Department of Revenue (DOR) to administer the Alaska film production incentive program. It also created the Alaska Film Incentive Review Commission within DOR and directs the commission to employ an Executive Director position to support the commission and the Film Office.

Legislative Fiscal Analyst Comment: SB 23 also directed the Department of Commerce, Community and Economic Development (DCCED) to transfer existing positions in the Film Office to DOR. Two positions (an Administrative Assistant II and a Development Specialist II) were transferred from the DCCED's Division of Economic Development to DOR in the FY14 Adjusted Base. However, because SB 23 also established a new film production promotion program in DCCED, the Department retained the funding for the two positions and is requesting two new positions.

- 2. Tax Division – Establish an Audit Master Position and an Oil & Gas Revenue Auditor Position: \$372.0 UGF.** The Department is requesting two new positions as follows:
 - An audit master position to provide additional professional development of oil and gas policies, conduct oil and gas studies and assist in drafting regulations for the tax division.
 - An oil and gas revenue auditor for additional support in the audit of the petroleum production tax.

3. **Office of the Long Term Care Ombudsman (LTCO) – Mental Health Trust Request for a New Position: \$107.4 GF/MH (UGF).** The Alaska Mental Health Trust Authority is requesting additional funding to support an Assistant Ombudsman position. A vacant Trust Resource Manager position located within the Department of Natural Resources, Mental Health Lands Office, was identified as available and was transferred to the LTCO without funding. The position was reclassified to an Assistant Ombudsman and will perform additional investigations and visits to long term care facilities. The requested amount also includes funding for supplies, services and travel costs associated with the position.
4. **Alaska Housing Finance Corporation (AHFC) New Mortgage Marketing Plan: \$680.0 AHFC Receipts (Other).** AHFC is requesting additional receipt authority to support a new marketing effort. The money will support a new Turnkey program, tentatively approved by AHFC's board of directors, that will offer closing cost assistance at an attractive interest rate for Alaskans with credit scores of 620 or greater. The program is the first of its kind to be offered by AHFC; and AHFC believes it will generate additional business activity.

MAINTENANCE OF SERVICES

5. **Department of Administration's Increases for Core Services: \$112.8 UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Revenue is \$302.4, leaving \$189.6 to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.
6. **Treasury Division – Constitutional Budget Reserve Fund (CBRF) Management: \$108.0 UGF.** This increment request is expected to fund the full cost of managing the CBRF in FY14.
7. **Treasury Division – Power Cost Equalization (PCE) Fund Management: \$80.0 PCE Endowment Fund (DGF).** This increment request is expected to fund the full cost of managing the PCE Endowment Fund in FY14.
8. **Alaska Permanent Fund Corporation (APFC) Custody, Investment Management and Third Party Fiduciary Fees: \$8.2 million PF Gross Earnings (Other).** This request will fund increased management fees based on projected asset value growth and higher fees that are associated with changes in the Permanent Fund's structure and strategies. In addition, the money will be used to secure third party fiduciary evaluations of investment strategies, investments, and investment managers.
9. **Alaska Retirement Management Board Custody and Management Fees: \$8.8 million Public Employees Retirement Trust Fund (Other) / \$1.1 million Teachers Retirement Trust Fund (Other) / \$19.5 thousand Judicial Retirement System (Other).** This request will fund the increased costs of investment and custody fees for assets under management. Investment management fees are charged as a percent of

the market value of invested assets under management and invested assets have experienced a continued growth.

ORGANIZATIONAL CHANGES

AHFC established a new subsidiary corporation, the Alaska Corporation for Affordable Housing. The primary purpose of this subsidiary corporation is to allow AHFC to take advantage of a variety of financing options for the expansion of public housing, including the Low Income Housing Tax Credit Program and tax exempt bond financing. Funding [\$304.2 of Federal Receipts, \$165.6 of Capital Improvement Project Receipts (Other)] and two existing positions were transferred from the AHFC Operations allocation to the new Alaska Corporation for Affordable Housing allocation to establish a start-up budget.

CAPITAL REQUEST

The Governor's FY14 Department of Revenue (DOR) capital budget totals \$129.7 million (\$113.3 million UGF/ \$1.6 million DGF/ \$905.0 thousand Other Funds/ \$13.9 million Federal Receipts).

The Alaska Housing Finance Corporation (AHFC) capital budget makes up the majority of the Department's request (79% of the budget for FY14). AHFC has over \$102.9 million budgeted for their housing programs (\$88.2 million of UGF, \$850.0 thousand Other Funds and \$13.8 million of Federal Receipts). A few of the projects requested include:

- **Weatherization Program:** \$31.5 million (\$30 million UGF/ \$1.5 million Federal Receipts);
- **Home Energy Rebate Program:** \$20 million UGF;
- **Homeless Assistance Program:** \$8 million [\$6.3 million UGF/ \$850.0 thousand GF/MH (UGF)/ \$850.0 thousand MHTAAR (Other)];
- **Supplemental Housing Development Program:** \$7 million UGF;
- **Teacher, Health, Public Safety Professionals, and Village Public Safety Officer (VPSO) Housing Loan Program:** \$6 million UGF; and
- **Senior Citizen's Housing Development Program:** \$4.5 million UGF.

The remainder of the DOR's capital budget request totals \$26.9 million and includes the following:

- **Alaska Gasline Development Corporation – Year 4 In-State Gas Project:** \$25 million withdrawal of savings from the Alaska Housing Capital Corporation (UGF);
- **Permanent Fund Dividend Division Dividend Application Information System Software Conversion:** \$1.5 million PFD Fund (DGF);
- **Permanent Fund Dividend Division Computer Replacement Project Phase 2:** \$130.0 PFD Fund (DGF);
- **Child Support Services Computer Replacement Project Phase 4:** \$143.9 Federal Receipts/ \$74.1 GF Match (UGF); and
- **Alaska Permanent Fund Corporation – NetApp Filer:** \$55.0 PF Gross Earnings (Other).

