

The Fiscal Year 2005 Budget:

Legislative Fiscal Analyst

Overview of the Governor's Request



Legislative Finance Division

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

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

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

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

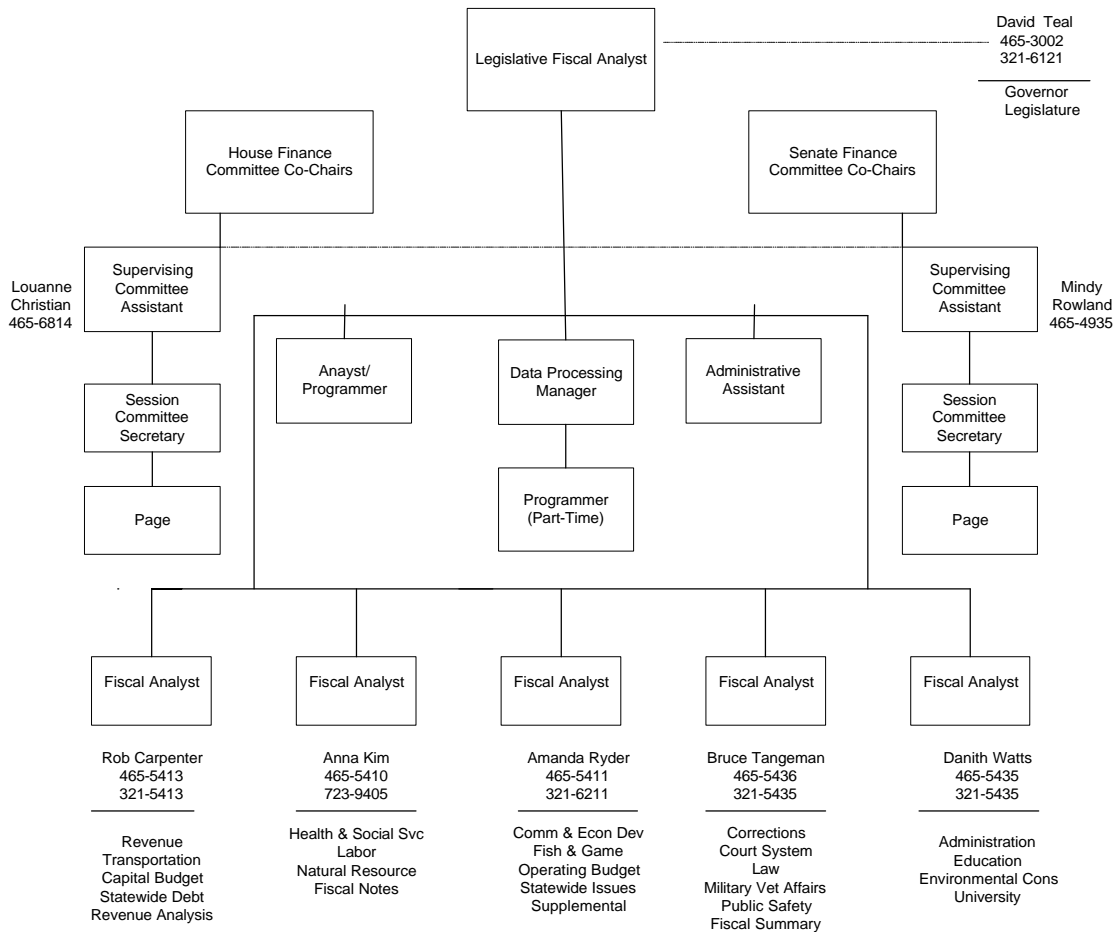


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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Introduction

By law, the Governor's proposed budget for the upcoming fiscal year is submitted to the legislature and made public by December 15 of each year. This Overview of the Governor's proposed FY05 budget, and individual books for each agency, were prepared by the Legislative Finance Division in accordance with responsibilities assigned by Alaska Statute 24.20.211-231.

Summary Analysis

The Governor's public release of the FY05 budget focused on the state's fiscal gap. The gap, which is often defined as the amount by which general fund expenditures exceed general fund revenue, is considered by many to be the most important long-term fiscal issue facing the State.

The Governor stated that his goals in developing an FY05 budget included spending less general funds than were spent in FY04 and limiting the fiscal gap to \$400 million. The Governor's FY05 budget achieves both goals.

The Department of Revenue projects FY05 general fund revenue of \$1.7 billion (down \$287 million from FY04). When combined with the Governor's proposed general fund appropriations of \$2.21 billion (down \$89 million from FY04),¹ the FY05 fiscal gap is \$475 million. Although this figure fails to achieve the Governor's goal of drawing no more than \$400 million from the Constitutional Budget Reserve Fund (CBRF), the Governor's holistic view of the budget allows him to meet the goal by proposing specific revenue measures that are expected to generate \$78 million in FY05, thus reducing the CBRF draw—or fiscal gap—to just under \$400 million.

The Governor's targets are a very aggressive attempt to control the fiscal gap. His success appears all the more remarkable given his claims to nearly \$150 million of "built-in" cost increases as shown below. However, the table below also shows that only \$16 million of the "built-in" increases were actually funded with general funds. The following paragraphs on significant issues affecting the FY05 budget explain how this apparent budget magic was accomplished.

	"Built-in" Cost Increases	GF Increases in the Governor's Budget
	(\$ millions)	(\$ millions)
Employee Salary and Benefit Costs	41	15
Formula-Driven Programs	62	2
Debt Service Costs	45	(1)
TOTAL	148	16

¹ The Governor's fiscal summary shows a reduction of \$49 million because he classifies \$40 million in proceeds from the sale of state-owned buildings as general fund revenue. Legislative Finance puts the proceeds in the "other funds" group. The proceeds do not fit in the unrestricted general funds category because they are restricted to capital projects. Legislative Finance also moved the associated capital expenditures to the "other" category. This change has no impact on the fiscal gap because it reduces general fund revenue and general fund expenditures by an identical amount. It leaves the capital budget with no general fund appropriations.

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Employee Salary and Benefit Costs

This issue is huge, not just for FY05, but for FY06 and FY07 as well. State contributions toward employee retirement added five percent to personnel costs, and contributions are expected to rise another five percent for FY06, then another five percent for FY07. Each five percentage point increase will add about \$35 million in general fund costs. Other employer benefits rates rose as well, and there is consistent fiscal pressure from merit increases.

The Governor chose to fund most salary adjustments that are paid with non-general funds, but was selective when it came to funding the general fund increases. Priority programs/agencies were allowed to request recovery of general fund cost increases, while many agencies will be forced to make operating reductions in order to absorb the increased personnel costs.

Labor agreements are being negotiated at this time. The Governor's budget does not contain funding for any increases that result from that process. This is to be expected and is noteworthy only because any significant personnel cost increase will mean exceeding the Governor's targeted \$400 million draw from the CBRF (unless revenue is also increased).

Formula Programs

General funds requested for formula programs increased by only \$2 million rather than the \$62 million "built-in" increase cited by the Governor. Education formula programs require \$7.2 million less general funds than in FY04 (due primarily to declining school enrollment and higher required local contributions) and there was an aggressive effort to substitute federal funds for state funds in Health and Social Services formula programs. Still, formula funding increased by \$37 million (all funds) and all formula programs appear to be fully funded in FY05. Legislative Finance is unable to identify the \$25 million in "built-in" increases that were not funded in the Governor's request.

Debt Service

The Governor's decision to use "\$140 million in bond and other proceeds to help fund the capital budget and pay debt service" may be the most complex and controversial aspect of the Governor's request. Whether the plan wisely leverages assets, foolishly mortgages our future, or is somewhere in between those extremes is likely to be the topic of many discussions. A philosophical discussion, or even a technical discussion of pro's and con's of bonding in general or of this particular bond financing package, is too complex for this overview. Two facts are certain:

1. the sale of bonds and assets is essential to achieving the Governor's fiscal targets and
2. the price of obtaining cash now is less cash available to spend (for purposes other than debt service) in the future.

Due to restrictions on the revenue bonds underlying the injection of cash, the \$140 million can be used only for capital projects or payment of principal on debt issued for capital projects. The impacts of using the corporate proceeds in the capital budget include

- An FY05 budget that is comparable in size to the FY04 budget but appears to use about \$140 million of state funds less than was used in FY04.² (This is due to the replacement of customary fund sources with bond proceeds. Bond proceeds typically do not appear as expenditures because

² In keeping with traditional treatment of bond proceeds, the Governor classifies \$75 million in proceeds from Student Loan bonds as duplicated expenditures. Legislative Finance views the proceeds as a return of capital contributed to the Student Loan Corporation. Expenditures for this capital investment were booked in the 1980's when student loans were funded from the general fund. Legislative Finance classifies the expenditure of returned capital as unduplicated, which increases the apparent size of the Governor's budget \$75 million. Arguably, the

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counting both bond proceeds and the debt service associated with them would be double counting.)

- An operating budget in which general funds are replaced with funds customarily reserved for the capital budget.

Revenue Measures

The Governor is proposing \$11.8 million in new revenue that does not require legislative action. He is also proposing \$78.2 million in potential new revenue that cannot occur without legislative approval. Legislative Finance cannot predict legislative reaction to the proposals, but it should be noted that the proposals are controversial and, therefore, have an uncertain fate. The Governor's goal of limiting the CBRF draw to \$400 million will be difficult to meet without adopting the Governor's revenue proposals (or enacting alternate revenue measures).

Appropriation Structure

OMB gave agencies the option to collapse their appropriation structure. Several agencies took this opportunity to the extreme; they requested a single appropriation for the entire department. An agency's appropriation structure limits the purposes for which appropriations can be used (because agencies have very limited ability to move money between appropriations). There are advantages and disadvantages to extreme structures, and the proposed collapsing of structure is likely to prompt lively discussion in subcommittees. One point certain to be made is that what the executive branch describes as "increased flexibility" may be viewed in the legislature as "reduced control."

Constitutional Budget Reserve Fund

The Governor's budget will leave the Constitutional Budget Reserve Fund with a projected FY05 year-end balance of \$1.6 billion (\$1.5 billion if the Governor's proposed revenue measures are not adopted by the legislature). The fund balance is likely to be sufficient to underwrite deficits through FY07. The potential adoption of Permanent Fund endowment legislation, the potential for adoption of revenue measures, and the volatility of oil prices make projections beyond FY07 more guess than science. It is almost certain that access to the CBRF for FY05 will require a $\frac{3}{4}$ vote.

The Governor's proposed FY05 budget is \$7.2 billion. This amount includes federal funds as well as Permanent Fund Dividends, Permanent Fund inflation proofing, and other proposed expenditures that are not classified as general funds. The Governor's budget does not make up the \$183 million Permanent Fund inflation-proofing shortfall that occurred in FY04.

Legislative Finance's analysis of the Governor's FY05 capital and operating requests shows the following changes from FY04 (excluding Permanent Fund actions):

	General Funds (\$ millions)	All State Funds (\$ millions)	All Funds (\$ millions)
Operating Budget	(4.6)	7.6	(2.9)
Capital Budget	(84.6)	(136.3)	134.2
Debt and Transfers	0.1	(5.2)	(11.6)
TOTAL	(89.0)	(133.9)	119.6

returned capital could be classified as general funds. Legislative Finance puts them in the "other funds" group because the proceeds are restricted to capital projects so do not fit in the unrestricted general funds category.

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In summary,

- the operating budget spends an amount nearly identical to the FY04 budget,
- the capital budget spends \$84 million less in general funds and \$136 million less in all state funds (excluding duplicated bond proceeds), but is up \$134 when federal funds are added, and
- debt service and fund capitalization are similar to the FY04 budget.

Agency Summary reports (beginning on page 10) show changes in the operating budgets of each agency. Discussions of formula programs, debt service, language sections of both operating and capital bills, and the mental health bill appear in separate sections of this publication. Discussions of individual agency issues and budgets comprise the final section of this Overview.

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FY04/FY05 Fiscal Summary

(\$ millions)

	FY04 Authorized				FY05 Governor's Request				GF
	GF	Federal	Other	Total	GF	Federal	Other	Total	Change
REVENUE (Excludes Permanent Fund Earnings)									
Unrestricted General Purpose Revenue (1)	2,022.9			2,022.9	1,724.3			1,724.3	(298.6)
Proposed New Revenues (2)					11.8				
Corporate Proceeds (3)							140.0		
Corporate Dividends (4)			123.5	123.5			130.6	130.6	
Retained Corporate Dividends (4)			(53.0)	(53.0)			(53.9)	(53.9)	
Federal and Other Funds		2,609.5	1,053.9	3,663.4		2,863.1	862.9	3,726.0	
Total Revenue	2,022.9	2,609.5	1,124.5	5,756.8	1,736.1	2,863.1	1,079.6	5,678.8	(286.8)
AUTHORIZATION TO SPEND									
Operating	2,147.3	1,533.6	810.2	4,491.2	2,142.8	1,523.2	822.3	4,488.3	(4.6)
Agency Operations (Non-Formula)	1,086.8	723.9	1,260.8	3,071.6	1,076.0	752.1	1,278.3	3,106.4	(10.8)
Formula Programs	1,060.5	730.4	140.5	1,931.5	1,066.7	771.2	135.0	1,972.9	6.2
Revised Programs (Legislatively approved only)		79.3	1.8	81.1					
Duplicated Authorization (5)			(593.0)	(593.0)			(591.1)	(591.1)	
Capital	84.6	1,030.4	160.3	1,275.3	0.0	1,300.9	108.6	1,409.5	(84.6)
Project Appropriations	84.6	969.3	291.3	1,345.2		1,300.9	89.0	1,389.9	
Bond Specific Projects							115.2	115.2	
Revised Programs (Legislatively approved only)		61.0744	0.0	61.1					
Duplicated Authorization (5)			(131.0)	(131.0)			(95.5)	(95.5)	
Statewide	68.7	45.4	154.0	268.1	68.8	39.0	148.7	256.5	0.1
Debt Retirement	3.6	0.0	131.9	135.6	2.7	0.0	177.0	179.7	(0.9)
Fund Capitalization	50.0	45.4	99.8	195.3	48.6	39.0	85.4	173.0	(1.4)
Supplemental Appropriations (6)	15.0			15.0	12.5			12.5	(2.5)
New Legislation					5.0			5.0	5.0
Duplicated Authorization (5)			(77.8)	(77.8)			(113.7)	(113.7)	
Total Authorization (unduplicated)	2,300.6	2,609.5	1,124.5	6,034.5	2,211.6	2,863.1	1,079.6	6,154.3	(89.0)
Draw From Constitutional Budget Reserve	277.7				475.5				197.8
Governor's new revenue through proposed legislation (7)					(78.2)				
Revised Draw From Constitutional Budget Reserve	277.7				397.3				119.6
Permanent Fund Dividends			560.0	560.0			490.0	490.0	
Permanent Fund Inflation Proofing & Other Transfers (8)		2.4	0.0	0.0			613.0	613.0	
TOTAL WITH PERMANENT FUND	2,300.6	2,611.9	1,684.5	6,594.5	2,211.6	2,863.1	2,182.6	7,257.3	(89.0)

Notes:

- (1) Revenue assumptions are from the Fall 2003 Revenue Sources Book. FY04 is \$27.70 per barrel and .996 million barrels per day. FY05 is \$24.65 and .985 mbd.
- (2) This is the anticipated increased revenue the executive branch expects to collect from increased fees and user costs that require no legislative action.
- (3) AHFC is providing \$65 million in bond proceeds \$40 million of which is from the purchase of state buildings. ASLC is providing \$75 million in bond proceeds as a return on invested capital. These proposed revenues are restricted for use on capital projects.
- (4) Corporate dividends include funds made available to the State by the boards AHFC, AIDEA, and ASLC. Dividends are retained by AHFC for debt service on state capital project bonds.
- (5) Duplicated authorizations are in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided.
- (6) Supplemental appropriations for FY04 and FY05 are executive branch estimates.
- (7) New tax revenues proposed by the Governor include: tobacco, pull tabs, hotel beds, cruise ship head tax and on-board gambling.
- (8) \$354 million of FY04's projected inflation proofing of \$537 was prefunded in FY03. Currently there is no appropriation for the remaining \$183 million.

FY04/FY05 Fiscal Summary
(\$ millions)

Constitutional Budget Reserve and Permanent Fund Account Balances

	Constitutional Budget Reserve	Permanent Fund			
		Permanent Fund Total	Principal	Earnings Reserve	Unrealized Gains
FY04 Beginning Balance	2,092.4	24,194.0	22,988.0	100.0	1,106.0
Settlements	20.0	-	-	-	-
Earnings/Dedicated Revenues	58.8	3,190.0	300.0	1,309.0	1,581.0
Permanent Fund Inflation Proofing	-	-	-	-	-
Permanent Fund Deposits to Principal	-	-	12.0	(12.0)	-
Permanent Fund Dividend Payout	-	(560.0)	-	(560.0)	-
Transfer to General Fund	(277.7)	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY04 Projected Ending Balance	<u>1,893.5</u>	<u>26,824.0</u>	<u>23,300.0</u>	<u>837.0</u>	<u>2,687.0</u>
Net Additions to Account Balance	<u>(198.9)</u>	<u>2,630.0</u>	<u>312.0</u>	<u>737.0</u>	<u>1,581.0</u>
FY05 Projected Beginning Balance	1,893.5	26,824.0	23,300.0	837.0	2,687.0
Settlements	20.0	-	-	-	-
Earnings/Dedicated Revenues	80.4	2,260.0	252.0	1,570.0	438.0
Permanent Fund Inflation Proofing	-	-	613.0	(613.0)	-
Permanent Fund Deposits to Principal	-	-	15.0	(15.0)	-
Permanent Fund Dividend Payout	-	(490.0)	-	(490.0)	-
Transfer to General Fund	(475.5)	-	-	-	-
Balance Adjustments	-	-	-	-	-
FY05 Projected Ending Balance	<u>1,518.4</u>	<u>28,594.0</u>	<u>24,180.0</u>	<u>1,289.0</u>	<u>3,125.0</u>
Net Additions to Account Balance	<u>(375.1)</u>	<u>1,770.0</u>	<u>880.0</u>	<u>452.0</u>	<u>438.0</u>

Permanent Fund information is from the APFC November 2003 financial projections
CBR information is from the Fall 2003 Revenue Sources Book

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REVENUE SOURCES

Unrestricted General Fund Revenue

Oil Forecast

	FY04	FY05
Price (per barrel)	\$27.70	\$24.65
Production (MMb/day)	0.996	0.985
	\$2,022.9	\$1,724.3

Proposed New Revenues

(no new legislation required)

DCED - AEA Electrical Services Fund transfer to GF	0.1
DCED - Loan fund lapses to GF	0.2
DOC - Parole transfer fee (\$100/application)	0.1
DEED - Transfer CIP overhead suspense account to GF	3.7
DF&G - Inc lapse to GF from Commercial Fisheries Entry Commission	0.1
DNR - Increased land sales	4.8
DNR - Backlogged claims, permits, leases	0.1
DNR - Increase Parks fees	0.1
DPS - Increase traffic violations fines	1.5
DPS - Increase various fees, such as for fingerprints	0.8
DOT/PF - Weights & Measures device registration	0.1
DOT/PF - Rural airport leasing rate increase	0.1
subtotal	\$11.8

(new legislation required)

Transient Accommodation Tax - cruise ships	17.0
Transient Accommodation Tax - hotels	15.0
Tobacco Tax	35.5
Cruise Ship Gambling Tax	3.0
Pull Tab Tax	2.0
Shore Side Tourism Tax	5.0
Booking fee (\$100)	0.7
Filing fee for flexible work fee	0.1
subtotal	\$78.2

Restricted Other Revenue

Corporate Proceeds (for capital projects)

ASLC Bonds - return of invested capital	75.0
AHFC Bonds	25.0
AHFC Bonds - Transfer of state buildings	40.0
	\$140.0

Net Corporate Dividends

ASLC	4.1	5.6
AHFC	50.0	49.1
AIDEA	16.4	22.0
	\$70.5	\$76.7

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Operating Budget

The fiscal summary provides a “big picture” of the budget, including revenue, debt, transfers, new legislation and capital projects. This section of the Overview focuses on the operating budget.

As shown in the following Agency Summary table, the Governor's proposed FY05 Operating Budget is \$6.5 billion in total funds (\$638.0 million above the FY04 Management Plan). The general funds request is almost \$7 million lower (\$6.2 million of mental health general funds) than the FY04 authorized budget.

Please see the agency narratives for details on significant changes in each agency's budget. Note that Agency Summary reports include duplicated fund sources and funding for debt service and transfers, while the fiscal summary removes these items from the operating portion of the budget.

In addition to summaries of agency budgets, this section of the Overview contains summaries/discussions of formula and non-formula programs, position changes in the FY05 Governor's request, and details of debt obligations.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Agency Summary - FY 05 Operating Budget - All Funds

Agency	03Actual	04 CC	04 Auth	04MgtPln	Adj Base	Gov	04MgtPln to Gov	
Department of Administration	181,329.7	199,259.8	199,162.7	199,162.7	198,619.8	209,749.2	10,586.5	5.3 %
Department of Community and Econ. Dev.	128,659.5	136,352.3	114,252.4	114,252.4	113,975.6	124,006.2	9,753.8	8.5 %
Department of Corrections	179,002.4	179,487.0	178,649.6	178,649.6	182,109.2	181,481.8	2,832.2	1.6 %
Department of Education and Early Dev.	967,334.3	942,511.4	951,852.2	951,852.2	942,846.4	947,138.6	-4,713.6	-0.5 %
Department of Environmental Conservation	51,575.4	52,647.7	52,677.7	52,677.7	53,930.3	53,450.9	773.2	1.5 %
Department of Fish and Game	119,461.4	133,437.5	132,537.5	132,537.5	136,344.5	138,271.1	5,733.6	4.3 %
Office of the Governor	20,470.8	14,679.5	15,277.9	15,277.9	15,718.0	18,356.6	3,078.7	20.2 %
Department of Health and Social Services	1,550,208.1	1,710,293.2	1,636,102.6	1,636,102.6	1,641,189.2	1,654,591.7	18,489.1	1.1 %
Department of Labor and Workforce Dev.	121,597.0	154,780.7	154,300.6	154,300.6	158,744.0	152,019.5	-2,281.1	-1.5 %
Department of Law	55,809.2	45,807.1	46,735.1	46,735.1	47,815.1	50,106.1	3,371.0	7.2 %
Department of Military and Veterans Affairs	30,424.2	34,862.7	34,660.3	34,660.3	35,294.3	35,037.9	377.6	1.1 %
Department of Natural Resources	103,730.7	99,266.6	100,355.1	100,355.1	100,341.5	103,764.8	3,409.7	3.4 %
Department of Public Safety	103,939.6	110,561.3	109,599.3	109,599.3	112,100.3	114,610.0	5,010.7	4.6 %
Department of Revenue	139,588.3	161,484.3	162,996.8	162,996.8	164,590.5	163,243.0	246.2	0.2 %
Department of Transportation & Public Fac.	354,391.8	368,635.4	368,817.1	368,817.1	379,355.2	382,821.2	14,004.1	3.8 %
University of Alaska	534,209.5	649,573.1	649,574.2	649,574.2	649,573.1	649,573.1	-1.1	0.0 %
Alaska Court System	54,776.5	55,988.4	55,988.4	55,988.4	57,823.4	59,333.0	3,344.6	6.0 %
Legislature	34,750.9	38,919.3	39,512.9	39,512.9	41,043.2	41,064.8	1,551.9	3.9 %
Debt Service and Special Appropriations	262,549.4	1,430,631.2	893,226.9	893,226.9	1,455,698.2	1,455,698.2	562,471.3	63.0%
Total - Operating Budget	4,993,808.7	6,519,178.5	5,896,279.3	5,896,279.3	6,487,111.8	6,534,317.7	638,038.4	10.8%
General Funds	2,363,813.2	2,299,683.9	2,201,000.1	2,201,000.1	2,200,423.6	2,194,067.6	-6,932.5	-0.3 %
Federal Receipts	1,285,946.1	1,497,456.4	1,502,124.2	1,502,124.2	1,500,645.4	1,562,230.7	60,106.5	4.0 %
Other Funds	1,344,049.4	2,722,038.2	2,193,155.0	2,193,155.0	2,786,042.8	2,778,019.4	584,864.4	26.7%

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Agency Summary - FY 05 Operating Budget - General Funds Group

Agency	03Actual	04 CC	04 Auth	04MgtPln	Adj Base	Gov	04MgtPln to Gov	
Department of Administration	74,579.3	70,787.9	70,690.8	70,690.8	68,599.7	68,923.5	-1,767.3	-2.5 %
Department of Community and Economic Development	40,357.2	32,921.1	10,582.7	10,582.7	10,198.2	9,752.2	-830.5	-7.8 %
Department of Corrections	155,111.5	149,844.8	148,944.8	148,944.8	152,351.5	151,474.2	2,529.4	1.7 %
Department of Education and Early Development	755,614.2	744,002.2	753,343.0	753,343.0	743,567.1	745,730.0	-7,613.0	-1.0 %
Department of Environmental Conservation	11,549.1	11,341.1	11,371.1	11,371.1	11,353.1	11,459.8	88.7	0.8 %
Department of Fish and Game	29,416.0	27,837.6	27,087.6	27,087.6	28,271.4	26,134.9	-952.7	-3.5 %
Office of the Governor	17,523.0	14,455.9	15,054.3	15,054.3	14,890.7	17,929.3	2,875.0	19.1 %
Department of Health and Social Services	606,733.4	593,127.4	525,211.2	525,211.2	529,182.8	523,201.5	-2,009.7	-0.4 %
Department of Labor and Workforce Development	13,562.0	11,027.0	10,715.9	10,715.9	11,008.3	11,128.1	412.2	3.8 %
Department of Law	36,032.6	26,688.7	27,616.7	27,616.7	27,900.1	29,951.1	2,334.4	8.5 %
Department of Military and Veterans Affairs	7,968.2	8,811.1	8,611.1	8,611.1	8,705.6	8,993.0	381.9	4.4 %
Department of Natural Resources	58,132.4	47,735.2	48,179.2	48,179.2	47,312.7	36,105.1	-12,074.1	-25.1 %
Department of Public Safety	77,798.1	79,308.4	78,346.4	78,346.4	80,578.9	83,937.9	5,591.5	7.1 %
Department of Revenue	8,449.1	8,370.4	9,027.9	9,027.9	8,978.5	9,130.7	102.8	1.1 %
Department of Transportation & Public Facilities	97,807.0	96,687.0	96,345.0	96,345.0	96,678.1	97,838.9	1,493.9	1.6 %
University of Alaska	206,080.9	212,716.0	212,717.1	212,717.1	212,716.0	212,716.0	-1.1	0.0 %
Alaska Court System	53,365.1	54,845.5	54,845.5	54,845.5	56,680.5	58,216.0	3,370.5	6.1 %
Legislature	33,954.7	38,093.7	38,637.2	38,637.2	40,138.2	40,133.2	1,496.0	3.9 %
Debt Service Fund Capitalization and Special Appropriations	79,779.4	71,082.9	53,672.6	53,672.6	51,312.2	51,312.2	-2,360.4	-4.4 %
Total - Operating Budget	2,363,813.2	2,299,683.9	2,201,000.1	2,201,000.1	2,200,423.6	2,194,067.6	-6,932.5	-0.3 %

Formula Funding

The “formula” and “non-formula” designations are sometimes used to separate mandatory expenditures from discretionary expenditures. Although the breakout is useful, the line between mandatory and discretionary programs is not as clear as the breakout may imply.