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Department of Transportation and Public Facilities

All Dollars in Thousands

		(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)		\$350,508.3			
	<i>FY13 Fiscal Notes</i>	305.8			
	<i>CarryForward</i>	-			
	<i>Special Appropriations, Multi-Years & Contingents</i>	-			
	<i>Misc Adjustments</i>	-			
	<i>Vetoes</i>	-			
FY13 Management Plan (GF only)		\$350,814.1	\$305.8	0.1%	
	<i>One-time Items removed</i>	(305.8)			
	<i>Miscellaneous Adjustments</i>	-			
	<i>Temporary Increments (IncTs)</i>	188.1			
	<i>FY14 Contractual Salary and Health Increases</i>	1,718.3			
FY14 Adjusted Base Budget (GF only)		\$352,414.7	\$1,600.6	0.5%	
	<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
	<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	6,976.7			
FY14 Governor's Agency Request (GF only)		\$359,391.4	\$6,976.7	2.0%	
<div> <div></div> <div>FY14 Governor's Increments, Decrements, Fund Changes and Language</div> </div>		FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation				\$6,976.7	
	Statewide Administrative Services	3,140.3	3,070.6	(69.7)	
	Human Resources	1,182.3	1,401.7	219.4	
	Program Development	650.9	634.3	(16.6)	
	Statewide Design and Engineering Services	1,360.1	1,362.6	2.5	
	Central Region Construction and CIP Support	504.2	659.2	155.0	5
	Central Region Facilities	7,706.2	8,213.9	507.7	1,6,7
	Northern Region Facilities	11,338.5	11,803.8	465.3	6
	Southeast Region Facilities	1,494.0	1,564.3	70.3	6
	Traffic Signal Management	1,705.2	1,846.2	141.0	
	Central Region Highways and Aviation	52,266.0	55,215.4	2,949.4	2,3,4,7,8
	Northern Region Highways and Aviation	67,637.4	69,576.6	1,939.2	3,7,8
	Southeast Region Highways and Aviation	15,284.0	15,669.7	385.7	3,7,8
	Marine Vessel Operations	115,365.0	115,592.5	227.5	6,9
Non-General Fund Agency Summary					
	Other State Funds (all allocations)	268,024.8	272,422.8	4,398.0	8
	Federal Funds (all allocations)	3,844.6	3,844.6	0.0	
Total Non-General Funds (all allocations)		\$3,844.6	\$3,844.6	\$0.0	
Position Changes (From FY13 Authorized to Gov)		3,809	3,817	8	
	PFT	3,173	3,186	13	
	PPT	409	404	(5)	
	Temp	227	227	0	
Governor's Capital Request		State Funds (GF + Other)	Federal Funds	Total	See Note:
	Planning and Research	1,145.5	132,084.5	133,230.0	
	Maintenance and Repairs	56,055.0	40,900.0	96,955.0	
	Remodel, Reconstruction and Upgrades	91,918.8	509,569.7	601,488.5	
	New Construction and Land Acquisition	14,000.0	20,487.0	34,487.0	
	Equipment and Materials	23,713.9	19,879.1	43,593.0	
	Information Systems and Technology	5,990.0	14,900.0	20,890.0	
	Other	15,700.0	37,770.0	53,470.0	
TOTAL CAPITAL		\$208,523.2	\$775,590.3	\$984,113.5	

Department of Transportation and Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and many public facilities. This includes approximately 260 state-owned airports and seaplane bases, approximately 5,600 miles of state roads, over 700 buildings ranging from maintenance shops to state office complexes, and 25 ports and harbors. In addition, the Department owns and operates the Alaska Marine Highway System (AMHS). The Department also owns and operates the State Equipment Fleet, which provides full maintenance support and replacement activities for all departments and state agencies, for approximately 8,020 light and heavy duty vehicles and attachments.

The FY14 Department of Transportation and Public Facilities general fund operating budget submitted by the Governor is \$6,976.7 (2%) above the FY14 Adjusted Base [\$7,046.4 Unrestricted General Funds (UGF)/(\$69.7) Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Central Region Facilities – New Facilities’ Operating Costs: \$166.8 UGF.

A total of five new facilities (44,655 square feet) have been added to the **Central Region Facilities’** inventory in FY13. These include Crown Point Storage, DOT&PF Materials Warehouse, DOT&PF Projects Office, Dutch Harbor Chemical Storage Hanger and Girdwood Sand Storage. An increment of \$166.8 to cover building operations costs, such as heating fuel, electricity, supplies, and travel to perform maintenance is being requested.

2. Central Region Highways and Aviation – Akutan Airport Operations: \$900.0 UGF.

Construction has been completed and operations have begun at the new Akutan Airport located on the island of Akun (on the Aleutian Chain). The airport began operations on September 1, 2012. Cost of construction totaled \$77.5 million with a combination of state, federal and local funding. Four existing (vacant) positions have been reclassified to permanent full-time and will operate the airport on week-on/week-off rotating schedules. The operating costs include travel to and from the island on the rotating basis.

Legislative Fiscal Analyst Comment: Given the early FY13 start of airport operations, a substantial supplemental of approximately \$750.0 (for 10 months of the year) may be expected.

3. Highways, Aviation and Facilities – New Lane Miles/ Road Assets Operating Costs: \$825.0 UGF.

The budgets for **Central (\$350.0), Northern (\$350.0), and Southeast (\$125.0) Region Highways and Aviation** include increments for the costs associated with additional lane miles added via capital projects. Central Region has 42.7 new lane miles, the Northern Region has 51.6 new lane miles, and Southeast Region has 53.1 new lane miles. Maintenance costs per lane mile vary by region with Central Region averaging \$8,632 per mile and Northern Region averaging \$6,757 per mile. Projected costs for the two regions are \$368.6 and \$348.7 with both increments rounded to \$350.0. The increment for Southeast Region includes funding for a new seasonal operator and sand on Prince of Wales; sand for Glacier Highway in Juneau; and electrical parts and signals for the entire Southeast Region.

4. Central Region Highways and Aviation – Matanuska-Susitna District Expanded Maintenance Service: \$350.0 UGF.

This increment adds funding for three positions to provide additional man power at the Palmer (2 Equipment Operators) and Willow/Chulitna (1 Equipment Operator) Maintenance Stations. The Palmer Maintenance Station is currently responsible for 61 lane miles per operator which far exceeds the Central Region average of

34.7 lane miles per operator. The two new operators will reduce the miles per operator to 51. Likewise, the Willow and Chulitna Maintenance Stations maintain 61 lane miles per operator. The Parks Highway is a priority of these stations and requires overtime and long hours by staff to maintain the highway at adequate levels. A new operator would alleviate some stress on existing staff.

MAINTENANCE OF SERVICES

- 5. Central Region Construction and CIP Support – Storm Water Compliance Inspections: \$155.0 UGF.** This increment covers overhead costs (associated with stormwater compliance inspections) that are ineligible for federal reimbursement. A federal consent decree requires DOT&PF to establish a Quality Assurance Program for stormwater discharge. The program must include inspections and weekly data reporting. DOT&PF has contracted for this work, and approximately 90% of the work is eligible for direct CIP charges. However, costs for training, meetings, coordinating with the Department, and report development are ineligible for reimbursement.
- 6. Department of Administration's Increases for Core Services: \$1.1 million UGF.** 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—are estimated to be \$12.1 million higher in FY14 than in FY13. The ability (of DOA) to scoop lapsing balances for working reserves and risk management may reduce the perceived impact to \$7.3 million. The Governor requests that a total of \$4 million general funds be appropriated to agencies for core services cost increases—which means that departments may absorb up to \$3.3 million of the increase. The share of the \$7.3 million increase allocated to the Department of Transportation and Public Facilities is \$2.2 million, leaving \$1.1 million to be absorbed by the Department. Although a portion of the absorbed costs would be non-general funds, the Governor requests no additional non-GF authority to pay these costs.
- 7. State Equipment Fleet (SEF) Costs: \$2,580.7 UGF.** The SEF continues to be a growth area for the DOT&PF budget. Rising maintenance and equipment replacement costs are driving the equipment fleet rate increases. For FY12, the three regional Highways & Aviation allocations and the Measurement Standards and Commercial Vehicle Enforcement allocation received a total of over \$2.8 million for SEF cost increases. Based on the rates implemented for FY12, this increase was still short of projected costs by \$2.9 million. For FY13, the projected shortfall to pay SEF rates has grown to \$3.4 million agency-wide (see table next page). The Governor's FY14 budget includes \$2,580.7 to address the budget shortfall distributed as follows: **Central Region Highways and Aviation** (\$1 million and \$18.5 for CR Facilities); **Northern Region Highways and Aviation** (\$1.5 million); and **Southeast Region Highways and Aviation** (\$62.2).

State Equipment Fleet Costs/ Budget

A	B	C	D	E	F	G
	Base Operating Budget	Budget Increase	Direct Capital Charges	Total Available (=B+C+D)	Total Costs	Budget Deficit (=E-F)
FY13						
Highways/ Aviation & Facilities	31,645.9	85.0	3,691.2	35,422.1	38,755.6	(3,333.5)
Other DOT&PF	835.7	74.0	0.0	909.7	1,003.6	(93.9)
FY13 Total	32,481.6	159.0	3,691.2	36,331.8	39,759.2	(3,427.4)
FY14 Gov						
Highways/ Aviation & Facilities	31,730.9	2,580.7	3,691.2	38,002.8	39,288.8	(1,286.0)
Other DOT&PF	909.7	0.0	0.0	909.7	1,064.6	(154.9)
FY14 Total	32,640.6	2,580.7	3,691.2	38,912.5	40,353.4	(1,440.9)

Legislative Fiscal Analyst Comment: It is unknown at this time whether a supplemental request will come forward for FY13 or whether the agency will be asked to absorb the \$3.4 million FY13 budget shortfall. Likewise, subcommittees may want to address the \$1.4 million deficit built into the Governor's FY14 budget. This could come in the form of additional funding (up to \$1.4 million) for the increased SEF costs, or by examining possible reductions to SEF services in the hopes of containing costs.

8. **Airport De-Icing Chemicals: \$3,082.2 (\$469.6 UGF; \$2,612.6 International Airport Revenue Funds [Other]).** The Environmental Protection Agency has banned the use of urea for de-icing runways at airports with more than 1,000 jet departures per year effective September 2013. The only readily available alternative, Sodium & Potassium Acetate (aka E36), costs significantly more. UGF increments, totaling \$469.6, to comply with this federal mandate are included in the budgets for **Central, Northern and Southeast Region Highways and Aviation** (\$216.9, \$89.2, and \$163.5, respectively). Likewise, the **Anchorage and Fairbanks International Airport's** budgets include increments of \$2,495.4 and \$117.2 respectively from the International Airport Revenue Fund (Other).

Legislative Fiscal Analyst Comment: Last session, sizable FY13 increments and FY12 supplementals were provided to cover the rising costs of urea (which had more than doubled in cost in recent years). The more expensive E36 has also been affected by inflationary pressures, and de-icing chemicals could continue to be a driver in the budget along with other commodities affected by higher oil prices and higher shipping costs.

OTHER ISSUES

9. **Alaska Marine Highway System** - The Alaska Marine Highway System's FY14 budget is virtually identical to the FY13 budget (with the exception of \$895.0 for contract salaries, and \$200.0 for retiree health insurance). This extraordinary change from the historic trend of budget increases is evidence that the legislature's actions of last session—adding \$11 million UGF to the base budget—went a long way toward fixing a structural budget deficit.

Legislative Fiscal Analyst Comment: At this point it is unclear how sound the budget is in regard to expected revenues and expenditures. A cash flow and fund balance analysis was completed near the end of last session when the \$11 million was added. Completing an update could not be accomplished in time for this publication and further analysis will need to be done during session.

- 10. Fuel/Utility “Trigger” Appropriation (DOT&PF Maximum \$27 million UGF).** The oil price “trigger” appropriation created by the legislature is again included in the Governor’s budget. As in FY13, disbursements of “fuel trigger” funding would occur at the beginning of August and December. Disbursements would be based on the average price per barrel of ANS crude to date on the first day of the aforementioned months. For example, prices averaging \$109.61 (the Department of Revenue’s Fall Forecast price for FY14) on August 1st would result in disbursement of **\$18 million, of which DOT&PF would receive 65% plus or minus 10%** (as decided by the Governor’s Office).
- 11. Carryforward “Wordage”** - Section 1 of the operating bill contains new “wordage” accompanying the allocations for Central, Northern, and Southeast Design and Engineering Services. This wordage would allow any unexpended FY13 receipts to be carried forward into FY14. Per Title 23, Part 710 of the Code of Federal Regulations, receipts collected in association with federal highway projects are to be expended only on eligible Title 23 activities. This includes revenue from the sale or lease of real property collected after a project is closed out. Since these receipts are essentially forbidden to lapse to the General Fund, the carryforward language has been added.

ORGANIZATIONAL CHANGES

There are no significant changes.

CAPITAL REQUEST

The DOT&PF capital budget comprises the majority of the statewide capital budget each year. Typical programs include the Surface Transportation Program (receipts from the Federal Highway Administration) and the Airport Improvement Program (receipts from the Federal Aviation Administration). Both programs require state match components that are usually budgeted separately to allow for agency flexibility. The budget also typically has appropriations from the general fund for facility, harbor, airport, highway and Alaska Marine Highway vessel/terminal deferred maintenance, and for the stockpiling of materials for construction. The Governor’s proposal contains elements of all of the above.