Formula Programs include payments to school districts, non-profit organizations and individuals. Funding typically increases in proportion to increases in population served or to cost of service. Formula programs are characterized by expenditures in the “grants” line item. Changes in funding (and/or the allocation of funding) for these programs often require a statutory change.

Non-Formula (Agency Operations) funding describes costs associated with managing and implementing the state’s services as required by federal law, state statute or regulation, or policy. This category includes the entire operating budget less formula programs, debt service and fund transfers.

Formula programs are sometimes described as nondiscretionary because funding is often determined by statute. For example, K-12 education funding depends on the number of students served, local and federal receipts of the school districts, and other factors that are not directly controlled by the legislature. Based on these factors and the “base student allocation” set by statute, the level of funding is predetermined. Note, however, that the legislature is free to modify the base student allocation or the definition/relationship of other relevant factors to change the level of funding.

Non-formula (agency operations) funding is considered “discretionary” because the legislature can, with no statutory change, determine how much to appropriate for program operations. Note, however, that many non-formula program functions are mandated by state or federal law.

In the Governor’s FY05 Operating Budget request, formula programs use almost half (48.6%) of the total general fund request. As the following table shows, in comparisons with the FY04 Management Plan, the FY05 total formula program funding request has grown by about \$2 million (less than 1%), and non-formula funding *decreased* by about \$8.9 million (a little less than 1%).

Formula funding changes from the FY04 Management Plan occurred in only three budgets. *Increases* in formula funding occurred in the Department of Health and Social Services (up by almost \$8.5 million), and the Department of Military and Veterans Affairs (up by \$702,800). By contrast, formula funding *decreased* in the Department of Education by about \$7.2 million.

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Agency Operating Budgets--Formula vs. Non-formula Program Funding

**General Funds Group Only
Agency**

	FY04 Management Plan			FY05 Governor's Request			Change from FY04 to FY05		
	Formula	Non-Formula	Total	Formula	Non-Formula	Total	Formula	Non-Formula	Total
Administration	1,568.9	69,121.9	70,690.8	1,568.9	67,354.6	68,923.5	0.0	-1,767.3	-1,767.3
Community and Economic Development		10,582.7	10,582.7		9,752.2	9,752.2	0.0	-830.5	-830.5
Corrections		148,944.8	148,944.8		151,474.2	151,474.2	0.0	2,529.4	2,529.4
Education and Early Development	729,912.9	23,430.1	753,343.0	722,751.5	22,978.5	745,730.0	-7,161.4	-451.6	-7,613.0
Environmental Conservation		11,371.1	11,371.1		11,459.8	11,459.8	0.0	88.7	88.7
Fish and Game		27,087.6	27,087.6		26,134.9	26,134.9	0.0	-952.7	-952.7
Office of the Governor		15,054.3	15,054.3		17,929.3	17,929.3	0.0	2,875.0	2,875.0
Health and Social Services	331,904.9	193,306.3	525,211.2	340,403.3	182,798.2	523,201.5	8,498.4	-10,508.1	-2,009.7
Labor and Workforce Development		10,715.9	10,715.9		11,128.1	11,128.1	0.0	412.2	412.2
Law		27,616.7	27,616.7		29,951.1	29,951.1	0.0	2,334.4	2,334.4
Military and Veterans Affairs	1,322.5	7,288.6	8,611.1	2,025.3	6,967.7	8,993.0	702.8	-320.9	381.9
Natural Resources		48,179.2	48,179.2		36,105.1	36,105.1	0.0	-12,074.1	-12,074.1
Public Safety		78,346.4	78,346.4		83,937.9	83,937.9	0.0	5,591.5	5,591.5
Revenue		9,027.9	9,027.9		9,130.7	9,130.7	0.0	102.8	102.8
Transportation/Public Facilities		96,345.0	96,345.0		97,838.9	97,838.9	0.0	1,493.9	1,493.9
University of Alaska		212,717.1	212,717.1		212,716.0	212,716.0	0.0	-1.1	-1.1
Alaska Court System		54,845.5	54,845.5		58,216.0	58,216.0	0.0	3,370.5	3,370.5
Legislature		38,637.2	38,637.2		40,133.2	40,133.2	0.0	1,496.0	1,496.0
Debt Service and Special Appropriations		53,672.6	53,672.6		51,312.2	51,312.2	0.0	-2,360.4	-2,360.4
Total Operating Budget	1,064,709.2	1,136,290.9	2,201,000.1	1,066,749.0	1,127,318.6	2,194,067.6	2,039.8	-8,972.3	-6,932.5
Percent of Total Budget	48.4%	51.6%	100.0%	48.6%	51.4%	100.0%	0.2%	-0.8%	-0.3%

* The *Children's Medicaid Services* formula program is about \$4.2 million higher than FY04 Authorized due to transfers from two non-formula components: Children's Services Management and Residential Child Care.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Formula Funded Programs

General Funds

(In \$ thousands)

	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Mgt Plan	FY05 Governor
ADMINISTRATION					
Unlicensed Vessel Retire	0.0	75.0	0.0	75.0	75.0
Retirement & Benefits/EPORS	1,111.5	1,093.9	1,080.3	1,493.9	1,493.9
Subtotal	1,111.5	1,168.9	1,080.3	1,568.9	1,568.9
COMMUNITY & ECON DEVEL					
Renters Equivalency Rebate			-	-	-
State Revenue Sharing	12,855.2	12,855.2	12,855.2	0.0	0.0
Safe Communities Progra	15,638.2	16,775.5	16,775.5	0.0	0.0
Fisheries Enhancement Tax Receipts	5,302.2	0.0	0.0	0.0	0.0
Subtotal	33,795.6	29,630.7	29,630.7	0.0	0.0
EDUCATION					
Public School Foundation	643,179.4	656,950.1	664,560.6	668,396.0	660,606.6
Tuition Students	2,225.0	2,225.0	2,225.0	0.0	0.0
Boarding Home Grants	167.3	185.8	335.9	185.9	185.9
Youth in Detention	1,100.0	1,089.5	1,100.0	1,100.0	1,100.0
Special Schools	4,231.5	4,480.8	7,210.4	6,297.2	6,425.2
Pupil Transportation	42,413.5	49,408.0	53,931.7	53,933.8	54,433.8
Community Schools	500.0	500.0	500.0	0.0	0.0
Subtotal	693,816.7	714,839.2	729,863.6	729,912.9	722,751.5
HEALTH & SOCIAL SERVICES					
ATAP (Formerly AFDC)	35,591.9	26,945.4	26,616.5	26,621.2	24,341.2
Adult Public Assistance	47,483.5	49,568.3	52,036.3	53,383.9	52,635.1
General Relief Assistance	945.6	1,116.7	1,145.4	1,499.0	1,499.0
Old Age Asst.-ALB Hold Harmless	1,962.3	1,763.3	1,650.7	519.5	0.0
Tribal Assistance	3,908.1	7,375.2	7,692.7	7,704.7	7,704.7
Medicaid State Programs	152,791.1	0.0	0.0	0.0	0.0
Catastrophic & Chronic Illness	4,304.4	4,000.0	1,999.4	1,471.0	1,471.0
Medicaid Services	0.0	192,921.5	211,075.7	95,983.7	101,101.0
Medicaid Asst.-ALB Hold Harmless	0.0	0.0	0.0	0.0	0.0
Behavioral Health Medicaid Services	0.0	0.0	0.0	37,982.9	43,365.9
Children's Medicaid Services*	0.0	0.0	0.0	4,186.1	4,322.3
General Relief Medical	0.0	0.0	0.0	0.0	0.0
Waivers Services	0.0	0.0	0.0	0.0	0.0
Child Care Benefits	3,000.0	3,000.0	3,000.0	6,986.4	6,937.0
Children's Health Eligibility	538.7	760.8	548.7	535.9	0.0
Foster Care	12,917.1	13,442.2	13,300.8	10,849.9	9,466.5
Subsidized Adoptions/Guardians	8,356.5	9,847.2	10,771.4	11,856.7	12,727.6
Court Ordered Reunification	500.0	0.0	0.0	0.0	0.0
Senior and Disabilities Medicaid Services	0.0	0.0	0.0	72,324.0	74,832.0
Longevity Bonus Program	54,829.9	50,958.0	47,542.8	0.0	0.0
Subtotal	327,129.1	361,698.6	377,380.4	331,904.9	340,403.3
MILITARY & VETERANS AFFAIRS					
National Guard Retirement	879.8	879.8	1,322.5	1,322.5	2,025.3
Total Agency Formula Funding	1,056,732.7	1,108,217.2	1,139,277.5	1,064,709.2	1,066,749.0

* The *Children's Medicaid Services* formula program is about \$4.2 million higher than FY04 Authorized due to transfers from two non-formula components: *Children's Services Management* and *Residential Child Care*.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Position Comparison and FY05 Salary Adjustments

The Governor's FY05 Operating Budget request includes 192 *fewer* permanent full time (PFT) employees than were authorized in the FY04 Conference Committee Budget. An additional 179 permanent part time (PPT) positions and 30 budgeted temporary positions are being deleted.

A significant change has occurred in the Governor's FY05 budget instructions pertaining to personal services and agency position count. State agencies are no longer required to hold a minimum vacancy factor in a given budget. A certain level of vacancy is expected due to normal turnover. But in the past, managers were expected to leave positions vacant due to the intentional short funding of personal services in conjunction with artificial vacancy factors set by the Office of Management & Budget. This vacancy requirement was dependent upon the number of positions in a particular budget allocation. In many cases, the effect of this policy was to inflate the overall number of state positions. In FY05, vacancy noted in personal services modules may now be more accurate and reflective of individual allocation policies. (There are still maximum vacancy guidelines in force.) The Legislative Finance Division budget reports do not identify positions that may be vacant.

Also, in the past, there has been no time limit for vacancy of positions. New positions may have been added while others remained vacant. Some managers have kept the same position(s) vacant for years due to budgetary shortfalls and previous vacancy requirements. Recently, the Office of Management and Budget called for a review of all positions that have been vacant for more than one year, with an eye toward the deletion of those positions that may never be filled.

The Governor's budget includes the following notable agency position changes:

- 152 positions transferred into the Department of Administration, Division of Personnel in the Human Resources consolidation (32 each from the Department of Health & Social Services and the Department of Transportation & Public Facilities alone)
- 48 positions deleted from Marine Vessel Operations as crew size is reduced on mainline vessels without jeopardizing the system's compliance with US Coast Guard crewing requirements
- 23 positions added as Front Line Social Workers for the Children and Family Service Review Program Improvement Plan in the Department of Health & Social Services
- 13 positions added to Oil & Gas Development in the Department of Natural Resources for Advancing the State's Oil and Gas Initiatives
- 25 positions deleted from Pioneers Homes to meet department targets and to reduce Direct Care Staff that exceeded National Standards in the Sitka Pioneers Home
- 21 PFT plus 27 PPT/Temporary positions deleted from the Department of Education & Early Development budget due to the transfer of the Alyeska Central School operations to the Yukon-Koyukuk School District
- 20 new Trooper positions (10 investigator/10 troopers) in the Department of Public Safety
- 56 positions cut in the Department of Corrections (20 currently-filled positions due to administrative streamlining plus 36 vacant correctional officer positions)
- 15 new attorney positions added to the Department of Law in addition to the reclassification upward of 20 attorneys during FY04

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Agency	Summary of Positions			Net Change (Perm Full-Time)	
	FY04 CC	FY04Mgt Plan	FY05 Gov Request	FY04 CC-FY05 Gov	FY04 Mgt Plan-FY05 Gov
Administration	767	775	933	166	158
Community & Econ De	500	503	499	-1	-4
Corrections	1,486	1,494	1,421	-65	-73
Education & Early Dev	328	319	293	-35	-26
Environmental Cons	477	479	466	-11	-13
Fish and Game	861	873	846	-15	-27
Governor	147	147	147	0	0
H&SS	3,160	3,151	3,025	-135	-126
Labor	886	898	871	-15	-27
Law	476	475	481	5	6
Military Vet Affairs	264	264	259	-5	-5
Natural Resources	681	691	707	26	16
Public Safety	757	761	771	14	10
Revenue	817	825	806	-11	-19
DOT&PF	2,983	3,018	2,885	-98	-133
University	3,881	3,869	3,869	-12	0
Courts	673	673	673	0	0
Legislature	239	239	239	0	0
Statewide	19,383	19,454	19,191	-192	-263

AS 39.25 establishes the system of personnel administration within the state, including the Governor's authority to create and appoint positions within the executive branch and the responsibilities of the personnel board. Some of these powers have been delegated to individual departments. Exempt service employees (AS 39.25.110) are exempt from the provisions of this chapter in the way it is currently enacted. Positions in the partially exempt service are included in the position classification plan established under this chapter. A position that is paid (even a portion) from capital project appropriations (CIP Receipts), is required to be shown in the operating budget. These positions can vary widely from one year to the next.

Positions (i.e. Position Control Numbers – PCNs) do not necessarily equate to the number of actual employees. Positions may be double filled, triple filled, etc. This generally should occur on a short-term basis, i.e. for training purposes where the outgoing employee remains to assist in training an incoming employee for that position. There are times, however, when circumstances dictate 24-hour position coverage or special coverage and more than one person fills a single PCN. For example, Vessel Operations positions in the Department of Transportation and Public Facilities reflect the required vessel positions, but not the number of employees who work in those positions (i.e. "A" and "B" crews). Another example is the Department of Natural Resources which hires many employees into firefighting

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

positions of necessity on an emergency basis—literally hundreds of people per PCN for varying lengths of time—which are not fully reflected by PCN count.

FY05 Salary Adjustments

In a related personal services matter, the FY05 Governor's Request includes \$42.9 million total for Salary Adjustments related to changes in the retirement and other personal services rates for 17 agencies in state government. Although the majority of departments received only non-general fund increments for these mandatory increases, a total of \$14.7 million GF was spread among these agencies: Department of Corrections -\$3,255.7 GF; Office of the Governor - \$624.0 GF; Department of Health & Social Services - \$3,954.5 GF; Department of Law - \$1,360.1 GF; Department of Public Safety - \$2,192.8 GF; Alaska Court System - \$1,840.0 GF; and the Legislature - \$1,501.0.

All of the salary adjustment transactions reflect cost increases associated with the following FY05 personal services rate changes:

- The Public Employees Retirement System (PERS) has increased 5%, from 7.65% to 12.65% (the Judicial Retirement System [JRS] also increased 5%).
- The Supplemental Benefit System (SBS) maximum has increased from \$5,333.10 to \$5,468.00.
- The Terminal Leave rate has increased .96%, from .34% to 1.30%.
- The Unemployment Insurance rate has increased .17%, from .56% to .73%.
- The Leave Cash-In and Risk Management rates, which are based on each department's actual experience, have also changed.

The University of Alaska maintains a separate personal services system for which increases are requested annually. A total of \$15.8 million in salary maintenance is identified in the University of Alaska FY05 request.

Debt Obligations

Total State debt service obligations for FY05, excluding programmatic corporate debt, is \$256.4 million. This is an increase of \$42 million from FY04. The Governor proposed several funding sources for debt service, some appropriated through the Alaska Debt Retirement Fund (ADRF) and some appropriated directly for debt service.

- The largest increase in debt service is attributable to general obligation bonds approved in 2003. The State began paying on the general obligation bonds in FY04. Payments will continue for the next 20 years, averaging over \$40 million annually for the first 10 years.³ General obligation debt service for FY05 is \$46.4 million.

***Legislative Fiscal Analyst Comment:** The GO bond sale included a sizable premium that flowed to the state (almost \$39 million). This premium is restricted to paying debt service on the GO Bonds and was used in FY04 for that purpose (\$15 million). The Governor proposes using an additional \$17.6 million in FY05, leaving approximately \$9 million available for FY06. Alternate state funding will be required when this funding source is exhausted.*

- Payments for Certificates of Participation (COPs) total \$13.8 million, an increase of \$1.6 million over FY04. The increase is attributable to debt service requirements for the new Alaska Psychiatric Institute Building (issued in April 2002) and the new Department of Environmental Conservation Seafood and Food Safety Laboratory (issued in August 2003).
- School Debt Reimbursement is budgeted at \$79 million. This is \$13 million greater than FY04. Additional municipal debt issues and anticipated issues totaling \$190 million since the enactment of HB 2003 (Chapter 3, SSSLA 2002) are responsible for this increase.
- The amount budgeted for debt service on International Airport Revenue Bonds is \$31.4 million. This is an increase of \$2.5 million from FY04. Additional revenue bonds were authorized in FY04 for completion of the C Concourse and various other projects at the Anchorage International Airport. The balance of outstanding airport revenue bonds at the end of FY04 will total approximately \$427 million. Additional bonding is expected in the future due to structural deficiencies in concourses A and B.
- HB 528 (Chapter 115, SLA 2002) authorized the payment of debt reimbursement to various agencies, municipalities, and electrical entities. The Governor has proposed reimbursement totaling \$2.7 million to the University of Alaska, the City of Nome (for their harbor project), and to Metlakatla Power and Light. The amount required to reimburse other authorized recipients is unknown at this time.

³ Payments will consist of state funding and federal funding. Federal receipts will pay the majority of the GO GARVEE bonds.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

- The Governor built several cash-generating debt proposals into his budget. The Alaska Housing Finance Corporation (AHFC) and the Alaska Student Loan Corporation (ASLC) will sell a total of \$140 million in bonds to provide cash to the State. Due to terms of the bond issues, the cash can be used only for capital projects and payment of principal on capital project debt.

Legislative Fiscal Analyst Comment: \$25 million from ASLC bond proceeds is proposed to capitalize the Alaska Debt Retirement Fund (ADRF) for payment of capital project debt principal. Total debt service from the ADRF is budgeted at \$91.4 million. School debt reimbursement is an ineligible use of the bond proceeds, leaving \$43 million of eligible debt service, of which only the principal can be paid with the bond funding. It is unclear what specific principal would be paid down; clarity on this issue may be required.

- Various proposed funding sources bring total capitalization of the ADRF to \$75.9 million. This amount is insufficient to meet all of the Governor's planned debt payments out of the ADRF, unless the following occur:
 1. the year-end FY03 CBR sweep is reversed for the ADRF (\$7.9 million) and the Land Disposal Income Fund (\$2.5 million); and
 2. the Governor's planned supplemental request in the amount of \$5.4 million passes.⁴

Legislative Fiscal Analyst Comment: It appears that the Governor chose to capitalize the ADRF primarily (but not exclusively) with unrestricted fund sources. Funding restricted by statute or the constitution appears to be appropriated directly to a particular debt obligation. This makes a certain amount of sense; it clarifies tracking of restricted funding sources. This also prevents restricted funding sources that are not used completely in a given fiscal year from remaining in the ADRF. For example, it is possible that debt service for International Airport Revenue Bonds could be less than appropriated in a given year. The over appropriation would remain in the ADRF where it would mingle with other funding. Conversely, tracking individual fund sources within an account is a common task for accountants. It seems feasible that all funding sources could be channeled through the ADRF. From a budgeting perspective, this would provide a clearer picture of annual debt obligations and the changes from one year to the next.

⁴ As was the case in FY03, School Fund revenue is expected to be greater than previously expected for FY04. School Debt Reimbursement requirements are also expected to be less than the amount appropriated. The combination of these revised needs should leave \$5.4 million of FY04 appropriations available for FY05. The Governor's budget detail indicates an intent to submit a supplemental request increasing the amount of School Fund authorized in FY04. This, along with the revised reduction of necessary school debt reimbursement in FY04, would leave approximately \$5.4 million in the ADRF for FY05 use.