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Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

University of Alaska

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$691,550.4			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	(1.0)			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$691,549.4	(\$1.0)	0.0%	
<i>One-time Items removed</i>	(250.0)			5
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	250.0			5
<i>FY14 Contractual Salary and Health Increases</i>	12,475.8			8
FY14 Adjusted Base Budget (GF only)	\$704,025.2	\$12,475.8	1.8%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	(1.0)			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	6,166.1			
FY14 Governor's Agency Request (GF only)	\$710,190.3	\$6,165.1	0.9%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY13 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$6,165.1	
Budget Reductions/Additions - Systemwide	9,938.3	9,870.2	(68.1)	6
Anchorage Campus	223,493.7	223,543.7	50.0	3
Kenai Peninsula College	13,450.2	14,093.2	643.0	1
Matanuska-Susitna College	10,476.5	10,562.9	86.4	1
Prince William Sound Community College	6,683.3	6,737.8	54.5	1
Bristol Bay Campus	2,380.3	2,456.6	76.3	1
Fairbanks Campus	213,725.9	219,048.9	5,323.0	1, 2
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	84,852.8	86,567.8	1,715.0	4
Federal Funds (all allocations)	150,852.7	150,852.7	0.0	
Total Non-General Funds (all allocations)	\$235,705.5	\$237,420.5	\$1,715.0	
Position Changes (From FY13 Authorized to Gov)	4,949	4,949	0	
PFT	4,727	4,727	-	
PPT	222	222	-	
Temp	-	-	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	37,500.0	-	37,500.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	1,300.0	-	1,300.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$38,800.0	\$0.0	\$38,800.0	

University of Alaska

The major goals of the University are to inspire learning and to advance and disseminate knowledge through teaching, research, and public service (emphasizing the North and its diverse peoples) by fostering and promoting the following:

- a high quality postsecondary educational system;
- appropriate vocational education development and training;
- advancement and extension of knowledge, learning, and culture; and
- the University as the state's primary research facility with focus on the application of new knowledge and emerging technologies to meet the needs of the state.

The FY14 University of Alaska (UA) general fund operating budget submitted by the Governor is \$6,165.1 above the FY14 Adjusted Base [\$2,868.0 Unrestricted General Funds (UGF)/ \$3,297.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. New Facilities/ Additions – Estimated Operating Costs: \$3.2 million Total (\$2,817.0 UGF/ \$346.2 University Receipts [DGF]). Additional operating and maintenance costs associated with the following facilities are included in the Governor's request:

- **\$296.8 UGF: UAA Career Tech Operating Costs – Kenai Peninsula College (FY11 G. O. Bond Project).** This 19,370 gross square foot facility is scheduled to be operational in July 2013;
- **\$346.2 University Receipts (DGF): UAA Student Housing Operating Costs – Kenai Peninsula College (FY11 G. O. Bond Project).** This 39,875 gross square foot facility is scheduled to be operational in July 2013;
- **\$86.4 UGF: UAA Paramedic and Nursing Addition Operating Costs – Matanuska-Susitna College (FY11 G. O. Bond Project).** This 6,400 gross square foot facility addition is scheduled to be operational in August 2013;
- **\$54.5 UGF: UAA Wellness Center Addition Operating Costs – Prince William Sound Community College (FY11 G. O. Bond Project).** This 4,450 gross square foot facility addition is scheduled to be operational in July 2013;
- **\$2,303.0 UGF: UAF Life Sciences Facility Operating Costs (FY11 G. O. Bond Project).** This 100,000 gross square foot facility is scheduled to be completed and ready for occupancy in the summer of 2013 and to be fully operational for the fall semester 2013; and
- **\$76.3 UGF: UAF Applied Science Center Operating Costs – Bristol Bay Campus.** This request will provide money to cover ongoing costs associated with the October 2011 purchase of the NAPA Building. The facility was obtained to meet the programmatic needs of the Bristol Bay Applied Science Center.

2. Lease and Debt Service Costs – Fairbanks Campus: \$3 million University Receipts (DGF) Total. This increment will be used for the following UAF increases:

- **UAF Life Sciences Debt Service: \$1.52 million University Receipts.** The UAF Life Science building is scheduled to be completed and ready for occupancy in the summer of 2013. Upon completion, the building will provide multi-use teaching and research labs, classrooms, and office

space for research and academic purposes. The research section will provide almost 60,000 square feet of research lab space for biology programs. The teaching portion will provide 40,000 square feet of academic classroom and lab space for biology and wildlife degree programs. In 2010, Alaskan voters passed Proposition B, a statewide general obligation bond that included \$88 million for the Life Sciences building. UA also issued an additional \$20.6 million in bonds to construct the building for a total project cost of \$108.6 million. This increment will allow UA to service the bonds issued by the University; and

- **UAF New Dining Residence Hall Lease: \$1.5 million University Receipts.** UAF has contracted with a private company to develop the new 34,000 square foot dining residence hall facilities adjacent to the Wood Center Student Union. Construction of the building, which will replace the Lola Tilly Commons, is slated to begin in March 2013. This increment will provide UAF the use of housing and dining receipts to make lease payments.

3. New Mental Health Trust Authority Recommendations: \$255.0 Total (\$50.0 GF/MH [UGF]/ \$205.0 Mental Health Trust Authority Authorized Receipts [MHTAAR] [Other]). The Governor's FY14 request includes eight projects supported by the MH Trust Authority, five of which are ongoing (shown in the budget as maintenance or IncM transactions) plus three first-year increments. Trustees approve operating and capital budgets in two-year cycles, with annual recommendations to the Governor and the legislature. The FY14 first-year Mental Health increment requests are as follows:

- **Statewide Services – Workforce Development Grant – Workforce Development Coordinator: \$180.0 MHTAAR.** This new request will be a shared workforce development position wholly funded by the Trust. The position will act as the single point of contact for the University and the Trust on all health workforce projects and activities and, more specifically, be the primary point of contact (and the liaison) with the Alaska Health Workforce Coalition. Members of this Coalition include the Alaska Mental Health Trust Authority; the Departments of Labor & Workforce Development, Education and Early Development, and Health & Social Services; the University of Alaska Anchorage; Alaska State Hospital and Nursing Home Association; the Alaska Workforce Investment Board; Alaska Primary Care Association; and the Alaska Native Tribal Health Consortium. Instead of creating a new position, the University will use an existing, vacant position;
- **Anchorage Campus: \$75.0 Total (\$50.0 GF/MH and \$25.0 MHTAAR):**
 - **Workforce Development Grant – Interdisciplinary Education in Marriage & Family Therapy: \$25.0 MHTAAR.** A team of UAA, UAF and Alaska Pacific University faculty are working on a multidisciplinary, collaborative Graduate Certificate in Marriage and Family Therapy to meet the curriculum requirements for LMFT licensure in Alaska. This increment will be used for course development; and
 - **Workforce Development Grant – AK Native Community Advancement in Psychology (ANCAP): \$50.0 GF/MH.** ANCAP is a new program at UAA that seeks to improve the behavioral health legacy of Alaska's indigenous communities by focusing on their strengths and increasing the number of Alaska Natives working in behavioral health fields. This increment will be used to recruit and train Alaska Native behavioral health researchers and providers to improve the cultural sensitivity and appropriateness of behavioral research and services for Alaska Natives.