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DEBT OBLIGATIONS

(thousands)	<u>FY04</u>	<u>FY05 Gov</u>	Comments		
DEBT RETIREMENT FUND CAPITALIZATION					
<u>Fund Source</u>					
General Funds	2,702.4	-			
Federal Receipts	3,894.5	8,606.4			
Investment Loss Trust Funds	2,500.0	104.0			
Municipal Bond Bank Receipts (Misc. Earnings)	775.0	775.0			
Land Disposal Income Fund	-	-			
Chugach Electrical Intertie Earnings (Misc Earnings)	28,500.0	-			
Additional Chugach earnings as of 12/23/03	1,250.0	-			
International Trade and Business Endowment	4,829.5	-			
COP Residual Lease Payments	461.4	109.8			
Garvee Bond Earnings	300.0	438.6			
AHFC Dividend	8,861.1	27,568.0			
AIDEA Dividend	-	11,000.0			
ASLC Bonds	-	24,815.0			
GO Bond Interest (Series 2003A)	-	2,473.1			
Subtotal	54,073.9	75,889.9			
Reverse CBR Sweep	10,426.5	-	requires legislation		
Excess School Debt Reimbursement (back to ADRF)	5,372.1	-	requires legislation		
Total	69,872.5	75,889.9			
DEBT FUND CASHFLOW					
<u>ADRF Cashflow</u>					
Beginning Balance	-	16,052.0	requires legislation		
Capitalization	54,073.9	75,889.9			
Total Available	54,073.9	91,941.9			
Debt Payments	(53,820.5)	(91,395.3)			
Subtotal	253.4	546.6			
CBR Reverse Sweep	10,426.5	-			
Supplemental Capitalization	5,372.1	-			
Ending Balance	16,052.0	546.6			
<u>GOB Debt Service Fund Cashflow</u>					
Beginning Balance	-	23,647.3			
Capitalization	38,839.9	-			
Debt Payments	(15,192.6)	(17,654.9)			
Earnings	-	3,211.7	as of 11/18/03		
Ending balance	23,647.3	9,204.1			
DEBT SERVICE/ REIMBURSEMENT					
<u>ADRF Debt Payments</u>					
GO Bonds -Schools/Roads (Series 2003A)	-	19,706.2			
GO Bonds -GARVEES (Series 2003B)	4,194.5	9,045.0			
COP - Alaska Psychiatric Institute	706.0	1,661.5			
COP - Palmer Airport Fire Facility	756.8	757.6			
COP - Spring Creek Correctional Facility	3,991.2	3,973.9			
COP - Anchorage Times Building	789.3	-			
COP - Soldotna DOT Maintenance Facility	639.3	640.3			
COP - Anchorage Health Lab	2,319.1	2,346.3			
COP - Fairbanks Courthouse	2,900.3	2,906.8			
COP - DEC Seafood and Food Safety Lab	-	1,475.0			
COP - Trustee Fees	100.0	50.0			
School Debt Reimbursement	37,424.1	48,832.7			
Subtotal	53,820.5	91,395.3			
<u>Other Funds Debt Payments</u>					
GO Bonds -Schools/Roads (Series 2003A)	15,192.6	12,609.3	GO Bond Premium		
GO Bonds -GARVEES (Series 2003B)	-	5,045.6	GO Bond Premium		
International Airport Revenue Bonds	28,907.3	31,423.8	IARF		
Clean Water Fund Bonds	1,640.0	1,610.0	ACWF Receipts		
Drinking Water Fund Bonds	1,040.0	1,020.1	ADWF Receipts		
Atwood Building	3,549.4	3,549.4	AHFC Dividend		
Anchorage Jail (Capital Lease)	5,264.5	5,274.1	GF		
School Fund - School Debt Reimbursement	28,600.0	30,200.0	School Fund		
GF - Power Project Reimbursement (HB 528)	2,818.7	2,735.9	GF		
AHFC State Capital Project Bonds	56,001.7	53,892.5	AHFC Dividend		
Tobacco Settlement Bonds (off budget)	17,100.0	17,600.0	Tobacco Settlement Revenue		
AccuVote System	387.8	-	Election Fund		
Subtotal	160,502.0	164,960.7			
TOTAL DS/ Reimbursement	214,322.5	256,356.0	<table border="1"> <tr> <td align="center">Change</td> </tr> <tr> <td align="center">↑ 42,033.5</td> </tr> </table>	Change	↑ 42,033.5
Change					
↑ 42,033.5					

Not included in OMB Summary

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Language Sections of the Governor's FY05 Operating Budget

Section Deleted; appeared in FY04 Operating Budget

LEGISLATIVE INTENT. It is the intent of the legislature that the amounts appropriated by this Act are the full amounts that will be appropriated for those purposes for the fiscal year ending June 30, 2005.

Legislative Fiscal Analyst Comment: In the fiscal summary that accompanied the release of the Governor's FY05 budget, the projected general fund supplemental for FY05 is \$12.5 million. The five-year average general fund supplemental is \$59 million. Although the legislature took several steps to reduce the need for supplemental appropriations in the FY04 budget, the \$12.5 million target appears optimistically low even under the assumption that the legislature will continue efforts to eliminate consistent underfunding in the budget.

Section Deleted; appeared in FY04 Operating Budget

COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services due to reclassification of job classes during the fiscal year ending June 30, 2005.

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

* **Sec. 4. ALASKA AEROSPACE DEVELOPMENT CORPORATION.** Corporate receipts of the Alaska Aerospace Development Corporation received during the fiscal year ending June 30, 2005, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Development Corporation for operations during the fiscal year ending June 30, 2005.

Legislative Fiscal Analyst Comment: This section is intended to maximize the AADC's ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner. Despite this flexibility, the amount requested in section 1 has been increased by nearly \$10 million (to a total of \$20.8 million) and is now more than six times the amount of receipts actually received in FY03. Inflating the amount appropriated in section 1 rather than relying on this language section inflates the apparent size of the state budget without providing additional funding or value to the corporation.

This provision limits legislative fiscal oversight of the Alaska Aerospace Development Corporation by allowing the corporation to spend all AADC receipts received from any source during FY05. Note, however, that

- (1) the corporation is legally separate and independent from the state and has a board of directors charged with overseeing corporate activity,*
- (2) two legislators are ex officio members of the AADC board of directors and*
- (3) AADC must submit a full operational and financial report to the legislature by the third day of each regular session of the legislature.*

Funding: *The estimated impact of this section is zero. The appropriations to AADC in section 1 have been sufficient historically.*

Recommendation: *Reduce the amount appropriated in section 1 to \$10 million, and rely on this language provision to allow the AADC to spend any additional receipts that may be received.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

* **Sec. 5. ALASKA CHILDREN'S TRUST.** The portions of the fees listed in this section that are collected during the fiscal year ending June 30, 2005, are appropriated to the Alaska children's trust (AS 37.14.200):

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

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

(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.

This provision appropriates (to the Alaska Children's Trust) net receipts collected during FY05 from sales of heirloom birth certificates, heirloom marriage certificates and Trust license plates.

The Alaska Children's Trust was created by Chapter 19, SLA 88. The legislature appropriated \$6 million from the investment loss trust fund to the principal of the trust in Chapter 123, SLA 96. The trust was established to provide a continuing source of revenue for grants to community-based programs for the prevention of child abuse and neglect

Funding: OMB projects \$62.5 net proceeds from the sale of certificates/plates.

* **Sec. 6. ALASKA CLEAN WATER FUND.** The sum of \$9,540,000 is appropriated to the Alaska clean water fund (AS 46.03.032) for the Alaska clean water loan program from the following sources:

Alaska clean water fund revenue bond receipts	\$1,590,000
Federal receipts	7,950,000

* **Sec. 7. ALASKA DRINKING WATER FUND.** The sum of \$9,600,000 is appropriated to the Alaska drinking water fund (AS 46.03.036) for the Alaska drinking water loan program from the following sources:

Alaska drinking water fund revenue bond receipts	\$1,000,000
Federal receipts	8,000,000
General fund match	600,000

These funds provide money to develop sewer and water systems in Alaska communities. Money for the various projects is appropriated from the Clean Water and Drinking Water Funds in the capital budget. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match for federal money.

* **Sec. 8. ALASKA HOUSING FINANCE CORPORATION.** (a) The board of directors of the Alaska Housing Finance Corporation anticipates that the net income from the second preceding fiscal year will be available in each of the fiscal years 2005 through 2006. During fiscal year 2005, the board of directors anticipates that \$103,000,000 will be available for payment of debt service, appropriation in this Act, appropriation for capital projects, and transfer to the Alaska debt retirement fund (AS 37.15.011).

(b) The amount set out in (a) of this section for the fiscal year ending June 30, 2005, will be used for the following purposes in the following estimated amounts in the operating, capital, and mental health budgets for the fiscal year ending June 30, 2005:

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

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

(2) \$37,978,856 for debt service on the bonds authorized under sec. 2(c), ch. 129, SLA 1998;

(3) \$12,019,790 for debt service on the bonds authorized under sec. 10, ch. 130, SLA 2000;

(4) \$2,893,808 for debt service on the bonds authorized under ch. 1, SSSLA 2002;

(5) \$29,894,063 for debt service;

(6) \$200,000 for operating appropriations in this Act; and

(7) \$19,013,400 for capital projects.

(c) After deductions for the items set out in (b) of this section are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2005, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

(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 fiscal year 2005 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 among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan fund (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) in accordance with procedures adopted by the board of directors.

(e) The sum of \$800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan fund (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2005, 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 among the Alaska housing finance revolving fund (AS 18.56.082), housing assistance loan fund (AS 18.56.420), and senior housing revolving fund (AS 18.56.710) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2005, for housing loan programs and projects subsidized by the corporation.

(g) The sum of \$30,000,000 is appropriated from federal receipts to the Alaska Housing Finance Corporation for housing assistance payments under the Section 8 program for the fiscal year ending June 30, 2005.

Subsection a informs the legislature that the anticipated annual AHFC corporate "dividend" to the state will be \$103 million, which is equal to the amount paid in recent years. The Governor's bill revises the period of anticipated payments (specified in the FY04 operating budget) from 2008 to 2006 per agreement formalized in HB 256.

Funding: This subsection makes no appropriations and has no fiscal impact.

Subsection b informs the legislature that AHFC will retain \$53.9 million of the dividend to pay debt service on various AHFC-financed capital projects authorized by past legislatures. This leaves \$49.1 million for the legislature to spend as it wishes. Subsection b makes no appropriations.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: *Given the reliance on restricted bond proceeds in the Governor's budget, corporate dividends may have to be spent in the operating budget instead of the capital budget. In recent years, the legislature has used corporate dividends primarily for capital projects and debt service. Use of corporate dividends in agency operating budgets complicates the following budget cycle because the funds are removed from the agencies' base (because the money is customarily reserved for the capital budget). In the case of AHFC dividends, \$200.0 is appropriated to the Department of Corrections.*

Subsection c appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire \$103 million, leaving nothing to be deposited into the debt retirement fund.

Subsection d appropriates certain FY05 receipts of the AHFC to the corporation and allocates those receipts to the AHFC revolving loan fund, housing assistance loan fund, and 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.*

Subsections e, f, and g appropriate certain FY05 corporate receipts to various housing programs. These amounts establish lending limits for the year. There is a relatively small increase from the limits adopted in FY04 (\$2 million, increasing the total for unsubsidized housing loans to \$800 million).

* **Sec. 9. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY.** (a) The sum of \$22,000,000 has been declared available by the Alaska Industrial Development and Export Authority board of directors for appropriation as the fiscal year 2005 dividend from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

(b) The amount set out in (a) of this section for the fiscal year ending June 30, 2005, will be used for the following purposes in the following estimated amounts in the operating and capital budgets for the fiscal year ending June 30, 2005:

- (1) \$11,000,000 for operating appropriations in this Act; and
- (2) \$11,000,000 for debt service.

(c) After deductions for the items set out in (b) of this section are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2005, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated annual AIDEA corporate "dividend" to the state will be \$22 million (the FY04 dividend was \$18.2 million).

Funding: *This subsection makes no appropriations and has no fiscal impact.*

Subsection b informs the legislature that dividends will be used for operating appropriations and debt service. *Subsection b makes no appropriations.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: Given the reliance on restricted bond proceeds in the Governor's budget, corporate dividends may have to be spent in the operating budget instead of the capital budget. In recent years, the legislature has used corporate dividends primarily for capital projects and debt service. Use of corporate dividends in agency operating budgets complicates the following budget cycle because the funds are removed from the agencies' base (because the money is customarily reserved for the capital budget). In the case of AIDEA dividends, \$11 million is appropriated to the Department of Natural Resources for fire suppression.

Subsection c appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire \$22 million, leaving nothing to be deposited into the debt retirement fund.

Legislative Fiscal Analyst Comment: The Governor vetoed \$1.7 million of the \$18.2 million in AIDEA corporate dividends available in FY04. This amount is excluded from the FY05 dividend, which is based on corporate earnings. The unused FY04 dividend is held by AIDEA and the legislature may wish to appropriate the available funds in an FY04 supplemental bill.

* **Sec. 10. 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, 2005, 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 administrative and associated costs for the fiscal year ending June 30, 2005.

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

(c) The amount required to be deposited under AS 37.13.010(a)(1) and (2) during fiscal year 2005 is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

(d) The income earned during fiscal year 2005 on revenue from the sources set out in AS 37.13.145(d) is appropriated to the principal of the Alaska permanent fund.

Subsection a appropriates funds from the earnings reserve account to the dividend fund for payment of dividends and administrative and associated costs. Earnings in FY05 (as calculated on the last day of the fiscal year) will be used to pay PFDs in FY06 and associated costs throughout FY05.

Legislative Fiscal Analyst Comment: The transactions transmitted with the Governor's request incorrectly add the \$31.1 million shown below to the \$490 million the Permanent Fund projects as the FY05 dividend transfer. Per discussion with Permanent Fund personnel, the \$31.1 million is included in their estimated transfer of \$490 million. LFD budget reports reflect the corrected amount.

Funding: The projected amount of dividend transfer for FY05 is \$490 million, including administrative and associated costs. Administrative and associated costs for FY05 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 as shown below.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Revenue (PFD Division)	\$5.5 million
H&SS (Public Assistance)	15.9 million
Department of Administration(Violent Crimes)	0.9 million
Corrections (Admin and Operations)	5.1 million
Public Safety (various)	3.1 million
Legislature (Office of Victims Rights)	0.5 million

Total reflected in budget \$31.1 million

Legislative Fiscal Analyst Comment: The Governor's request appropriates about \$200.0 more for associated costs than is available to spend. All affected agencies except the Legislature requested a proportionate reduction in funding (often replaced with other funds).

Subsection a does not appropriate money for all Permanent Fund administrative costs. Administrative costs such as operations of the Permanent Fund Corporation and certain oil and gas activity in the departments of Law, Natural Resources and Revenue are paid directly from corporate receipts and reduce the calculation of earnings available for distribution. These administrative appropriations are in section 1 of the bill as follows:

Law (Oil, Gas and Mining)	\$ 1.5 million
Natural Resources (Oil and Gas Dev)	2.2 million
Natural Resources (Claims, Permits & Leases)	1.0 million
Revenue (Tax Division)	0.1 million
Permanent Fund Corporation	7.0 million
Permanent Fund Corporation (Custody/Mgt Fees)	41.4 million

Total reflected in budget \$ 53.1 million

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

Funding: The projected amount of inflation proofing for FY05 is \$613 million.

Legislative Fiscal Analyst Comment: The Governor's request does not make up the shortfall in inflation proofing that occurred as a result of session-ending negotiations regarding access to the Constitutional Budget Reserve Fund. According to legislative intent expressed during those discussions, that \$183 million shortfall should be appropriated in FY05. One option for doing so is to add language appropriating the "missing" inflation proofing to the operating bill.

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.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Funding: Deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports. The Permanent Fund projects that dedicated deposits will be \$252 million during FY05.

Subsection d appropriates FY05 earnings attributable to revenue held in trust or escrow to the principal of the Permanent Fund.

Funding: These settlement deposits to the Permanent Fund do not appear in the bill summary or in Legislative Finance reports.

New Section

* **Sec. 11. ALASKA STUDENT LOAN CORPORATION DIVIDEND.** (a) The sum of \$5,600,000 has been declared available by the Alaska Student Loan Corporation board of directors for appropriation as the fiscal year 2005 dividend.

(b) The amount set out in (a) of this section for the fiscal year ending June 30, 2005, will be used in the following estimated amounts in the operating and capital budgets for the fiscal year ending June 30, 2005:

(1) \$2,747,900 for operating appropriations in this Act; and

(2) \$2,852,100 for capital projects.

(c) After deductions for the items set out in (b) of this section are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2005, is appropriated to the Alaska debt retirement fund (AS 37.15.011).

Subsection a informs the legislature that the anticipated FY05 Student Loan Corporation dividend to the state will be \$5.6 million, which is \$600.0 more than the \$5 million paid in FY04.

Subsection b informs the legislature that the anticipated FY05 Student Loan dividend will be used for operating and capital appropriations.

Legislative Fiscal Analyst Comment: Given the reliance on restricted bond proceeds in the Governor's budget, corporate dividends may have to be spent in the operating budget instead of the capital budget. In recent years, the legislature has used corporate dividends primarily for capital projects and debt service. Use of corporate dividends in agency operating budgets complicates the following budget cycle because the funds are removed from the agencies' base (because the money is customarily reserved for the capital budget and/or debt service). In the case of Student Loan dividends, \$1.1 million is appropriated to the Department of Corrections and \$1.7 million is appropriated for fire suppression.

Subsection c appropriates the "unused" portion of the dividend to the Alaska Debt Retirement Fund. The Governor's proposed capital and operating budgets appropriate the entire \$5.6 million, leaving nothing to be deposited into the debt retirement fund.

Legislative Fiscal Analyst Comment: The Governor vetoed \$0.9 million of the \$5.0 million in Student Loan corporate dividends available in FY04. This amount is excluded from the FY05 dividend, which is based on corporate earnings. The unused FY04 dividend is held by the corporation and the legislature may wish to appropriate the available funds in an FY04 supplemental bill.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Section Deleted; appeared in FY04 Operating Budget

CAPITAL PROJECT MATCHING GRANT PROGRAMS. (a) The sum of \$15,000,000 is appropriated from general fund to the following funds in the Department of Community and Economic Development, in the amounts stated, to provide capital project matching grants:

Municipal capital project matching grant fund (AS 37.06.010(b))	\$13,100,000
Unincorporated community capital project matching grant fund (AS 37.06.020(b))	1,900,000

(b) An amount equal to the interest earned on money in the individual grant accounts in the municipal capital project matching grant fund (AS 37.06.010(b)) and the unincorporated community capital project matching grant fund (AS 37.06.020(b)) is appropriated from the general fund to the respective funds. The interest is calculated using the average percentage interest rate received by other accounts in the state's general investment fund that received interest during fiscal year 2003. The appropriations made by this subsection are allocated pro rata to each individual grant account based on the balance in the account on the close of business on June 30, 2003.

Legislative Fiscal Analyst Comment: Historically, these funds provided money for municipal and unincorporated community matching grants. Specific projects were listed in the capital bill. The Governor vetoed the programs in FY04, and later replaced the vetoed funding with federal unrestricted receipts in order to provide a transition period.

* **Sec. 12. CHILD SUPPORT ENFORCEMENT.** (a) The minimum amount of program receipts received during the fiscal year ending June 30, 2005, by the child support enforcement division that is required to secure the federal funding appropriated for the child support enforcement program in sec. 1 of this Act is appropriated to the Department of Revenue, child support enforcement division, for the fiscal year ending June 30, 2005.

(b) Program receipts collected as cost recovery for paternity testing administered by the child support enforcement division, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(f), are appropriated to the Department of Revenue, child support enforcement division, for the fiscal year ending June 30, 2005.

Subsection a permits an unspecified amount of program receipts collected by the CSED (Receipt Supported Services) to be spent to capture the Federal Receipts appropriated in section 1. The agency typically collects more in receipts than it is authorized to spend.

Federal incentive payments (which can be used to match other federal receipts) have declined as welfare roles decline and as other states have improved performance.

Funding: This provision has been included in the budget for at least four years. The Department projects that the provision will be triggered in FY04 (\$885,800 and in FY05 (\$723,400). Of the total \$885,800 known shortfall in FY04, \$602,900 is related to failing a data reliability audit relating to paternity establishment.

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

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: *The department estimates that paternity testing will generate \$43.0 in program receipts. The Governor's request overlooked including a transaction for this subsection. LFD added a transaction, so LFD reports differ from OMB's reports by this amount.*

Section Deleted; appeared in FY04 Operating Budget

DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT. (Lengthy language omitted from this discussion.)

Legislative Fiscal Analyst Comment: *The FY04 operating budget contained contingency language that incorporated learning opportunity grants into the foundation formula upon approval of an increase in the base student allocation. The base allocation was increased, and will remain at the FY04 level until changed by future legislation, making similar language in the FY05 budget unnecessary.*

For the past several years, prior year surplus K-12 foundation funding has been carried forward. This action reduces the apparent size of the budget under consideration while fully funding the foundation formula. The Governor's request fully funds the foundation formula and does not reappropriate surplus FY04 funding, if any. The amount of the surplus is unknown at this time, but including a reappropriation provision could reduce FY05 general fund appropriations by \$8 million or more (based on recent history).

* **Sec. 13. DISASTER RELIEF AND FIRE SUPPRESSION.** (a) Federal receipts received for disaster relief during the fiscal year ending June 30, 2005, are appropriated to the disaster relief fund (AS 26.23.300).

(b) Federal receipts received for fire suppression during the fiscal year ending June 30, 2005, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2005.

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

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

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

Funding: A \$2 million federal receipts estimate for fire suppression has been used for several years. Due to a change in the way the federal government and states exchange funding, the FY05 budget shifts spending authority from federal receipts to receipts received directly from other states. That shift is reflected in section 1. The Governor's request omits an estimate of receipts under this subsection. Based on discussion with agency staff, LFD continues to assign a \$2 million estimate to this language.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

* **Sec. 14. EDUCATION LOAN PROGRAM.** The amount of loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2005, is appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

This provision 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 set by regulation at 3%. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.*

* **Sec. 15. 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), 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 are received during the fiscal year ending June 30, 2005, 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, 2005, 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) that are received during the fiscal year ending June 30, 2005, fall short of the estimates appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection a *lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit Committee. There is no change from FY04.*

Subsection b *is standard language that permits state (general fund) authorization to be reduced if unanticipated money is received for projects funded by general funds.*

Legislative Fiscal Analyst Comment: *no process for reducing appropriations is specified and Legislative Finance is unaware of any application of subsection b.*

Subsection c *is standard language that reduces appropriations if federal and other receipts are less than the amount appropriated in the bill.*

Legislative Fiscal Analyst Comment: *Typically, unrealized receipts are restricted in the accounting system, but authorization is not actually reduced (it simply lapses at year-end).*

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

* **Sec. 16. FISH AND GAME ENFORCEMENT.** (a) To increase enforcement of the fish and game laws of the state, the amount deposited in the general fund during the fiscal year ending June 30, 2004, from criminal fines, penalties, and forfeitures imposed for violation of AS 16 and its implementing regulations and from the sale of forfeited property or alternative damages collected under AS 16.05.195 is appropriated to the fish and game fund (AS 16.05.100).

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

(b) Appropriations totaling the estimated amount of the deposits described in (a) of this section and the remaining unexpended and unobligated balances from prior year transfers for these purposes are made in sec. 1 of this Act to the Department of Public Safety and the Department of Law for increased enforcement, investigation, and prosecution of state fish and game laws. If the amounts of the deposits and unexpended and unobligated balances fall short of the estimates appropriated in sec. 1 of this Act, the amounts appropriated to the Department of Public Safety and the Department of Law from the fish and game fund as set out in sec. 1 of this Act are reduced proportionately.

Subsection a specifies that criminal fines, penalties and forfeitures associated with fish and wildlife enforcement collected during FY04 are appropriated to the Fish and Game Fund.

Funding: Estimated FY04 collections addressed by this section are \$780.4.

Subsection b is standard language referencing appropriations made in section 1 to the Departments of Law and Public Safety. It also appropriates any balance remaining if past collections exceeded appropriations and reduces appropriations if available funds are less than amounts appropriated in section 1.

Funding: Appropriations of FY04 collections (\$780.4) appear in section 1. The FY04 unappropriated balance is expected to be zero. There appears to be an over-appropriation of this fund source in section 1, but that is not problematic because the language limits the appropriation in section 1.

* **Sec. 17. FISH AND GAME FUND.** The following revenue collected during the fiscal year ending June 30, 2005, is appropriated to the fish and game fund (AS 16.05.100):

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

(2) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(16));

(3) fees collected at boating and angling access sites described in AS 16.05.050(a)(7) and managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement;

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

(5) fees collected for sanctuary access permits (AS 16.05.050(a)(16)).

This section appropriates revenue generated by the named licenses and fees into the Fish and Game Fund.

Legislative Fiscal Analyst Comment: *Receipts from the sale of Chitina dip net fishing permits (AS 16.05.340(a)(22)) were included in FY04 but have been deleted from the FY05 budget because there is no longer a charge for the permits. A provision appropriating past waterfowl stamp receipts was also deleted. The provision was a technical correction that is not required for FY05.*

Legislative Fiscal Analyst Comment: *This provision describes revenue to the Fund, but does not appropriate money from the Fund. The money appropriated to the Fish and Game Fund is general fund program receipts. Appropriations of these receipts to the Department of Fish and Game appear as appropriations of F&G funds in section 1.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Funding: Appropriations of FY04 collections (\$2.0 million) are included in the appropriation of F&G funds in section 1.

* **Sec. 18. FUND TRANSFERS.** The amount of the net income earned during the fiscal year ending June 30, 2005, on the appropriation made by sec. 2(a), ch. 19, SLA 1993, to the Department of Administration for a grant to the Chugach Electric Association and held by the Alaska Industrial Development and Export Authority is appropriated to the general fund.

Legislative Fiscal Analyst Comment: The FY04 operating bill appropriated the amount of the net income earned since August 11, 1993, on the appropriation for a grant to the Chugach Electric Association to the Alaska debt retirement fund (AS 37.15.011). This section appropriates FY05 earnings on that grant to the general fund. In FY04, the earnings were classified as miscellaneous earnings because the provision corrected an error that had allowed money to accumulate for several years. The Governor's treatment of current earnings is appropriate. The recategorization of funds increases the apparent size of the Governor's general fund budget but has no impact on the fiscal gap.

Legislative Fiscal Analyst Comment: Provisions appearing in the FY04 operating bill transferring the balances of the international trade and business endowment and the state land disposal income fund to the Alaska debt retirement fund, and transferring the balance of the Alaska science and technology endowment to the general fund are no longer relevant and have been deleted from the Governor's request.

Legislative Fiscal Analyst Comment: Several provisions that appear under section 29 (debt service and other obligations) are more appropriately described as fund transfers and should appear in this section.

* **Sec. 19. INSURANCE AND BOND CLAIMS.** (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 during the fiscal year ending June 30, 2005.

(b) The amounts received in settlement of claims against bonds guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of wells, are appropriated to the agency secured by the bond for the fiscal year ending June 30, 2005, for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond.

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

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

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

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Funding: This provision has no FY05 fiscal impact; it allows money appropriated elsewhere to be swept into the reserve account but does not increase total appropriations.

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

Funding: The Department of Natural Resources estimates that \$601.8 will be received under this section.

* **Sec. 20. MARINE HIGHWAY SYSTEM FUND.** The sum of \$32,000,000 is appropriated from the general fund to the Alaska marine highway system fund (AS 19.65.060).

Legislative Fiscal Analyst Comment: For this amount to be sufficient, the FY03 CBR sweep will have to be reversed, restoring \$9.3 million swept from the AMHS fund. Additionally, operating costs will need to be \$80 million or less and operating revenue will need to be \$42.5 million or more. The AMHS is in a state of flux given that a new operating model (fast-vehicle ferries) is in the process of implementation. Budgeted expenses and revenue projections are uncertain at this point, and the \$32 million subsidy may be insufficient. In the best of circumstances, the fund is unlikely to start FY06 with a significant balance.

* **Sec. 21. NATIONAL FOREST RECEIPTS.** The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Community and Economic Development determines would lapse into the unrestricted portion of the general fund June 30, 2005, under AS 41.15.180(j) is appropriated as follows:

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

(2) the balance remaining 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, 2005, 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, 2005.

Subsection 1 appropriates \$170.0 of National Forest Receipts to DOT & PF for road maintenance in the unorganized borough.

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

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

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

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41.15.180(c) and (d). Section 20 takes money that would otherwise be spent in unorganized areas and appropriates it to local governments.

New Section

* **Sec. 22. OFFICE OF THE GOVERNOR.** (a) The sum of \$5,450,000 is appropriated from federal receipts to the election fund required by the federal Help America Vote Act.

(b) Interest earned on amounts in the election fund are appropriated to the election fund as required by the federal Help America Vote Act.

Subsection a appropriates federal receipts to implement the Help America Vote Act.

Subsection b appropriates earnings on the fund balance to the fund.

Funding: *The Governor's request omits a transaction for this subsection. Uncertainty regarding the timing of cash flows and the rate of return on investments makes estimating earnings difficult. Although some earnings are anticipated, Legislative Finance did not include an estimate in budget reports.*

* **Sec. 23. OIL AND HAZARDOUS SUBSTANCE RELEASE PREVENTION ACCOUNT.** The following amounts are appropriated to the oil and hazardous substance release prevention account (AS 46.08.010(a)(1)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010) from the sources indicated:

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2004, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2004, estimated to be \$9,500,000, from the surcharge levied under AS 43.55.300.

This is standard language appropriating (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY04 collections from the 3 cent per barrel surcharge on oil produced in the state.

* **Sec. 24. OIL AND HAZARDOUS SUBSTANCE RELEASE RESPONSE ACCOUNT.** The following amounts are appropriated to the oil and hazardous substance release response account (AS 46.08.010(a)(2)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010) from the following sources:

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2004, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2004, from the surcharge levied under AS 43.55.201.

This is standard language appropriating (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY04 collections from the 2 cent per barrel surcharge on oil produced in the state.

Funding: *The projected balance of the mitigation account that will be transferred under this section is zero. The surcharge mentioned in subsection 2 has not been triggered for several years.*

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* **Sec. 25. POWER COST EQUALIZATION.** (a) The sum of \$3,697,900 is appropriated from the general fund to the power cost equalization and rural electric capitalization fund (AS 42.45.100).

(b) The amount necessary to provide the sum appropriated from the power cost equalization and rural electric capitalization fund (AS 42.45.100) by sec. 1 of this Act, after the appropriation made in (a) of this section, is appropriated from the power cost equalization endowment fund (AS 42.45.070) to the power cost equalization and rural electric capitalization fund. However, in accordance with AS 42.45.085(a), the amount appropriated by this subsection may not exceed seven percent of the market value of the power cost equalization endowment fund, determined by the commissioner of revenue to be \$11,369,441.16, minus amounts appropriated during the fiscal year ending June 30, 2005, for reimbursement of the costs set out in AS 42.45.085(a)(2) and (3).

Legislative Fiscal Analyst Comment: Issues surrounding PCE are complex. Issues include:

- *The PCE Endowment is too small to support the current level of funding (or the \$15.7 million level appropriated in recent years); the program requires appropriations from sources other than the PCE endowment.*
- *Appropriating 7% of the endowment market value (for annual PCE grants) can erode the endowment. This may increase future GF funding of the program.*
- *Elimination of other funding would require an endowment market value of \$225 million to allow grants of \$15.7 million.*
- *The estimated balance of the endowment is \$165 million. This balance will provide annual funding of about \$11.5 million, which is \$4.2 million per year less than current grants.*

Subsection a provides general funds to supplement earnings from the endowment. While the funding of the PCE Program in the numbers section of the budget remains at \$15.7 million, there is a shortage in the capitalization of the PCE Fund--only \$15.1 million is appropriated to the fund (\$11.4 million from the PCE Endowment and \$3.7 million of GF).

Legislative Fiscal Analyst Comment: The agency indicated that the PCE Fund's capitalization shortage will be addressed in the supplemental bill with a request for \$632,700 of lapsing NPR-A funds. Whether this funding level is sufficient to allow grants of \$15.7 million while paying administrative costs to AIDEA (new this year) is unknown at this time.

Subsection b appropriates seven percent of the market value of the PCE endowment.

* **Sec. 26. RETAINED FEES AND BANKCARD SERVICE FEES.** (a) The amount retained to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2005, is appropriated for that purpose to the agency authorized by law to generate the revenue.

(b) The amount retained to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2005, is appropriated for that purpose to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

This language addresses the need to appropriate vendor compensation that is not directly appropriated by the state for 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

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vendor retained a portion of the sale. It also applies to several programs in the Department of Administration, Department of Natural Resources and the Trial Courts.

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

Section Deleted; appeared in FY04 Operating Budget

SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for university employees who are not members of a collective bargaining unit and for implementing the monetary terms of the following collective bargaining agreements with entities representing employees of the University of Alaska:

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

(b) The operating budget appropriations made in sec. 1 of this Act include \$11,935,700 to implement the monetary terms for the fiscal year ending June 30, 2005, of the following collective bargaining agreements:

- (1) Alaska Public Employees Association, for the Confidential Unit;
- (2) Alaska Public Employees Association, for the Supervisory Unit;
- (3) Alaska State Employees Association, for the General Government Unit;
- (4) Alaska Vocational Technical Center Teachers' Association, representing teachers at the Alaska Vocational Technical Center;
- (5) Alyeska Central School Education Association, representing teachers at the Alyeska Central School;
- (6) Inlandboatmen's Union of the Pacific, representing the unlicensed marine unit;
- (7) Public Employees Local 71, for the Labor, Trades and Crafts Unit;
- (8) Public Safety Employees Association, for the Correctional Officers Unit;
- (9) Public Safety Employees Association, representing state troopers and other commissioned law enforcement personnel;
- (10) Teachers' Education Association of Mt. Edgecumbe.

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

Legislative Fiscal Analyst Comment *Similar language can be added to the FY05 bill upon conclusion of various collective bargaining agreements.*

Funding: *This section is not an appropriation. It specifies that various salary adjustments are funded with money appropriated in section 1.*

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* **Sec. 27. SALMON ENHANCEMENT TAX.** The salmon enhancement tax collected under AS 43.76.010 - 43.76.028 in calendar year 2003 and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Community and Economic Development for payment in fiscal year 2005 to qualified regional associations operating within a region designated under AS 16.10.375.

This is standard language that appropriates salmon enhancement tax receipts (general funds) to the Department of Community and Economic Development for payment in FY05 to qualified aquaculture associations.

Funding: *The amount is excluded from Legislative Finance reports on the operating bill.*

* **Sec. 28. SHARED TAXES AND FEES.** The amount necessary to refund to local governments their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated to the Department of Revenue from the general fund for payment in fiscal year 2005:

REVENUE SOURCE	FISCAL YEAR COLLECTED
fisheries taxes (AS 43.75)	2004
fishery resource landing tax (AS 43.77)	2004
aviation fuel tax (AS 43.40.010)	2005
electric and telephone cooperative tax (AS 10.25.570)	2005
liquor license fee (AS 04.11)	2005

This is standard language that appropriates general funds to the Department of Revenue in order to refund local governments their share of taxes and fees collected for payment in FY05.

Funding: *The amounts are excluded from Legislative Finance reports on the operating bill.*

* **Sec. 29. STATE DEBT AND OTHER OBLIGATIONS.** (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2005, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes.

(b) The sum of \$79,032,700 is appropriated to the Department of Education and Early Development for state aid for costs of school construction under AS 14.11.100 from the following sources:

Alaska debt retirement fund (AS 37.15.011)	\$48,832,700
School fund (AS 43.50.140)	30,200,000

(c) The sum of \$13,811,346 is appropriated from the Alaska debt retirement fund (AS 37.15.011) to the state bond committee for the fiscal year ending June 30, 2005, for trustee fees and lease payments relating to certificates of participation issued for real property.

(d) The sum of \$3,549,363 is appropriated to the Department of Administration for the fiscal year ending June 30, 2005, for payment of obligations to the Alaska Housing Finance Corporation for the Robert B. Atwood Building in Anchorage from the following sources:

Alaska Housing Finance Corporation dividend	\$2,326,063
Miscellaneous earnings	1,223,300

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(e) The amount required to be paid by the state for principal and interest on all issued and outstanding state-guaranteed bonds is appropriated from the general fund to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2005, for payment of principal and interest on those bonds.

(f) The sum of \$2,735,919 is appropriated from the general fund to the following departments for the fiscal year ending June 30, 2005, for payment of debt service on outstanding debt authorized by ch. 115, SLA 2002, for the following projects:

DEPARTMENT AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska Anchorage Community and Technical College Center Juneau Readiness Center/UAS Joint Facility	\$1,413,993
(2) Nome	129,962
(3) Metlakatla Power and Light (utility plant and capital additions)	1,191,964

(g) The sum of \$19,706,207 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

(h) The sum of \$12,609,306 is appropriated to the state bond committee from State of Alaska general obligation bonds, series 2003A bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2005, for payment of debt service, accrued interest, and trustee fees on outstanding State of Alaska general obligation bonds, series 2003A.

(i) The sum of \$2,473,124 is appropriated from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2003A general obligation bonds to the Alaska debt retirement fund (AS 37.15.011).

(j) The sum of \$9,045,000 is appropriated to the state bond committee from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service, accrued interest, and trustee fees on outstanding state guaranteed transportation revenue anticipation bonds, series 2003B.

(k) The sum of \$5,045,613 is appropriated to the state bond committee from state guaranteed transportation revenue anticipation bonds, series 2003B bond issue premium, interest earnings, and accrued interest held in the Alaska debt service fund for the fiscal year ending June 30, 2005, for payment of debt service and trustee fees on outstanding state guaranteed transportation revenue anticipation bonds, series 2003B.

(l) The sum of \$8,606,387 is appropriated from federal receipts for state guaranteed transportation revenue anticipation bonds, series 2003B, to the Alaska debt retirement fund (AS 37.15.011).

(m) The sum of \$438,614 is appropriated from Alaska accelerated transportation projects fund bond proceeds for state guaranteed transportation revenue anticipation bonds, series 2003B, to the Alaska debt retirement fund (AS 37.15.011).

(n) The sum of \$24,815,000 is appropriated from Alaska Student Loan Corporation bond proceeds to the Alaska debt retirement fund (AS 37.15.011).

(o) The sum of \$27,568,000 is appropriated from Alaska Housing Finance Corporation fiscal year 2005 dividend to the Alaska debt retirement fund (AS 37.15.011).

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(p) The sum of \$11,000,000 is appropriated from Alaska Industrial Development and Export Authority fiscal year 2005 dividend to the Alaska debt retirement fund (AS 37.15.011).

(q) The sum of \$775,000 is appropriated from miscellaneous earnings from earnings on unreserved investment earnings of the Alaska Municipal Bond Bank to the Alaska debt retirement fund (AS 37.15.011).

(r) The sum of \$109,800 is appropriated from residual balances in lease payment accounts to the Alaska debt retirement fund (AS 37.15.011).

(s) The sum of \$104,029 is appropriated from the investment loss trust fund (AS 37.14.300) to the Alaska debt retirement fund (AS 37.15.011).

(t) The sum of \$5,274,800 is appropriated from the general fund to the Department of Administration, for the fiscal year ending June 30, 2005, for payment of obligations and fees for the Anchorage Jail.

(u) The sum of \$1,610,000 is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 during the fiscal year ending June 30, 2005.

(v) The sum of \$1,020,100 is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565) for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 during the fiscal year ending June 30, 2005.

(w) The sum of \$31,423,824 is appropriated to the state bond committee for the fiscal year ending June 30, 2005, for payment of debt service and trustee fees on outstanding international airports revenue bonds from the following sources in the amounts stated:

SOURCE	AMOUNT
International Airports Revenue Fund (AS 37.15.430)	\$29,423,824
Passenger facility charge	2,000,000

(x) The amount necessary to pay the arbitrage rebate liability arising from the issuance of the Alaska International Airports System's 1999 Series C construction bonds, estimated to be \$134,000, is appropriated from the Alaska International Airports System's 1999 Series C construction fund (AY18) to the state bond committee for payment of this arbitrage rebate liability.

Legislative Fiscal Analyst Comment: *This section could be revised in future drafts to move fund transfers to section 18 and ensure that all debt service is reflected in payments from the Alaska Debt Retirement Fund.*

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

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

Subsection b *appropriates funds for municipal school debt reimbursement. AS 14.11.100 authorizes the State to reimburse municipalities for selected bonds issued for school construction (70% of principal and interest in the latest authorization). The amount of this appropriation is the projected need for full reimbursement.*

Legislative Fiscal Analyst Comment: *This amount is full funding for the program.*

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Subsection c appropriates funds from the debt retirement fund to the state bond committee for payment of trustee fees and lease payments related to state-issued certificates of participation. Certificates of participation (COPs) are sold by the state to finance construction or purchase of state facilities. COPs represent fractional interest in the ownership of the lease payments that are paid over time by the state. Eventually, the state owns the facility outright.

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

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

Funding: The revenue stream from mortgage loans is expected to be sufficient to cover bond payments, so the expected fiscal impact of this subsection is zero. A potential general fund obligation exists; AHFC has approximately \$500 million in outstanding veterans bonds.

Subsection f appropriates \$2.7 million to reimburse debt service for three projects authorized in 2002.

Legislative Fiscal Analyst Comment: Departments to which funding is appropriated are not identified.

Subsections g and h appropriate \$19.7 million from the debt retirement fund and \$12.6 million from premiums and interest, respectively, to pay debt service on series 2003A general obligation bonds.

Subsections i, j, k, l and m are a mixture of capitalization of the debt retirement fund and debt service payments on series 2003B GARVEE bonds.

Subsections n, o, and p capitalize the debt retirement fund with corporate dividends.

Subsection q appropriates \$775,000 in municipal bond bank earnings to the debt retirement fund.

Subsection r appropriates \$109,800 from residual balance in lease accounts to the debt retirement fund. This reduces the required amount of general fund capitalization.

Subsection s appropriates all available money from the ILTF escrow account to the debt retirement fund.

Subsection t appropriates \$5.3 million general funds to pay lease costs for the Anchorage jail. Anchorage issued municipal bonds to pay for the construction of the Anchorage Jail, which the State leases.

Legislative Fiscal Analyst Comment: Legislative Finance placed this appropriation in the leasing component in the Department of Administration's FY05 budget. In common language, the contract with the Municipality of Anchorage is a lease, but terms of the contract are such that Governmental Accounting Standards Board's (GASB) rule #34 classifies it as a Capital Lease. In simple terms, this means that a default on lease payments could affect the state's credit rating.

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LFD Recommendation: *Despite the unique classification of the lease, this provision could be replaced by an appropriation in section 1. If there is concern regarding specific identification of lease payments, the lease could be placed in a separate appropriation in DOA's budget.*

Subsections u and v *appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds.*

Subsection w *appropriates funds to the department of administration for payment of debt service and fees on outstanding international airport revenue bonds. These are revenue bonds issued by the Anchorage and Fairbanks airports.*

Subsection x *appropriates money from the Airport Construction Fund to the state bond committee for payment of arbitrage rebate liability.*

New Section

* **Sec. 30. STATEWIDE ELECTION COSTS.** The sum of \$2,382,600 is appropriated from the general fund to the Office of the Governor, division of elections, for costs associated with conducting the statewide primary and general elections in the fiscal year ending June 30, 2005.

A similar appropriation is required in each election year. \$2.422 million was appropriated for the FY03 elections.

* **Sec. 31. UNDERGROUND STORAGE TANK REVOLVING LOAN FUND.** The sum of \$875,000 is appropriated from the oil and hazardous substance release prevention account (AS 46.08.010(a)(1)) to the underground storage tank revolving loan fund (AS 46.03.410).

The available balance of the prevention account is traditionally appropriated to the underground storage tank revolving loan fund.

* **Sec. 32. UNIVERSITY OF ALASKA.** The fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2004, for the issuance of special request university plates, less the cost of issuing the license plates, are 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, 2005.

Funding: The University expects to receive about \$1,000 under this section.

* **Sec. 33. VETERANS' MEMORIAL ENDOWMENT.** Five percent of the market value of the average ending balance in the Alaska veterans' memorial endowment fund (AS 37.14.700) from July 31, 2002, to June 30, 2004, is appropriated 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, 2005.

Funding: Endowment proceeds are expected to be about \$11,800.

* **Sec. 34. CONSTITUTIONAL BUDGET RESERVE FUND.** (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2004 that were made from subfunds and accounts other than the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations

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from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which they were transferred.

(b) If the unrestricted state revenue available for appropriation in fiscal year 2005 is insufficient to cover the general fund appropriations made for fiscal year 2005, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(c) The sum of \$125,000 is appropriated from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) to the Department of Revenue, treasury division, for the fiscal year ending June 30, 2005, for investment management fees for the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(d) The appropriations in (a) - (c) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

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

Funding: This subsection has no net fiscal impact; it simply transfers money between accounts.

Subsection b allows the state to cover any shortfall in unrestricted revenues with transfers from the CBR to the general fund. The subsection is used to draw CBR funds for short-term cash flow needs as well as to balance year-end revenue and expenditures. The language reverts to language used before FY04, specifying that the draw applies to “appropriations made for fiscal year 2005” rather than “appropriations that take effect in fiscal year 2005” as was specified in the FY04 language (that failed adoption). The revised language was intended to clarify that capital and other multi-year appropriations that take effect in FY05 are covered by the FY05 CBR draw.

Subsection c appropriates \$125,000 from the budget reserve fund to the Department of Revenue, Treasury Division, for investment management fees for FY05.

Subsection d stipulates that appropriations made by (a-c) must be approved by at least three-quarters of the members of each house of the legislature.

* **Sec. 35. NONLAPSE OF APPROPRIATIONS.** The appropriations made by secs. 5, 6, 7, 8(c), 9(c), 10(b), 10(c), 10(d), 11(c), 13(a), 14, 16(a), 17, 20, 22, 23, 24, 25, 29(i), 29(l), 29(m), 29(n), 29(o), 29(p), 29(q), 29(r), 29(s), 29(u), 29(v), and 31 of this Act are for the capitalization of funds and do not lapse.

* **Sec. 36.** This Act takes effect July 1, 2004.

Capital Budget

The Governor's FY05 capital budget spends just over \$1.4 billion dollars. Compared to the capital budget authorized for FY04, general funds have gone from \$85 million to zero, federal funds are up \$271 million, and other non-duplicated state funds are down \$52 million. Note that Legislative Finance classifies \$40 million from the sale of buildings to the Alaska Housing Finance Corporation as "other funds" while the Governor classifies them as general funds.

- **General Funds** are replaced by one-time bond proceeds. The Alaska Housing Finance Corporation (AHFC) and the Alaska Student Loan Corporation (ASLC) propose issuing corporate bonds totaling \$140 million, to be used for capital projects and retirement of principal on capital project debt.⁵ The proceeds can be spent only for capital purposes.
 - The capital budget contains \$115 million of these proceeds and \$25 million is used to pay capital project debt principal in the operating budget.
 - \$40.6 million from the ASLC is budgeted for Federal-Aid Highway State Match. This ongoing program will require alternate state funding in the future.
 - \$6.5 million from the ASLC is budgeted for Municipal Water, Sewer, and Solid Waste Matching Grant projects.
 - Approximately \$20 million from AHFC is budgeted as state match for DEC Village Safe Water projects and for feasibility studies.
 - Another \$45 million from AHFC is appropriated for various agency equipment and deferred maintenance projects, the largest of which are as follows:
 - \$11.25 million for Federal-Aid Aviation State Match (AIP Program)
 - \$10.6 million to UA for the "Board of Regents Priority Projects."
 - \$4 million for AMHS Vessel and Terminal Overhaul/Rehabilitation
 - \$1.2 million to DHSS for State Veteran's Home Conversion
 - \$3.2 million to DMVA for the Bethel Readiness Center Construction
- **The increase in federal funding is primarily the result of three Federal Earmark projects totaling \$350 million; Juneau Access Improvement (\$128.7 million), Ketchikan Gravina Island Crossing (\$215 million), and Wrangell Bradfield Canal Road (\$6 million).** All of these projects are still subject to actual federal earmarking. Until federal funding materializes, state expenditure authority for these projects may be unnecessary.

⁵ AHFC proposes transferring \$40 million of bond proceeds to the state in exchange for ownership of unspecified state buildings. These buildings would be leased back to the state. Lease payments would cover debt service and maintenance (including deferred maintenance) costs. An additional \$25 million bond issue by AHFC would be used for capital projects. AHFC would reduce its annual dividend by about \$2 million annually to pay the debt service on the bonds. The ASLC proposes issuing \$75 million in bonds secured by a specific portion of their loan portfolio. The \$75 million paid to the State would be considered a return of contributed capital. The interest portion of debt service associated with the bonds would reduce the Corporation's net income by about \$2 million annually. The annual corporate dividend to the State would fall by about \$700,000. Future bonding and/or cash payments are being considered by ASLC as means to return all contributed capital to the State. Total capital contributed to the ASLC by the State is approximately \$300 million.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

- The Surface Transportation Program (STP) is budgeted at approximately the same level as FY04 (\$409 million).
 - Included are allocations for four new ferries with a total cost of \$134 million.
 - Federal-Aid Highway match is budgeted at \$40.6 million. This amount is calculated⁶ by taking the total dollar amount of highway projects requiring match, applying an average match rate (10%), and then adding 1% for contingency/ineligible costs.⁶

Legislative Fiscal Analyst Comment: *The latest Federal Highway Act, TEA-21, expired September 30, 2003. Reauthorization is delayed in congress and the amount of future federal funding for highway projects is uncertain.⁷ The latest Statewide Transportation Improvement Program (STIP) was constructed with this in mind. A cautious approach was taken to prevent over scheduling and delay of projects. If additional federal funding becomes available, projects would be added and expedited. An additional complication involves the current congressional appropriation bill for transportation. That bill earmarks approximately \$60 million dollars of federal entitlement funding. Historically, federal earmarks are in addition to entitlement funding; earmarking funds usually left to the state to allocate is an unprecedented maneuver by congress and bears attention.*

- The Airport Improvement Program is roughly 50% lower than in FY04 at \$169 million. The FY04 budget included 2 years worth of projects for the international airports. FY05 is reduced considerably because of this.
 - Required state match is budgeted at \$11.3 million.
- Village Safe Water Projects total \$78 million with a required 25% state match of \$19.5 million.
- Other significant federally funded projects include:
 - \$26 million for the Pacific Coastal Salmon Treaty
 - \$80 million for UA Replacement Research Vessel
 - \$26 million for the Seward Marine Center
- Significant unrestricted **other funds** have been moved to the operating budget to help close the fiscal gap. This amounts to over \$40 million customarily reserved for the capital budget. The fund sources and changes are as follows:
 - AHFC Dividend – \$19 million proposed; down \$22 million
 - AIDEA Dividend - \$0 proposed; down \$16.4 million
 - ASLC Dividend - \$2.9 million proposed; down \$1.3 million
 - Alcohol/Drug Treatment/Prevention Funds - \$0 proposed; down \$3.4 million

⁶ This would cover costs ineligible for federal highway funds, yet necessary for project completion.