MAINTENANCE OF SERVICES

4. **Ongoing Mental Health Trust Authority Recommendations – Anchorage Campus: \$1.5 million Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** The Governor's FY14 request includes five ongoing projects supported by the MH Trust Authority (shown in the budget as IncM transactions). The list of Trustee-approved operating increments to maintain current mental health services are as follows:
- Workforce Development Grant – Interpersonal Violence Prevention for Beneficiaries: \$80.0 MHTAAR;
 - Workforce Development Grant – Technical Assistance & Implementation of Disability Abuse Response Teams (D.A.R.T.) in Targeted Communities: \$210.0 MHTAAR;
 - Workforce Development Grant – Trust Training Cooperatives & Alaska Rural Behavioral Health Training Academy: \$955.0 MHTAAR;
 - Workforce Development Grant – Specialized Skills and Services Training on Serving Cognitively Impaired Offenders: \$65.0 MHTAAR; and
 - Beneficiary Projects Grant – Partners in Policymaking: \$200.0 MHTAAR.
5. **ISER – Alaska Education Policy Research (FY13-FY14): \$250.0 UGF.** The Center for Alaska Education Policy Research (CAEPR) was created within the Institute of Social and Economic Research (ISER) with one-time UA Foundation seed funding of \$250.0. The goal of CAEPR is to address "the most important educational policy issues facing Alaska." The legislature appropriated \$250.0 UGF for two years (FY13/FY14) for the purpose of evaluating Alaska's education system and making recommendations aimed at increasing student achievement. Legislative intent was also provided for evaluation parameters. The FY14 request includes an IncT (temporary increment) for the second and final year of funding of this research.
6. **Decreased Technical Vocational Education Program (TVEP) Receipts Funding: (\$69.1) TVEP Receipts (DGF).** According to Chapter 47, SLA 2008 (HB 2), 50% of TVEP funding is allocated to the University. For FY14, the University expects to receive a total of \$5,380.0 (of the estimated \$10.8 million of total TVEP receipts)—a *decrease* of \$69.1 from FY13. University funding is statutorily allocated to UA Systemwide Programs – 45% – and to the University of Alaska Southeast – 5%. TVEP funding has been instrumental in the University's ability to meet Alaska's workforce training and educational needs and continues to be the key source of funds for that purpose.

Legislative Fiscal Analyst Comment: The Governor's FY14 budget reverts to a single appropriation structure, and this entire decrease is reflected in the Budget Reductions/Additions – Systemwide allocation. Individual University campuses submit requests for TVEP funds to the University's Associate Vice President for Workforce Development. A review process occurs to determine which projects/campuses will receive TVEP funding in each fiscal year.

OTHER ISSUES

7. **Legislative Intent – Establishing a Ratio for General Fund Support for the University of Alaska.** The FY13 operating budget conference committee continued to discuss methodologies for stabilizing/reducing the state's UGF share of the University's operating budget. In the budget adopted by the conference committee, the following language was added: "It is the intent

of the legislature that the University of Alaska submits a FY14 budget in which requests for unrestricted general fund increments do not exceed the amount of additional University Receipts requested for that year. It is the intent of the legislature that future budget requests of the University of Alaska for unrestricted general funds move toward a long-term goal of 125 percent of actual University Receipts for the most recently closed fiscal year.”

Legislative Fiscal Analyst Comment: Discussion of these ratios could prove helpful for long-term planning on the part of the University and the legislature. The University’s requested increases included in the Governor’s proposed budget from FY13 to FY14 include \$10,560.1 UGF and \$8,080.8 DGF (primarily University Receipts including tuition). The UGF increase is \$2,479.3 more than the request for University Receipts, indicating a failure to comply with legislative intent. Discussions with the University indicate that this situation reflects the University’s attempt to reduce the tuition burden on students and families. The University held tuition rate increases to 2% for undergraduate residents in FY14.

- 8. Contractual Salary and Health Increases.** The budget includes a total of \$15,384.2 in previously negotiated salary and benefit increase. These salary adjustments are funded by UGF (\$7,692.1), University Receipts (DGF) (\$4,783.7), and Federal Receipts (FED) (\$2,908.4). The FY14 increases include the University of Alaska Federation of Teachers (UAFT), United Academics Faculty (UNAC), University of Alaska Adjuncts (UNAD), University of Alaska Fire Fighters Association (FFA), Non-Unionized UA staff, and Teacher and Research Assistants Health Insurance.

Legislative Fiscal Analyst Comment: All of the University’s current labor contracts expire on December 31, 2013, with the exception of the contract for Local 6070 (Alaska Higher Education Crafts & Trade Employees) that expired on December 31, 2012. No requests for funding new agreements will be included in the budget until collective bargaining agreements have been negotiated and ratified.

- 9. Establish a separate allocation for debt service.**

Legislative Fiscal Analyst Comment: The creation of an allocation for debt service would allow those expenses to be isolated. Debt service may be of increased interest now that the University has expanded authorization to issue bonds.

BOARD OF REGENTS’ REQUEST

The Governor’s budget is less than the Board of Regents’ request by \$15.8 million (\$9.6 million of which is UGF). In past years, narratives discussed differences between the Regents’ request and the Governor’s request. In response to legislative direction that the Governor’s request will serve as the starting point of budget deliberations, the Regents’ request is not discussed here.

ORGANIZATIONAL CHANGES

The Governor’s FY14 budget has reverted to a single appropriation budget structure. For years the University operated with a single appropriation (which maximizes flexibility). The legislature created seven appropriations in FY09 in order to allow more legislative oversight and control.