⁷ A 5 month TEA-21 extension (ending in March of 2004) has passed congress to provide time for reauthorization.

Language Sections of the Governor's FY05 Capital Bill

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 Aerospace Development Corporation, Exxon Valdez oil spill trust receipts as defined in AS 37.05.146(b)(4), and receipts of the Alaska Fire Standards Council under AS 37.05.146(b)(5) that exceed the amounts appropriated by this Act are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

(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 lists types of receipts that are appropriated subject to review by the Legislative Budget and Audit Committee. There is no change from FY04.

Legislative Fiscal Analyst Comment: *This standard language permits requests for additional capital authorization to be submitted to the LB&A committee for approval. Similar language in the operating budget applies only to operating authorization. Operating language excludes University receipts and corporate receipts from the Alaska Aerospace Development Corporation.*

Subsection b permits authorization of state funding (general funds or other state funds) to be reduced if unanticipated money is received.

Legislative Fiscal Analyst Comment: *Unlike last year's capital budget language, this section states that if federal or other program receipts exceeded the estimates appropriated, then "appropriations from state funds for the affected program **may** be reduced..." leaving the decision about whether to reduce state funding in affected capital projects up to the legislature.*

*Last year's language (in the capital budget) stated that if federal or other program receipts exceeded the estimates appropriated, then "appropriations from state funds for the affected program **are** reduced..." This language requires a reduction in state funding for ALL approved capital RPLs that contain state funding. This conflicts with the intent of the provision, which is to increase authorization for a project.*

LFD Recommendation: *The legislature may wish to consider amending the FY04 capital language to replace "are" with "may."*

Subsection c is standard language that reduces appropriations if federal and other receipts are less than the amount appropriated in the bill.

Sec. 5. 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.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: *This section allows an agency to receive funds directly from a third party for settlement of insurance claims. Without this provision, settlements would be deposited into the general fund and would not be available to offset the agency's loss without another appropriation.*

Sec. 6. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM. (a) Subject to (b) of this section, the amount, estimated to be \$3,190,170, received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under 42 U.S.C. 6508 by August 31, 2004, is appropriated from federal receipts to the Department of Community and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

(b) That portion of the amount appropriated by (a) of this section that is not subject to a signed grant agreement between the Department of Community and Economic Development and an impacted municipality by August 31, 2004, lapses into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) on September 1, 2004.

(c) The amount equal to 25 percent of the amount that lapsed into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under (b) of this section is appropriated to the principal of the Alaska permanent fund from the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530).

(d) The amount equal to 0.5 percent of the amount that lapsed into the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530) under (b) of this section is appropriated to the public school trust fund (AS 37.14.110) from the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530).

(e) That portion of the amount that lapsed under (b) of this section that is not appropriated under (c) and (d) of this section is appropriated to the power cost equalization and rural electric capitalization fund (AS 42.45.100) from the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530).

This section is intended to appropriate funding received by the federal government for the National Petroleum Reserve-Alaska (NPR-A) impact grant program, and, per AS 37.05.530(g and h), appropriate the unobligated balance (i.e., amount not appropriated for grants) to the Permanent Fund (25%), the Public School Trust Fund (.5%), and the Power Cost Equalization Fund.

Subsection a appropriates federal receipts for the National Petroleum Reserve-Alaska impact grant program.

Legislative Fiscal Analyst Comment: *According to AS 37.05.530, the NPR-A Special Revenue Fund consists of all money disbursed to the state by the federal government for NPR-A lease payments. Because federal receipts (instead of NPR-A funds) are appropriated in subsection a, the NPR-A balance remains in the fund. Consequently, because the federal appropriation to DCED is hollow, subsections (c, d & e) would appropriate the remaining NPR-A balance as follows:*

- *The Permanent Fund would receive twenty five percent (or 797.6);*
- *The Public School Trust Fund would receive its one half (.5%) percent (16.0); and*
- *The Power Cost Equalization Fund would receive the remaining \$2.4 million.*

LFD Recommendation: *Language for this NPR-A sub-section should be identical to last year's capital budget language subsection (Sec. 11(a), Ch 82, SLA 2003). Last year's language appropriates NPR-A funding for grants rather than unspecified federal receipts.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Subsection b clarifies that, after all meritorious grants have been funded, the remaining NPR-A funding is appropriated per subsections (c, d and e).

Subsection c (per AS 37.05.530(g)) appropriates twenty five percent (25%) of the balance remaining in the NPR-A fund (after all meritorious grants have been funded) to the Permanent Fund.

Subsection d (per AS 37.05.530(g)) appropriates one half percent (.5%) of the balance remaining in the NPR-A fund (after all meritorious grants have been funded) to the Public School Trust Fund.

Subsection e (per AS 37.05.530(g)) appropriates the balance remaining in the NPR-A Fund (after appropriations in subsections a, c, & d have been made) to PCE.

Sec. 7. RURAL ELECTRIFICATION REVOLVING LOAN FUND. Notwithstanding AS 42.45.020(g), the balance of the rural electrification revolving loan fund (AS 42.45.020) on June 30, 2004, estimated to be \$330,000, is appropriated to the Department of Community and Economic Development for the electrical emergencies program.

This section appropriates the unexpended and unobligated balance of the fund to the Department of Community and Economic Development for the electrical emergencies program.

Legislative Fiscal Analyst Comment: *This provision for funding the electrical energy program has been used for several years. The provision supersedes the statutory lapse provision (AS 42.45.020(g)) transferring year-end fund balances to the general fund.*

Sec. 8. CONSTITUTIONAL BUDGET RESERVE FUND. (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2004 that were made from subfunds and accounts other than the operating general fund (state accounting system fund number 11100) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which they were transferred.

(b) If the unrestricted state revenue available for appropriation in fiscal year 2005 is insufficient to cover the general fund appropriations made for fiscal year 2005, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

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

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

Subsection b allows the state to cover any shortfall in unrestricted revenues with transfers from the CBR to the general fund. *The subsection is used to draw CBR funds for short-term cash flow needs as well as to balance year-end revenue and expenditures.*

Subsection c stipulates that appropriations made by (a and b) must be approved by at least three-quarters of the members of each house of the legislature.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Finance Analyst Comment: *This language is identical to the CBR provision in the operating budget with the exception of an appropriation of \$125,000 to the Department of Revenue for CBR management fees. If the capital bill receives the required ¾ vote and the operating bill does not, this provision should be amended to include management fees.*

Sec. 9. LAPSE PROVISIONS. (a) The appropriations made by secs. 6(a) and 7 of this Act are for capital projects and lapse under AS 37.25.020.

(b) The appropriations made by secs. 5(1) and 6(c), (d) and (e) of this Act are to capitalize funds and do not lapse.

Sec. 10. The appropriation made by sec. 7 of this Act takes effect June 30, 2004.

Sec. 11. Except as provided in sec. 10 of this Act, this Act takes effect July 1, 2004.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Agency Summary – FY05 Capital Budget – All Funds

Comprehensive Integrated Mental Health Program

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

THE TRUST'S BENEFICIARIES

- People with mental illness
- People with developmental disabilities
- People with chronic alcoholism
- People with Alzheimer's disease and related dementia

THE TRUST'S RESPONSIBILITIES

- Manage the land and cash assets of the Trust in perpetuity
- Provide leadership and advocacy for beneficiaries
- Recommend the state's budget for the Comprehensive Integrated Mental Health Program

THE TRUST

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

- Provide a cash payment of \$200 million into a newly created Mental Health Trust Fund
- Establish a Trust Authority
- Return the principal of the Trust fund to the Authority
- Perpetually use the income of the Trust pay for Trust administration costs and ensure improvements and continuation of the integrated, comprehensive mental health program

Chapter 6, SLA 1994: appropriated \$200 million to the Mental Health Trust Fund from the following sources:

Mental Health Trust Income Account	\$33,000.0
DNR Mental Health Trust Income in the general fund	\$11,700.0
Proceeds from sale of DNR land sale contract portfolio	\$25,000.0
Budget reserve fund	\$130,300.0

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

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Management of the Trust: The Permanent Fund Corporation manages the trust principal, the Mental Health Trust Lands Office (Dept. of Natural Resources) manages the land, and the Mental Health Trust Authority (Dept. of Revenue) and its Board make recommendations for project funding. ***One unique provision of the settlement grants the Authority the power to spend mental health trust income without legislative approval.*** This provision does not remove the legislature from spending decisions: most Authority money goes to state agencies that require legislative authorization to spend the funds.

THE MENTAL HEALTH BUDGET

Separate Appropriation Bill: AS 37.14.001 establishes the responsibilities and authority for management of the Mental Health Trust. The statute requires the Governor to submit a separate appropriation bill limited to appropriations for the state's integrated comprehensive mental health program. If appropriations in the bill submitted by the Governor differ from those proposed by the Authority, or the bill approved by the legislature differs from the bill submitted by the Governor, the bills must be accompanied by a report explaining the reasons for the differences.

The Mental Health Trust Authority Authorized Receipts (MHTAAR) fund source is comprised of income generated from the \$200 million Trust Fund's earnings, land sale/lease proceeds, and land use royalties. Mental Health Trust income provides approximately \$10 million per year for MHTAAR funded projects and mental health trust administrative costs.

The **Comprehensive Integrated Mental Health Program** (CIMHP) is funded with earnings from the Trust and the state's general fund. Fund source names used to identify funds used for the MH Program are:

- MHTAAR – Mental Health Trust Authority Authorized Receipts from earnings of the Trust
- GF/MH – general funds used for Mental Health purposes
- MHTAdmin – used only to fund the Mental Health Trust Authority administrative costs
- A/D P&T Fund-Alcohol and Other Drug Abuse Prevention and Treatment Fund (beginning FY03)
- FedMH Fund-Federal receipts designated for mental health capital projects (beginning in FY05).

Legislative Fiscal Analyst Comment: In FY03, the legislature established the Alcohol and Other Drug Abuse Treatment and Prevention Fund (code 1180) in order to establish and maintain programs for prevention and treatment of alcoholism, drug abuse, and misuse of volatile hazardous materials and substances by inhalant abusers under AS 47.37.030. This funding is classified as non-general fund mental health.

The Authority uses two approaches to request funding for the CIMHP.

1. The MHTAAR fund source is allocated by the Authority after reviewing projects with committed funds. The Authority considers requests approved by relevant beneficiary boards and departments, and then submits a list of projects and funding proposals to the Governor. MHTAAR funding is not based on prior year appropriations.
2. The allocations of GF/MH and A/D PT&T funding is similar to the process that applies to other general funds; state agency operating requests show adjustments to appropriations made the previous fiscal year and capital requests are typically independent of prior year appropriations.

Mental Health Funding: The table below shows an operating increase in mental health funding from FY01 through FY03. Beginning in FY04 and continuing into FY05, operating funds have decreased. General funds appropriated for capital projects fluctuate from year to year.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Statewide Total Appropriations

Budget	FY01	FY02	FY03	FY04 Gov	FY05 Gov
State Controlled	125,488.7	130,990.9	133,999.9	117,388.9	111,097.5
MH Trust	12,380.8	11,936.6	10,224.7	9,846.0	9,461.3
Total Operating	137,869.5	142,927.5	144,224.6	127,234.9	120,558.8
State Controlled	150.0	2,125.0	1,300.0	3,785.3	1,450.0
MH Trust	5,053.2	4,170.0	3,313.0	3,352.1	3,380.0
Total Capital	5,203.2	6,295.0	4,613.0	7,137.4	4,830.0

Overall the reduction in Mental Health Funding for the operating budget from FY04 is nearly \$7 million. Below are significant decreases in Mental Health funding in the following allocations:

Department of Health and Social Services

Behavioral Health Medicaid	\$ 600.0
Community Action & Prevention Intervention Grants (CAPI Grants)	\$ 407.1
Services to the Seriously Mentally Ill	\$ 2,181.4
Services for Severely Emotionally Disturbed Youth (SED)	\$ 940.0
Alaska Psychiatric Institute (API)	\$ 2,039.6
Residential Child Care (RCC)	\$ 2,000.0
Community Developmental Disabilities Grants (DD Grants)	\$ 1,000.0

Overall the reduction in the Mental Health Funding for the capital budget from the prior year is approximately \$3.8 million. Below are significant decreases in Mental Health funding from the Alcohol and Other Drug Abuse Prevention & Treatment Fund for the following projects:

Mental Health Fairbanks Detoxification Unit Expansion and Renovation	\$ 1,000.0
Nome Youth Detention Facility Construction Phase 2	\$ 2,372.8

Legislative Fiscal Analyst Comment: *The operating budget reductions result from various Medicaid refinancing activities, reflected in the budget as fund changes and decrements, enabling the State to substitute federal funds for GF/MH. However, refinancing may take time to realize savings. The capital budget reductions are not unusual; the capital budget varies from year to year.*

Use of AHFC Dividend (without a MH designation) in the Mental Health bill causes the bill to contain non-MH funding, conflicting with the reasons for having a separate MH bill. Although there is no established state contribution amount, the state has an obligation to track mental health expenditures as part of the settlement. Considering that both GF/MH and AHFC dividends are unrestricted fund sources, it may be more appropriate to use general funds (GF/MH) in the Mental Health bill and use the AHFC Dividend in the regular capital budget. A new funding source of FedMH (code 1187), designates the use of federal receipts in the mental health bill.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Comprehensive Integrated Mental Health Program Funding Summary

	GF/MH	MHTAAR	MH Admin	Alcohol/ Other Drug Prevention & Treatment	Total
FY04 Conference Committee	101,219.1	8,956.6	1,199.1	18,027.2	129,402.0
Veto (last year)	(1,857.4)	(9.7)			(1,867.1)
Re-appropriation		350.6			350.6
FY04 Authorized	99,361.7	9,297.5	1,199.1	18,027.2	127,885.5
Transfer in	2,132.1	152.7			2,284.8
Transfer out	(2,132.1)	(152.7)			(2,284.8)
FY04 Management Plan	99,361.7	9,297.5	1,199.1	18,027.2	127,885.5
One time item		(450.6)			(450.6)
Salary adjustment	699.2	46.5	31.4		777.1
Transfer in	2,825.8	605.5		290.6	3,721.9
Transfer out	(2,825.8)	(605.5)		(290.6)	(3,721.9)
FY05 Adjusted Base	100,060.9	8,893.4	1,230.5	18,027.2	128,212.0
Funding Change	(1,879.1)			500.0	(1,379.1)
Increment	605.9	692.9	32.5		1,331.3
Decrement	(5,615.2)	(1,388.0)		(602.2)	(7,605.4)
FY05 Governor Request	93,172.5	8,198.3	1,263.0	17,925.0	120,558.8

	GF/MH	MHTAAR	AHFC Dividends	Federal	Total
Capital Budget Funding Summary					
Department					
Health and Social Services		2,430.0	250.0	1,450.0	4,130.0
Natural Resources		650.0			650.0
Revenue		150.0	1,450.0		1,600.0
Transportation/Public Facilities		150.0	150.0		300.0
					0.0
FY05 Governor Capital Request	0.0	3,380.0	1,850.0	1,450.0	6,680.0

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Agency Narratives and Funding Summaries

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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Administration

The Department of Administration provides statewide leadership and policy direction in the areas of finance and accounting, payroll, information technology, human resources, labor relations, all areas of procurement, facility leasing and management, risk management, and employee and retiree benefits programs for state and local governments. Direct public services are provided through the Division of Motor Vehicles, Public Defender Agency, Office of Public Advocacy, and the Office of Tax Appeals. The department also oversees administrative functions of three independent commissions which are the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, and the Alaska Oil and Gas Conservation Commission.

SIGNIFICANT CHANGES

- The Governor's FY05 request for the Department of Administration is \$10.6 million above the FY04 total funding level. The net change includes a decrease of \$1.8 million in general funds and an increase of \$12.3 million in other funds.
- This department has no major, internal budgetary structural changes; however, effective October 16, 2003, human resource staff and activities from thirteen agencies were integrated into the Division of Personnel within the Department of Administration. This integration is intended to provide all state agencies with standardized, consistent, high- quality service in all areas of human resources and personnel. Costs associated with these services will be aggregated, allocated, and billed to the user agencies based on total authorized positions in the agencies.

Legislative Fiscal Analyst Comment: The department has made a commitment to fully and successfully implement this major initiative in 2005, including the reduction of administrative costs—to date, savings within the Department of Administration are \$548.8 in GF.

- FY05 Governor's Request changed the name of the Information Technology Group to Enterprise Technology Services and in November 2003, the state's new two-year Information Technology Plan was released.

Legislative Fiscal Analyst Comment: In September 2003, negotiators successfully reached a business settlement concerning the termination of the comprehensive Telecommunications Partnering Agreement with Alaska Communications Systems which all parties agreed was too ambitious and complex for the timeframe allowed. Nine PFT positions have been reinstated due to this termination and Enterprise Technology Services plans to take back management of core telecommunications services. The department has identified the successful implementation of the new plan as a priority over the next two years.

- Eleven increments for the department totaling \$13,212.6 (\$969.6 GF, \$12,243.0 Other Funds) include the following:
 - Increase for Public Defender Agency to handle projected caseload increases due to twenty new state trooper positions and 9 new Department of Law prosecution positions--\$810.0 GF provides for 6 new PFT positions and related costs

Legislative Fiscal Analyst Comment: This allocation has been identified by the department as their Number One priority in terms of agency programs. In FY04, the department identified a 47% increase in caseload with less than a 6% increase in resources over the last ten years. In twelve out of the last thirteen years, the Public Defender Agency has requested and received supplemental appropriations.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

With the addition of trooper and attorney positions, the department believes this situation would be exacerbated if an increase to the base Public Defender Agency budget did not materialize.

- Violent Crimes Compensation Board increment of \$150.0 GF to offset a portion of the \$300.5 reduction of PFD Felon Fund receipts

Legislative Fiscal Analyst Comment: *In FY04, this appropriation was transferred from the Department of Public Safety. The GF increment will partially offset the loss of Permanent Fund Dividend funding. A corresponding decrement in Federal Receipts may occur because the loss of each state dollar results in a federal match loss of 60 cents.*

- Chargeback services increased by \$12,001.8 for Management Support Services, IT Support, Human Resources Integration Funding, Central Mail Service in Juneau, and Administrative Support Services in Lease Administration
- Labor Contract Negotiations increase (\$164.7 CIP Receipts) to address the ongoing nature of staff involvement

Legislative Fiscal Analyst Comment: *Many increments in the Department of Administration add no real money to the budget—the chargebacks alone amount to \$12 million of duplicative funding (I/A Receipts). In the past, these charges have been difficult to clearly match in other agencies; it is anticipated that this year may even be more challenging with the late-breaking changes in IT Support and the Human Resources Integration.*

- Decrements total (\$2,083.2), comprised of (\$645.8 GF, \$1,437.4 Other Funds), include
 - Savings due to Human Resources Integration (\$545.8 GF)
 - Motor Vehicles personal services reduction (\$100.0 GF)
 - Staff (-3 PFT) and related expenses reduction at the Alaska Oil and Gas Conservation Commission
 - Reduction of I/A Receipts for the Department of Health and Social Services Balloon Project and Project Succeed
 - PFD Felon Fund Reduction due to reductions in annual Permanent Fund Dividend payments
- Positions increased since FY04 –158 PFT, 2 PPT (and a decrease of 2 Temporary)—caused by the Human Resource Staff consolidation; when viewed from the Adjusted Base standpoint, the department has only increased 3 PFT.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Administration Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	70,787.9	1,059.9	127,412.0	199,259.8
Fiscal Note	2.9			2.9
Veto (last year)	(200.0)			(200.0)
Special appropriation	100.0			100.0
FY04 Authorized	70,690.8	1,059.9	127,412.0	199,162.7
FY04 Management Plan	70,690.8	1,059.9	127,412.0	199,162.7
One time item	(102.9)			(102.9)
Salary adjustment		16.4	1,531.8	1,548.2
Agency transfer in	261.6			261.6
Agency transfer out	(2,249.8)			(2,249.8)
Transfer in	103.5			103.5
Transfer out	(103.5)			(103.5)
FY05 Adjusted Base	68,599.7	1,076.3	128,943.8	198,619.8
Increment	969.6		12,243.0	13,212.6
Decrement	(645.8)		(1,437.4)	(2,083.2)
FY05 Governor Request	68,923.5	1,076.3	139,749.4	209,749.2

Position Summary	PFT	PPT	Tmp
FY04 Authorized	767	29	44
FY05 Governor Request	933	31	34
Net Change	166	2	(10)

FY05 Governor Capital Request	250.0	0.0	6,679.0	6,929.0
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Community and Economic Development

The Department of Community and Economic Development (DCED) provides a wide range of services to private businesses and aids in protecting the public by regulating certain industries. Development services provide general assistance and access to capital markets for businesses, coordinate numerous state loan programs, and manage programs aimed at key economic sectors such as electric power generation, tourism, aerospace, mining, and fishing. Additionally, the department participates in the domestic and international marketing of Alaskan products and attractions. The public protection function regulates banking, securities and corporations, insurance, occupations and public utilities.

DCED also provides services to local governments and unincorporated communities in the form of grants and direct technical assistance. It administers programs offering assistance in the areas of government and financial management, utility management and power cost equalization, energy development, public planning processes, land use planning, and capital project planning.

SIGNIFICANT CHANGES

- The general fund request is \$830.5 (7.8%) below the FY04 Management Plan. Only about \$440.0 was actually decremented from the budget; \$384.5 of GF (and trade functions and positions from the Division of Trade & Development) was transferred to the Governor's Office.

Legislative Fiscal Analyst Comment: In past years the legislature has moved the trade functions to the Governor's Office only to have the Governor's Office contract with DCED to carry out these functions. This is not the case this time--the Governor's Office will be taking over these functions.

- The general fund cut of \$440.0 was accomplished in several ways. A change in the cost allocation plan replaces \$173.1 of GF with other fund sources. The elimination of the Alaska Legal Services grant in the Community Advocacy allocation saves \$125.0 in GF. A \$100.0 fund change from GF to Power Project Funding and the elimination of 2 positions (and associated GF in the Division of Trade and Development) rounds out the decrements.
- While the funding of the PCE Program in the numbers section of the budget remains at \$15.7 million, there is a shortage in the capitalization of the PCE Fund--only \$15.1 million is appropriated to the fund (\$11.4 million from the PCE Endowment & \$3.7 million of GF).

Legislative Fiscal Analyst Comment: The agency indicated that the PCE Fund's capitalization shortage will be addressed in the supplemental bill with a request for \$632,700 of lapsing NPR-A funds.

- Most the Department's increase is due to a \$9.9 million increment in the Alaska Aerospace Development Corporation (AADC). The Corporation signed a 5-year contract with the Missile Defense Agency and the increment supports the expected 3 launches a year to fulfill the MDA contractual requirements.

Legislative Fiscal Analyst Comment: Section 4 of the operating budget gives AADC unlimited expenditure authorization. Consideration should be given to reducing the numbers section of the budget to more accurately reflect AADC's anticipated expenditures. (An adjustment would NOT reduce AADC's expenditure authority). Authorization for FY04 was about \$11 million (almost \$8 million above FY03's actual expenditures of \$3.1 million). The requested increment for FY05 will increase the expenditure authorization to \$20.9 million (\$17.8 million above the FY03 actual expenditures).

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

STRUCTURAL CHANGES

- The Community Development Quota (CDQ) Program (and 4 employees) will be moving to the Banking Division because the financial analytical skills of some of the professional staff in the Division of Banking, Securities, and Corporations are needed for effective oversight of the CDQ program.

Legislative Fiscal Analyst Comment: The Division of Banking, Securities, and Corporations' Director is presently supervising the CDQ staff. Because the Division's mission does not include the CDQ Program, consideration should be given to expanding the Division's stated mission.

- The Power Cost Equalization appropriation is now an allocation under the Alaska Energy Authority appropriation. In addition, \$66.0 is being removed from the grants line to reimburse AIDEA for a portion of the Power Cost Equalization program's administrative costs.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Community and Economic Development Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	32,921.1	25,740.0	77,691.2	136,352.3
Fiscal Note			133.5	133.5
Veto (last year)	(22,338.4)			(22,338.4)
Special appropriation			105.0	105.0
FY04 Authorized	10,582.7	25,740.0	77,929.7	114,252.4
FY04 Management Plan	10,582.7	25,740.0	77,929.7	114,252.4
One time item			(129.0)	(129.0)
Salary adjustment		30.6	792.1	822.7
Agency transfer out	(384.5)		(586.0)	(970.5)
Transfer in	698.4	168.3	21,635.9	22,502.6
Transfer out	(698.4)	(168.3)	(21,635.9)	(22,502.6)
FY05 Adjusted Base	10,198.2	25,770.6	78,006.8	113,975.6
Funding Change	(273.1)		273.1	0.0
Increment			10,444.7	10,444.7
Decrement	(172.9)		(241.2)	(414.1)
FY05 Governor Request	9,752.2	25,770.6	88,483.4	124,006.2

Position Summary	PFT	PPT	Tmp
FY04 Authorized	501	5	0
FY05 Governor Request	499	4	0
Net Change	(2)	(1)	0

FY05 Governor's Capital Request	0.0	53,390.2	2,030.0	55,420.2
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Department of Corrections

The Department of Corrections is responsible for public safety through the administration of correctional services including: twelve prisons and jails which provide secure incarceration and appropriate rehabilitation programs for felons and misdemeanants; community residential centers; supervision and case management of probationers and parolees in the community; and oversight of 15 small community jails. Also included in the department is the Alaska Board of Parole, a quasi-judicial Board which makes all parole related decisions.

SIGNIFICANT CHANGES

- The Department of Corrections budget has increased by \$2.8 million over FY04 Authorized. Several cost containment and efficiency measures were to be instituted through Administrative Order #207 during FY04. Among the changes were a new internal auditor to “provide the ability to measure efficiency”, elimination of several assistant superintendents, reorganization of allocations, and inmate health care savings through medical paroles.
- Permanent Fund Dividend felon funds are funds that would have been paid as PFDs to individuals who were ineligible for dividends because of criminal activity. Available funding for FY05 declined about 25 percent as the amount of individual Permanent Fund Dividends declined. The reduction to the Department of Corrections is \$1,865.6. The department is requesting a fund change to general funds in Inmate Health Care of \$1,573.0 to replace the lost PFD felon funds.
- The department will save an additional \$230.0 in PFD felon funds by eliminating the “Gate Funds” which were established as part of the Cleary settlement. This was a \$150.00 payment an inmate was given upon release to help in the immediate transition back into the community. Per the Department of Law, Attorney General's Office, the department is not required to abide by this section of the agreement and stopped issuing checks on October 1, 2003.
- The fiscal note attached to HB 229 stated that the department would realize a \$500.0 general fund savings in Inmate Health Care in FY04 and \$550.0 savings in FY05 through the early parole of inmates requiring expensive medical assistance. Due to the continued rising cost of medical care and pharmaceuticals and fewer inmates requiring expensive care released than projected, the Inmate Health Care allocation request for FY05 has actually increased over the FY04 Authorized amount by over \$2 million.
- A total of 75 positions were cut in the FY05 Governor's request. Thirty-six (36) of these positions were vacant correctional officer positions and therefore do not represent a savings. Twenty (20) are filled positions that will no longer be needed due to administrative streamlining of duties. Sixteen (16) positions were transferred to the Department of Administration for the human resources and personnel services reorganization.
- The department has requested an unusually large number of transfers that reallocate money but not program responsibilities. These requests, which are significantly more than any other agency, disguise what could be more accurately characterized as increments and decrements. A good example of this problem occurs in the Anchorage Correctional Complex (ACC) allocation. A Salary Adjustment (SalAdj) increment for approximately \$700.0 is supposedly needed to fund retirement and other personal services increases for the employees of this institution. However, the full amount of the salary adjustment is transferred out of this allocation to several other allocations. If the Anchorage Correctional Complex actually needed the increased salary adjustment they could not

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

afford to transfer the identical amount out. It would appear that this allocation is significantly over-funded and a decrement may be more appropriate. These types of transactions appear throughout the department's FY05 budget request. The point of drawing attention to this practice is to make subcommittees aware that increments come in several forms and some of them may be more difficult to recognize than others.

STRUCTURAL CHANGES

The department has again requested to be consolidated into a single appropriation. They requested this change last year as well and the legislature decided that a certain amount of control would be lost if this were to occur. The final FY04 appropriation structure included three appropriations: Administration and Operation, Probation and Parole, Parole Board.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Corrections Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	149,844.8	3,452.2	26,190.0	179,487.0
Fiscal Note	(500.0)			(500.0)
Veto (last year)	(400.0)			(400.0)
Re-appropriation			62.6	62.6
FY04 Authorized	148,944.8	3,452.2	26,252.6	178,649.6
Transfer in	4,611.6	657.4	268.6	5,537.6
Transfer out	(4,611.6)	(657.4)	(268.6)	(5,537.6)
FY04 Management Plan	148,944.8	3,452.2	26,252.6	178,649.6
One time item			(62.6)	(62.6)
Salary adjustment	3,255.7	31.7	83.8	3,371.2
Agency transfer in	151.0			151.0
Transfer in	14,445.7	10.0	2,626.8	17,082.5
Transfer out	(14,445.7)	(10.0)	(2,626.8)	(17,082.5)
FY05 Adjusted Base	152,351.5	3,483.9	26,273.8	182,109.2
Increment	1,580.8	902.1		2,482.9
Increment One Time Item			1,274.4	1,274.4
Decrement	(2,458.1)		(1,926.6)	(4,384.7)
FY05 Governor Request	151,474.2	4,386.0	25,621.6	181,481.8

Position Summary	PFT	PPT	Tmp
FY04 Authorized	1,486	3	0
FY05 Governor Request	1,421	2	0
Net Change	(65)	(1)	0

FY05 Governor's Capital Request	0.0	0.0	2,100.0	2,100.0
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Education & Early Development

The Department of Education & Early Development is committed to develop, maintain and continuously improve a comprehensive, quality system to provide resources, data, and world-class support services that inspire quality learning for all. The department collects, organizes, preserves, and disseminates resources for informational, educational, and research purposes to support life long learning. 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. The department houses Commissions and Boards (including the Professional Teaching Practices Commission, the Alaska State Council on the Arts and the Alaska Postsecondary Education Commission) and is responsible for Mt. Edgecumbe Boarding School, E&ED State Facilities Maintenance, and Alaska Library and Museums.

Legislative Fiscal Analyst Comment: *The school debt reimbursement program is discussed in a separate section of this overview that addresses all state debt.*

SIGNIFICANT CHANGES

- The Governor's request fully funds the FY05 public school Foundation Formula at a level of \$693,344.9. This is a *decrease* of \$8,424.0 from the FY04 Management Plan due to an increase in required local effort, a reduction in the funding floor, and a decrease in enrollment.

Legislative Fiscal Analyst Comment: *The department did not include separate transactions for one-time items (Reappropriation funding of \$8,948.6 and one-year Grants to Municipalities/School Districts – Learning Opportunity Grants replacement funding of \$609.3). These changes were shown as a lump sum decrement of \$8,424.0. Legislative Finance separately shows the one-time items, a decrement for Public School Trust funding, and a general fund increment of \$1,768.5. If surplus funding from FY04 were carried into FY05, the increment would likely not be needed. Preliminary estimates of FY04 surplus funding will be available in January.*

- Eight other increments for the department totaling \$11,213.3 (\$628.0 GF, \$10,500.0 Fed, \$85.3 Other funds), include the following:
 - Adjustment to the new Pupil Transportation grant program of ½ the Anchorage CPI (\$500.0 GF)
 - \$126.2 GF increment to meet full funding for the Alaska Challenge Youth Academy, totaling \$3,227.2 (these funds are distributed to the Department of Military & Veterans' Affairs by Reimbursable Services Agreement)
 - Increases in federal receipts and for pass-through reimbursements which have increased due to participation and rate changes for Free and Reduced Meals (\$10,500.0 Fed Receipts)
- Besides the reduction in Foundation Program funding, decrements total (\$8,055.0). These are comprised of (\$233.6 GF), (\$75.0 Fed), and (\$7,746.4 Other Funds) and include the following items:
 - Deletion of direct state funding for Alyeska Central School (Through a Request for Proposal process, the Department of Education & Early Development has selected the Yukon-Koyukuk School District to take over the operation of the Alyeska Central School beginning in FY05.) (\$4,088.9 Other Funds)

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

- Library Operations cost savings (\$100.0 GF) through management support restructure Cost savings and elimination of excess CIP Receipts in School Finance and Facilities (\$31.7 GF, \$132.7 Other Funds)
- Deletion of excess authorization for System of Early Education Development (SEED) & Even Start within Head Start Grants (\$3,347.2 I/A Receipts)

Legislative Fiscal Analyst Comment: *This authorization to receive SEED funds will not be needed because the SEED program will be retained by the University of Alaska—they will handle this “in house.” Also, with internal structure changes, Head Start Grants are now included in the Teaching and Learning Support appropriation from which the Even Start funds originate.*

- Positions have decreased since FY04 (delete 26 PFT, 27 PPT and 1 Temporary).

ORGANIZATIONAL CHANGES

- Structure changes for the department include the elimination of two appropriations—Pupil Transportation (that is now part of K-12 Support) and Alyeska Central School (that has been eliminated in FY05 funding).

Legislative Fiscal Analyst Comment: *Beginning with FY01, the Legislature determined that Pupil Transportation, although part of Formula Funded programs, should be in a separate appropriation. With the revisions to the formula for Pupil Transportation, this separation may no longer be essential.*

- An allocation within K-12 Support has been renamed from Schools for the Handicapped to Special Schools.
- For efficiency purposes and to align duties, allocations have been collapsed in several areas, including
 - State Board of Education and the Commissioner's Office into Executive Administration
 - Facilities Support and District Support Services into School Finance & Facilities
 - Education Special Projects into Special and Supplemental Services
 - All Postsecondary Education allocations into a single Alaska Postsecondary Education Commission Program Administration & Operations allocation (except WWAMI Medical Education)

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Education and Early Development Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	744,002.2	161,012.2	37,497.0	942,511.4
Veto (last year)	(442.1)			(442.1)
Re-appropriation	9,552.5			9,552.5
Special appropriation	609.3			609.3
Miscellaneous Adjustment	(378.9)			(378.9)
FY04 Authorized	753,343.0	161,012.2	37,497.0	951,852.2
Transfer in		86.7	211.5	298.2
Transfer out		(86.7)	(211.5)	(298.2)
FY04 Management Plan	753,343.0	161,012.2	37,497.0	951,852.2
One time item	(9,782.9)			(9,782.9)
Salary adjustment		215.6	554.5	770.1
Agency transfer in	7.0			7.0
Transfer in	1,266.7	313.3	10,185.1	11,765.1
Transfer out	(1,266.7)	(313.3)	(10,185.1)	(11,765.1)
FY05 Adjusted Base	743,567.1	161,227.8	38,051.5	942,846.4
Funding Change				0.0
Increment	2,396.5	10,500.0	85.3	12,981.8
Decrement	(233.6)	(75.0)	(8,381.0)	(8,689.6)
FY05 Governor Request	745,730.0	171,652.8	29,755.8	947,138.6
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Position Summary		PFT	PPT	Tmp
FY04 Authorized		324	61	2
FY05 Governor Request		293	34	0
Net Change		(31)	(27)	(2)
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FY05 Governor Capital Request	0.0	0.0	305.2	305.2

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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Environmental Conservation

The Department of Environmental Conservation is responsible for protecting human health and the environment. This agency coordinates, develops and promotes programs for the protection of the environment, develops and enforces standards for protection of the environment that allow for sustainable economic growth, provides controls and enforcement for the prevention and abatement of pollution to the environment, and protects citizens from unsafe sanitary practices.

SIGNIFICANT CHANGES

- The FY05 Governor's Request is \$773.2 (\$88.7 GF, \$482.9 Fed, \$201.6 Other Funds) above FY04 Management Plan.
- Two increments totaling \$600.0 (\$300.0 GF, \$300.0 Other Funds) are requested for FY05:
 - \$300.0 (\$150.0 GF; \$150.0 GF/PR) for "Raindrops to Oceans." This program is planned as a thorough redesign of DEC's water quality management and permitting programs to improve efficiency and effectiveness to mitigate pollution potential as water travels from the raindrop to the ocean. It will replace federal jurisdiction over water quality with state control.
 - \$300.0 Statutory Designated Program Receipts for a fee receipt increase to operate core state functions of the vehicle inspection & maintenance program in the Air Quality component

Legislative Fiscal Analyst Comment: Anchorage and Fairbanks have been delegated responsibility for the inspection & maintenance program for their respective communities since 1985. Vehicle inspections are necessary to attain the health-based standards for air quality mandated by The Clean Air Act. In a related matter, there has been discussion in Fairbanks about the elimination of local vehicle inspections. If Fairbanks eliminates its program, the state would have to take back the job. There are no funds in the FY05 DEC proposal to absorb such a change.

- Decrements for the department total \$1,079.4 of which \$193.3 is GF. These decrements include
 - Travel Savings (\$67.4 GF and GF/PR)
 - Joint Pipeline Office Funding Reduction (\$189.2 I/A Rcpts)

Legislative Fiscal Analyst Comment: According to the department, this is part of a realignment between the Department of Natural Resources and DEC. Joint Pipeline activities are being examined for efficiencies and restructured allowing for the elimination of two positions.

- Alaska Coastal Management Program Reduction (\$75.5 I/A Rcpts)
- Reduction in Information Coordination Activities (\$29.1 GF)
- Savings due to Human Resources Integration (\$73.2 I/A Rcpts)
- Savings due to the implementation of third year Wastewater Discharge Program (includes \$96.8 GF, \$46.0 Fed)
- Board of Storage Tank Assistance Reduction (\$51.4 Tank RLF)
- Discontinuation of grants to Local Emergency Planning Committees (\$326.1 Oil/Haz Fd)

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: According to the department, grants to LEPCs will be funded by the Department of Military and Veterans' Affairs.

- The Department of Environmental Conservation budget deletes 11 permanent, full-time and five permanent, part-time positions.

ORGANIZATIONAL CHANGES

- Restructuring of this department has resulted in a *single* appropriation (in FY04, there were 7 appropriations).

Legislative Fiscal Analyst Comment: A *single* appropriation will allow the department maximum flexibility to transfer and realign funds throughout the year. Revised programs may allow tracking of transactions but there will be no legislative controls other than the total appropriation amount by fund source.

- Non-Point Source Pollution Control allocation has been merged into the Water Quality allocation
- Local Emergency Planning Committees allocation has been eliminated

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Environmental Conservation Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	11,341.1	15,932.1	25,374.5	52,647.7
Fiscal Note	30.0			30.0
FY04 Authorized	11,371.1	15,932.1	25,374.5	52,677.7
Transfer in	238.0	222.6		460.6
Transfer out	<i>(238.0)</i>	<i>(222.6)</i>		<i>(460.6)</i>
FY04 Management Plan	11,371.1	15,932.1	25,374.5	52,677.7
One time item	<i>(18.0)</i>			<i>(18.0)</i>
Salary adjustment		528.9	741.7	1,270.6
Transfer in	386.9	1,840.3	488.2	2,715.4
Transfer out	<i>(386.9)</i>	<i>(1,840.3)</i>	<i>(488.2)</i>	<i>(2,715.4)</i>
FY05 Adjusted Base	11,353.1	16,461.0	26,116.2	53,930.3
Increment	300.0		300.0	600.0
Decrement	<i>(193.3)</i>	<i>(46.0)</i>	<i>(840.1)</i>	<i>(1,079.4)</i>
FY05 Governor Request	11,459.8	16,415.0	25,576.1	53,450.9

Position Summary	PFT	PPT	Tmp
FY04 Authorized	477	10	4
FY05 Governor Request	466	5	4
Net Change	<i>(11)</i>	<i>(5)</i>	0

FY05 Governor Capital Request	0.0	62,347.7	30,447.9	92,795.6
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Fish and Game

The Department of Fish and Game has a mandate to manage, protect, maintain, improve and extend the fish, game, and aquatic plant resources of Alaska in the interest of the economy and for the general well-being of the State. The Boards of Fisheries and Game adopt regulations to conserve and develop these resources. The commissioner and the department conduct management and research functions necessary to support these goals. The department includes the Commercial Fisheries Entry Commission, a quasi-judicial agency which promotes resource conservation and sustained yield management by regulating entry into Alaska's commercial fisheries.

SIGNIFICANT ISSUES

- Although the Governor's FY05 request cuts almost \$1 million of general funds, the total funding request is about \$5.7 million (4.3%) above the FY04 authorized budget. The increase in the overall request is primarily due to increases in federal receipts, Fish and Game Funds, and duplicated fund sources (i.e., CIP Receipts & I/A Receipts).
- Almost the entire \$1 million in general fund reductions occurred in allocations with commercial fisheries functions (which contain 88% of the department's general funds). Due to the cuts, a number of programs will be scaled back or eliminated.

Legislative Fiscal Analyst Comment: *In addition to the general fund decrements, about \$1 million in general funds for salary adjustments has to be absorbed by the agency. The agency plans to offset some of the GF cuts with a portion of the Test Fisheries Receipts increments. Historically, actual test fisheries receipts expenditures have been much lower than the authorized amounts. For instance, the FY04 budget contains \$2.8 million of Test Fisheries Receipts (\$1,008.4 above the FY03 actual expenditures). Unless the Test Fisheries fishing increases substantially (and the agency states that this is not the plan), an increment seems unnecessary*

- The State saves \$1 million in leasing costs due to a change in the amount of federal funds paid for leases. Federal fund increments are being requested in the Sport Fish and Wildlife Conservation allocations to replace general funds for lease costs that are presently being paid by the Department of Administration.
- The Fish and Game Fund request has increased by over \$1 million. The Fish and Game fund is comprised of monies from the sale of fishing and hunting licenses, and other fish and game activities and can be spent only for specific purposes.

Legislative Fiscal Analyst Comment: *Appropriation increases are of concern because the Fish and Game Fund generates about \$23 million annually while the Governor's operating and capital budgets request almost \$27 million in expenditure authority. The Department is presently updating the FY05 projections which will give the legislature more information on how these appropriations will affect the Fish and Game Fund's balance.*

ORGANIZATIONAL CHANGES

- The department's structure has collapsed into a single appropriation (from five appropriations). Typically, collapsing the appropriation structure may affect an agency's budget in several ways: it increases a department's spending flexibility, may create efficiencies, and it diminishes legislative control.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: *Unlike some other agencies, having a single appropriation in the Department of Fish and Game is unlikely to have a significant impact on the department's budget. Most of the general funds (about 88%) are spent in allocations with commercial fisheries functions and, with the large general fund cuts in this budget request, it is unlikely that the commercial fisheries allocations will have excess general funds to transfer to other allocations.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Fish and Game Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	27,837.6	52,294.6	53,305.3	133,437.5
Veto (last year)	<i>(750.0)</i>		<i>(150.0)</i>	<i>(900.0)</i>
FY04 Authorized	27,087.6	52,294.6	53,155.3	132,537.5
Transfer in	498.0			498.0
Transfer out	<i>(498.0)</i>			<i>(498.0)</i>
FY04 Management Plan	27,087.6	52,294.6	53,155.3	132,537.5
Salary adjustment		1,357.0	1,266.2	2,623.2
Agency transfer in	1,183.8			1,183.8
Transfer in		891.9	1,264.3	2,156.2
Transfer out		<i>(891.9)</i>	<i>(1,264.3)</i>	<i>(2,156.2)</i>
FY05 Adjusted Base	28,271.4	53,651.6	54,421.5	136,344.5
Increment		2,202.1	2,429.6	4,631.7
Decrement	<i>(2,136.5)</i>		<i>(568.6)</i>	<i>(2,705.1)</i>
FY05 Governor Request	26,134.9	55,853.7	56,282.5	138,271.1

Position Summary	PFT	PPT	Tmp
FY04 Authorized	861	844	128
FY05 Governor Request	846	823	108
Net Change	<i>(15)</i>	<i>(21)</i>	<i>(20)</i>

FY05 Governor's Capital Request	0.0	4,649.70	2,133.80	6,783.50
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Office of the Governor

The Governor's Office is responsible for the operation of the executive branch of Alaska State government, with duties conferred by the Alaska Constitution and statutes.

SIGNIFICANT CHANGES

- The Governor's Office appears to be one of the few agencies to receive full recovery of the costs of employee salary and benefit increases.
- The Division of Elections requests \$2.4 million in GF funding for elections costs. Elections also requests \$172.5 CIP Receipts for positions to implement the Help America Vote Act.
- Trade functions formerly in the Department of Community and Economic Development are being transferred to the Governor's Office. Funding for the positions (\$586.0) is switched from business license receipts to general funds.
- The Human Rights Commission requests \$70.0 GF. Without the increment, the Commission would lose one position.
- FY04 general fund reappropriations of \$668.0 to the Executive Contingency Fund have been backed out of the Executive Operations appropriation, leaving a zero balance in the fund.

Legislative Fiscal Analyst Comment: *The Office expects to request language in the capital bill that would reappropriate lapsing FY04 balances (if any) throughout the Governor's Office to the Executive Contingency Fund. Those funds would be available in FY05.*

- About half of the "regular" contingency fund is being transferred to the Executive Office (\$340.0) and the Governor's House (\$10.0).

Legislative Fiscal Analyst Comment: *The request reflects the manner in which the contingency fund has been used in the past.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Office of the Governor Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	14,455.9	150.9	72.7	14,679.5
Veto (last year)	(125.8)			(125.8)
Re-appropriation	668.0			668.0
Special appropriation	56.2			56.2
FY04 Authorized	15,054.3	150.9	72.7	15,277.9
FY04 Management Plan	15,054.3	150.9	72.7	15,277.9
One time item	(724.2)			(724.2)
Salary adjustment	624.0	3.9	13.8	641.7
Agency transfer in	264.5		586.0	850.5
Agency transfer out	(327.9)			(327.9)
FY05 Adjusted Base	14,890.7	154.8	672.5	15,718.0
Funding Change	586.0		(586.0)	0.0
Increment One Time Item	2,382.6			2,382.6
Increment	420.0		186.0	606.0
Decrement	(350.0)			(350.0)
FY05 Governor Request	17,929.3	154.8	272.5	18,356.6

Position Summary	PFT	PPT	Tmp
FY04 Authorized	147	1	17
FY05 Governor Request	147	1	39
Net Change	0	0	22

FY05 Governor Capital Request	999.6	26,000.0	6,950.0	33,949.6
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Health & Social Services

The Department of Health and Social Services promotes and protects the health and well being of Alaskans by providing the following core services: access to health care services, protecting children from abuse and neglect, support to Alaskans unable to live self-sufficiently, preserving and promoting public health, reducing the number of Alaskans affected with alcoholism and substance abuse, improving quality of life for Alaskans impacted by mental disorders, and holding juvenile offenders accountable for correcting their behavior.

SIGNIFICANT CHANGES

- The Governor's FY05 request for the Department of Health and Social Services is \$18.5 million above the FY04 total funding level. The net change includes a decrease of \$2.0 million in general funds and \$21.7 million in other funds, and an increase of \$42.2 million in federal receipts.

Legislative Fiscal Analyst Comment: Overall, the agency's budgeted general funds appear to have been reduced by approximately \$2 million. However, the reduction is a result of many Medicaid/Medicare refinancing activities reflected as fund changes and decrements that may not result in immediate or near-term savings.