CAPITAL REQUEST

There are two project requests totaling \$38.8 million in the University's FY14 capital budget:

- **Maintain existing facilities (deferred maintenance [DM] and renewal and repurposing [R&R] projects): \$37.5 million UGF.** The University owns and maintains over 400 buildings, totaling 6.7 million square feet, with an adjusted value that currently exceeds \$2.5 billion. The current deferred maintenance backlog is over \$760 million. This is the fourth year of the Governor's five-year plan to address the state's deferred maintenance backlog. The highest priority DM and R&R projects at the main campuses are the UAA Beatrice McDonald Building in Anchorage, UAF Cogen Heating Plant Required Upgrades to Maintain Service in Fairbanks, and UAS Auke Lake Way Campus Entry Improvements and Road Realignment in Juneau.
- **UAF Cold Climate Housing Research Center Sustainable Village Phase 2-4: \$1.3 million of University Receipts authority (DGF).** In 2008, the University of Alaska Fairbanks (UAF) identified the need to create a more sustainable campus. Since then, the Office of Sustainability was created as a partnership between the Chancellor's Office and the UAF student body with the shared goal of creating a sustainable housing village to accommodate students. Further collaboration has ensued between the UAF Office of Sustainability and the Cold Climate Housing Research Center (CCHRC) Sustainable Northern Communities program. This housing project is designed to test sustainable, durable, healthy, and cost effective building technologies for people living in the Circumpolar North.

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Alaska Court System

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$107,200.9			
<i>FY13 Fiscal Notes</i>	-			
<i>CarryForward</i>	-			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$107,200.9	\$0.0	0.0%	
<i>One-time Items removed</i>	-			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	-			
<i>FY14 Contractual Salary and Health Increases</i>	534.2			
FY14 Adjusted Base Budget (GF only)	\$107,735.1	\$534.2	0.5%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	4,156.4			
FY14 Governor's Agency Request (GF only)	\$111,891.5	\$4,156.4	3.9%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$4,156.4	
Apellate Courts	7,199.2	7,278.3	79.1	1
Trial Courts	84,214.7	86,456.1	2,241.4	2,3,4,5,6,7,8, 11,13
Administration and Support	10,453.2	11,094.1	640.9	9, 12
Therapeutic Courts	4,364.6	5,529.6	1,165.0	10, 14
Judicial Council	1,102.2	1,132.2	30.0	
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	1,196.7	1,801.9	605.2	14
Federal Funds (all allocations)	1,675.6	1,675.6	0.0	
Total Non-General Funds (all allocations)	\$2,872.3	\$3,477.5	\$605.2	
Position Changes (From FY13 Authorized to Gov)	832	844	12	
PFT	764	773	9	3, 9
PPT	47	50	3	
Temp	21	21	-	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	2,420.0	-	2,420.0	
Remodel, Reconstruction and Upgrades	8,398.6	-	8,398.6	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	5,900.0	-	5,900.0	
Other	-	-	-	
TOTAL CAPITAL	\$16,718.6	\$0.0	\$16,718.6	

Alaska Court System

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and completely state-funded judicial system. The mission of the Alaska Court System is to provide, expeditiously and with integrity, an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law.

There are four levels of courts in the Alaska Court System, each with different powers, duties and responsibilities. The four levels of courts are the Supreme Court, the Court of Appeals, the Superior Court, and the District Court. The Supreme Court and the Superior Court were established in the Alaska Constitution. The District Court was established by state statute in 1959. The Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

The Alaska Court System's budget is presented in four appropriation requests - the Alaska Court System, Therapeutic Courts, the Alaska Commission on Judicial Conduct, and the Alaska Judicial Council.

The FY14 Alaska Court System's general fund operating budget is \$4,156.4 (all Unrestricted General Funds) above the FY14 Adjusted Base. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Appellate Courts: \$82.2 UGF. The following three increments are included in the FY14 request:

- **\$7.0 UGF** to provide closed captioning for Supreme Court oral arguments, which would be aired and archived on Gavel to Gavel;
- **\$25.7 UGF** to expand hours for a staff attorney from PPT to PFT; and
- **\$49.5 UGF** (one-time funding) to replace furnishings in the Boney Courthouse (not included in capital funding received for a building remodel).

Legislative Fiscal Analyst Comment: Funding to expand the hours for a staff attorney was requested and denied in FY11, FY12, and FY13. Specific funding to replace furnishings in the Boney Courthouse was requested and denied in the FY12 and FY13 budget cycles.

2. Trial Courts – Americans with Disabilities Act Accommodation in Bethel: \$456.8 UGF. The Alaska Court System is required to provide a reasonable accommodation to assist a deaf judge appointed to the Superior Court bench in Bethel in July 2012. After consultation with the appointee and with disability experts, the Court System determined that a reasonable accommodation includes: full-time, real-time or CART (Communication Access Real-time Translation) transcriptionists capable of immediately translating spoken language into text in the courtroom. This accommodation includes upgrades to all courtrooms in Bethel to accommodate the transcriptionists' equipment; and a variety of portable assistive communication devices to enhance communication between the judge, his judicial assistant, and his law clerk.

The Court System is training a Bethel resident to become certified in CART transcription. That will reduce costs from the approximately \$1,000 per day (plus travel expenses) to contract for these services.

Legislative Fiscal Analyst Comment: Ultimately, the Court System plans to have at least one fully-trained CART reporter in Bethel and use contractors only as needed to ensure coverage. Per discussions with the Court System, the legislature could fund \$300.0 of this request as a base increment, with the remaining \$156.8 funded as a one-time increment (it is anticipated that once the

Bethel-based employee is fully trained, reliance on contractors will be lessened and base funding requirements in FY15 reduced). The Court System also indicated they will be seeking FY13 supplemental funding for this item.

3. **Trial Courts – Add Magistrate Trainer Position in the 3rd District/Statewide: \$135.1 UGF.** Currently, there is one attorney assigned to coordinate and assist in providing judicial education services to 43 magistrates and 26 deputy magistrates. According to the Court System, the tremendous range of duties performed by these magistrates and deputy magistrates creates a high demand for a variety of training services. This increment adds funding for a magistrate trainer to assist the magistrate education coordinator.

Legislative Fiscal Analyst Comment: The Court System had similar requests for this position in FY11, FY12, and FY13. The requests were denied.

4. **Trial Courts – Update Operating Systems and Replace Outdated Equipment: \$175.0 UGF.** Due to rapid advancements in technology, the Court System is requesting additional base funding for a planned, life-cycle approach to equipment replacement.

Legislative Fiscal Analyst Comment: The Court System is endeavoring to have a base budget of \$600.0 for this item. Prior additions to base funding include: FY06-\$125.0, FY10-\$125.0, FY11-\$100.0, and FY12-\$75.0. The remaining balance of \$175.0 was requested and denied in FY13.