- A transfer shifting nearly \$1 million general funds from the Alaska Longevity Programs Management to Alaskan Pioneer Homes Management.

Legislative Fiscal Analyst Comment: The agency submitted a transfer between the two allocations. Legislative Finance reflects this change as an increment/decrement because the Longevity Programs ended in FY04.

- SeniorCare Program: During December, the Governor introduced his intension to offer Alaskan seniors bridge assistance until the new Medicare drug benefit begins in 2006. The new program, called SeniorCare, is scheduled to begin April of 2004. Eligible seniors will be provided an option to receive a prescription drug benefit of \$1,600 per year in lieu of cash assistance (\$120 per month) provided by the Senior Assistance Program. In addition, the agency has established a new Senior Information Office providing a one-stop resource and referral for benefits and services for seniors.

Legislative Fiscal Analyst Comment: SeniorCare is estimated to cost the State \$3 million in General Funds and requires legislative approval. With the passage of the new Medicare law, Part D, Medicare Advantage, states will begin offering a Medicare drug discount card available to all seniors nationwide beginning April 2004, including a \$600 subsidy for low-income recipients. The Governor will incorporate this subsidy in the SeniorCare program bringing the combined assistance to seniors to \$2,200 annually.

In addition to SeniorCare, the State will be spending more general fund revenues not only implementing the new drug card in the spring but also implementing the new Medicare drug law. States will be responsible for new eligibility determination and administrative duties related to Medicare's low-income subsidy program. States will also be required to finance much of the cost of prescription drugs for dual-eligibles (Medicaid and Medicare) through a "clawback" measure in the bill. Finally, as of January 1, 2006, states can use general revenues to supplement Part D coverage, but Medicaid matching funds will not be available.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

- Senior and Disabilities Medicaid Services projects growth from 12% to 18% resulting in an increment of \$54.7 million (\$16.8 million GFM) based on historical trend. However, the agency is pursuing activities that will reduce GFM by approximately \$17.1 million such as contracting out services for personal care attendants and level of care assessment, reducing respite care in lieu of adult day care, increasing audit and reviews, and eliminating exceptional relief program.

Legislative Fiscal Analyst Comment: During FY04, the department underwent a major reorganization resulting in Medicaid allocated to new allocations of Behavioral Health Medicaid Services, Children's Medicaid Services, and Seniors and Disabilities Medicaid Services.

- Medicaid Services: The Fair-Share Program introduced during FY03 proposed a program extension of the Hospital ProShare Program to Tribal hospitals, which were not excluded from federal regulations restricting ProShare from community hospitals. Currently, the Centers for Medicare and Medicaid (CMS) have not made a determination on Alaska's State Plan Amendment, and only two of six facilities are participating in Fair-Share. The agency anticipates a shortage of receipts (approximately \$22 million) and has begun to reflect collection shortages in their budget via fund changes of approximately \$7.5 million. Additionally, the agency has reduced general fund match by approximately \$4.5 million and increased federal receipts as a "placeholder" anticipating refinancing of Medicaid services provided to Indian Health Services (HIS) eligible recipients.

Legislative Fiscal Analyst Comment: The \$7.5 million fund change has been reflected by Legislative Finance as a Statutory Designated Program Receipt (SDPR) decrement and corresponding General Fund Match (GFM) increment.

- Medicaid Services projects growth totaled nearly \$60 million (\$13.9 GFM). FY05 reflects a change in Medicaid projection methodology. Regression analysis based on five years of financial data from the Medicaid Management Information System (MMIS) has been replaced with projections based on categories of service and expenditure trends.

Legislative Fiscal Analyst Comment: The effects of this change in projection methodology are not clear. However, it may result in more accurate reflection of growth in the individual allocations of the Medicaid budgets.

- Alaska Psychiatric Institute (API) will establish a geriatric (GERO) psychiatric unit by using 15 beds from the old API facility resulting in a reduction in general fund mental health (GF/MH) savings of approximately \$1.1 million and increase of SDPR through collections from Medicare and/or Medicaid.
- Front Line Social Workers is requesting an increment of nearly \$2.2 million (\$664.1 GF) and 20 positions (14 social workers, 3 supervisory and 3 support positions) to implement the department's Program Improvement Plan (PIP) due to deficiencies identified in the federal Child and Family Services Review completed September 2002.
- Alaska Temporary Assistance Program (ATAP) is reflecting a fund change reducing GFM by nearly \$2.3 million and increasing federal receipts due to Alaska's \$3.18 million award bonus for high achievement, and reducing the maintenance of effort (MOE) floor from 80% to 75%.

Legislative Fiscal Analyst Comment: The reduction of MOE from 80% of historical expenditures to 75% is feasible only if work participation rates are met. Reauthorization of the federal Temporary Assistance for Needy Families (TANF) program would raise work requirements and parents would have to participate in activities for 40 hours each week to count fully toward the state fulfilling its work participation requirements. Alaska may not meet this requirement and may need an exemption due to the 37.5 work week for those participants with State employment.

- Nursing allocation anticipates a reduction of approximately \$1.1 million and 20 positions due to restructuring of public health nursing to provide core services.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

STRUCTURAL CHANGES

The FY05 budget structure collapsed the agency's eleven appropriations into a single appropriation.

Legislative Fiscal Analyst Comment: *A single appropriation provides maximum flexibility for day-to-day operations. However, once the Legislature appropriates funding, the agency can allocate and reallocate funding based on agency priorities and/or needs throughout the year. The agency needs to explain how they will track funding and activities in order to respond to various programmatic inquiries.*

New allocations include Alaskan Pioneer Homes Management, Medicaid School Based Administration Claims, and Information Technology Services. Additionally, the agency is consolidating information technology (IT) services, grants and professional service contract administration, and certification and licensing of facilities.

The agency had the following additional organizational changes:

- Transferred the Senior Employment Program to the Department of Labor and Workforce Development under the Employment Services allocation;
- Deleted allocations: Longevity Bonus Grants, Alaska Longevity Programs Management, and Old Age Assistance-Alaska Longevity Bonus Hold Harmless; and
- Transferred Alaska Youth Initiative, Medicaid State Programs, Children's Health Eligibility, Public Assistance Data Processing, and Personnel and Payroll into other existing allocations
- Positions were reduced by 126 full-time, 30 part-time, and 3 temporary.
- Positions reduced since FY04 –126 PFT, 30 PPT, and 3 Temporary.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Health and Social Services Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	593,127.4	895,083.9	222,081.9	1,710,293.2
Fiscal Note	(1,915.2)	(4,106.8)		(6,022.0)
Veto (last year)	(66,001.1)	(135.4)	(2,382.8)	(68,519.3)
Re-appropriation	0.1		350.6	350.7
FY04 Authorized	525,211.2	890,841.7	220,049.7	1,636,102.6
Transfer in	5,099.5	726.8	749.0	6,575.3
Transfer out	(5,099.5)	(726.8)	(749.0)	(6,575.3)
FY04 Management Plan	525,211.2	890,841.7	220,049.7	1,636,102.6
One time item	(0.3)	(0.6)	(350.6)	(351.5)
Salary adjustment	3,954.5	2,016.5	1,393.0	7,364.0
Agency transfer in	247.2			247.2
Agency transfer out	(229.8)	(1,943.3)		(2,173.1)
Transfer in	17,530.0	32,315.5	4,867.8	54,713.3
Transfer out	(17,530.0)	(32,315.5)	(4,867.8)	(54,713.3)
Funding Change				0.0
FY05 Adjusted Base	529,182.8	890,914.3	221,092.1	1,641,189.2
Funding Change	(13,783.9)	10,554.9	3,229.0	0.0
Increment	61,717.7	107,739.7	6,266.4	175,723.8
Decrement	(53,915.1)	(76,202.5)	(32,203.7)	(162,321.3)
FY05 Governor Request	523,201.5	933,006.4	198,383.8	1,654,591.7

Position Summary	PFT	PPT	Tmp
FY04 Authorized	3,117	158	126
FY05 Governor Request	3,025	107	128
Net Change	(92)	(51)	2

FY05 Governor Capital Request	2,583.0	14,894.7	4,649.8	22,127.5
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Labor and Workforce Development

The Department of Labor and Workforce Development is responsible for providing safe and legal working conditions and advancing employment opportunities through the following core services: resolution disputes between organized labor and public employers, administering programs and funds for workers' compensation, second injury, fishermen's fund, and unemployment insurance; and activities surrounding labor standards and safety programs, employment services, and vocational rehabilitation assisting individuals with disabilities to obtain and maintain employment.

SIGNIFICANT CHANGES

- The Governor's FY05 request for the Department of Labor and Workforce Development is \$2.3 million below the FY04 total funding level. The net change includes increases of \$412.0 in general funds and \$1.3 million in federal receipts, and a decrease of \$4 million in other funds.
- Alaska Hire Initiative: In November, the Governor launched Alaska Hire with the goal of 90% or more hire in the state's major economic categories such as public construction, oil and gas, mining, seafood, forest products, tourism and state/federal employment.

Legislative Fiscal Analyst Comment: *The state can require the 90% resident hire for some public works projects. In the past, the Legislature has passed laws requiring companies to hire more Alaskans; however, those laws have been struck down by the courts.*

- Closed the Bethel vocational rehabilitation office; clients will be served through Tribal programs or itinerantly from Anchorage.

Legislative Fiscal Analyst Comment: *Currently vocational rehabilitation has 32 individuals with active cases open in the area, of which 29 are Alaska Natives who will be served through the Association of Village Council Presidents (AVCP). The remaining three who are not Alaska Natives will be served through itinerant services provided by senior counselors via phone consultations and quarterly trips from Anchorage to Bethel, and for more complex services not available in Bethel, individuals will be brought to Anchorage. The challenge will be to provide comparable services to these individuals using only one Tribal program.*

- Establishing Barrow One-stop Job Center serving the North Slope.

Legislative Fiscal Analyst Comment: *The Barrow One-Stop Job Center is a joint venture between the Department of Labor and Workforce Development and the North Slope Borough. The office is scheduled to begin operating in January. This joint venture requires no increment.*

- Independent Living Rehabilitation allocation has submitted a fund change of \$467.8 replacing one-time investment loss trust funding (ILTF) for general funds.

Legislative Fiscal Analyst Comment: *During FY04, ILTF was a one-time source of funding for this allocation. Legislative Finance more accurately reflects this change as an increment of general funds and a decrement of ILTF.*

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

STRUCTURAL CHANGES

The FY05 budget collapses Labor and Workforce Development's structure from four appropriations to one appropriation. A new Human Resources (HR) allocation will collect payments from departmental programs for the HR integration, and the Senior Employment Services program is transferred from the Department of Health and Social Services into the Employment Services allocation. Additionally, the Job Training Programs allocation transferred \$12.4 million in inter-agency receipts and 31 full time positions to the Employment Services component to consolidate and streamline front-line services.

Legislative Fiscal Analyst Comment: Reducing the department's appropriation structure provides the agency with flexibility for day-to-day operations. However, one large appropriation encompasses various programs competing for funding. Once the Legislature appropriates funding, the agency can allocate and reallocate funding based on agency priorities and/or needs throughout the year. However, there are allocations with funding sources for specific purposes which cannot cross appropriation lines such as employment services and unemployment insurance, workers' compensation, second injury fund, and fishermen's fund etc... The agency needs to explain how they will track funding and activities in order to respond to various programmatic inquiries.

- Positions reduced since FY04 –27 PFT and 18 Temporary; and increased 6 PPT.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Labor and Workforce Development Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	11,027.0	97,539.3	46,214.4	154,780.7
Fiscal Note	53.9	(240.0)	71.0	(115.1)
Veto (last year)	(365.0)			(365.0)
FY04 Authorized	10,715.9	97,299.3	46,285.4	154,300.6
Transfer in		1,525.5	13,194.2	14,719.7
Transfer out		(1,525.5)	(13,194.2)	(14,719.7)
FY04 Management Plan	10,715.9	97,299.3	46,285.4	154,300.6
One time item	(1.8)	(160.0)	(5.0)	(166.8)
Salary adjustment		1,594.3	778.4	2,372.7
Agency transfer in	294.2	1,943.3		2,237.5
Transfer in	8.9	574.8	175.0	758.7
Transfer out	(8.9)	(574.8)	(175.0)	(758.7)
FY05 Adjusted Base	11,008.3	100,676.9	47,058.8	158,744.0
Funding Change	(123.4)	(100.0)	223.4	0.0
Increment	683.2	933.7	438.7	2,055.6
Decrement	(440.0)	(2,892.9)	(5,447.2)	(8,780.1)
FY05 Governor Request	11,128.1	98,617.7	42,273.7	152,019.5
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Position Summary		PFT	PPT	Tmp
FY04 Authorized		888	97	3
FY05 Governor Request		871	107	8
Net Change		(17)	10	5
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FY05 Governor Capital Request	134.0	0.0	2,100.0	2,234.0

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Law

The Department of Law is responsible for public protection through prosecuting violators of state criminal laws, representing the state in legal actions, providing legal services in the resolution of tax and royalty disputes, enforcing unfair trade practice and antitrust laws, and providing legal services for extraordinary proceedings such as oil and gas litigation. The department also advises state agencies in areas of legal concern including promulgating regulations and drafting legislation.

SIGNIFICANT CHANGES

- The Governor's request for FY05 is \$3,371.0 (7.2%) over the FY04 Authorized amount. Of this amount, \$2,334.4 is general funds.
- The Department of Law requests \$1.9 million general funds for the addition of 15 new attorney positions. They also reclassify two attorney positions from part-time to full-time. There appears to be a net increase of six permanent full-time positions but this is due to the elimination of several unfilled positions. Also approximately 20 attorney positions have been re-classed to higher ranges during FY04. It should be noted that, due to the nature of the service this department provides and the large number of higher ranged employees, over 75% of their budget appears on the personal services line.
- Law also requests approximately \$2.2 million for salary adjustments. Since a majority of the positions in Law are on the upper end of the pay scale a salary adjustment usually causes a larger increase to this department when compared to others. The retirement and other personal services rates to the state have increased significantly and are reflected in salary adjustments in every department.
- The Victims for Justice (VFJ) program was transferred from Public Safety to Law for FY04. Law then deleted the \$246.0 general funds for this program and used it to cover a portion of the unallocated reduction the agency offered in their FY04 budget request. Later in FY04 the department reinstated funding to VFJ by using a portion of the \$25 million in one-time federal temporary fiscal relief distributed to all the states. A general fund increment of \$125.0 has been submitted to partially fund VFJ in FY05. Without the increment VFJ will no longer receive state funds.

ORGANIZATIONAL CHANGES

- Two allocations (Commercial Section and the Fair Business Section) are combined into the new Commercial and Fair Business allocation.
- The Governmental Affairs allocation is renamed Labor and State Affairs.
- Six attorney positions are transferred from various allocations into the new allocation Opinion, Appeals, and Ethics.
- Special Litigation allocation is renamed Torts and Workers' Compensation.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Law Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	26,688.7	499.3	18,619.1	45,807.1
Veto (last year)	(263.0)			(263.0)
Unallocated reduction				0.0
Re-appropriation	186.3			186.3
Special appropriation	1,004.7			1,004.7
FY04 Authorized	27,616.7	499.3	18,619.1	46,735.1
Transfer in	262.6		197.0	459.6
Transfer out	(262.6)		(197.0)	(459.6)
FY04 Management Plan	27,616.7	499.3	18,619.1	46,735.1
One time item	(1,191.0)			(1,191.0)
Salary adjustment	1,360.1	21.4	775.2	2,156.7
Agency transfer in	114.3			114.3
Transfer in	2,382.9		8,559.3	10,942.2
Transfer out	(2,382.9)		(8,559.3)	(10,942.2)
FY05 Adjusted Base	27,900.1	520.7	19,394.3	47,815.1
Increment	2,051.0	120.0	120.0	2,291.0
FY05 Governor Request	29,951.1	640.7	19,514.3	50,106.1
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Position Summary		PFT	PPT	Tmp
FY04 Authorized		475	13	0
FY05 Governor Request		481	9	0
Net Change		6	(4)	0
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FY05 Governor's Capital Request	0.0	0.0	0.0	0.0

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs (DMVA) provides relevant military forces that are fully prepared to mobilize and accomplish military missions, provide homeland defense, and respond to emergency requirements in the state or around the world. The remaining divisions of the department are responsible for providing emergency services, training for at-risk juveniles, coordination of veterans' assistance and programs, and support to other state and federal agencies in suppressing the use of illegal drugs.

SIGNIFICANT CHANGES

- The Governor's request for FY05 is \$377.6 (1.1%) over the FY04 Authorized amount. The department requested several increments to improve defense of the state, but these are balanced by decrements achieved through more efficient use of state resources.
- Homeland Security eliminated 6 positions (5 unfilled, 1 filled) and added 6 new positions for what appears to be a net zero. The 5 unfilled positions were created under Administrative Order 203 and were to be filled with staff from the Departments of Administration, Health & Social Services, Environmental Conservation, Transportation & Public Facilities, and Public Safety. These people instead remained in their respective agencies but still work closely with the Director of Homeland Security. The net change is a reduction of unfunded I/A authority and an increase of CIP authority to fund 6 new positions that will be filled within the Division. The CIP authorization will be filled using federal funds which were approved through a capital RPL at the December 2003 LB&A meeting. The department received \$19.6 million from the Office of Domestic Preparedness for planning, training, exercises, and equipment associated with counter-terrorism activities.
- The Department has salary adjustments totaling \$540.0, none of which is general funds. The retirement and other personal services rates to the state have increased significantly and are reflected in salary adjustments in every department.
- Local Emergency Planning Committees (LEPCs) requests a fund change to convert the existing interagency funding source from the Oil and Hazardous Substance Release Response Fund (OHSRRF) to direct funding from OHSRRF thereby eliminating the current reimbursable services agreement process.

STRUCTURAL CHANGES

There are no significant structural changes.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Military and Veterans Affairs Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	8,811.1	18,971.7	7,079.9	34,862.7
Veto (last year)	(200.0)			(200.0)
Miscellaneous Adjustment			(2.4)	(2.4)
FY04 Authorized	8,611.1	18,971.7	7,077.5	34,660.3
FY04 Management Plan	8,611.1	18,971.7	7,077.5	34,660.3
Salary adjustment		370.7	168.8	539.5
Agency transfer in	94.5			94.5
Transfer in	109.3	272.5		381.8
Transfer out	(109.3)	(272.5)		(381.8)
FY05 Adjusted Base	8,705.6	19,342.4	7,246.3	35,294.3
Funding Change				0.0
Increment	836.2		729.7	1,565.9
Decrement	(548.8)	(537.4)	(736.1)	(1,822.3)
FY05 Governor Request	8,993.0	18,805.0	7,239.9	35,037.9

Position Summary	PFT	PPT	Tmp
FY04 Authorized	264	6	1
FY05 Governor Request	259	5	1
Net Change	(5)	(1)	0

FY05 Governor's Capital Request	3,187.5	12,629.5	400.0	16,217.0
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Natural Resources

The Department of Natural Resources develops, conserves, and maximizes the use of Alaska's natural resources consistent with public interest by providing core services surrounding oil and gas development, managing land, water, and habitat projects, forestry and parks management and development, fire preparedness and suppression, and agriculture development and revolving loan fund administration.

SIGNIFICANT CHANGES

- The Governor's FY05 request for the Department of Natural Resources is \$1.4 million above the FY04 total funding level. The net change includes decreases of \$12.1 million in general funds and \$1.5 million in federal receipts, and an increase of \$17 million in other funds.
- An increment of \$1.1 million in general funds will add 13 new full time positions and advance the State's many oil and gas initiatives promoting new oil and gas production and more royalty and tax revenue, jobs, and state/local improvements.

Legislative Fiscal Analyst Comment: The agency has undertaken varied activities surrounding resource development. One of the Governor's priorities is to increase resource development and revenue. However, many challenges are ahead before additional resources will help fund state operations. Before it can reap the benefits of development, the State will experience increased workload from oil and gas program leases, gas pipeline permitting, completing permitting for development of Alaska's large mines, identifying and offering new areas of land sales, timber sales, expediting large development projects like the Western North Slope, National Petroleum Reserve-Alaska (NPR), and Bureau of Land Management's "Ring of fire: regional plan, etc....

- The operation of the Mt. McKinley Meat and Sausage Plant will be in-house. An agency transfer from the Department of Corrections transferred three production managers to assume responsibility of operating the meat plant. Existing funds from the Agricultural Revolving Loan Fund will be used. The department anticipates private contractor or co-op takeover by 2006.

Legislative Fiscal Analyst Comment: The purpose of the meat plant is to allow dairy farmers to cull their animals. Past attempts to turn over plant operations to a private contractor and/or co-op have been unsuccessful. However, successful co-ops are being run among farmers in the Delta and Fairbanks areas. The State is encouraging a similar co-op among Anchorage, Kenai, and Matanuska farmers.

Consideration should be given to solvency of the ARLF. Declining general funds to perform services and responsibilities has resulted in use of the ARLF for purposes other than making loans. The ARLF is used in the Plant Material Center and some agricultural budget items that do not promote agricultural development as an industry. As a result, selling large assets like the dairy and meat plants may be necessary in order to capitalize the fund.

- Fire Suppression Preparedness allocation contains a one-time fund source change reducing general funds by \$6.7 million and increasing AIDEA Dividends; and the Fire Suppression Activity allocation contains a one-time fund source change reducing general funds by \$6 million and increasing the use of Alaska Student Loan Corporation (ASLC) Dividends by \$1.7 million and Alaska Industrial Development and Export Authority (AIDEA) dividends by \$4.3 million.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: Legislative Finance has reflected the Fire Suppression Fund changes by decrements to general funds and IncOTIs (increment/one-time item) for ASLC and AIDEA dividends signaling that one-time funding will have to be replaced with general funds in FY06. See comments under Section 9 Alaska Industrial Development and Export Authority, and Section 11 Alaska Student Loan Corporation Dividend.

- Fire Suppression Activity allocation: Language allowing unlimited federal receipts is in Section 13(b). The Governor's request omits an estimate of receipts under this section. Based on discussion with agency staff, LFD continues to assign a \$2 million estimate to this language.

Legislative Fiscal Analyst Comment: During FY04, the Fire Suppression appropriation was split to reflect Fire Suppression Preparedness and Fire Suppression Activity. A language provision in the Governor's bill provides unlimited federal authorization. See comment under section 13(b).

- State Land Disposal Income Funds (code 1153) was completely swept into the Constitutional Budget Reserve Fund (CBRF) in FY04 per repayment provision of the Alaska Constitution (subsection 17(d) of Article IX). The agency has budgeted \$4.7 million in FY05.

Legislative Fiscal Analyst Comment: Reverse sweep of the State Land Disposal Income Fund will be necessary in order to use the funds in FY05. See comments under Section 34 Constitutional Budget Reserve Fund.

- Parks and Recreation Management will be changing the state park user fee program in 2004. The annual resident and commercial camping passes will no longer be offered with the exception of free annual camping passes issued to Alaskan veterans with service-connected disabilities. Information about the changes in fees for state park services can be found on the department's web site at <http://www.dnr.state.ak.us/parks>.

Legislative Fiscal Analyst Comment: The agency has submitted a fund change of \$346.9 from State Land Disposal Income Fund (also referred to as the State Land Fund) to Receipt Supported Services (RSS) in order to collect additional fees bringing the total RSS in FY05 to \$1.8 million.

STRUCTURAL CHANGES

- The FY05 budget structure collapsed Natural Resources' structure from six appropriations to three appropriations. New allocations include Large Project Permitting, Human Resources Chargeback, and DNR Facilities Rent and Chargeback.

Legislative Fiscal Analyst Comment: Reducing the number of appropriations reflects the agency's priorities and provides the agency with flexibility for day-to-day operations. However, the Resource Development appropriation encompasses a large and varied number of programs all competing for funds. Once the Legislature appropriates funding, the agency can allocate and reallocate funding within an appropriation based on agency priorities and/or needs throughout the year. The agency needs to explain how they will track funding and activities in order to respond to various programmatic inquiries.

The new allocation Large Project Permitting adds one full time position and funding from Statutory Designated Program Receipts (SDPR), federal receipts, and inter-agency receipts. This new allocation will provide coordination between state and federal agencies for "large" projects such as the proposed North Slope Industrial Roads to provide access for oil and gas exploration. The Human Resources Chargeback is due to the Human Resources (HR) integration, and the DNR Facilities Rent and Chargeback is a consolidation of two allocations--the Fairbanks Office Building Chargeback and DNR State Facilities Rent.