5. **Trial Courts – New Facility Leases in Sand Point, Unalakleet and Craig: \$177.5 UGF.** Because current facilities in these three locations are not ADA compliant, Trial Courts is requesting funding to relocate to new spaces. This increment was requested for:

- Sand Point: \$19,000;
- Unalakleet: \$54,200; and
- Craig: \$104,300.

6. **Trial Courts – Wide Area Network (WAN) Bandwidth Expansion: \$691.7 UGF.** The Court System has been experiencing network congestion, especially at many of its rural locations. For improved transmission of data, the agency is in need of increased bandwidth to allow electronic information to efficiently traverse the Court System's network.

7. **Trial Courts – Fairbanks 24/7 Sobriety Pilot Program: \$40.0 UGF.** This pilot project would monitor alcohol usage by defendants who are required to abstain from drinking as a condition of bail or probation. Working with a local provider, the Fairbanks court will require defendants to be screened for alcohol usage twice daily. If a defendant fails to appear for a scheduled test, or testing demonstrates that a defendant has consumed alcohol, then probation or bail may be instantly revoked and the defendant may be immediately jailed.

Similar programs in South Dakota, North Dakota, Arkansas, and Montana have shown promising results. The Fairbanks court estimates that 60% of its criminal caseload involves alcohol consumption.

8. **Trial Courts – Interpreter and Translation Services: \$25.0 UGF.** Federal legislation requires courts to provide language assistance to participants in a court matters. This funding would expand interpreter and translation services and provide interpreter training to bilingual court employees.

Legislative Fiscal Analyst Comment: The Court System received \$25.0 in FY11 and \$25.0 in FY12 for this program. Each year the Court System has seen a substantial increase in the number of Limited English Proficient parties, particularly the self-represented (pro se) litigants, and is trying to incrementally obtain a base level of funding for these activities.

9. Administration and Support – New Positions to Improve Administrative Services: \$516.0 UGF. Funding for the following permanent full-time positions is requested:

- **\$146.2 UGF** to establish a permanent, full-time Contracts and Leasing Manager within the Court System to manage the Court's 44 facilities;
- **\$72.6 UGF** for an additional records technician to maintain continuous case file document scanning and ensure timely responses to public record requests;

Legislative Fiscal Analyst Comment: Increments for both the Contracts & Leasing Manager and the Records Technician were requested and denied in FY11, FY12 and FY13.

- **\$104.3 UGF** for a Programmer/Analyst to assist with Electronic Filing & Data Exchanges as the Court System moves to a total "paper on demand" environment;
- **\$114.3 UGF** to fund a security analyst to organize and manage security projects and processes at court facilities throughout the state; and

Legislative Fiscal Analyst Comment: The security analyst position was requested and denied in FY13.

- **\$78.6 UGF** for a Senior Accounting Clerk to assist fiscal operations with the increase in accounting demands associated with grants, RSAs, contracts, and general audit requirements.

10. Therapeutic Courts – Replace Federal Pass-Through Funding to Retain and Expand Wellness (DUI) Court Capacities: \$1,165.0 GF/MH. Since FY05, the Court System has received federal funding as a sub-recipient of a National Highway Transportation Safety Administration (NHTSA) grant passed-through the Alaska Highway Safety Office (AHSO). This grant was used for DUI-related activities in the Court System and the Department of Public Safety's (DPS) Bureau of Highway Patrol. DPS does not expect to receive, and did not budget for, these pass-through funds in FY14 and the Court System has received indication that some of their funding might be discontinued. As a result, replacement funding is requested.

The DUI courts focus on offenders whose crime was connected to their addiction. This increment will maintain current operations and capacities of the six existing DUI courts and expand capacity to the communities of Kenai and Palmer.

Legislative Fiscal Analyst Comment: The Legislative Finance Division split this increment into an increment of \$689.0 (the amount required to maintain service levels in the six existing courts) and another for \$476.0 (the amount required to expand the program to Kenai and Palmer).

Given the uncertainty regarding federal pass-through funding, the legislature may wish to add language to the effect that the GF/MH requested for this program will be reduced dollar-for-dollar for federal or other receipts that are available for this program.

MAINTENANCE OF SERVICES

11. Trial Courts – Increased Overhead: \$513.8 UGF. FY14 operating cost increases include:

- **\$125.3 UGF** for risk management increases charged by the Department of Administration to occupants of public buildings;
- **\$192.2 UGF** for the following utility cost increases:

- \$70.0 (\$17.5 each (average) for Chevak, Craig, Emmonak, and Unalakleet);
- \$53.6 for Fairbanks (part of the Fourth District);
- \$37.2 for other Fourth District locations; and
- \$31.4 for Third District locations.
- **\$104.7 UGF** for facility maintenance services including snow removal, janitorial services, and other service contracts;
- **\$91.6 UGF** for existing lease increases:
 - \$25.7, Juneau;
 - \$7.8, Palmer;
 - \$10.8, Nome; and
 - \$47.3 other long-term leases.

- 12. Administration and Support – Software Support Costs: \$114.9 UGF.** The Court System's migration to new case management, digital imaging and recording systems has required extensive investment in new and upgraded software. The increased funding is requested to cover implementation of the final phase of the digital recording system and for the increased costs associated with the case management system software.

Legislative Fiscal Analyst Comment: In FY12, the Court System received an increment of \$545.2 UGF for these purposes as well as \$70.6 UGF in FY13.

- 13. Trial Courts – Operators Without Licenses (OWL) Program: \$50.0 UGF.** Funding is requested for treatment services associated with the Operators Without Licenses (OWL) Court, previously funded through a pass-through federal grant that, since the beginning of FY13, is no longer available. Although the OWL Court is a problem-solving court and the funding is generally used for substance abuse treatment, it isn't technically a therapeutic court.

Legislative Fiscal Analyst Comment: In FY13, \$50.0 GF/MH replacement funding to continue the program was requested and denied.

- 14. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: \$605.2 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** FY14 will be the sixth year of zero-based budgeting for Mental Health Trust Authority Authorized Receipts (MHTAAR) funding – meaning that all MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Mental Health Trust Authority each fiscal year. For FY14, The Mental Health Trust Authority is recommending \$605.2 (\$112.6 less than FY13 Authorized) in MHTAAR funding for the MH Trust Disability Justice Initiative. The Court System's FY14 request includes:

- **\$245.9 MHTAAR** – maintain the Fairbanks Juvenile Therapeutic Court;
- **\$204.4 MHTAAR** – continue Juneau Mental Health Court funding to provide a therapeutic court alternative for Trust beneficiaries. The program's objective is to identify the underlying reasons for an individual's contact with the criminal justice system, and develop and monitor court-ordered treatment plans;
- **\$15.0 MHTAAR** – provide professional training to existing Therapeutic Court teams (judges, attorneys, and clinical case coordinators). Training will focus on the intersection of substance abuse, mental health and criminal justice systems, and the use of evidence-based practices to improve treatment outcomes and reduce criminal recidivism; and

- **\$139.9 MHTAAR** – continue funding the Alaska Safety Action Program (ASAP) Therapeutic Case Management and Monitoring position in Barrow.

The two items not continued from FY13 are:

- **\$60.0 MHTAAR** for a one-time program evaluation in Fairbanks; and
- **\$52.6 MHTAAR** for a one-time program evaluation in Juneau.

CAPITAL REQUEST

As a separate branch of state government, the Alaska Court System has the constitutional authority to submit its budget request directly to the legislature. As a courtesy, the Court System sends its operating and capital requests to the Governor for forwarding to the legislature. This allows the budgets for all three branches to be introduced in the Governor's budget bills.

The Governor transmitted the Court's operating budget as it was submitted, but reduced or eliminated several capital projects as shown below.

Court System Priority	Project	FY14 Court System Capital Funding Request <i>(in thousands)</i>	FY14 Court System Funding Included in Capital Bill <i>(in thousands)</i>	Variance
1)	Anchorage Campus Project Renovation	\$14,420.0	\$6,100.0	(\$8,320.0)
2)	Electronic Filing System	\$5,900.0	\$5,900.0	\$0
3)	Juneau Superior Court Remodel	\$998.6	\$998.6	\$0
4)	Court Security Projects	\$5,123.2	\$1,300.0	(\$3,823.2)
5)	Statewide Remodel Projects	\$2,432.5	\$0.0	(\$2,432.5)
6)	Replace Worn Furnishings and Repair Specialized Finishes in Public Use Spaces	\$606.0	\$0.0	(\$606.0)
7)	Deferred Maintenance Projects	\$3,448.1	\$2,420.0	(\$1,028.1)
8)	Statewide Building Code and Energy Upgrade for Court Buildings	\$1,212.3	\$0.0	(\$1,212.3)
9)	Conversion of Audio Records to Digital Format – Phase 1	\$484.2	\$0.0	(\$484.2)
	TOTAL	\$34,624.9	\$16,718.6	(\$17,906.3)

Legislative Fiscal Analyst's Overview of the Governor's FY2014 Request

Alaska Legislature

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY13 Conference Committee (GF Only)	\$73,004.0			
<i>FY13 Fiscal Notes</i>	347.6			
<i>CarryForward</i>	1,173.7			
<i>Special Appropriations, Multi-Years & Contingents</i>	-			
<i>Misc Adjustments</i>	-			
<i>Vetoed</i>	-			
FY13 Management Plan (GF only)	\$74,525.3	\$1,521.3	2.1%	
<i>One-time Items removed</i>	(1,521.3)			
<i>Miscellaneous Adjustments</i>	-			
<i>Temporary Increments (IncTs)</i>	291.6			
<i>FY14 Contractual Salary and Health Increases</i>	325.8			
FY14 Adjusted Base Budget (GF only)	\$73,621.4	(\$903.9)	-1.2%	
<i>Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent</i>	-			
<i>FY14 Governor's GF Increments/Decrements/Fund Changes</i>	40.3			
FY14 Governor's Agency Request (GF only)	\$73,661.7	\$40.3	0.1%	
FY14 Governor's Increments, Decrements, Fund Changes and Language	FY14 Adjusted Base Budget (GF Only)	FY14 Governor's Request (GF only)	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Allocation			\$40.3	
Legislative Audit	4,761.6	4,765.5	3.9	
Legislative Finance	10,137.0	10,142.8	5.8	
Committee Expenses	5,117.7	5,118.1	0.4	
Administrative Services	13,506.2	13,514.3	8.1	
Session Expenses	10,174.4	10,180.4	6.0	
Council and Subcommittees	1,629.2	1,629.7	0.5	
Legal and Research Services	4,550.6	4,554.2	3.6	
Select Committee on Ethics	257.6	257.8	0.2	
Office of Victims Rights	1,005.1	1,005.9	0.8	
Ombudsman	1,270.8	1,271.8	1.0	
Legislative Operating Budget	13,344.4	13,354.4	10.0	
Non-General Fund Agency Summary	FY14 Adjusted Base Budget	FY14 Governor's Request	Change from FY14 Adj Base to FY14 Governor's Request	See Note:
Other State Funds (all allocations)	403.0	403.0	0.0	
Federal Funds (all allocations)	0.0	0.0	0.0	
Total Non-General Funds (all allocations)	\$403.0	\$403.0	\$0.0	
Position Changes (From FY13 Authorized to Gov)	536	536	-	
PFT	251	251	0	
PPT	285	285	0	
Temp	-	-	0	
Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	\$0.0	\$0.0	\$0.0	

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute.

BUDGET SUMMARY

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally reviewed by legislative leadership. The FY14 submittal is identical to the FY14 adjusted base—which includes salary adjustments—with the exception of \$40.3 in increased charges for working reserves that will be paid to the Department of Administration.

OTHER ISSUES

- A \$12.6 reduction in lease costs that will be paid to the Department of Administration is not reflected in the budget submitted by the Governor.
- The budget removes \$56.0 per the fiscal notes for HCR 23 and SCR 24, which established an Alaska Arctic Policy Commission and a Commission on the 100th Anniversary of the Legislature, respectively.
- A multi-year appropriation of \$750.0 for a large mine development study (FY11 through FY14) remains available for a final year. None of the money has been spent to date.
- The budget removes \$423.7 that was in the FY13 budget for a National Speakers' Conference that was held in Anchorage during FY13.
- FY14 costs for core services provided to all agencies by the Department of Administration are expected to increase by \$7.26 million. Charges for core services provided to the legislature are expected to increase by \$42.3. The Governor's request increases general funds in various agencies by \$4 million to offset a portion of these increases. The legislature receives no money for this purpose in the Governor's proposal.
- Increased charges for working reserves—totaling \$2.15 million statewide—will be absorbed by agencies other than the legislature. As noted above, the legislature's budget submitted by the Governor contains \$40.3 for this purpose.

There are no capital projects or organizational changes requested.

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