- Positions increased since FY04 –16 PFT and 4 Temporary, and reduced 11 PPT.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Natural Resources Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	47,735.2	17,547.9	33,983.5	99,266.6
Fiscal Note	37.0		150.0	187.0
Veto (last year)	(605.0)			(605.0)
Special appropriation	1,012.0		494.5	1,506.5
FY04 Authorized	48,179.2	17,547.9	34,628.0	100,355.1
FY04 Management Plan	48,179.2	17,547.9	34,628.0	100,355.1
One time item	(1,015.5)		(506.3)	(1,521.8)
Salary adjustment		185.3	936.8	1,122.1
Agency transfer in	149.0		237.1	386.1
Transfer in	1,325.4	535.3	1,784.1	3,644.8
Transfer out	(1,325.4)	(535.3)	(1,784.1)	(3,644.8)
FY05 Adjusted Base	47,312.7	17,733.2	35,295.6	100,341.5
Funding Change		(1,802.0)	1,802.0	0.0
Increment	2,001.2	504.9	2,396.5	4,902.6
Increment One Time Item			12,673.5	12,673.5
Decrement	(13,208.8)	(410.0)	(534.0)	(14,152.8)
FY05 Governor Request	36,105.1	16,026.1	51,633.6	103,764.8

Position Summary	PFT	PPT	Tmp
FY04 Authorized	680	280	98
FY05 Governor Request	707	265	102
Net Change	27	(15)	4

FY05 Governor Capital Request	1,793.7	18,530.0	5,430.7	25,754.4
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Public Safety

The Department of Public Safety is Alaska's primary law enforcement agency for federal, state, and local laws. The mandate of the department is to prevent loss of life and property as a result of illegal or unsafe acts. The department enforces criminal laws, traffic laws, and state fish and game regulations, and provides public protection programs for fire and traffic safety. Public Safety also serves as the umbrella agency for the Council on Domestic Violence and Sexual Assault, the Alaska Police Standards Council, and the Alaska Fire Standards Council.

SIGNIFICANT CHANGES

The Governor's emphasis on the need for more public safety has resulted in a net increase of over \$5 million (\$5.6 million general fund increase; \$.600 federal decrease) in the FY05 request.

- Twenty new trooper positions (10 investigator; 10 troopers) will require \$2.8 million in general funds. The department estimates that the ten new investigator positions will be filled by existing troopers and should be filled toward the beginning of the fiscal year. The ten trooper positions vacated by these individuals plus the ten new trooper positions will be filled for approximately half the year once the recruits graduate from the trooper academy. The start-up costs associated with a new trooper (weapons, uniforms, automobiles) will be transferred to the personal services line in FY06 to cover the full twelve months of personal services expenditures required. No additional increments are expected for FY06.
- An increase in retirement and benefit rates will cost an additional \$2.2 million in general funds. Nearly half the department's positions are troopers who have a twenty-year retirement plan. These types of positions, along with correctional and probation officers in the Department of Corrections, usually cost the state more in retirement benefits due to a younger retirement age, longer life expectancy and, hence, a longer timeframe to pay benefits.
- The Department of Transportation & Public Facilities, Highway Safety Planning Agency, has contracted with the Department of Public Safety, Alaska State Troopers, to provide driving under the influence enforcement through a team of four new positions. The positions were added in FY04 and an unbudgeted reimbursable services agreement (RSA) was used to transfer funding from DOT to DPS. This increment will budget the entire cost of this enforcement effort in FY05 through a budgeted RSA.
- Permanent Fund Dividend felon funds are funds that would have been paid as PFDs to individuals who were ineligible for dividends because of criminal activity. The reduction to the Department of Public Safety is \$1,101.8. They are requesting \$551.8 be replaced with general funds, and \$550.0 with Temporary Assistance for Needy Families funds provided through interagency receipts from the Department of Health and Social Services. The affected allocations are Council on Domestic Violence and Sexual Assault and the Batterers' Intervention Program. The department requested a fund change but since the request crosses fund sources Legislative Finance has changed the transaction to a decrement of PFD felon funds and an increment of general funds and interagency receipts.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

STRUCTURAL CHANGES

The department has requested the following structure changes:

- Transfer the Fish and Wildlife Protection appropriation into the new Alaska Bureau of Wildlife Enforcement allocation within the Alaska State Troopers.
- Transfer the Criminal Investigation Bureau allocation to two new allocations – 1) Alaska Bureau of Alcohol and Drug Enforcement; 2) Alaska Bureau of Investigation.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Public Safety Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	79,308.4	12,464.4	18,788.5	110,561.3
Veto (last year)	(962.0)			(962.0)
FY04 Authorized	78,346.4	12,464.4	18,788.5	109,599.3
Transfer in	1,860.6	30.3	119.2	2,010.1
Transfer out	(1,860.6)	(30.3)	(119.2)	(2,010.1)
FY04 Management Plan	78,346.4	12,464.4	18,788.5	109,599.3
Salary adjustment	2,192.8	66.2	202.3	2,461.3
Agency transfer in	39.7			39.7
Transfer in	18,897.4		857.9	19,755.3
Transfer out	(18,897.4)		(857.9)	(19,755.3)
FY05 Adjusted Base	80,578.9	12,530.6	18,990.8	112,100.3
Increment	3,359.0		1,540.9	4,899.9
Decrement		(648.0)	(1,742.2)	(2,390.2)
FY05 Governor Request	83,937.9	11,882.6	18,789.5	114,610.0

Position Summary	PFT	PPT	Tmp
FY04 Authorized	757	20	9
FY05 Governor Request	771	20	9
Net Change	14	0	0

FY05 Governor's Capital Request	942.5	5,730.3	0.0	6,672.8
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Revenue

The Department of Revenue's responsibilities include administration and enforcement of Alaska's tax laws; collection, investment, and management of state funds and employee pension trust funds; administration and enforcement of tax and charitable gaming laws; administration of the Permanent Fund Dividend Program, the Shared Taxes Program, and Child Support Enforcement Program. The Department of Revenue also provides administrative support to the following independent boards and corporations: Alaska Permanent Fund Corporation, Alaska Housing Finance Corporation, Alaska Mental Health Trust Authority, Alaska Municipal Bond Bank Authority, and the Alaska State Pension Investment Board.

SIGNIFICANT CHANGES

The Governor's request for FY05 is 0.2% greater than FY04 Authorization, totaling just over \$163 million.

- The most significant budget change is for adjustments for salaries and benefits (totaling \$2.4 million dollars).

Legislative Fiscal Analyst Comment: As is the case with other agency budgets, this budget includes a general fund increment to maintain the FY04 level of service. This occurs in the Tax Division in the personal services line-item. The increment appears to be for increased salary and benefits fixed costs. The legislature may choose to reclassify this increment as a salary adjustment to properly reflect the increase.

- Perhaps a trend with the administration, the Treasury Division budget includes an increment of \$40.0 to bring investment officer salaries closer to their market value.

Legislative Fiscal Analyst Comment: Various other positions in the Department have had their salaries upgraded to compete on a national level. Given the value of experienced knowledgeable employees, this is not unreasonable.

- The Alaska Permanent Fund Corporation has decreased its budget for investment and custody management fees for all externally managed funds to more accurately reflect decreased assets under management. This is a reduction of \$1.7 million paid for with Permanent Fund Corporate Receipts.

Legislative Fiscal Analyst Comment: Investment and custody management fees for the Alaska State Pension Investment Board are budgeted the same as FY04. This seems odd given that the Alaska Permanent Fund Corporation has adjusted their budget to reflect decreased assets under management.

- The budget for the Treasury Division includes the addition of a new equity analyst position to provide oversight of external equity managers. This is an increase of \$131.2 including \$36.0 of GF.
- The Child Support Enforcement Division's budget includes a decrease of \$239.1 reflecting the reduction of 6 positions and the centralizing of child support enforcement casework in Anchorage.

STRUCTURAL CHANGES

A new appropriation for the Long Term Care Ombudsman office has been created and the funding for the office was transferred from the Mental Health Trust Authority. This was done to differentiate the duties of this office from other duties of the Mental Health Trust Authority.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Revenue Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	8,370.4	37,906.2	115,207.7	161,484.3
Fiscal Note	813.3		980.0	1,793.3
Veto (last year)	(155.8)			(155.8)
Unallocated reduction				0.0
Bills that did not pass			(125.0)	(125.0)
FY04 Authorized	9,027.9	37,906.2	116,062.7	162,996.8
FY04 Management Plan	9,027.9	37,906.2	116,062.7	162,996.8
One time item	(101.5)		(330.0)	(431.5)
Salary adjustment		969.1	1,241.1	2,210.2
Agency transfer in	52.1			52.1
Agency transfer out			(237.1)	(237.1)
Transfer in			391.2	391.2
Transfer out			(391.2)	(391.2)
FY05 Adjusted Base	8,978.5	38,875.3	116,736.7	164,590.5
Language			125.0	125.0
Funding Change	(118.6)		118.6	0.0
Increment	345.3		645.8	991.1
Decrement	(74.5)	(177.2)	(2,211.9)	(2,463.6)
FY05 Governor Request	9,130.7	38,698.1	115,414.2	163,243.0

	PFT	PPT	Tmp
Position Summary			
FY04 Authorized	825	43	50
FY05 Governor Request	806	56	19
Net Change	(19)	13	(31)

FY05 Governor's Capital Request	120.0	10,225.9	17,500.6	27,846.5
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Department of Transportation & Public Facilities

The Department of Transportation and Public Facilities (DOT & PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and public facilities. This includes approximately 250 state-owned airports and seaplane bases, 6,000 miles of state roads, 700 buildings ranging from maintenance shops to state office complexes, and 75 ports and harbors. In addition, the department owns and operates the Alaska Marine Highway System, serving 32 Alaskan communities with connections to Bellingham and Prince Rupert. The department also owns and operates the State Equipment Fleet which provides full maintenance support and replacement activities for all departments and state agencies, including 7,500 light and heavy duty vehicles and attachments.

SIGNIFICANT CHANGES

The Governor's request for FY05 is \$14 million greater than FY04 authorization. Three funding sources comprise the majority of this increase;

General Funds – Up \$1.5 million

Federal CIP Receipts – Up \$5.6 million

International Airport Revenue Funds – Up \$6.3 million

- The net **General Fund** increase is the result of fixed cost increases in road and rural airport maintenance, partially offset by agency wide cost saving measures.
 - Fixed cost increases in Highways and Aviation to maintain the FY04 service level totals \$3.4 million.
 - This includes \$1.8 million in personal services cost increases for salaries and benefits not included in the increment for salary and benefits. Essentially, DOT&PF was allowed by OMB to include a general fund increase for salaries but not to categorize the increase as a salary adjustment. This shows support for maintaining the current level of service, yet is deceptive in that it does not clearly identify salary and benefit adjustments to personal services.
 - Agency-wide cost saving reductions total \$1.9 million. Techniques utilized include vacancy factor increases, reorganization and layoffs, reduced facilities maintenance, reduced materials stock piling and an increased use of CIP (Capital Improvement Project) receipts for indirect cost allocation.
- There is an increased reliance on federal **CIP Receipts** for administration purposes. Of the \$5.6 million increase, 30% is for indirect costs (\$1.7 million). However, over half of this is for unavoidable salary and benefits adjustments.
 - Through the agency's Indirect Cost Allocation Plan (ICAP), DOT&PF charges a percentage to every direct expenditure to cover a portion of indirect costs (e.g., administration and oversight). Each year an ICAP must be produced given expected federal capital expenditures and submitted to the federal government for approval. Federal regulations instill a ceiling on the amount that can be charged for indirect costs. Historically, DOT&PF has not maximized the amount the federal government would allow. However, OMB has instructed them to do otherwise for FY05.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Legislative Fiscal Analyst Comment: *The ICAP calculation is charged to actual direct capital expenditures. If direct expenditures are greater than budgeted, ICAP revenue could be in excess of budgeted or necessary indirect expenditures, therefore creating excess revenue. This revenue would be carried forward to the following year. Conversely, if the charged direct expenditures fall short of budgeted direct expenditures (due to a shortfall in federal receipts), ICAP revenue could be insufficient to fully fund budgeted indirect expenditures. Therefore, budgeting using the maximum calculated ICAP rate is somewhat risky because it allows for no adjustment during the year.*

- Expenditure of **International Airport Revenue Funds (IARF)** increased substantially due to the projected June 2004 opening of Concourse C in the Anchorage International Airport. Operation and maintenance of the new concourse will be contracted. The actual contract cost is expected to be \$6.5 million; however, DOT&PF has only included an increment request in the amount of \$5 million.

Legislative Fiscal Analyst Comment: *Per discussion with the agency, cost savings are expected to be realized within the other areas of both international airports' budgets sufficient to offset the increment shortfall. The legislature could add clarity by budgeting the full amount of the contract and offsetting the difference with decreases to the areas of the budget expected to absorb the costs.*

- A net decrease of approximately \$500 thousand is requested for the Alaska Marine Highway System. This is the result of a salary and benefits increase amounting to \$2.8 million and a significant reduction to vessel operations totaling \$3.5 million.
 - A \$700 thousand reduction is attained by the elimination of 5.1 weeks of mainliner service. Affected communities would include Sitka, Kake, Angoon, Tenakee and Hoonah.
 - Elimination of 48 full-time-equivalents is budgeted to save \$2 million. All US Coast Guard crewing standards are expected to be maintained.
 - Benefits savings totaling \$850 thousand are attained by the laying off of seasonal employees at the end of the summer season. Currently these seasonal employees are allowed to use their accrued leave, thus maintaining their benefits.
- The Alaska Marine Highway System fund capitalization (in the language section of the bill) is \$32 million of general funds.

Legislative Fiscal Analyst Comment: *For this amount to be sufficient, the FY03 CBR sweep will have to be reversed, restoring \$9.3 million swept from the AMHS fund. Additionally, operating costs will need to be \$80 million or less and operating revenue will need to be \$42.5 million or more. This level of operating costs may be unattainable given that FY03 operating costs were almost \$85 million. Furthermore, if the goal is to spend no more than \$80 million, why is the AMHS budget for \$85 million? The AMHS is in a state of flux given that a new operating model (fast-vehicle ferries) is in the process of implementation. Budgeted expenses and revenue projections are uncertain at this point, and the \$32 million subsidy may be insufficient. In the best of circumstances, the fund is unlikely to start FY06 with a significant balance.*

STRUCTURAL CHANGES

- The budget structure is collapsed to one appropriation.

Legislative Fiscal Analyst Comment: *Given the vast differences in certain areas of DOT&PF's budget, this structure does not seem helpful. The prior budget structure provided flexibility, and yet clarified the individual areas of the budget.*

- All human resources and personnel services are being consolidated into the Division of Personnel in the Department of Administration. All positions are being transferred out while all of the funding for the services is being consolidated into a new human resources allocation.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Department of Transportation & Public Facilities Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	96,687.0	5,389.8	266,558.6	368,635.4
Fiscal Note			523.7	523.7
Veto (last year)	(342.0)			(342.0)
FY04 Authorized	96,345.0	5,389.8	267,082.3	368,817.1
Transfer in		240.0	718.1	958.1
Transfer out		(240.0)	(718.1)	(958.1)
FY04 Management Plan	96,345.0	5,389.8	267,082.3	368,817.1
One time item			(50.0)	(50.0)
Salary adjustment		57.4	10,197.6	10,255.0
Agency transfer in	333.1			333.1
Transfer in	1,031.3		7,002.0	8,033.3
Transfer out	(1,031.3)		(7,002.0)	(8,033.3)
Funding Change				0.0
FY05 Adjusted Base	96,678.1	5,447.2	277,229.9	379,355.2
Funding Change	(350.7)		350.7	0.0
Increment	3,419.0		7,055.0	10,474.0
Decrement	(1,907.5)	(286.7)	(4,813.8)	(7,008.0)
FY05 Governor Request	97,838.9	5,160.5	279,821.8	382,821.2
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Position Summary		PFT	PPT	Tmp
FY04 Authorized		2,986	591	18
FY05 Governor Request		2,885	533	18
Net Change		(101)	(58)	0
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FY05 Governor's Capital Request	19,353.7	976,490.3	57,138.1	1,052,982.1

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

University of Alaska

The major task of the University is to respond to the educational needs of all Alaskans and to enhance Alaska's economy by fostering and promoting (1) a high quality postsecondary educational system; (2) appropriate vocational education development and training; (3) advancement and extension of knowledge, learning, and culture; and (4) the application of new knowledge and emerging technologies to meet the needs of the state.

SIGNIFICANT CHANGES

- The University of Alaska Board of Regents requested \$10,486.8 in GF and \$15,017.8 in receipt authority to include the following increases
 - Maintaining A Solid Foundation (subtotal \$23,456.1)
 - Salary Maintenance - \$15,827.1
 - Network Service and Maintenance - \$1,290.7
 - Non-Discretionary Fixed Cost Increases – \$4,223.3
 - Facility Maintenance and Repair and New Facility Operating Costs - \$2,115.0
 - Program Priorities (subtotal - \$2,048.5)
 - School of Nursing Expansion - \$450.0
 - Practical Nursing Education - \$350.0
 - Allied Health Programs - \$868.5
 - My UA Portal - \$380.0
- The Governor's request does not reflect the Regent's request. The Governor's FY05 request totaling \$649.6 million (\$212.7 million GF; \$124.4 million Fed Receipts; \$312.5 million Other Funds) is virtually the same as that received in FY04.
- Federal Receipts have *increased* by \$11,305.6 to more accurately reflect anticipated revenue receipts. In addition, Other Funds have *decreased* by the same amount (\$11,305.6) for a net zero in non-GF funding.

Legislative Fiscal Analyst Comment: *Although the University's request for general fund operating budget increases was denied by the Governor's Office, OMB did allow for the University's 2005 capital request to include \$10,636,000 General Fund for Board of Regents Priority Projects. We expect efforts to transfer that funding to operations.*

- The University budget deletes 12 permanent, full-time positions and 23 permanent, part-time positions in FY05.

STRUCTURAL CHANGES

There are no organizational or structural changes in the University's budget submittal.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

University of Alaska Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	212,716.0	113,056.4	323,800.7	649,573.1
Special appropriation	1.1			1.1
FY04 Authorized	212,717.1	113,056.4	323,800.7	649,574.2
Transfer in	6,922.7	6,681.2	21,640.7	35,244.6
Transfer out	<i>(6,922.7)</i>	<i>(6,681.2)</i>	<i>(21,640.7)</i>	<i>(35,244.6)</i>
FY04 Management Plan	212,717.1	113,056.4	323,800.7	649,574.2
One time item	<i>(1.1)</i>			<i>(1.1)</i>
FY05 Adjusted Base	212,716.0	113,056.4	323,800.7	649,573.1
Funding Change		11,305.6	<i>(11,305.6)</i>	0.0
Increment	10,486.8		15,017.8	25,504.6
Decrement	<i>(10,486.8)</i>		<i>(15,017.8)</i>	<i>(25,504.6)</i>
FY05 Governor Request	212,716.0	124,362.0	312,495.1	649,573.1

Position Summary	PFT	PPT	Tmp
FY04 Authorized	3,881	199	0
FY05 Governor Request	3,869	176	0
Net Change	<i>(12)</i>	<i>(23)</i>	0

FY05 Governor Capital Request	10,636.0	116,000.0	26,302.5	152,938.5
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Alaska Court System

The Alaska Court System constitutes the Judicial Branch of the state's government. Alaska has a unified, centrally administered, and totally state-funded judicial system. 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 and the Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

The Alaska Court System budget is presented in three appropriation requests - the Alaska Court System, the Commission on Judicial Conduct, and the Judicial Council.

SIGNIFICANT CHANGES

- The Court System is requesting a total general fund increase of over \$3.4 million, which is a 6% increase over the amount authorized by the legislature for FY04.
- Over one-half of this amount (\$1.8 million) is due to changes in the Judicial Retirement System contribution rate.
- The remaining request of \$1.6 million includes the following increments:
 - \$450.0 to incorporate a "G" step into the salary structure of the Court System.

Legislative Fiscal Analyst Comment: Funding for this salary structure change has been requested and denied several times in the past. Court employees, much like legislative employees, are not among the bargaining units with contracts that incorporated the "G" step a few years ago. The Court is not required to implement this increase but would like to remain consistent with salaries paid to the classified state employees in the executive branch.

- \$125.0 to improve courthouse security in Bethel;
- \$100.0 for increased lease expense in Unalaska;
- \$517.0 for continued software maintenance and support;
- \$200.0 to increase juror pay.

Legislative Fiscal Analyst Comment: Funding for increased juror pay has been requested and denied for the last several years.

STRUCTURAL CHANGES

There are no significant changes.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Alaska Court System Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	54,845.5	716.0	426.9	55,988.4
FY04 Authorized	54,845.5	716.0	426.9	55,988.4
FY04 Management Plan	54,845.5	716.0	426.9	55,988.4
One time item	(5.0)			(5.0)
Salary adjustment	1,840.0			1,840.0
Transfer in	30.0			30.0
Transfer out	(30.0)			(30.0)
FY05 Adjusted Base	56,680.5	716.0	426.9	57,823.4
Increment	1,535.5		66.3	1,601.8
Decrement			(92.2)	(92.2)
FY05 Governor Request	58,216.0	716.0	401.0	59,333.0

Position Summary	PFT	PPT	Tmp
FY04 Authorized	673	52	27
FY05 Governor Request	673	52	29
Net Change	0	0	2

FY05 Governor's Capital Request	0.0	0.0	0.0	0.0
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Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Alaska Legislature

The Alaska State Legislature is the legislative branch of state government as provided in the Alaska Constitution and in statute. The legislative branch includes the sixty members and their office staffs, and the following legislative appropriations and allocations:

Legislative Budget and Audit Committee

Legislative Audit

Ombudsman

Legislative Finance

Committee Expenses

Legislature State Facilities Rent

Legislative Council (Legislative Affairs Agency)

Salaries and Allowances

Administrative Services

Session Expenses

Council & Subcommittees

Legal and Research Services

Select Committee on Ethics

Legislative Operating Budget

Legislative Fiscal Analyst Comment: *The legislative budget traditionally appears in preliminary form in the Governor's request. The request is not reviewed by legislative leadership until late in the budget process, so does not necessarily indicate what the final budget will include.*

- The Legislature's FY05 request is \$1.6 million above the FY04 Management Plan. Other than minor changes associated with receipts for services, the entire increase is due to the inclusion of the full cost of salary and benefit increases (\$1.5 million GF). Few agency requests include full general fund salary adjustments.
- Authorization equal to FY04 reappropriations (\$1.4 million) has not been removed from the FY05 request. Typically, reappropriations are considered one-time items and are removed from agency budgets.
- The Office of Victims' Rights FY05 request includes a \$29.3 increment (salary adjustment) in addition to a continuation of a \$50.0 reappropriation of FY03 funds carried into FY04. The Office is funded with money that is commonly referred to as "Permanent Fund Dividend Felon Funds." The recent reduction in dividends reduced that source of money by about 25 percent, and all agencies except the legislature took a proportionate cut in funding. The fund source is over-authorized by about \$215,000.

Legislative Fiscal Analyst Overview of the Governor's FY05 Request

Alaska Legislature Funding Summary

	General Funds	Federal Receipts	Other Funds	Total
FY04 Conference Committee	38,093.7		825.6	38,919.3
Fiscal Note	78.0			78.0
Veto (last year)	(900.0)			(900.0)
Re-appropriation	1,365.5		50.1	1,415.6
FY04 Authorized	38,637.2		875.7	39,512.9
Transfer in	25.0			25.0
Transfer out	(25.0)			(25.0)
FY04 Management Plan	38,637.2		875.7	39,512.9
Salary adjustment	1,501.0		29.3	1,530.3
FY05 Adjusted Base	40,138.2		905.0	41,043.2
Increment			26.6	26.6
Decrement	(5.0)			(5.0)
FY05 Governor Request	40,133.2		931.6	41,064.8

Position Summary	PFT	PPT	Tmp
FY04 Authorized	239	278	0
FY05 Governor Request	239	278	0
Net Change	0	0	0

FY05 Governor Capital Request	0.0	0.0	0.0	0.0
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